Revision to the Gas Safety (Installation and Use) Regulations 1998

Health and Safety Executive

RPC rating: validated

Description of the measure

The assessment covers three areas of proposed change to the Gas Safety (Installation and Use) Regulations 1998 (GSIUR). These are:

1. Introducing flexibility around the timing of annual gas safety checks by allowing landlords to carry out checks up to two calendar months before the due date, without bringing the due date forward and shortening the safety check cycle;
2. Excluding non-domestic compressed natural gas (CNG) sites from the majority of the GSIUR;
3. Regularising and broadening the current exemption to Regulation 26(9)(c), which requires engineers to measure heat input and/or operating pressure. The existing exemption covers situations where there is no meter; the proposed modification would cater for other situations where these checks cannot be carried out (e.g. if the appliance cannot be examined directly).

Impacts of the measure

Number of organisations affected

Business

The measures will affect private landlords, letting agents, gas servicing companies and CNG businesses.

The Property Ombudsman (2014) suggests that the approximately 1.6 million private landlords in the UK are responsible for approximately 4.7 million privately-rented properties in Great Britain that are connected to the gas network, and therefore in scope of GSIUR. Evidence from a survey of private landlords indicates that around 49 per cent of them carry out their checks two weeks or more in advance of the due date. This suggests that up to 2.3 million privately-rented properties would benefit from the extra flexibility under measure 1 above. Set against this, private landlords would incur familiarisation costs.

According to the Inter-Departmental Business Register (IDBR), there are around 17,000 estate agents in Great Britain. It is assumed that all of these are involved in the rental market and would have to familiarise themselves with the changes.

The IA assumes that companies that offer gas-check management contracts would familiarise themselves with the changes. It is expected that such contracts would be offered only by larger companies and, using the IDBR, it is estimated that around 210 companies in the plumbing, heating and air-conditioning sector may be affected.

The CNG sector in the UK is still in its infancy, with only around 15 sites known by HSE to be operating in 2015 (latest year for which data are available). Only one of these sites is currently in scope of GSIUR.

Social landlords

According to the Homes and Communities Agency, there are approximately 2,300 'social landlords' in Great Britain, estimated to be responsible for around 4.4 million properties. ('Social landlords' is the term used in the IA for providers of social housing, i.e. housing associations and local authorities). Using results from a CORGI survey on when social landlords start their access programme, it is estimated that around 95 per cent, or 4.2 million, of the properties might benefit from the extra flexibility under measure 1 above.

Benefits and costs

Measure 1: Introducing flexibility around the timing of annual gas safety checks

Benefits

Business

'Programme slippage' savings

At present, in order to ensure that they meet their statutory requirements (i.e. a gas check carried out no longer than 12 months after the last one), many landlords begin their annual gas check programme early to minimise the risk of non-compliance, for example should they have trouble gaining access to the property. These early inspections reset the clock; meaning that landlords lose part of the value of their existing gas safety certificate, and have to undertake the next check less than 12 months later than they otherwise would. For the 2.3 million privately-rented properties where a gas check is undertaken two weeks before the due date, this slippage would result in one additional gas check every 25 years or so in the counterfactual. Survey results suggest that the average cost of a gas safety check in the private rented sector is around £65. Combining these two estimates, the measure could result in an equivalent annual saving of around £3.8 million, or £33 million over ten years in present value terms.

Logistical savings

During consultation, it was suggested that the extra flexibility afforded by the measure would also lead to logistical savings as a result of being able to group gas checks in nearby properties more effectively. In the privately-rented sector, however, the scope for grouping gas checks is limited. Through consultation with the sector, it has become clear that even larger 'multi-premise' landlords tend to have diverse locations and differing gas safety check timings. As a result, HSE expects that any logistical savings to private landlords will be minimal.

Social landlords

Both programme slippage and logistical savings are much more significant for social landlords, who are often individually responsible for many thousands of properties. In order to ensure they carry out gas checks at their properties within the required time, they begin their annual access programmes even earlier than the private sector. There is also much more scope for potential grouping of visits.

Programme slippage savings

According to a CORGI survey, social landlords first attempt to conduct checks on an average of 5.8 weeks before due date. This implies one additional gas check on average about every nine years, which HSE adjusts to about one in every ten years to allow for failure to gain access to the property at the first attempt. At a cost of £64 per check, and around 4.2 million properties in scope, the new flexibility would save social landlords the equivalent of around £24 million each year, or around £200 million over ten years in present value terms.

Logistical savings

After consultation with social housing sector representatives, the HSE esimates that 15 per cent of the 4.4 million social housing properties could benefit from the more efficient grouping of visits that this measure would allow. On average, this would save 16,000 service days of time for gas engineers directly employed by social housing landlords. Using an estimated cost of £280 per day, this is expected to save social landlords around £3.4 million, or £29 million over ten years in present value terms.

Costs

Business

Familiarisation

Evidence from HSE's survey of the private rented sector suggests that approximately 800,000 private sector landlords would actively take time to read and understand the changes to GSIUR. A survey of landlord associations indicates this would take approximately 30 minutes. Applying an uprated median hourly wage rate for letting agents (as a proxy valuation for the time of private sector landlords) of £13.18 leads to a familiarisation cost estimate of £5.2 million. Using the same time and wage assumptions, familiarisation costs to letting agents and gas servicing companies are estimated at £230,000 and £20,000, respectively.

