

Navigation Charges 2016/17

Report by Chief Executive, Head of Finance, Director of Operations and
Collector of Tolls

Summary: This report seeks the views of the Committee on next year's navigation charges. It identifies a number of pressures on income and expenditure together with options. Trends in boat numbers and the results from the Authority's stakeholder research are used to inform the analysis.

1 Trends and Feedback from Boat Owners

- 1.1 Evidence from boat registrations indicates that while the total number of boats using the Broads remains relatively stable at over 12,000, within the fleet there are distinct trends. The number of private motor boats is increasing and now accounts for 54% of all boats, while the number of private sailing boats and auxiliary yachts now represents less than 20% of the fleet. Larger private motor boats in particular are increasing while smaller motor boats are in decline (see Table 1). After a few positive years, largely attributable to 34 boats brought to the area by company Le Boat between 2009 and 2012, the number of hire boats is declining (see Table 2).

Table 1 Private Motor Boat Numbers by Size

Size m ²	2008	2009	2010	2011	2012	2013	2014	△ 2008-14	%△ 2008-14
1-10	2292	2130	1930	1940	1866	1844	1828	-464	-20.2%
11-20	1795	1923	1956	1991	1958	1983	1960	+165	+9.2%
21-30	1427	1487	1529	1566	1603	1614	1642	+215	+15.1%
31-40	736	765	800	814	819	865	865	+129	+17.5%
41-50	283	294	289	296	304	319	343	+60	+21.2%
51-60	39	46	44	51	60	63	65	+26	+66.7%

Table 2 Number of Hired Motor Cruisers

Year	2008	2009	2010	2011	2012	2013	2014	2015
No.	813	855	889	920	908	887	862	841

- 1.2 The Authority carried out a major survey of key stakeholders using a local company called Insight Track which produced useful evidence from both private and commercial boat owners. The research included specific questions on tolls. It showed that 52% of private toll payers agreed that the

charges were good value, 21% were neutral and 25% thought they weren't good value. The equivalent figures for the hire boat operators were 8%, 36% and 56%.

- 1.3 Comparisons with other waterways are of limited value. The Broads is one of the four largest inland navigations. The others, the canals operated by the Canals and Rivers Trust and Scottish Canals, and the river navigations managed by the Environment Agency, not only have substantial infrastructure but also considerable financial support from the public purse. Even when the latter is taken into account the charges on the Broads are generally lower.
- 1.4 In a period of low inflation clearly the Authority has to be mindful of the impact of raising its charges on both the private and commercial owners. On the other hand, the stakeholder research also indicated that around half of private boat owners and hire boat operators wanted more spent on dredging and the maintenance/provision of moorings and the hire boat operators also would like more spent on patrolling and safety.
- 1.5 On the question of the hire boat multiplier this received 70% support from the private boat owners while the majority of hire boat operators (72%) did not support the multiplier. Following a tolls workshop in September the Authority has agreed to review the structure of the tolls, including the multiplier, over the coming nine months with a view to introducing changes from 2017/18. So for this year a flat rate increase across the board is presented in this paper.

2 Current Financial Position

- 2.1 Table 3 shows that the outturn for navigation income and expenditure for last year was close to the budget set in March 2014 and that income and expenditure were almost equal. This left reserves at 9.4% of gross expenditure, close to the agreed level of 10%. However it is worth noting that the actual income, although close to anticipated level, included an additional £45,000 of income from private boats which offset a £41,000 below target income from the hire sector.

Table 3 Navigation Income and Expenditure 2014/15

	Budget 2014/15	Actual 2014/15
Income	£2,981,871	£2,975,960
Expenditure	£2,942,316	£2,977,942
Surplus/ Deficit	£39,555	£1,982
Closing reserve prior to yearend adjustment	£247,284	£289,773
Yearend adjustment (transfer of interest to earmarked reserves, etc.)	£7,500	£7,654
Reserve 31/03/15	£279,339	£280,138
Reserves as a % of Expenditure	9.5%	9.4%

- 2.2 Table 4 shows the predicted navigation income for the current year, taking into account the changes in income last year and the lowest ever increase in tolls of 1.7%. It estimates income at below the budget figure by over £14,000. There is a similar pattern to 2014/15 of lower than anticipated income from the hire fleet, which is only partially offset by additional income from private boats. The larger hire boat companies are investing in new, large high quality boats, but at the same time selling older, less attractive boats, many of which remain on the Broads in private ownership.

