



National Navigation User Forum

Meeting:	9 November 2012
Title / subject of paper:	National Navigation Charges 2013/14
Agenda item no:	4. Boat Registration
Time required (mins):	25
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Summary & desired outcome:

Following a review of the first year, and performance to date, of our three year charging plan, this paper announces the National navigation charges will increase by 4.6% for 2013/14.

It invites customer representatives to assist with sharing the reasons for continuing with the CPI +2% increase as planned.

NNUF members are also asked to comment on the merits of establishing a task and finish National sub-group to consider Navigation finances in more detail in advance of the next spending review bid.

1. Introduction

1.1 Following consultation with customer representatives in 2011, we developed a Navigation Charging Plan for 2012 – 2015. It set out that we would:

- a. increase our navigation charges by July CPI + 2% each year to 2015;
- b. increase our registration charges by 6.4% from 01 January 2012;
- c. annually review the impact of our increases, together with economic and other pressures on registration numbers and to review our subsequent increases for 2013 and 2014 if we are not confident that our customers can sustain them;
- d. freeze our navigation charges for commercial boats at 2011 levels until 2015;
- e. introduce a rolling year for our annual registrations;
- f. define and introduce a system for part refunding the registrations of boats in specific circumstances (to be defined);

1.2 In 2012, we increased our charges by 6.4%. Commercial boats were held at 2011 prices to support businesses deriving income from boating activity. We introduced a new refund approach and extended the direct debit payments to ten months.

1.3 Following our review which included discussions with customer representatives, the EA Board met during October and approved our recommendation to continue with the intention of the three year charging plan and increase navigation charges for 2013-14 by 4.6% (July 2012 CPI of 2.6% plus 2%). For a medium sized boat, this means an increase of around £12 - £18 on an annual registration.

2. Background

2.1 Increased funding from charges is part of a wider package as our waterways teams reduce their operating costs; prioritise funding to protect capital investment; increase income from commercial and external sources; and, deliver a sustainable service that meets the needs of our different customers as best we can. We are also engaging the support of local people and communities to jointly operate, maintain and own their navigations and how they are used and developed.

2.2 We developed this charging plan to work towards reducing our reliance on public funding as we need to provide a sustainable future for our navigations going forward, regardless of who manages and operates them. Cost inflation and reductions in public funding mean we must increase our income and reduce our costs to best sustain the needs of our waterways.

2.3 Not increasing our charges to help close the gap will mean that our locks, other assets and associated services that boaters need, will deteriorate at an increasing rate, and in the long term potentially require higher restoration costs. This is likely to increase the frequency of operating failures for locks, causing greater delays and closures. In the worst cases, this could result in structures and navigations becoming unsafe or unworkable for use and thereby closed until the funding is found.

3.0 Boat registration performance

3.1 We carried out an elasticity of demand study in 2011 to compare historical numbers of registrations with our charges to assess whether there are links between charge increases and numbers of boats being registered. It suggested there is not a clear relationship between boat registration numbers and the overall economic trends in the UK. However we are aware of the need to keep costs as low as possible and welcome comments on the part our fees play in the affordability of boating.

3.2 We have monitored registrations for 2012-13 and overall, numbers have held up although we predict there will be a small decline on our Anglian waterways. The Inland Waterways Order 2010 (IWO) gave us new powers to register all boats on the waterways we manage, not just those in 'use'. This was new for the River Thames and implementing this legislation is bringing in more customers. We are seeking an amendment to the IWO so we can return to the previous position of enforcing registration in marinas on the River Medway.

4.0 Customer feedback

4.1 Via the established navigation user representative groups, Anglian and Medway representatives supported the 4.6% increase as reasonable, given the need for funding and the economic climate. The Thames representatives challenged the need for the 2% above CPI. They wanted the increase at no more than CPI as some non-commercial customer representatives felt they were being treated unfairly in comparison with the commercial boats.



4.2 A recent survey of a representative sample of non-commercial Thames customers reported that although 61% agree their boat registration fee was significant in relation to their other boating expenditure, half agreed it was good value for money and 85% were satisfied with the services provided by the Environment Agency. Two thirds were also certain they would continue boating for the subsequent year.

