

A fresh look at BW's craft licensing structure
Consultation paper for presentation & discussion with Boating User Groups,
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Introduction

The roots of BW's craft licensing system date back to an era when pleasure boating was in its infancy. The system has evolved in an ad hoc fashion to accommodate growth and diversity of use. Today the resultant system is felt by many to be unduly complicated. The costs of customer query and complaint handling, enforcement and even recruitment of new customers are arguably all higher than they would be with a simpler, more intuitive system.

Review of the licensing system is timely: we are embarking on a major business-wide project to improve all business and IT systems ("Project Clearwater"). The hardware on which the current licence administration system runs is close to obsolete and will be replaced as part of this project. This provides an excellent opportunity to introduce fundamental change to meet the needs of the 21st century marketplace.

We recognise the need to remain competitive in today's leisure market. We must ensure that our fee structures don't constitute an obstacle to attracting people into boating on the waterways. At the same time, they must generate a fair contribution to maintenance costs.

The paper is structured as follows:

- Section 1 Brief review of the current system and its main shortcomings
- Section 2 Proposed principles to guide the design of a new system
- Section 3 Outline proposals and possible charging structure.
- Section 4 Timetable

Although overall thesis and principles have established, the details need still to be tested and refined.

1. Current system

1.1. Appendix 1 summarises the range of licence types offered currently. Theoretically the fee structure involves no less than 1123 fee categories! In practice, there are many fewer, but this is the impression generated by the set of fee sheets issued to would-be new boaters. The fee payable or licence type required, varies according to:

- (a) type of use: "private pleasure", "houseboat", "cargo or workboat", "hire", "multi-user"

- (b) boat size: for most licence types, 19 length categories, 12 for others, and a cool 816 for Gold Licences (because EA charges are based on length x beam).
 - (c) time period: there are 3 and 6 month options for some types in addition to the 12 month norm. Short term licences for periods up to 1 month are also available for most use types.
 - (d) Geographic extent of access: there are two significant exceptions to the normal 'canal + river' licence: rivers only and the Gold licence which extends 12 month access to EA as well as all BW waterways.
- 1.2. As well as appearing overly complicated to customers and potential customers, the main shortcomings of the current system relate to enforcability. Licence evasion is reducing with the increase in patrol staff, but there are some groups of particularly intractable cases where our statutory powers are insufficient, penalties are simply too small to provide an effective deterrent to offenders, or it is almost impossible in practice to assemble enough proof to support a prosecution. Licence evasion is the subject of a separate internal report shortly to be completed by Internal Audit. However, some of the enforcers' difficulties arguably result from the design of the licensing system and supporting terms and conditions. For example:
- (a) "Bogus" continuous cruisers: people who do not have a permanent mooring and breach our bylaws concerning length of stay at visitor mooring sites. Also people mooring long term on unapproved sites.
 - (b) We do not currently require proof of identity, or a reliable contact address for licence applicants. In an era where proof of identity is needed to become a member of a video club or public library, this seems odd. A result of this anomaly is that it's sometimes impossible to instigate successful enforcement action.

2. Desirable characteristics of a craft licensing system

Despite its statutory nature, the licence fee in practice is analogous to a sports club membership. Use of the waterways is a discretionary, leisure time activity, unlike use of the roads. This puts it firmly in the competitive arena of consumer spending. In designing a new structure for licensing, we should aim for:

- 2.1. **Value for money:** boating's main competitors are second homes or caravans, holidays on hired boats and other types of holidays. Although the licence fee is only a small proportion of the overall cost of boating, and research has confirmed that the price elasticity of licence demand with respect to price is very low, it is not in BW's long term interest to pursue a relentless, across-the-board price maximising policy. We should instead give greater attention to understanding the constraints and opportunities relating to revenue raising contained within discrete segments of our boating market. Prices which a large proportion of consumers feel to be excessive, are likely to increase our enforcement costs and yield lower net income.

Customers' perceptions of value for money are influenced by:

- (a) Quality of service provided – noticeable improvements to facilities, maintenance standards.

- (b) The costs of service provided: charges linked directly to **marginal cost** of provision could be seen as fair by users. However, apart from the possible exceptions of special structures which involve manned operation, or where recent restoration costs have been very high and there is justification for recovering specific income from users, marginal cost pricing would result in near zero income because almost all costs are fixed.

