

## **FEE STRUCTURE FOR BOAT LICENCES IN ENGLAND AND WALES: “White Paper” following public consultation, July – September 2005**

**Published 23 November 2005.**

### **1. INTRODUCTION**

British Waterways (BW) published its consultation document *The Fee Structure for Boat Licences in England & Wales: A Consultation* in the final week of June 2005. This document was sent directly to all current licence holders whom we believed would be most affected by the proposals. These were people registered as having no home mooring, i.e. classed as ‘Continuous Cruisers’ (total: 1,360); people registered as operating a boat-based business with a low turnover (total: 104); and all registered licensees of formally operated shared ownership vessels (total: 230).

In addition to these individuals receiving the document, BW also sent it to all national boating user groups and held meetings with the main ones during August and September. BW ensured wide promotion of the document’s existence through the waterways press titles and the document was available to download from [www.britishwaterways.co.uk/accountability](http://www.britishwaterways.co.uk/accountability) and was also available from BW’s Customer Services department.

The Cabinet Office Code of Practice on Written Consultations was applied to this consultation, i.e. 12 weeks were allowed for the submission of views. The consultation period ended on 30 September 2005. Respondents were asked to give written opinions on a set of proposals relating to the future structure of Licence Fees in England & Wales. A set of questions was also posed in each area to assist respondents in considering the merits of each proposal.

In total 485 responses were received. These represent most of the principal waterway user groups and many individuals who felt strongly enough to comment on the original proposals. We read and analysed the responses during early October, and prepared a first draft of this document which we shared with representatives of national boating user groups at a meeting on 27<sup>th</sup> October.

#### **Comments relating to the Consultation Process**

We always welcome feedback on the way consultations are conducted. We recognise that by listening to views expressed about the consultation process we can ensure continual improvement in this important area of our work with stakeholders.

Several critical comments about this consultation process were received while the consultation was open. These included:

- The mailed document’s print size was too small;
- The layout of pages was confusing;
- The language used in the consultation was too technical/difficult to understand;
- The questions for response were weighted in favour of what was perceived to be BW’s ideal answer.

We have reviewed all of these comments and will ensure that future written consultation documents fully take into account the views provided to us.

#### **Reading this Consultation Report**

This report considers the responses received to each of the main proposals contained in the original consultation document. The responses of boating user groups are shown in the body of the report.

We provide our own comments and go on to explain what we now propose to do in light of the consultation findings. A further section (Appendix 2) provides an overview of the many comments we received from individuals. It is clearly impossible to list all of the comments received and our views on these; instead, we have brought together common themes from the comments received and show these in Appendix 2.

### **Publication**

This report has been sent directly to all respondents to the consultation. It is also available on request from British Waterways Customer Services Centre (01923 201120) and [enquiries.hq@britishwaterways.co.uk](mailto:enquiries.hq@britishwaterways.co.uk). It is published at [www.britishwaterways.co.uk/accountability](http://www.britishwaterways.co.uk/accountability) from 23 November 2005.

### **Next Steps**

This report was first published on 23<sup>rd</sup> November 2005.

Based on the Cabinet Office Code of Practice on Written Consultations British Waterways considers this report to be at 'White Paper' stage. We will confirm our intentions to proceed based on the proposals in this report should no significant **new** issues be raised by Monday 16<sup>th</sup> January 2005.