5.0 Rolling year update

5.1 We have been scoping the potential for introducing a rolling year approach which would allow customers to pay on a rolling annual basis from when they register their boat for the first time. We are considering this in response to the complaints from customers who register with us during the year and are aggrieved at paying for a full year registration.

5.2 The delivery of this capability requires investment of upwards of £50k in information technology (IT). Our budget for IT is severely constrained this year and we have been through a number of iterations to prioritise. While the rolling year registration remains something we are keen to implement it has not been possible to secure funding this year. We will keep the situation under review and advise you as soon as the circumstances change.

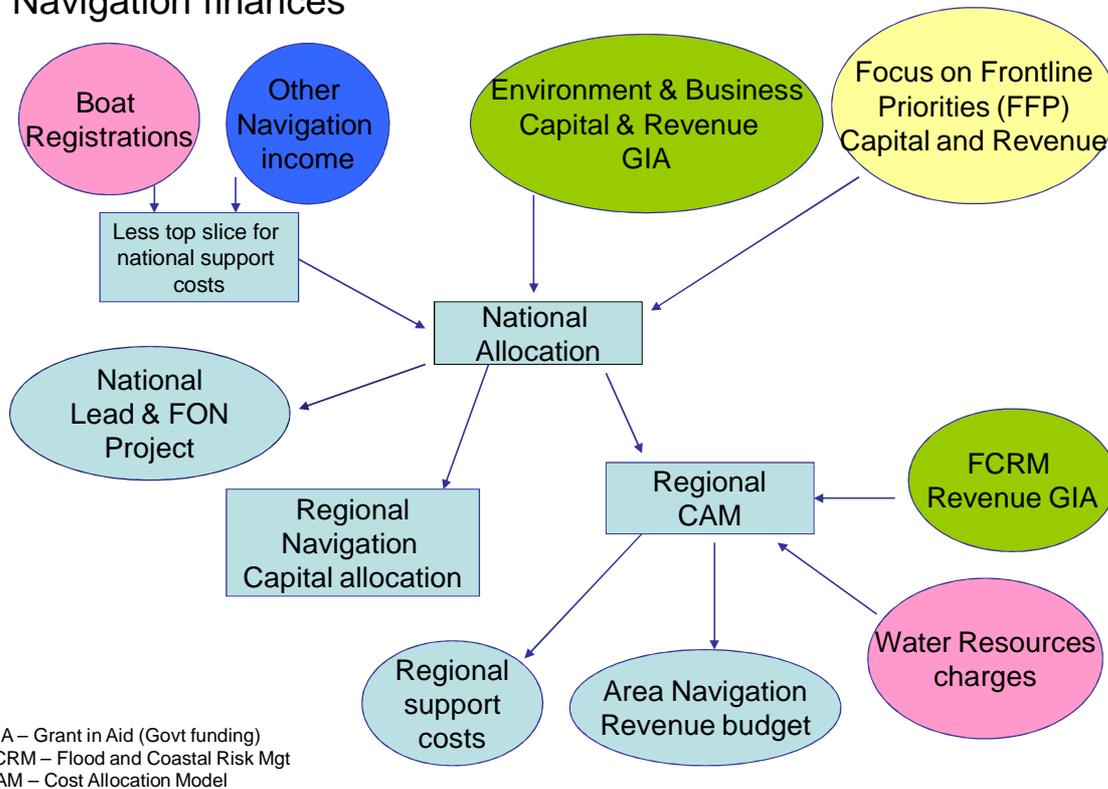
5.3 We recognise the need to make an adjustment for new customers to remove the issue of paying a full year registration when they register with us for the first time. We are proposing an adjustment that provides a fairer system for new customers or customers registering a boat with us for the first time mid-year. This is being discussed at the National Navigation User Forum meeting under item 5 on the agenda.

6.0 Boat registration income in the context of navigation finances

6.1 It is important for us all to understand boat registration income in the wider context of navigation finances. Income from boat registrations is a critical element of navigation income overall. Chart 1 below (which I will explain at the NNUF meeting), sets out how our finances come together at the moment.

Chart 1

Navigation finances



7.0 Income and expenditure

Note: The 2013/14 indicatives have several elements that still need to be confirmed (TBCs) because the planning process for 2013/14 is starting now and will not be finalised until early next year.