However, where there are major differentials in frequency of use of a boat such that over all, wear and tear on the infrastructure becomes significant, a '**cost incurred**' element within the charge would be sensible. This is the rationale for the current differential between hire boat and private boat licences.

- (c) Extent of **geographical access**. Under the current system, we offer limited choice of access levels – just rivers only, and the EA Gold option. From the user perspective, there is a compelling argument for a 'pay as you go' system. In its purest form, this would involve some form of payment per trip related to distance travelled or duration. It would require heavy investment in technology to implement. It would also represent an unacceptably high level of risk to revenue generation since we have no experience of the relevant trip price-demand elasticities. This isn't considered to be a serious option for the present review. However, we should perhaps not rule out a gradual extension of the current options, with lower charges for waterways disconnected from the main network, or even a zoning system involving lower charges for usage within a single zone. This could be particularly effective in encouraging new entry to inland boating for people who already own small or portable boats.
- (d) At the individual level, a consumer's **ability** or **willingness to pay**. The value or size of their boat has been suggested as a proxy for this. The relationship is very imprecise however – wealthy people own small as well as large craft; large craft can be very old and of low value; an impecunious individual may attach a greater intrinsic value to their boating activity etc. Boat size is therefore a very inaccurate guide. Using the leisure club membership analogy, concessions for senior citizens and unwaged might be considered as a means of retaining custom in more price sensitive sectors.

2.2. We should use the charging system to reinforce and help to achieve **specific policy objectives**. These might include encouraging:

- electric or other environmentally friendly means of propulsion
- people to visit/avoid particular geographic areas
- stronger customer service and quality assurance in the boat hire sector
- new entrants – visitors from other inland waterways, coastal and trailable craft

2.3. **Efficiency**: we should aim to reduce administration costs, make licences easier to purchase and more difficult to evade. A re-designed system must generate at least as much net revenue as we achieve at present.

3. Proposals

- 3.1. Proof of identity and a reliable contact address should be required for all customers. Credit references required for direct debit mandates. Applicants must be over 18.

- 3.2. We should differentiate between licences for individuals and licences for businesses. Administrative systems, terms and conditions and standard communications should reflect this.
- (a) The licence should be simply understood as giving the right to float on our waterways. As far as practical, we should avoid overloading it with detailed regulations relating to commercial trading activities which would be more efficiently dealt with through a trading agreement with the boat operator.
 - (b) There are potentially many different aspects to a trading operation, with implications for the management of specific sites. A trading agreement or operator's licence would provide a much better vehicle for setting out conditions such as whether the trader can use the towpath, access for loading and unloading, touting for business, noise control, health and safety requirements etc.
 - (c) A new set of template trading agreements should be prepared to cover floating business operations, as is already the case for hire boat operators. Agreements will be negotiated locally following national guidelines. This will enable us to simplify the licence system to concentrate on the key factors outlined in section 3. We will need template agreements for the following types of business:
 - Trip and restaurant boats . These depend on a specific location/stretch of waterway for their business. They make less intensive use of the navigation than hire boats, and the majority of end-customer value arises from the on-board service.
 - business barges and 'shop' boats
 - Time share and shared ownership enterprises (customer care standards being achieved by some operators are a cause of concern, and this should be addressed through the trading agreement)
 - Charities operating trip boats or holiday boats for deserving groups or other charitable purposes
 - Commercial carriers, which all require some form of loading and unloading permissions. The system will cover freight operations on commercial waterways currently outside the scope of the existing licensing scheme
- 3.3. Houseboat certificates should only be issued to genuinely static vessels. The issue of residency is much more relevant to moorings management and should not be an issue for licensing.
- 3.4. The main drivers for licence price variations should be:
- (a) **size of boat:** but we should drastically reduce the number of length categories and introduce a 'beam' factor. There is little rationale for the large number of differentials we have at present. The main reasons for retaining some elements of pricing according to size are:
 - the practical difficulties of implementing a change involving complete removal of this factor - there would be unacceptably large numbers of losers and winners

- likelihood of sharing locks
- a marketing case for an attractive entry-level rate to encourage new boaters

The ultimate target could comprise as few as three categories, but this would need to be phased in over say, five years. For example

- market entry' boats, typically under 7m – to encourage new customers
- medium sized family boat, up to 12m – another popular entry level category
- boats over 12m which are typically the choice of people with high commitment to boating.