## **2. BACKGROUND AND SUMMARY OF THE BW PROPOSALS**

- 2.1. The reason for the consultation was a ruling by the Waterways Ombudsman in December 2004 that called into question the principles that underlay BW's charge differentials for boat licensing. One of the owners of a share in a boat managed by Ownerships, a company that markets and manages boats for shared ownership, complained to British Waterways that because her boat was owned by private individuals and not operated for business purposes, it should be subject to a private pleasure boat licence, and not the more expensive leisure business licence. BW's 2004/5 licence fees and conditions allowed that 'informal' boat share schemes could be licensed at the private rate, but that commercially managed schemes would be subject to the higher leisure business rate. The Waterways Ombudsman ruled that it was unfair to charge the latter group at a higher rate than the former.
- 2.2. Prior to 2003, all multi user boats were subject to the higher rate. In simplifying the licence structure in 2003, BW had unwittingly created an unfair classification. The ruling in effect meant that the previous consultation on licensing in 2002 had failed to deliver a robust and fair framework for price setting.
- 2.3. Our response to this ruling was to seek professional advice from a leading economics consultancy that specialises in pricing strategy for both public and private sector clients. This work applied economic principles that are well established in all sectors of the economy to guide pricing decisions. The recommendation was that 'Ramsey pricing' coupled with an element to reflect the marginal costs to BW of boaters' use of the network was the appropriate strategy for boat licensing.
- 2.4. Ramsey pricing is recommended in cases where an organisation has a high fixed cost base and there is a need to achieve a contribution to these costs from customers. Without any element of price discrimination, the simple rule would be to divide the total contribution required across the entire customer base equally. BW currently collects approximately £12.7 million from c. 28,000 boat licences, giving an average fee of £453. This would need to be the fee for all customers if there were no differentiation. Currently, more than 13,000 licence holders pay less than this, and it is probable that many of these people would not keep a boat on the waterways faced with this charge. So the Ramsey pricing strategy is consistent with an objective of maximising use of the waterways.
- 2.5. Where certain customers, by virtue of their boating pattern, generate greater cost – for example through greater use of service facilities, locks etc – the advice was that this should

be reflected in differential charges, for to do otherwise would mean that low usage groups would effectively be subsidising high use groups. This would be unfair.

- 2.6. We asked the consultants to review our 2004/5 tariff for boat licences (as amended following the Waterways Ombudsman's decision) against these principles. They concluded that in most respects the tariff fitted the 'Ramsey + cost causation' model reasonably well on the basis of assumptions about the characteristics of different categories of boater. Two groups did not appear to fit the model so well, namely boat sharers and continuous cruisers. Para 4.4 of the consultation paper set out our analysis in respect of these so we will not repeat it here.
- 2.7. The existing pricing framework has 'business' and 'private' as prime differentiators. In order to move to a 'Ramsey + cost causation' framework it would be necessary to re-title the categories since the business v. private distinction would not necessarily be relevant. Moreover, the Waterways Ombudsman's case demonstrated that current and previous definitions of 'business use' were inadequate.
- 2.8. In his decision letter the Waterways Ombudsman concurred with BW's view that the relevant distinction for pricing is not the ownership of the boat, but the use of the boat. Regardless of the outcome of the consultation, it would be essential to ensure that our licence terms are clearer in respect of the criteria for price differentiation.

### 3. RESPONSES FROM NATIONAL USER GROUPS

With the exception of the Association of Pleasure Craft Operators, all groups were clearly uncomfortable with the propositions we put forward. There was a general reluctance to accept that BW should apply mainstream economic principles to guide its pricing decisions, and we received relatively little feedback on the basic pricing principles. There was also disappointment that we had launched the consultation without prior discussion, and that had this taken place, user groups would have encouraged us to embrace the wider agenda of harmonising our system with that of other navigation authorities.

National user group responses can be summarised as follows:

- 3.1. **The Association of Pleasure Craft Operators** wrote in strong support of the proposals. They felt that the boat licence should reflect the intensity of use that a boat makes of the waterway because of wear and tear and demand on rubbish disposal, sanitary facilities etc. Because of the stoppage season, they suggested that continuous cruisers might be granted free winter moorings within the higher rate fee.<sup>1</sup>
- 3.2. **The Association of Waterways Cruising Clubs** gave a wide-ranging response that didn't always agree with the proposals but provided a number of constructive suggestions. They argued broadly in favour of keeping the current system believing that only the Waterways Ombudsman's specific point on shared ownership boats need be urgently addressed. Here they suggested a distinction needs to be drawn between shared ownership where profit is taken and "informal" multiple ownership between friends or family. They think it fair that the former be charged the full business rate and the latter a lower private pleasure rate. Related to this, AWCC want to retain the terms "business" and "private" since they make clear the key criterion of "profit taking" as the most objective way to identify ability to pay. AWCC also consider it inappropriate for BW to attempt "market-led" pricing for licences (unlike for moorings where there is clear competition) and suggested that considerations of fairness should rule. They argued that the licence charge is seen as a tax and increases are only acceptable to users when they are seen as being related to ability to pay. Hence they believe

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<sup>1</sup> APCO is also concerned about the safety and enjoyment of holiday makers and made a strong plea for an audited boat handover process to be included in BW's licence terms for hire and time share boats. We are considering this separately.

that charging continuous cruisers a business rate would be “blatantly unfair” and that “non genuine continuous cruisers” should instead be tackled through the moorings payment system. Finally, The AWCC agree that we link the trading craft discount to VAT registration but suggest that the discount be restricted only to businesses that show a direct link to the heritage or operation of the inland waterways.