Table 1: Income (millions)

Finance element	2012/13 Budget figures	13/14 indicatives
Boat Registrations	5.8	6.07
Other navigation income	2.9	TBC
E&B GIA	8.4	4.25 + TBC
FFP	4	4 TBC
Matrix contributions	3.4	TBC
Total	24.5	TBC

Table 2: Expenditure (millions)

Finance element	2012/13 Budget figures
Capital investment	10.8
Revenue expenditure	11.1
Support costs	2.6
Total	24.5



7.1 Income explained

7.1.1 Boat Registrations

This is the income received from people registering boats on our waterways. As well as handling private and commercial registrations directly, we also have block registration agreements with the British Canoe Union and British Rowing and the Gold Licence administered by the Canal and River Trust allowing boater to use our combined waterways. The charges are increased according to a three year charging plan and 2013/14 is year two of the current plan. Other Environment Agency charging schemes are based on covering all costs relating to delivering the services relating to the activity i.e. on a cost recovery basis. Stuart Taylor (previous Head of Navigation) introduced the concept of reviewing how this would look for navigation at a previous NNUF meeting. We need to work together to review what charges pay for currently and what they should pay for. **NNUF members are asked to comment on the merits of establishing a sub-group to discuss our navigation finances in more detail.**

7.1.2 Other Navigation income

This covers all non-Boat registration income received by navigation. This includes regular ongoing revenue from our estate, accommodations licences and facilities. It also covers one-off income from the sale of assets e.g. houses away from lock sites. Therefore, it is partly reliable ongoing revenue and partly one-off opportunities. Our commercial development income is included here and it aims to increase our reliable, ongoing annual revenue.

7.1.3 E&B Grant in Aid (GIA)

Environment & Business revenue GIA is allocated through an annual process according to our corporate plan priorities and emerging issues. This GIA makes up the revenue funding for staff and maintenance where the navigation charges do not cover these costs. GIA is under pressure and the allocation for navigation is considered alongside other Environment Agency responsibilities. Environment & Business capital GIA is bid for annually to DEFRA, but is based on the three year Spending Review allocation agreed by Directors.

7.1.4 Focus on Frontline Priorities

Future of Navigation project is funded from the Focus on the Frontline Priorities funding (FFP). This funding has been achieved by making savings corporately to invest in priority areas for the business. 'Sustainable navigations' is one FFP activity and covers the funding for the Future of Navigation project, both the preparation for the DEFRA review and work to develop our approach to partnerships, volunteering and commercial development. FFP is also providing capital funding for improving the navigation asset condition beyond our corporate plan. In 12/13, this has mainly been spent on completing the Western Training Wall project at Rye Harbour. There has also been funding available to develop projects on our other waterways.

7.1.5 Matrix contributions via the Cost Allocation Model

Navigation has received a significant budget from other functions within the regions (mainly Flood and Coastal Risk Management) to fund activities and maintenance that benefit more than one function. Many of the assets that benefit navigation users also play a part in securing water resources or in managing flood risk. Getting the right funding balance between these "functions" is a particular area of focus.

