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Optimal Economics

Research Project to Consider Proposed Changes to the Building Standards Fees Regulations and their Impacts

Report

March 2016

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Executive Summary

1. Building Warrant fees are the main source of income for local authority verifiers who are charged with ensuring that building work in Scotland complies with building regulations.
2. The current system and scales for Building Warrant Fees were established in 2005 and have not been reviewed since then. While most fees are based on a scale which relates the fee to the value of the work done, there are fixed fees for a number of items (e.g. demolition) and for projects with a value of under £5,000. These fixed fees are, due to inflation, about 40% below their real value in 2005.
3. A body of previous research has found that the fixed fees and the fees levied on smaller projects are less than the cost of the work of verifiers on those projects. While it is accepted that there is and will be some cross-subsidisation of work on small projects by fees from larger projects, there is concern that the alignment of fees and costs is insufficient.
4. Discounts on warrant fees are granted to applicants who provide certificates of design and/or construction from approved certifiers for certain aspects of the building regulations. The Scottish Government wishes to promote certification but there is concern that the system of discounts provides insufficient incentive to the use of certification.
5. The Scottish Government is investigating an alternative funding mechanism to recognise and support the role of Building Standards Division (BSD) in maintaining and developing the building standards system. This mechanism would seek to transfer funding for BSD from central government to building warrant applicants.
6. BSD commissioned the research reported here to model a range of options for applying changes to the building standards fees system intended to address the issues discussed above and to consider the individual and collective impacts of such changes.
7. So far as overall fee income per annum is concerned it is considered that an increase of at least £1.5 million would be needed to fund BSD and an increase of £1.5 million would be needed to guarantee an adequate level of additional resources for Verification in future.
8. A model was constructed to project the impacts on overall fee income of changes in the warrant fee structure. The modelled changes included increases in the minimum fees, changes to fees “across the board” and changes to the discounts for certification of design and construction.
9. The modelling found that increasing the minimum/fixed fees by any reasonable amount will not, in itself, generate the additional resources required.
10. The funds required to support the alternative funding mechanism for BSD and future verification levels could be generated by an “across the board” increase in fees equivalent to 10%. However, this form of increase would not remedy the existing imbalance between fee income and effort which exists in the system.

11. The option appraisal conducted in the study indicates that the option best able to meet the criteria used to assess changes to the fee system would be a doubling of the minimum fee and of fixed fees which are also at the low end of the fee range combined with a modest (5%) increase in all other fees.
12. Increasing the use of certification of design might be encouraged by an increase in fee discounts but because of the relatively high use of certificates of design (structures) the cost of this in terms of lost fee income would be high.
13. It would be desirable to increase fee discounts for certificates of construction. An increase from 1% to 10% would, if combined with an increase in take up, have an annual cost of about £1 million.
14. Introduction of a minimum discount of £25 could provide a strong incentive to use of certification in smaller projects at limited financial cost.

1 Introduction

1.1 Introduction

1.1.1 Optimal Economics was appointed by the Building Standards Division (BSD) of the Local Government and Communities Directorate, Scottish Government to undertake a research project to model a range of options for applying possible changes to the building standards fees system and to consider the individual and collective impacts of such changes.

1.1.2 The structure of this report is as follows:

- Section 2 explains the study brief and the study approach
- Section 3 summarises the findings of previous relevant research (2012; 2015)
- Section 4 reports the results of the fee modelling carried out within the study and sets out the study conclusions.

2 Study Brief

2.1 Introduction

2.1.1 Verification of compliance with building regulations is undertaken by the 32 Scottish local authorities in their role as verifiers and each authority is responsible for verification in their own geographical area. Verifiers grant building warrants when they are satisfied that the design, construction (extension or alteration) or demolition of a building, the provision of services, fittings and or equipment in or in connection with a building, and the conversion of a building will comply with the building regulations under the Building (Scotland) Act 2003.

2.1.2 The current building standards fees system is set out in the Building (Fees) (Scotland) Regulations 2004 as amended. The fees paid for a warrant for construction of a building are based almost entirely on the value of the work on the project and are set on a sliding scale. For example, the minimum fee - for works under £5,000 - is £100. A building warrant for a project with a value of £120-£140,000 – a typical build cost for a small new house – would cost just over £1,000 in fees and for a school with a construction value of £30m the warrant would cost £77,130.

2.1.3 There are flat rate fees for conversion of a building where no building work is involved (£100), for demolition (£100), for the extension to the period of validity of a warrant (£50) and for amendment to a warrant for conversion or demolition (£50). The fee for amending a warrant is £50 if the amendment involves work with a value of £5,000 or less and is related to the value of that work above that level.

2.1.4 There is a general expectation that income from fees should cover the costs of the Verification service and that the costs of Verification and the fees paid should be aligned. However, there is also an expectation that larger projects (where fees often exceed the Verifier's costs by some margin) should continue to provide some cross subsidy to the fees levied for smaller projects.

2.1.5 The fees structure has not changed since 2005. It follows that the minimum and fixed fees are now less in real terms (by about 40%) than at the time they were introduced. For fees above the minimum or which are not fixed the position is more complex. Because fees are related to the value of work, the system does have the consequence that fees will rise at least broadly in line with inflation (and thus with the costs of the service). This match is not exact however; building costs do not always move in line with other costs and there is no direct link from building costs to the costs of verification work.