- 3.3. **The Inland Waterways Amenity Advisory Council** agreed that there was an immediate need for clarity between the two forms of shared ownership in the light of the Waterways Ombudsman’s finding, but they felt that our proposed solution would be difficult to monitor. They see continuous cruising as a mooring-related issue which should not have been included in the consultation. The document had prompted debate within IWAAC as a result of which they propose that boaters’ contribution to the costs of running the waterways should be examined, along with the size of the share of the cost to be born by boaters. Any resulting new structure should be simplified. *“It should take BW into the future and look at new ways to monitor boat movements by a bar code system to help inform the management of the increasingly busy system, whether for cruising, moorings or provision of further marinas”*. IWAAC would like this issue to be considered by BWAf.
- 3.4. **The Inland Waterways Association** feels that the consultation was an unsatisfactory, knee-jerk reaction to the Waterways Ombudsman’s case that didn’t address issues that IWA had raised since the 2002 consultation, such as heritage boats. It took issue with the use of data from our survey of boat owners and the response questionnaire. It disagreed with our application of economic theory and felt that Oxera’s interpretation was unreliable. On shared ownership, IWA said *“the Waterways Ombudsman was clear in his report that if such boats were used for business purposes, then there was nothing unfair in licensing them accordingly. However if they were used solely for ‘private use’ then the private pleasure craft licence rates should apply”*. IWA referred to the 2002 licence consultation and felt that no valid case had been made to move away from the conclusion of that review. They are committed to a system in which a single licence allows unlimited use of the network. *“The current licence permits 365 days navigation per year; whether boaters choose to exercise their right or not is their choice”* Like IWAAC they feel that continuous cruiser issues should be dealt with in the context of management of moorings. Continuous cruisers should not be required to pay a higher rate for their licence. They agree with the proposals for charity and cargo carrying, but feel that the threshold for trading craft should remain linked to (a higher) turnover, not VAT registration. Finally they endorsed the Waterways Ombudsman’s recommendation to ensure that in future there is no ambiguity when defining licence terms.
- 3.5. The **National Association of Boat Owners** shared IWA’s surprise and disquiet that we were re-visiting issues covered in consultation as recently as 2002 and challenge BW’s powers to change craft categories that they perceive to be defined in statute. Similarly they pointed out that although continuous cruisers may use their boat more frequently, this does not mean that they cruise greater distance than a hire boat during the course of a year. They were not confident about the implementation proposals, particularly for people who cruise continuously for only part of the year. They expressed strong concern about our consultation: *“the general tone of the consultation document is very cut and dried and it would seem that the differential between the two categories is set in stone. Therefore BW’s attitude is more information gathering than consultation, and if this is so then there is nothing left to negotiate about.”*
- 3.6. The **Residential Boat Owners Association** again took issue with the form and scope of the consultation. They feel that the problem for BW resulting from the Waterways Ombudsman’s ruling could have been more simply dealt with by redefining commercial/business use. A more fundamental review should have included consideration of harmonising charges with other navigation authorities. RBOA members do not agree that Ramsey pricing is relevant to the waterways and to BW as a public corporation and they oppose any move to use-related charging: *“Open access, without financial penalty, is something which all boaters see as*

*fundamental and exactly what their licence allows them to do”* Again our use of survey data and generalisation about cruising patterns of continuous cruisers was challenged.

- 3.7. The **Shared Inland Boat User Group (SIBUG)** rejected our proposed pricing framework. They felt that there should be a single charge regardless of how intensively the boat is used. They also rejected the Ramsey pricing approach as it is *“not equitable in our view to judge a person’s ability or willingness to pay based on things such as size of boat or number of owners”*. They did not feel able to address the question of what might be regarded as a fair price for hire boats or other boats used for commercial gain. In common with the other groups, they support lower fees for boats used for charitable purposes and cargo carrying. SIBUG felt that the proposed threshold of 3 owners is arbitrary and designed to target only those shared boats who engage a management company. *“Also there is no obvious way to fairly monitor and enforce a system with such an arbitrary cut-off point”*. On the question of willingness to pay, SIBUG believes that many boat sharers are not well off and ‘share their share’ with other family members as the only way they can afford a boating holiday. Recognising that BW needs to recover the revenue lost as a result of implementing the Waterways Ombudsman’s ruling, they proposed that the price of the private licence should increase by a small additional amount for everyone. Finally they warned of the potential difficulty that BW would have in collecting new, higher rate fees and propose that the effort required would be better directed toward stronger enforcement of current licensing rules.