7.2 Expenditure explained

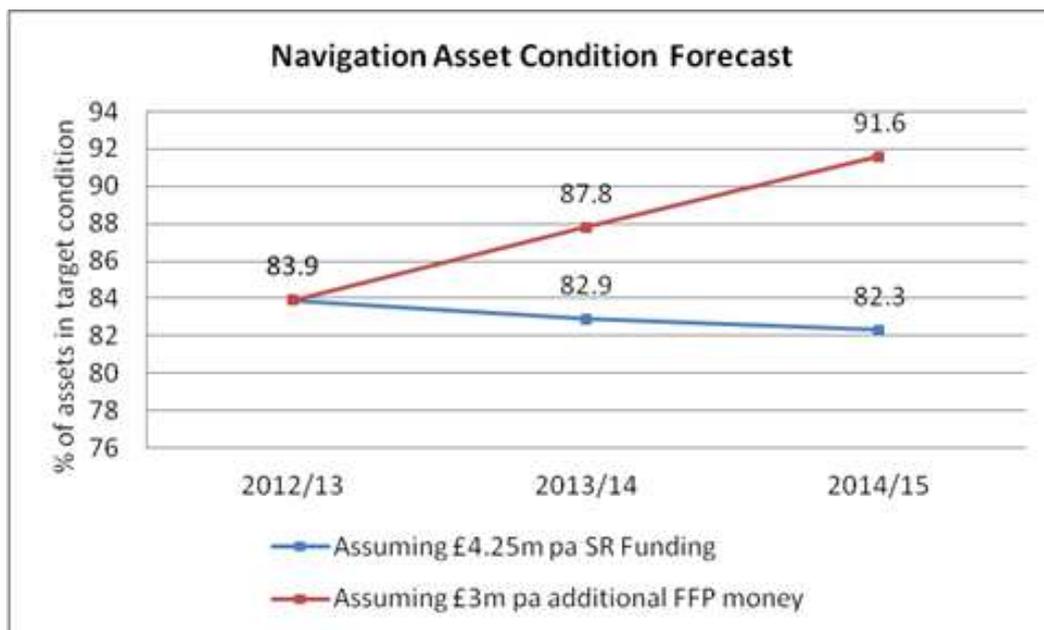
7.2.1 Capital

Following a recent period of significantly higher investment, 84% of our navigation assets are due to be at or above required condition by the end of 2012/13. Our latest estimated assessment on the annual expenditure required for capital investment in all navigation assets is £6.6m per annum. The current spending review allocated £4.25m per annum in principle and we are bidding to DEFRA in November to secure this. We must prioritise our investment in assets that are essential for Navigation and safe use of our waterways, so the funding is allocated where it is most needed.

7.2.2 We have been provisionally allocated £3.1m from the FFP budget to help secure sustainable navigations. This budget is not yet confirmed and is subject to change.

7.2.3 Graph 1 below shows the estimated difference in asset condition based on the likely baseline investment (GIA) and the additional FFP funding until the end of 2014/15.

Graph 1



7.2.4 Asset management is our priority as we have a duty maintain our assets. We are reviewing our prioritisation and how we are delivering our capital programme through our National Capital Programme Management Services team to make sure we are investing the best we can with our funding, and achieving efficiencies in delivering it.

7.2.5 As referred to earlier in 2.0 Background, not investing enough in our navigation assets will mean the condition deteriorates and the investment needed in future to bring them back into required condition will increase.

7.2.6 Revenue

Revenue expenditure covers staff, maintenance and incidental expenditure. The majority of charge income is allocated to revenue expenditure to deliver local services. Corporately, there are 153 staff working on Waterways activities. Apart from the Head of Business and the Future of Navigation Project Manager and support, all Waterway staff are within Operations and managed in the Regions.

7.2.7 The services that are provided, by whom and how, is led by local managers in discussion with customer representatives. Each team bids for its base costs and for any projects it is seeking to deliver as part of the annual planning process. We have been seeking efficiencies in our revenue budgets continually whilst trying to protect the levels of service as they currently stand.

7.2.8 Our latest estimated assessment of annual revenue maintenance for our navigation assets suggests we need £3.4m nationally per annum. This is a planning figure that we need to test against our actual investment and asset performance in order to refine it.

7.2.9 As referred to above in Income: Boat Registrations, we need to work together to understand which elements of our services are currently relying on GIA and which should be covered by charge income.

7.2.10 Support costs

The 'top slice' taken from our income for support costs is a corporate approach that is consistent across all the charging schemes we operate. As part of 2010 Spending Review, Defra challenged us to reduce our support services by 33% and we are on target to achieve this. This has meant we are able to direct a larger proportion of our budget to Operational teams than previously. As well as paying for the buildings in which we operate, it also covers shared support services such as Head Office services, IT costs, finance, legal, HR, communications and estates support.

8.0 Summary

Our GIA is under pressure corporately so we need to do what we can to raise income from sustainable sources and make efficiencies if we are to retain the current navigation services and navigation asset condition. Our funding is vulnerable because navigation relies so heavily on GIA. Income from Boat Registration is a key element of more sustainable funding and we are continuing work to increase funding from other sources.

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DATE: 2 November 2012