Table 4 Predicted Navigation Income 2015/16

	Private	Hire
Month 6 Income	£1,829,106.53	£1,068,217.80
2014/15 Periods 7 - 12	£47,200	£0.00
Add 1.7% toll increase for periods 7-12	£802.40	£0.00
Predicted Toll Income	£1,877,108.93	£1,068,217.80
Budgeted Income 2015/16	£1,869,042.00	£1,090,525.00
Surplus/ Deficit	£8,066.93	-£22,307.20

- 2.3 At the September meeting of the Navigation Committee support was given for additional expenditure in the current financial year (2015/16) of £21,000 for dredging the marked channel in Hickling Broad. This recommendation was subsequently adopted by the Authority. At this stage it is unlikely that these extra costs can be absorbed within the approved budget and it would be prudent to assume that the reserves at the end of the year will be reduced by £21,000.
- 2.4 The latest estimate for navigation income, together with the extra expenditure for Hickling has been built into a revised predicted outturn for this year which is shown in Table 5. This shows that reserves are predicted at 9.0% of expenditure at the end of the year.

Table 5 Predicted Outturn for Navigation for 2015/16

	Original Budget	Predicted Outturn
Navigation Income	£3,034,180	£3,012,440
Expenditure	£2,978,377	£3,017,104
Surplus/ Deficit	£55,803	-£4,664
Transfer of accrued interest to ear-marked reserves	£8,750	£5,000
Opening Reserves (a forecast for original budget)	£262,381	£280,138
Closing Reserves	£309,434	£270,473
Reserves as a % of Expenditure	10.4%	9.0%

3 Reserves Policy

- 3.1 The Authority's purchase of the May Gurney dredging and maintenance operation has allowed 25% more dredging and other practical work to be carried out for the same cost. However, one consequence, which the Authority and the Navigation Committee were fully aware of at the time of the decision in 2006, is that this has increased the organisations fixed costs and reduced its flexibility.
- 3.2 Once the costs of dredging in Hickling became known, a review of the Authority's reserves policy was undertaken to consider whether there was any room for change. This has clarified the four reasons the Authority holds reserves:
- (i) Protection against unforeseen circumstances and expenditure (e.g. extreme storm with consequences for the navigation, major oil spill, collapse of a structure such as a public mooring);
 - (ii) Matched funding for external programmes and projects;
 - (iii) Responding to opportunistic events, such as an offer to purchase land for the disposal of dredgings; and
 - (iv) Ring-fenced pots of money where resources can accumulate to purchase specific items such as replacement launches, which are too costly to fund out of the normal revenue budgets.
- 3.3 The feedback from the Navigation Committee, the Financial Scrutiny and Audit Committee and the Broads Authority has been that:
- (i) 10% is about the correct level for the contingency reserves;
 - (ii) Reserves for matched funding is a high priority; and
 - (iii) Different views about the reserves needed for Mutford Lock.

Therefore there has been no change in the existing policy of maintaining 10% expenditure as contingency reserves.

4 Pressures on Income and Expenditure for 2016/17

- 4.1 **The current exceptionally low level of inflation**, with the August figures for year on year inflation being 1.1% for the Retail Prices Index and 0.0% for the Consumer Prices Index gives rise to the expectation of a low level of any increase in tolls. However, there are a number of pressures on expenditure in 2016/17 that the Authority needs to take into account when setting next year's charges.
- 4.2 **Last year's lowest ever increase in navigation charges** of 1.7% has inevitably put pressure on the coming year's finances and means that as Table 5 shows the predicted outturn for the current year is that reserves will have fallen to 9% of expenditure, below the recommended minimum.