## 4. RESPONSES FROM INDIVIDUALS

The themes articulated by the National User Groups were widely reflected within individuals’ responses. Appendix 2 includes an overview that aims to give a flavour of the wide ranging and detailed points contained within the very large number of letters received.

## 5. BW RESPONSE

- 5.1. We acknowledge that this consultation was controversial. We could have done more to reduce the controversy by having earlier discussions with user groups. There is however, no guarantee that such discussions would have brought about a solution acceptable to all or most of those concerned about such a difficult issue. We have however, learned from the reaction to the consultation and from our discussions with BWAFF about it.
- 5.2. While understanding most of the user groups’ concerns, we are left with the need to clarify the basis on which we charge for boat licences following the ruling by the Waterways Ombudsman. We have a system that has evolved without any rigorous logic to it – the 2002 consultation acknowledged this but opted for a ‘least disruption’ outcome to avoid large numbers of ‘winners’ and ‘losers’ that inevitably result from any radical shake-up.
- 5.3. We believe that the strategy recommended by Oxera is right for boat licensing. The waterways sector is unusual in many respects, but it this does not mean that navigation authorities should be subject to different business management principles from those applied in other sectors of the economy. Pricing theory is universally applicable and there is no reason why it should not deliver good results for waterways, providing it is applied sensitively. Whilst we have not yet fully quantified the marginal cost of boat usage, we do know that significant elements of our costs, such as water supply, refuse disposal and other boater services do increase with usage. Equally, we are confident that it is reasonable to infer broad assumptions about price sensitivities amongst the existing, well understood main categories of boat usage.
- 5.4. The practical application of the pricing strategy to create *new* categories for licensing purposes requires sound evidence of the relationship between usage and costs together with robust analysis of price sensitivities within our customer base. It is in these areas that we acknowledge that we did not present sufficient evidence to support the proposal to lift

continuous cruisers into the higher rate. We also accept the potential value of a wider ranging review, the outcome of which would ideally include greater choice for consumers in how they pay for using the waterways. Such an outcome could be feasible in partnership with the Environment Agency as part of their harmonisation initiative. We have recently proposed early discussion with the Agency on this subject and providing we can reach agreement on the scope and principles for a joint project, we will together invite input from user groups to the terms of reference for the review.

5.5. In the meantime, we need to work pragmatically, within the current framework as clarified by Oxera, to ensure that the interim tariff is as fair and efficient as possible. Our revised proposals detailed below aim to deliver this. They do not constitute radical change over the status quo and we recognise that there is scope for further reform in the future. They do however meet the urgent imperative for clarity and adjustment in the light of the December 2004 Waterways Ombudsman conclusion.

#### **5.6. Charge for continuous cruisers**

Contrary to the perception of many respondents, raising fees for continuous cruisers was not the prime purpose of the proposals. When reviewing the practical implications of the new pricing strategy, they simply emerged as a group for which there might be a case for a higher fee because of higher usage. As a result of the consultation we accept that this group is too diverse to be characterised accurately by uniform usage and price sensitivity assumptions. We will not therefore determine licence fees by reference to whether a boat has a home mooring or not.