IT

Only a few private landlords would be required to change their IT systems to record the date of the last check. This assessment is supported by an HSE survey of private landlords. HSE estimates that only landlords managing more than ten properties would need to undertake significant IT changes (16,000 private landlords according to a 'HomeLet' survey). Based on consultation evidence, HSE uses a central cost estimate of £280, giving a total estimated one-off cost of around £4.4 million. Letting agents and gas servicing companies are estimated to have one-off costs of £1.5 million and £2.4 million, respectively.

Overall (one-off) costs to business are, therefore, estimated at around £13.8 million (£5.5 million familiarisation and £8.3 million IT).

Social landlords

Familiarisation

HSE expects limited familiarisation costs to social landlords, basing this on extensive consultation with many social landlords and housing associations. Responses to the consultation suggests an average of 2.5 hours for each of the 2,300 social landlords. At an hourly cost of £34.12 (ASHE data for 'functional managers and directors', including non-wage labour costs), this gives an overall cost of £193,000.

IT

In order to take advantage of the benefits of the proposal, social landlords would have to make changes to their IT systems. Survey responses suggest a range of £1,000-£10,000, with a central estimate of £5,500 per social landlord. Assuming all 2,300 social landlords would be required to make these changes, this leads to one-off IT costs of between £2.3 million and £22.7 million, with a central estimate of £12.5 million. Some housing associations have suggested that costs associated with regulatory change are already included in the contract with their IT service providers. Accordingly, HSE expects these costs to be an upper estimate of the likely impact.

Overall (one-off) costs to social landlords are, therefore, estimated at around £12.7 million.

Measure 2: Excluding non-domestic CNG sites from the majority of the GSIUR

Under the proposal, CNG sites covered by the exemption would no longer be required to install a regulator (to match the flow of gas to the demand for gas placed upon the system). Based upon evidence from industry, HSE estimates the benefit across the CNG sector of not having to install and maintain a regulator as £410,000 over ten years in present value terms.

Measure 3: Regularising and broadening the current exemption to Regulation 26(9)(c)

This measure is expected to result in savings to businesses through visits averted, and benefits to gas users from not temporarily losing their gas supply. HSE has not been able to monetise these benefits but expects, based on discussions with industry, that they would be limited. Familiarisation costs in respect of broadening the current exemption to Regulation 26(9)(c) are estimated at £150,000.

Overall impact

Overall, the proposals are estimated to have a net benefit to society of around £240 million over ten years in present value terms. This is driven by ‘programme slippage’ savings, accounting for £233 million in benefit. £33 million of this benefit is to business and £200 million to social landlords.

The overall net direct benefit to business is estimated at £23 million over ten years in present value terms. This consists of the £33 million programme slippage benefit minus £5.6 million familiarisation costs and £4.4 million IT costs to private landlords. This translates to an EANDCB of -£2.5 million.

The IA also calculates the EANDCB if social housing providers were included as businesses. This adds the £200 million programme slippage and £29 million logistical savings and lowers the EANDCB to -£25.8 million.

Quality of submission

HSE has provided a clear, well-evidenced and very detailed assessment. The IA sets out extensive research and consultation that has been undertaken to inform the assessment, including a series of workshops with stakeholders. They are to be commended for detailing a range of options, including those not taken forward.

The IA could be improved by using data relating to estate agents specifically engaged in tenant management activities (as opposed to solely property sales), or at least by explaining how the 17,000 estimate was derived from the IDBR and why better data are not available.

HSE has engaged with the RPC twice on this case prior to submission. The first engagement sought guidance as to whether specific impacts were direct or indirect. An HSE paper on this was discussed by the RPC in September 2016 and advice provided subsequently. The second asked whether the RPC could also validate an alternate EANDCB that included direct impacts on social housing providers. This would avoid the need for HSE to re-submit the IA to the RPC should the ONS reclassify social housing providers as businesses (as seems likely). The RPC discussed this in February/March 2017 and agreed in principle.

The IA follows the RPC's advice:

- programme slippage savings were to be considered **direct** even where they were intermediated through letting agencies or contractors offering gas safety checks as part of a package to private landlords;

- logistical savings to gas service engineers would be **indirect**, on the basis that these are: not generated by a first round effect (being reliant on a response from contractors to re-schedule their visits); do not accrue to the regulated business; and affect a separate market (gas safety certification). IT costs to gas service companies that were incurred in order to realise these logistical savings would also not be considered to be direct impacts of the measure.

There is one area in the present IA that appears to fall between the categories considered in the pre-submission advice. This is the treatment of logistical savings to social landlords who have in-house gas engineers. HSE treats these (offset by any associated IT cost) as a direct impact. An argument for this treatment is that the benefit accrues to the regulated organisation. A counter argument is that this does not appear to be a first round effect; it still requires the in-house provider to re-schedule visits. Logistical savings to social landlords amount to an equivalent annual benefit of around £3.4 million. Without this benefit, the EANDCB inclusive of social landlords would, therefore, be around -£22.4 million. Given the material difference to the EANDCB, and the uncertainty around the appropriate direct/indirect classification, the RPC is not able to validate the alternate EANDCB at this stage.

Departmental assessment

Classification	Qualifying regulatory provision (OUT)
Equivalent annual net direct cost to business (EANDCB)	-£2.5 million
Business net present value	£19.45 million
Societal net present value	£238.66 million

RPC assessment

Classification	Qualifying regulatory provision (OUT)
EANDCB – RPC validated[1]	-£2.5 million
Business impact target (BIT) Score[1]	-£12.5 million
Small and micro business assessment	Not required (deregulatory)

Michael Gibbons CBE, Chairman

[1] For reporting purposes, the RPC validates EANDCB and BIT score figures to the nearest £100,000.