- 4.3 **Decline in hire boat numbers** has reduced income. From discussion with the Broads Hire Boat Federation it is likely that, even though the industry appears to have had a good year, the number of hire boats will continue to fall next year. A rough estimate is 20 - 30 boats. The toll income from these would typically be around £20 - 30,000 compared to £7-10,000 if they go into the private fleet. It would consequently be prudent to make provision for a further reduction in hire boat income of £20,000.
- 4.4 **Increased operational activity** as a result of the change in the apportionment of staff time from 60:40 to 70:30 Navigation: National Park. This change was supported by the Navigation Committee in September 2014 and adopted by the Authority. This involves an additional £49,000 of salary and other fixed cost expenditure and therefore an additional 528 man days of work on navigation activity in 2016/17 in the Construction and Maintenance team. At the time of the decision it was made clear that this would involve a 3% increase per annum in charges to fund it. The report indicated that the additional activity would be on “pre-season maintenance of the system – litter clearance and minor mooring maintenance – and additional tree work as these tasks could be achieved without incurring significant cash expenditure on materials. This responds directly to the concerns raised by the boating community.
- 4.5 An additional £28,000 will need to be made for **increased employment costs**, a 1% increase in staff salaries has been assumed along with provision for additional employer contributions to the pension fund.
- 4.6 **Hickling Broad** is a strategic priority for the Authority and £21,000 has already been committed as additional navigation expenditure from this year's budget. This year it involves undertaking priority dredging on the approach to Hickling Pleasure Boat Dyke and erosion protection at Hill Common. The dredged material will be used to backfill the bank at Hill Common and the surplus will be transported to Duck Broad to complete the filling of the lagoon created by the baskets. We are using Broads Authority staff and equipment in the main, from the enhanced staff allocation for navigation, plus the additional cash budget agreed at the last meeting to hire in specialist plant e.g. concrete pump, to purchase materials e.g. silt curtains and to pay for increased water quality sampling and analysis as required by the Mitigation Plan.
- 4.7 Future years' works in Hickling Broad will include construction of bank protection/island creation. This could be achieved either using Authority staff and equipment with the purchase of expensive items such as geotubes, or entirely using a specialist contractor or a combination. We are looking to use as much staff time as possible because the Authority is able to count it as matched funding in its bid for external finance from Europe in the MULTIPLE Project. The benefit of using contractors would be that the existing dredging programme using our own staff could be maintained but this would require a significant cash budget to pay for contractors. The enhanced staff resource for navigation will enable more of the existing dredging programme to be delivered alongside the Hickling Project in the most cost efficient manner.

- 4.8 The continued delivery of the Hickling Project relies on a further expenditure of £30,000 in 2016/17 matched by the same amount funded from National Park Grant. If the bid to Europe is successful the Authority will be committed to a four year programme of delivery which will have an impact on what can be done elsewhere and the level of navigation income needed.
- 4.9 Additional expenditure of £6,000 for **Mutford Lock** has already been agreed, and this may be insufficient if the cost of the contract for operating the Lock rises.
- 4.10 **A cut in National Park Grant** following the Comprehensive Spending Review is highly likely and this may require a further review on the apportionment of expenditure which could place further focus on the pressure on the navigation side of the budget in 2017/18, if not in 2016/17.
- 4.11 The calculations below do not include any funding for new aspirational activity, such as an initiative regarding the disposal of waste from moorings.

5 Options for Navigation Expenditure for 2016/17

- 5.1 The Authority has committed to increasing the amount of practical navigation activity and this year's dredging on Hickling is a corporate priority. The additional expenditure of £30,000 in 2016/17 for Hickling puts extra strain on the budget. However, this is a strategic project and one for which there is much demand from the boating community. The items of expenditure in next year's budget that could be cancelled include:
1. **Dickey Works** hazard removal **£20,000**
It would remain a hazard and an eyesore.
 2. **Channel marker** renewal Breydon Water **£10,000**
All the soft posts are effected by Gribble worm and would be replaced as and when they fell rather than proactively against a programme of work set out and agreed in the Asset Management Strategy.
 3. Reduction in the **mooring refurbishment** programme **£ 3,000**
e.g. the development of emergency moorings at Scare Gap
This was the top priority identified in the workshop on moorings and the provision of an emergency mooring in the Lower Bure would be deferred
 4. Reduction in the **piling** programme, **£10,000**
e.g. the piled returns to **Chedgrave Common** moorings
If this isn't done we have to continue to carry out maintenance of the eroded sections mooring on a regular basis and can tackle the returns when the site needs repiling.
 5. **Tree clearance** contract **£15,000**
Using contractors allows the Authority to tackle large difficult areas of tree removal. Without the expenditure the Authority would just rely on in-house resource targeted on the priority areas – mainly the River Ant.

6. Annual litter pick**£ 5,000**

New Mills to Surlingham through Norwich. The majority of the cost is for the disposal of material removed – e.g. bicycles, needles, shopping trolleys, road cones and fast food containers. Larger items may result in a hazard to navigation.

- 5.2 The Table below shows as examples some of the choices available for the Committee to consider. All include provision for the anticipated loss of hire boats next year (£20,000), increased salary burden on operational activity (£49,000), increased employment costs (£28,000), the delivery of the Hickling Broad Project in 2015/16 and 2016/17 (£51,000) and the increased costs of operating Mutford Lock (£6,000).

Table 6 Options for Navigation Expenditure in 2016/17

Option	Work Undertaken in 2016/17	Navigation Expenditure 2016/17
Option 1 (+3.9%)	Hickling dredging Items 1-6 cancelled saving £63,000	£3,066,176
Option 2 (+5.1%)	Hickling dredging Items 1-2 cancelled saving £30,000	£3,099,176
Option 3 (+5.5%)	Hickling dredging Item 1 cancelled saving £20,000	£3,109,176
Option 4 (+6.2%)	Hickling dredging Existing programme delivered in full	£3,129,176

- 5.3 These are then translated into four different options for a draft budget for 2016/17 shown in Table 7.