#### **5.7. Charge for shared ownership boats**

- (a) Prior to 2003, shared ownership craft were classified as 'multi-user' and were subject to the same higher fee as commercial hire boats.
- (b) The Waterways Ombudsman did not say that it was unfair to charge shared ownership boats more than private boats. He simply ruled that it was unfair to charge one group of shared ownership boats more than another.
- (c) He agreed with BW that the distinction for pricing purposes should not be made on the basis of ownership of the boat but its use. Ownership is an inadequate indicator of the substance of use of the boat.
- (d) In most material respects, the operation of commercially managed shared ownership schemes is more akin to hire or timeshare operations than to individual private use. In particular, the boat generally has 'an operator' and share owners do not have the flexibility of use enjoyed by private owners.
- (e) To charge the lower rate for shared ownership boats while maintaining a 2.47 price premium for hire boats would be challenged by APCO as manifestly unfair.
- (f) This leaves the following options:
  - (i) To remove the higher rate fee altogether and to increase the base fee by the necessary margin to maintain total revenue. The size of this increase would be of the order of 9% on top of the normal cost inflation increase for all existing private customers. We do not believe that this would be acceptable to the great majority of customers – indeed it would probably drive some of them away from the waterways.
  - (ii) To charge shared boats at the higher rate. We believe this is the fairer solution. This will require us to propose unambiguous definitions of the lower and higher categories.
- (g) Criteria for paying higher or lower rates
  - (i) In our consultation proposal, we suggested that the higher rate should apply if the boat had more than three owners. Consultation responses have pointed out the

difficulty of validating this. Moreover, we could again be reasonably challenged by a 'one quarter share' boat share owner on the grounds that his situation is not significantly different from that of a one-third share owner, so to charge one a higher rate than the other would be unfair.

- (ii) It is therefore apparent that differentiating on the basis of boat *ownership* is untenable. As noted above, it is the *usage* of the boat that is relevant.
- (iii) We must also be clear about use "by whom" since this was at the root of the confusion that led to the complaint to the Waterways Ombudsman. BW's General Licence Conditions (GLC) defines the licence holder in paragraph 1.8 of the GLC: "*You, your, yours means the owner or lawful keeper as described in the application or renewal and includes the person in charge of the boat with the permission of the owner or lawful keeper.*" The basis on which we charged the higher rate for commercial shared ownership arrangements was that the management company was the licence holder.

## 6. REVISED PROPOSALS

### 6.1. Statement of principles

- 1) It is how a boat is used and operated, rather than who owns it, that is relevant to the determination of the licence fee
- 2) For licensing purposes, a boat will be defined as one of the following:
  - A) **Sole or family user self-drive pleasure boat**

These are boats where rights to use throughout the period of the licence are confined to a single household. This would not preclude permitting others to use the boat on an occasional and informal basis. It does not include boats that are for hire or reward.

"Rights to use" means rights arising either from ownership of the boat or from any contract for hire or any business or similar formal arrangement regulating or permitting use.
  - B) **Multi-user self-drive pleasure boat**

These are boats where the right to use is held by persons living in more than one household. They include boats let for hire or reward.
  - C) **Passenger-carrying boats**

Boats used for hire or reward including trip boats, hotel boats, restaurant boats
  - D) **Trading craft**

These are craft used for one of the following purposes:

    - running a shop, store, workshop or office
    - cargo carrying (other than by freight vessels operated as part of a marine freight business under British Waterways Freight Vessel conditions)
- 3) For this interim tariff, there will be two levels of licence fee, lower and higher, with differentials as at present for boat length within each. The higher level will be 2.47 times the lower rate. These rates will be the same as for the current 'private' and 'business' categories, adjusted annually by the agreed formula reflecting cost inflation.
- 4) It is possible to make broad assumptions about price sensitivity and intensity of usage for each of the above groups that are sufficient to justify their allocation into the appropriate price group. Appendix 1 (page 9) sets out these assumptions. The resulting price allocations are as follows:

<b>Usage category</b>	<b>Price category</b>
A) Sole or family user self-drive pleasure boat	Low
B) Multi-user self-drive pleasure boat	High
C) Passenger-carrying boats	High
D) Trading craft (low turnover) <sup>2</sup>	Low
E) Trading craft (high turnover)	High

5) For licensing purposes, a boat may have only one lawful keeper, as defined in the General Licence Conditions<sup>3</sup>. The licence holder is responsible for declaring the usage of the boat and for compliance with the licence terms and conditions by any user of the boat.

