

## **New authorisations for water abstraction**

### **Department for Environment, Food and Rural Affairs**

### **RPC rating: fit for purpose**

#### **Description of proposal**

The majority of existing water abstractors (businesses that extract water from water sources) are covered by a licensing regime. The purpose of the regime is to limit the environmental damage associated with over-abstraction and to help ensure an equitable distribution of supply. A number of activities are currently exempt from the licensing regime; this can result in environmental damage and reduce the likelihood of the UK meeting the requirements of the Water Framework Directive. The proposal will end a number of these exemptions and require currently exempt abstractors to seek new authorisations for their activity.

#### **Impacts of proposal**

The proposal will end exemptions from the licensing regime for:

- quarries and mines (de-watering of engineering works);
- trickle irrigation (spray irrigation is already licensed);
- managed wetland systems;
- the transfer of water from one inland system to another;
- internal drainage districts;
- the Crown Estate; and
- currently exempt geographical areas.

For each of these areas/activities listed above, the IA provides a detailed assessment of the likely costs to businesses, as a result of lost economic output, and increased administrative and compliance costs. To provide an assessment of the impacts of the proposed changes, the IA assesses the expected curtailment of current activity in the baseline, as a result of existing environmental controls and the impact of these restrictions happening sooner.

Under the preferred option, the Department estimates that quarrying and mining businesses will face additional costs of £33 million (in net present value (NPV) terms), as a result of needing to replace productive capacity or move to new sites because of abstraction restrictions. Businesses using trickle irrigation are expected to face costs of around £64 million (NPV), primarily driven by lost output as a result of restrictions being placed on water usage. Across the other affected sectors, the cost is estimated to be £17 million (NPV).

Existing abstraction licence holders are expected to benefit from the proposal. Bringing exempted activities into the scope of licensing is expected to increase water levels, reducing the incidence and severity of restrictions on licenced abstractors in comparison to the

baseline. This is expected to result in increased output, and reduced costs from avoiding the need to invest in water storage, delivering benefits of around £17 million (NPV). The Department's assessment of this benefit as direct appears reasonable. The final stage IA should, however, include further narrative supporting this assessment.

The estimated impacts have been developed using detailed modelling. Below, the quality of the modelling is mentioned further but, on the basis of the evidence presented, the Department's estimates are sufficiently robust for this stage of policy development.

## Quality of submission

The IA states that "*the licensing system is considered the least-cost and most efficient way to help meet the Water Framework Directive with regard to water abstraction*" (paragraph 8.4). The IA would benefit from more detailed discussion to support the statement and to provide assurance that the proposal is not gold-plating EU requirements. For example:

- the IA should explain how the proposal does not go beyond the minimum requirements for environmental protection; and
- it is not immediately clear whether there is further scope to delay the implementation date of the proposal. As it is net costly for business, the IA needs to explain further why it is not possible to have a longer transition period and remain compliant with the EU requirements.

The consultation should be used to test the assumptions relating to the estimated costs. For example, it is not clear why a 1% reduction in the water available to royal parks would translate to a 1% reduction in income.

The IA uses a 25 year appraisal period. The justification is discussed briefly in the IA. While the 25 year period is not unreasonable, the IA would benefit from including further justification for using a 25 year appraisal period, to support validation at final stage.

The IA provides a significant amount of detail, based on the outputs of extensive models developed for the Department. This presents what appears to be a comprehensive set of outputs, costs and benefits, as a result of modelled responses to changes in water levels. The IA would, however, be improved by providing further justification for why the Department's preferred model should be considered sufficiently robust. For example, whether the model has been subject to any peer review or quality assurance process. .

The Committee notes that the NPV does not include the estimated wider benefits of the proposal - for example, from reduced environmental damage. The IA does provide a sufficient qualitative discussion of why it is not possible to monetise these benefits robustly. The final stage IA should also discuss whether the increased water usage by existing licence holders, as a result of restrictions on currently exempted activities, will reduce the overall benefits of the proposal.

The Committee also notes the discussion in paragraph 4.13 regarding the option to provide compensation for currently exempt abstractors. To support better the proposed consultation the IA would benefit from explaining in more detail how the 2009 consultation responses have shaped the current proposals.

#### **Initial departmental assessment**

Classification	Out of scope (EU)
Equivalent annual net cost to business (EANCB)	£4.32 million
Business net present value	‑£96.5 million
Societal net present value	‑£96.5 million

#### **RPC assessment**

Classification	Out of scope (EU)
Small and micro business assessment	Not required (European origin)



**Michael Gibbons CBE**, Chairman