

**COVER NOTE TO THE IMPACT ASSESSMENT FOR
MANAGING THE FUTURE FINANCIAL RISK OF FLOODING**

This cover note to reflect changes in policy, the inclusion of band H and changes in Flood Re premiums charged in Wales to correct for the revaluation of Council Tax bands in Wales

This note describes how changes in policy since the last impact assessment (IA) affect the costs and benefits. The decisions to include properties in council tax band H in Flood Re and to compensate premiums paid in Wales for the change in Council Tax bands have small effects in Flood Re's costs and benefits. The reason for this is the small number of properties affected. As a summary of the changes brought about by these two changes in policy, the effect on the benefit-cost ratio of including properties in band H will be less than half a percentage point and, in addition to this, that of adapting premiums paid in Wales around three percentage points. The table below shows those changes over the initial estimates published in the IA.

Table 1: Effects of changes in policy	Impact Assessment	Including band H	(%)	Including band H and changes in Wales banding	(%)
Number of properties	356,000	358,706	0.8%	358,706	0.8%
Equity benefit	5.6	5.5	-1.0%	5.3	-5.8%
Participation benefit	4.2	4.2	0.6%	4.3	1.5%
Liability of the pool	121	124	2.5%	124	2.5%
BCR	0.325	0.323	-0.4%	0.314	-3.2%
Expected annual profits	53	53	-0.1%	52	-2.1%
Cost of reinsurance	73	74	1.6%	74	1.6%
Revenue from reinsurance	30	31	3.3%	31	3.3%

The number of properties in Flood Re

The increase in the total number of properties in Flood Re as a result of including those in council tax band H is small (around 2,700 properties) when compared with the estimated number of properties that would be included in Flood Re (356,000). On the other hand, the absolute number of Welsh properties in Flood Re is unchanged, however around 15,000 of them (two thirds of Welsh properties that are estimated will be Flood Re) will see their premium levels lowered.

The first of the changes in policy is to include in the scheme those properties in Council Tax band H (and I in Wales). Accordingly, table 4: "Estimates of overall gross premiums (combined buildings + contents) paid under Flood Re, a worst-case risk-reflective scenario and currently

under the Statement of Principles” on page 16 of the IA, where premiums by CT band are shown, should be updated to include now CT band H:

Council Tax Band*	A	B	C	D	E	F	G	H
Flood Re proposal	£650	£650	£720	£800	£920	£1,101	£1,550	£3,160
Risk-reflective	£800	£800	£810	£910	£995	£1,141	£1,683	£3,330
Current (SoP)	£535	£525	£570	£630	£710	£825	£1,145	£1,846
Average % increase between current and Flood Re Prices	21%	24%	26%	27%	29%	33%	35%	71%

Costs and benefits

The introduction of Band H also does not change costs and benefits of Flood Re significantly and the policy’s benefit-cost ratio stays at broadly 0.3.

The equity benefits of £5.6m per annum are lowered to £5.5m following the inclusion of band H. The subsidy going to the three upper bands, F, G and H, increases by a tenth of a point from 10.2% to 10.3% and the share of those in the lower two bands decreases accordingly by a tenth of a point. In addition to this, the change in Welsh premiums lowers the equity benefit to £5.3m. These changes are shown in the tables below as compared to table 7: “Effective annual subsidy and net equity benefit by Council Tax band” on page 21 of the IA.

Equity benefits as published in the IA

CT Band	A	B	C	D	E	F	G	H	Total
A. Aggregate financial subsidy (£m)	5.3	5.9	4.6	4.3	2.6	1.0	1.6	0.0	25.3
B. Equity weight	2.25	1.45	1.05	0.75	0.45	0.45	0.45	0.45	
C. Equity-weighted subsidy (£m) (=AxB)	11.9	8.5	4.8	3.2	1.2	0.4	0.7	0.0	30.8
D. Net equity benefit (£m) (=C-A)	6.6	2.7	0.2	-1.1	-1.4	-0.5	-0.9	0.0	5.6

Equity benefits after including properties in CT band H

CT Band	A	B	C	D	E	F	G	H	Total
A. Aggregate financial subsidy (£m)	5.3	5.9	4.6	4.3	2.6	0.9	1.6	0.0	25.2
B. Equity weight	2.25	1.45	1.05	0.75	0.45	0.45	0.45	0.45	
C. Equity-weighted subsidy (£m) (=AxB)	11.9	8.5	4.8	3.2	1.2	0.4	0.7	0.0	30.7
D. Net equity benefit (£m)(=C-A)	6.6	2.6	0.2	-1.1	-1.4	-0.5	-0.9	0.0	5.5

Equity benefits after changes in premiums paid in Wales

CT Band	A	B	C	D	E	F	G	H	Total
A. Aggregate financial subsidy (£m)	5.3	5.9	4.8	4.4	2.7	1.0	1.7	0.1	26.0
B. Equity weight	2.25	1.45	1.05	0.75	0.45	0.45	0.45	0.45	
C. Equity-weighted subsidy (£m) (=AxB)	11.9	8.5	5.0	3.3	1.2	0.5	0.8	0.1	31.2
D. Net equity benefit (£m)(=C-A)	6.6	2.6	0.2	-1.1	-1.5	-0.6	-0.9	-0.1	5.3

An additional one hundred properties in band H will be priced in and covered against flooding and, of these, just one more is expected to be flooded each year; resulting in a negligible increase in participation benefits. Because of the change in Welsh premiums two more of those properties flooded each year in Wales will be covered by insurance, resulting in a very small increase in participation benefits.

The effects on costs are equally small. Based on the data used in the Impact Assessment the liability of the pool increases by £3m as a result of the inclusion of properties in band H (from £121m to £124m) whilst administration costs stay broadly constant. The effect of changes in premiums for Welsh properties is almost the inverse one. The liability of the pool remains constant while administration costs are around £0.2m higher.

Financial

Expected annual profits will also remain broadly unchanged, from £53m to £52m. The impact on the cost of reinsurance will be somewhat bigger, from £73 to £74m, and almost cancelled out by the increase in payments from the reinsurer from £30m to £31m.

Conclusion

Taking into account both changes to costs and benefits, the aggregate effects of these two changes in policy can be summarised in the following tables.

Figures in IA	Lower	Upper	Average	B/C
Benefits	66	120	93	
Costs	142	431	287	
Present value	-22	-365	-194	0.325

Including band H	Lower	Upper	Average	B/C
Benefits	66	120	93	
Costs	145	431	288	
Present value	-25	-365	-195	0.323

Correcting premiums in Wales	Lower	Upper	Average	B/C
Benefits	64	119	91	
Costs	148	434	291	
Present value	-29	-370	-199	0.314