## 6.2. Practical implications in relation to original proposals

	Original proposal	Revised proposal
4.1 – 4.3	Rename categories to ‘lower rate’ and ‘higher rate’, maintaining existing differential of 2.47	No change. We acknowledge the need to review the size of the differential as part of the proposed wider review.
4.4 (a)	Shared ownership and multi user boats	All multi user boats to be subject to the higher rate. Requirement to treat all multi-users equally prevents differentiation between those using a management company and more informal share schemes. The licence applicant is responsible for declaring usage type and, except where there is clear evidence of abuse, we will accept declarations in good faith.
4.4 (b)	Continuous cruisers	The lower rate will continue to apply
4.5 (a)	Boats operated for charitable purposes.	As per original proposal. If used for passenger carrying or as multi-user self drive pleasure boat, the lower rate will apply, subject to the conditions published in current fee booklet for Business Licences (page 2, para 5b 5).
4.5 (b)	Cargo carrying	As per original proposal. Lower rate will apply, providing turnover is below VAT threshold.
4.6	Low rate for trading craft only if not VAT registered	See para 6.3 below.

## 6.3. Turnover threshold for lower rate charge for trading craft

The rationale behind the proposal was to simplify administration. In the light of the consultation, we believe that very small businesses, some of whom make very limited use of the navigation, might have been adversely affected. On balance the benefits of the change may not outweigh the disruption costs and we appreciate too that many VAT-registered businesses close to the threshold may not be profitable.

<sup>2</sup> See para 6.3

<sup>3</sup> This is in line with DVLA policy: DVLA does not allow the ‘registered keeper’ of a vehicle to be more than a single person or entity. This will have a secondary benefit to our enforcement operations by eliminating ambiguity over who is responsible for paying for the licence and complying with its conditions



We will therefore continue with an absolute turnover threshold. This is currently £45,000 p.a.. Under the revised proposal, this will be linked annually to the HM Revenue and Customs threshold for compulsory VAT registration - currently £60,000 p.a. Applicants for a trading craft licence at the lower rate will be required to supply their auditor's confirmation or other evidence of turnover relating to the operation of the boat.

#### 6.4. Wider review

BW's licence fee structure has been clarified through this review, but few people would claim that it is without flaws. Our revised proposals will not address the many miscellaneous shortcomings that were highlighted in respondents' submissions but we believe that further 'tinkering' with the current system is probably not worthwhile. There is however a good case for a more fundamental review, providing that its scope includes:

- licences that cover multiple navigation authorities
- greater choice for individual boaters – such as regional v. national licences
- potential for usage charging to reflect regional and local issues

We must discuss this initially with other navigation authorities. If there is consensus for such a review we will draw on the extensive views from users presented in this consultation to inform the work and involve user groups at an early stage.

### APPENDIX 1 REVISED PROPOSALS: JUSTIFICATION FOR LOWER AND HIGHER RATE FEES FOR DIFFERENT USAGE CATEGORIES

Usage category	Price sensitivity	Intensity of use	Resultant category allocation
Sole or family user self-drive pleasure boat	The licence fee is borne by a single household. Price sensitivity is therefore likely to be higher	Most people's use is limited to a few weeks per year	Low
Multi-user self-drive pleasure boat	Several households share the licence fee, or, in the case of businesses, the cost can be passed on to customers without significant effect on demand. Price sensitivity is therefore lower.	Usage is typically high at several months per year.	High
Passenger-carrying boat	These are run as businesses where the licence cost is a small percentage of total operating costs and can be passed on to customers without significant effect on demand. Price sensitivity is therefore lower	Usage is typically high	High
Trading craft (low turnover)	Low turnover businesses have limited scope for passing on the licence cost so price sensitivity is high	A large proportion of these boats remain static.	Low
Trading craft (high turnover)	Where turnover from the boat is above the VAT compulsory registration threshold, it is reasonable to assume scope for covering the higher licence fee from sales revenues	As above	High

## APPENDIX 2 RESPONSES FROM INDIVIDUALS

### Reason for the consultation

Many people challenged the need for the consultation, some believing it to be a deliberate plan by BW to raise more revenue.

*“Any increase in income resulting from more boats being charged the higher rate should be offset by a decrease to the unit cost of both higher and lower rate licences; otherwise BW will be laid open to charges of a sneaky revenue raising scheme rather than applauded for tackling the unfairnesses highlighted by the ombudsman”*

*“we object strongly to your so called consultation. Why weren't all continuous cruisers sent a copy of the document? Were you hoping to bring it in without any opposition?”*

*“I have read your outline proposal for the new licensing system and feel that you have already made your decision.... This all seems to be about the C Cer. ...*

*“you do not state the nature of the complaint that prompted this review”.*

This is a genuine consultation and we have considered the feedback seriously as will be clear from the following section of this report. The document was posted to all customers registered on our system as having a valid licence without a home mooring and was also well publicised by the waterways press.