Table 7 Draft Budget for 2016/17

	Option 1	Option 2	Option 3	Option 4
Navigation Income	£3,108,804	£3,144,608	£3,156,543	£3,177,429
Expenditure	£3,066,176	£3,099,176	£3,109,176	£3,129,176
Surplus/ Deficit	£42,628	£45,432	£47,367	£48,253
Transfer of accrued interest to ear-marked reserves	£5,000	£5,000	£5,000	£5,000
Opening Reserves	£270,473	£270,473	£270,473	£270,473
Closing Reserves	£308,101	£310,905	£312,840	£313,726
Reserves as % of Expenditure	10%	10%	10%	10%

6 Options for Navigation Charges 2016/17

- 6.1 Table 8 shows the cash impact on boats of different sizes and classes of the different options for expenditure shown above. The Insight Track research showed that navigation charges accounted for around 9% of the costs of private boat ownership and 11% for the commercial fleet. So while it is recognised that there are other costs pressures, for example the rising charges for moorings, a 10% increase in tolls would only represent just over 0.75% increase in the total costs of an individual owning a boat. So for example, a 25m² motor boat currently pays £281.13. The survey results suggest that the annual total costs for owning the boat would typically be over £3,000 and if Option 4 were implemented the annual increase in tolls would be £17.43, just over ½% increase in the total costs of owning the boat. Similarly, for a 38m² hire boat paying £1,044.80, the results indicate that the annual costs are in the order of £9,500 p.a. and a £79.48 increase in tolls under Option 4 equates to a 0.75% increase in total costs.

Table 8 Sample Increases illustrating impact of different levels of increase

	Toll 2015/16	Option 1 Increase	Option 2 Increase	Option 3 Increase	Option 4 Increase
Example Tolls - Private					
Canoe	£30.26	£1.18	£1.54	£1.66	£1.88
Sail 5m²	£47.14	£1.84	£2.40	£2.59	£2.92
Sail 11m²	£76.24	£2.97	£3.89	£4.19	£4.73
Motor Sail 18m²	£162.56	£6.34	£8.29	£8.94	£10.08
Motor Sail 25m²	£209.95	£8.19	£10.71	£11.55	£13.02
Motor 5m²	£94.28	£3.68	£4.81	£5.19	£5.85
Motor 11m²	£152.48	£5.95	£7.78	£8.39	£9.45
Motor 25m²	£281.13	£10.96	£14.34	£15.46	£17.43
Motor 38m²	£398.78	£15.55	£20.34	£21.93	£24.72
Motor 48m²	£489.28	£19.08	£24.95	£26.91	£30.34
Example Tolls - Hire (excluding £5 hire boat licence):					
Motor 11m²	£449.82	£17.54	£22.94	£24.74	£27.89
Motor 25m²	£736.56	£28.73	£37.57	£40.51	£45.67
Motor 38m²	£1,044.80	£40.75	£53.29	£57.46	£64.78
Motor 48m²	£1,281.91	£49.99	£65.38	£70.51	£79.48
Projected Income Private	£1.877 m	£1.950m	£1.973m	£1.980m	£1.993m
Hire	£1.068 m	£1.089m	£1.101m	£1.106m	£1.113m

7 Conclusions

7.1 The annual process of setting navigation charges on the Broads is never easy but the decision for next year presents some particular difficulties because of the combination of a series of factors.

- The current exceptionally low level for inflation provides an expectation that increase in charges will be comparably low;
- The lowest ever increase in navigation charges at 1.7% was approved last year and recognised that no provision for Hickling was made at that level;
- The financial position has been exacerbated by the loss of income from the continuing decline in the number of hire boats operating on the Broads and the expectation that this will continue in 2016;
- The switch in the proportion of staff time devoted to the maintenance of the navigation area as opposed to National Park work puts additional pressures on the budget;
- The demand and expectation from our full range of stakeholders that the Authority progress with its strategically important project for the improvements to Hickling Broad; and,
- The Authority has committed to a review of the tolls structure for implementation in 2017/18. If the Working Group advocates significant changes and the Committee and the Authority accept the proposals they will be more difficult to implement if navigation income lags behind actual and proposed expenditure.

7.2 The views of the Committee on next year's navigation charges are sought for submission to the Authority at its November meeting when the decision will be taken.

Background Papers:	Nil
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Appendices:	None