

How we use Regulatory Impact Assessments

July 2002



1. Introduction

This guidance summarises how we use Regulatory Impact Assessments (RIAs).

We use RIAs to inform our policy decisions. RIAs help us understand the costs and benefits of changes or developments we suggest to the way we regulate. We include RIAs in some of our consultations.

2. What are RIAs and why do we use them?

RIAs are a policy tool to assess the impact, in terms of cost, benefits and risks of any proposed legislation or regulatory action. They place a discipline upon us to demonstrate that we have considered a number of options to tackle the issue and to state why we have chosen the preferred option. RIAs inform the final regulatory decision. For example, if our stakeholders inform us that the costs or risks of a particular course of action will outweigh the benefits we will reconsider our approach.

In developing our policy we look at the impact it will have on all those affected: customers, water and sewerage companies, quality regulators, environmental groups, investors etc. Regulation should not be an unnecessary burden on customers and companies.

RIAs make sure we consider the impact of our work on customers and companies.

When we consult on our policies we include partial RIAs in the consultation paper. Our stakeholders' responses to the consultation help us finalise RIAs. We publish full RIAs in our decision documents.

Consultation is a key part of each RIA. Responses can change our estimates of the costs and benefits. We keep an open mind throughout the process to ensure our judgements are transparent and well informed. The full RIA is an integral part of the published final policy decision document providing a summary of the expected costs and benefits of the policy.

3. When are RIAs used ?

We use RIAs when we expect a new policy or change in policy will directly affect the water and sewerage companies and/or other stakeholders. We assess the scale and nature of the impacts of what we are proposing. We do not prepare RIAs where only one company or a small number of companies/stakeholders are affected by our proposals. For example RIAs are not required for enforcement action or issues relating to a specific company eg merger, refinancing, licence change, interim determinations and Competition Act 98 cases etc.

The next five yearly periodic review of price limits is due in 2004. As price reviews are a statutory requirement an overall RIA will not be completed. Where our approach to significant elements of price setting does change RIAs will be produced.

When we need to respond quickly to an urgent issue we do not use RIAs.

We use the following criteria to help us make decisions on preparing RIAs.

- An assessment of the overall outcome of the policy change or development.
- The number of companies or other stakeholders affected.
- The costs resulting from the proposed policy, for example to:
 - companies' administration costs;
 - companies' operating costs and their operational activities;
 - companies' levels of capital investment;
 - the costs at which companies can borrow;
 - changes to the level of companies' revenue;
 - cost to customers;
 - opportunity costs.
- The scale and distribution of benefits resulting from the proposed policy change (e.g. does it have a marked impact on a specific group):
 - customers' bills;
 - service quality;
 - water quality;
 - reduced pollution;
 - improved choice for customers;
 - greater competition.

4. How does the process work /operate?

There are two stages:

Stage 1 Partial RIAs – Included in consultation documents (Annex 1)

Stage 2 Full RIAs – Included in policy decision document (Annex 2)

The link between stages is set out in the diagram below:

Stage 1 – Partial RIAs

Prepare Partial RIA (see Annex 1 guidance)



Include in consultation document



Publish consultation



Analyse Responses

Stage 2 – Full RIAs

Consider feedback to RIA in consultation responses



Amend/update RIA using any fresh information



Amend policy in light of partial RIA feedback



Incorporate full RIA into policy decision document



Publish decision document and full RIA

6. Next Steps

We have started using RIAs to inform our decision making. We will use RIAs where our criteria are met. The use of RIAs will be applied flexibly to specific consultations. In common with RIAs across government, it is not always possible to quantify costs and benefits, but we will use them where we can. Our aim is to set out reasonable estimates both qualitative and quantitative where we have the information to do so. We will review the effectiveness of our RIA process annually and develop it accordingly.

Roger Dunshea
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ANNEX 1

Stage 1 – Partial RIAs

We will include partial RIAs where appropriate with our consultation papers. The following headings will normally be used.

1. Purpose and intended effect of the policy and its timing.
2. Risk assessment.
3. Alternative approaches and the reasons for our preferred option.
4. Benefits – direct and indirect. We will specify who will benefit and the level of benefit.
5. Costs – direct and indirect. We will specify and quantify who bears the costs.
6. Compliance – how we will monitor compliance, the costs of compliance and who will meet the costs.

The partial RIAs will include questions to help us identify the impacts of our proposals.

- Do you consider our analysis of costs/benefits is complete?
- What other costs/benefits should be included?
- Is the list of options comprehensive?
- Are our assumptions about who will be affected reasonable?
- Have we under or over estimated the effects on those identified?
- Do our policy aims provide incentives to the companies to innovate and improve their performance?

We will assess responses to partial RIAs prior to publishing our decision documents. These will include full RIAs.

ANNEX 2

Stage 2 - Full RIAs

Responses to our consultation papers help inform our final policy decisions. These are published. Our decision papers will include full RIAs. The RIAs will set out the expected regulatory impact based on any new information arising from the consultation using the following format.

1. Introduction and summary

- 1.1 The aim of the RIA in assessing costs and benefits
- 1.2 The number of responses to the partial RIA
- 1.3 Where our policy has changed as a result of the consultation
- 1.4 Summary of costs and benefits expected

2. Benefits

Who benefits and what the benefits are.

3. Costs

Who incurs costs, who is affected and what are the costs. We will also include compliance costs.

4. Monitoring and review

State how the policy will be reviewed and evaluated, including a timetable.