Initially we would recommend adoption of just 6 length categories, perhaps using the existing short term licence structure, plus a premium factor for craft with a beam over 2.13 m.

- (b) **Duration** of licence: we recommend a relative reduction in the price for short term access combined with a restriction on the number of such licences that an owner could purchase during a year. The purpose of this is to increase visiting craft and new market entrants.
- (c) **intensity of use**: extensive use indicated by continuous cruising/occupancy, commercial hiring, multi-user arrangements etc. should pay a premium
- (d) extent of **geographic access**: craft using only isolated stretches such as Monmouth & Brecon, Bridgwater & Taunton and Lowlands waterways should pay less than those with full access. Consider increasing the number of geographic zones, possibly implemented via card readers at zone boundaries. This could be refined to allow for additional charges for access to particularly intensively used areas, and lower costs for less popular zones. It would involve some users paying more and some less.
- (e) **Policy objectives** such as encouraging new entrants to boating, use of electric power, encouraging hire operators to adopt ETC quality standards, encouraging use of less popular areas. We could also consider verifiable **user concessions** – dependent on introducing proof of identity requirement. For example, we might consider a lower rate for loyal senior customers – 10+ years or more licensed continuously with no payment defaults and over 60 years old.
- (f) The fee structure should be simplified to define a single baseline fee for the most popular size/type of craft. In the following trial example, the baseline is a privately owned pleasure craft over 12 m long with a registered permanent mooring, licensed for 12 months. Note all these figures are hypothetical. If basic principles are agreed, we will construct simulation model with aim of calculating rates that will protect total revenue and reflect policy objectives. Nor is the list definitive – additional criteria may be added as work proceeds on the scheme.

Criteria	Baseline fee to be multiplied by:
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<i>(a) Size</i>	
1. Boat is between 7 and 12 m long	0.8
2. Boat is less than 7 m long	0.6
<i>(b) Duration</i>	
3. Licence period 6 months only	0.85
4. Licence period 3 months only	0.6
<i>(c) Intensity of use</i>	
5. Boat let out for holiday hire or timeshare	2.5
6. Boat operated for day hire only (no overnight accommodation)	1.5
7. Boat has no BW approved mooring or cruises continuously	2.5
<i>(d) Geographic access</i>	
8. Cruising area restricted to rivers	0.60
9. Cruising area extended to EA waterways (cf Gold licence)	1.25
10. Cruising area is restricted to isolated stretches.	0.5
<i>(f) Policy objectives</i>	
11. Hire boat not ETC accredited	1.1
12. Licence not renewed promptly	1.1
13. Boat has permanently fitted inboard electric motor	0.75

The effect of multiple criteria would be cumulative – eg a 10 m boat licensing for 6 months wishing to cruise rivers only would pay £baseline x 0.8 x 0.85 x 0.6. So, if the baseline were say, £500, the fee payable would be £204. This procedure would also ensure continued compliance with Section 4 of the 1983 Act relating to river registrations.

Appendix 1: BW craft licence structure, 2002

Approx % total rev	Ratio of fee to private pleasure craft	15m fee '02, full, 12 months	Sheet no.	Licence type	Canal+ river	River only	No of size categories	Period options (months)	25%discount inboard electric motor	10% historic boat discount	Other discounts?	Theoretical no. of different fees, excl discounts
72%	1.00	£498.14	1,2	Private	*	*	19	3,6,12	*	*		114
			1,2	Private, portable	*	*	2	3,6,12	*	*	Youth groups/ under 18s	12
2%	1.00	£498.14	3	Houseboat	*		19	12	*	*		19
			4	Short term	*	*	6, + lower rate for unpowered craft	1m, 1week, 1day, 28 day explorer			10% dicount for river only long term licence holders; 50% disc for advance purchase	42
	1.00	£498.14	5	Cargo, Workboat	*		19	3,6,12	*	*		57
2%	2.50	£1,245.36	6	Multi user	*		12	12	*	*	Lower rate for registered charities, providing don't use for public hire or passenger carrying	12
	1.10	£548.94	7	Low intensity trading	*		19	12	*	*		19
14%	2.47	£1,229.71	8	Hire,trip,hotel, restaurant	*	*	12	12	*	*		24
			8	Day hire & large passenger boats (DOT certified for over 100 pax)	*	*	4	12	*	*		8
				Gold	*		816	12				816
<i>All licence fees are discounted by 10% for prompt payment</i>											Total different fees	1123