The complaint that triggered the consultation was from an individual who owned a share of a boat purchased through and managed by Ownerships which also licences the boat. The complainant claimed that as the boat is owned by private individuals, it should only require a private, not a business licence. The Ombudsman found in favour of the complainant, but **only** on the grounds that BW accepts that boats shared on an informal basis can be licensed as private boats. The Ombudsman agreed that there would be nothing unfair about charging **all** shared boats at a higher rate. He pointed out that BW's definitions and criteria for charging higher or lower rates were weak.

### Economic theory and charging principles

Many people found the economic principles difficult. The most frequent challenges were

directed at their application rather than Oxera's recommended framework. For example:

*“.. the consultation document states that BW wishes to recover variable costs from different groups of boat users broadly in line with the extent to which they are responsible for causing them to be incurred .... grouping is essential but I suggest that the greater the possible variation with groups, the smaller the differential should be between the groups,. The present proposal is for a disproportionately large differential. “*

*“Full time boaters will have less effect on costs simply because they have higher skill levels and a greater commitment to preserving the waterways than occasional or holiday users”*

On the other hand, many people echoed the user group view that charging more for greater use went against the grain and would discourage cruising. This would be detrimental to the waterway environment, since moving boats add life and interest.

One response set out a strong case for a two part tariff: a uniform standing charge that reflects the extent of access that the particular boat has (by virtue of its dimensions) plus a variable fee related to distance travelled in a given period.

And several responses were in general agreement to the principle of charging heavy users more – even if they disagreed with our proposed grouping criteria

*“.. there should be a tolling system in this country with a standard licence fee for all boats. Thus the more a boat uses the system, the more that boat contributes to the wear and tear. “*

*“Have a lock charge so that people who use locks pay more for pumping water, maintenance etc”*

There was much criticism of our use of the data from the Boat Owners survey. People perceived this as being disingenuous since it was a general survey not specifically designed to address licence pricing.

*“your proposal to implement a fair licence structure based according to use is most commendable. However to formulate a pricing structure based on an unreliable*

*survey which lacks credibility is indefensible and your conclusions are unfair*

The survey was conducted as part of our regular monitoring programme by an independent market research company with proper accreditation, so we do not accept this criticism per se. We do however acknowledge that our usage measure – number of days cruising – may be too crude to be an accurate guide to impact on our costs – even though costs are incurred not only through cruising, but also through use of BW facilities. The passionate and voluminous submissions from continuous cruisers on this subject highlights that a much more sophisticated costing model would be needed to support our argument.

Many people feel that length – our fundamental price differentiator – is a poor proxy for ability to pay.

*“the length of the boat does not reflect an individual’s income”*

*“All wide beam boats should pay pro rata according to length and breadth”*

There were several much more radical suggestions such as:

*“Double the licence fee!!! For everyone. Then cut drastically the mooring fees and so called connection charge to marina operators”*

Whilst this may sound a simple solution, it would reduce demand from price sensitive boaters on non-BW moorings who would not necessarily see a reduction in their mooring fees. The connection element in private mooring charges is generally less than 10%.

Finally under this ‘general principles’ heading, there were many comments expressing the following sentiment:

*“Any failure to improve the fairness and clarity of the licence system will be overshadowed by the continued failure to address the problem of those who overstay on moorings and/or fail to pay the current licence fee.”*

We agree with this sentiment.

### **Discounts for wider social, environmental and heritage objectives**

Most people agreed to this principle but there were counter-arguments and additional candidates for discounts, for example:

*“A vessel which uses environmentally friendly fuels causes just as much wash, wear and*

*tear to the locks and canal system as a conventionally fuelled vessel. There are no grounds for discount.” ...“Heritage discounts for a limited registered few vessel, yes. Social discount no, unless they are providing a free or heavily subsidised facility.”*

*I think it is regrettable that discounts are not offered to Hotel Boats ... These businesses also operate on very small margins. They generate a true and genuine interest and commitment in the canals amongst their clientele which could be of long term benefit.” ...“I believe the best, most useful and well balanced feedback reports [on need for minor repairs] will generally come from hotel boats, active cargo carrying boats and continuous cruisers. They are, if you like, professional boaters, out there doing it most days”*

There were also several comments that licences for historic boats should have been dealt with in the review. We agree that this would have been desirable, but the review that we commissioned was not complete. During the coming months we will be work with groups and individuals representing historic boat interests to consider how best to adjust the current discount structure in the light of the report from our marine heritage consultant.

### **Shared ownership**

A small minority of respondents addressed the shared ownership question in any detail. Of these, most appeared to think that commercial boat share arrangements should be treated like hire boats, but that informal boat shares should be treated as private boats. Unfortunately the Ombudsman’s ruling denies BW that option.

*“If a business wishes to licence a boat, then it should pay a business licence not a private one*

*“Why not have just one rate? By keeping it simple, it would be easier and cheaper to administer and enforce”*

*“Yes, they have the ability to pay, but some retired people don’t*

*“They do not use more of the waterways but could afford higher rate”*

### **Continuous cruisers**

This topic attracted the overwhelming majority of the total response. The main themes are illustrated by the following quotes which have been grouped into some common themes:

*Usage: “Being continuous cruisers does not in itself mean that we use the waterway more*

than other categories of licence holder”; “Number of days cruised is not a true indicator of usage” and “Continuous cruisers do not necessarily have a higher intensity of use...A common cruising pattern is to travel for a few hours one day and then to remain 2 or 3 days in one place.”

Maintenance impact of CCs: “Many relevant points have been omitted from the fee structure review and the contribution that continuous cruisers make that supports BW and benefits other boaters and the overall maintenance of the waterways”; “It is the responsible continuous cruiser that alerts BW to problems on the system.”; “Why not give us a special licence as special inspectors of the waterways and leave the licence fee as it is?”and

Other beneficial impacts of CCs: “Boaters buy a licence that entitles them to cruise. Continuous cruisers do just that. We do not speed, waste water, clutter the towpath or abuse the system. ... we have knowledge and experience that is an undoubted benefit to the whole of the inland waterway network.”; “Our boat is our home and the countryside is our garden so it is in our interest to look after the canal system and not abuse it.” and “Continuous cruisers are often the main users of the system outside the leisure cruising season and provide valuable income for the many small businesses along the canal”

Affordability: “According to your figures, 50% of CCs earn less than 15,000 pa. You should have had a lower band than that as the bottom range in your questionnaire!; “Do you seriously believe that the lowest income group who use the waterway system to cruise continuously will be able to pay an extra £800 per year” and “The majority of continuous cruisers are pensioners managing on £8000 to £9000 per year”.

Quiet life: “We want a quiet life which BW is not giving us” and “I really do not think that BW have the slightest comprehension what worry and stress these proposals represent to people such as ourselves.”

Fixed cost principle: “We agree in principle that cost impact and efficient recovery of fixed cost should constitute the key criteria for price differences, however ... we do not agree that continuous cruisers should be classified in the same bracket as business licences

Fairness: “If this increase goes ahead it will be a travesty of justice” and “I think there is an analogy to the Poll Tax here when reasonable citizens refused to pay because it was unjust.”

### **Charity and cargo carrying boats**

Most respondents agreed that these categories of boat should pay the lower rate.

### **VAT threshold for trading craft**

There were relatively few responses on this subject, but amongst these were several worries that people with very low turnover from the boat-related activity register for VAT for reasons unrelated to the boat operation. – ie they’re multi-activity businesses – and this is likely to result in collection difficulties and complaints.

Common worries with the proposal were expressed as follows:

“Many small struggling businesses are VAT registered – it’s a meaningless criterion and needs to be monitored on profits.”

“Imposing a fixed higher charge on a business that moves from just below to just over a threshold is tantamount to impose a penal tax. A sliding rate would be more acceptable”.

“VAT registration doesn’t guarantee ability to pay, profit or benefit to the waterway.”

“Some businesses make little money but their dedication to the waterways and knowledge is a priceless asset”

Others came out in favour of the proposal with several advocating going even further:

“It seems a simple method of determining the size of a business.”

“Yes – assuming business owners can recover the licence fee as a business expense.”

“Any boat operating as a business should pay the higher rate”.

“All businesses should pay the higher rate regardless of VAT status. Costs can be recovered within the business”.

“One business rate for all whether VAT-registered or not...It is up to the business viability to cover the cost, not for BW to be benefactors.”

“Any boat owner who is making money selling goods from their boat should pay the higher rate regardless of any other criteria.”