2.1.6 There have, moreover, been important developments bearing on the process of verification and the likely costs of this work in the period since the fee structure was last altered. These include technical changes in standards, the development of the "Reasonable Inquiry" procedure and the introduction of a far reaching new Performance Framework for Building Standards. Recent research conducted for BSD suggests that for some Local Authorities the level of income from fees is a causal factor in under-resourcing of verification work.

2.1.7 Finally, the rationale for the existing fee structure is unclear. For projects with a value of over £5,000 but under £10,000 fees rise at £15 per £500 of work value (3%). From £10,000 to £20,000 they rise at 1.5%. Between £20,000 and £100,000 the increase is 0.6% relative to work value and from £100,000 to £500,000 it is 0.5%. Between £500,000 and £1,000,000 the increase is 0.15% and thereafter it is 0.025% but this is levied on each additional £100,000 of part of that sum. It appears that the aim is to taper fee increases but the rational for the bands or rates is unclear.

2.1.8 In recent years there has been increased use of certification of design and construction as a means of demonstrating compliance with Building Standards and the Scottish Government wishes to encourage use of certification. However, recent research and consultation on this issue indicates that the fee discounts provided for submission of certificates neither reflect the comparative costs of verification where certification is or is not used nor provide a clear incentive to use certification.

2.1.9 The current fee arrangements for use of certificates of design and construction are as follows:

- Where a certificate of design is provided from an approved certifier a discount of 10% of the fee is given for each certificate covering a section of the functional standards up to a maximum of 60% of the fee (a 1% discount is given for a certificate covering a single item in a section)

- Where a certificate of construction is provided a discount of 1% is given for each certificate covering a defined trade or installation, up to a maximum of 20%.

2.1.10 Previous research has indicated that these discounts, particularly for certificates of construction, provide little financial incentive to use certification.

2.1.11 The Scottish Government is investigating an alternative funding mechanism to recognise the role of BSD supporting the building standards system. The proposal is to increase the building warrant fees so as to cover the building standards related running costs of BSD. This essentially passes the whole cost of managing and maintaining the building standards system (by BSD and LA verifiers) to the users of the system.

2.1.12 In brief, it is considered that a new fee structure may be appropriate in order to:

- To better align fees for and costs of verification;

- To provide adequate resourcing for local authority verifiers;

- To promote the use of certification; and

- To shift the funding of BSD towards system users.

2.2 Study aims

2.2.1 The principle aims of the research study were, in the light of the analysis set out above, to:

- Consider the case for an increase the lowest fee level

- Undertake an analysis of a range of proposed options for changes to the fee structure

- Analyse the overall effect of the options for change through a modelling exercise incorporating different options and scenarios

- Assessing the impacts of these changes, individually and in combination.

2.2.2 The findings of the project will inform the Business and Regulatory Impact Assessment (BRIA) associated to the necessary legislative changes to the Building (Fees) (Scotland) Regulations.

2.2.3 To meet the above aims, the brief required the study to:

- Model the impact on income of changes in fees for warrant amendments and extensions and for applications for demolition and conversion warrants

- Consider changes to Building Warrant Application fees in terms of impacts on resourcing for verification and for BSD functions and on cross-subsidy

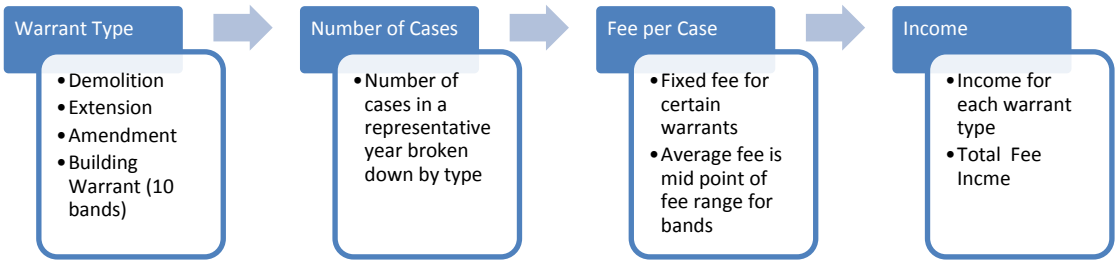
- Consider changes to certification discounts in terms of improving the degree to which these are cost reflective and in terms of making the financial implications of certification to applicants clearer.

2.3 Study Approach

2.3.1 The study was based on the development application of a model which provides projections of fee income under alternative fee structures and scenarios. The model is a spreadsheet model constructed in Excel which projects fee income at the Scottish level. However, the model can be applied at the local authority level.

2.3.2 The key assumptions and parameters of the model are explained in detail in Section 4 but the basic framework is set out in Figure 2.1 below. The core model analyses fee income from warrants for demolitions, warrants for extensions, amendments to warrants and building warrants with different values of work. In the model income is analysed for ten fee bands which were chosen to provide a representative breakdown of the size distribution of projects by value of work.

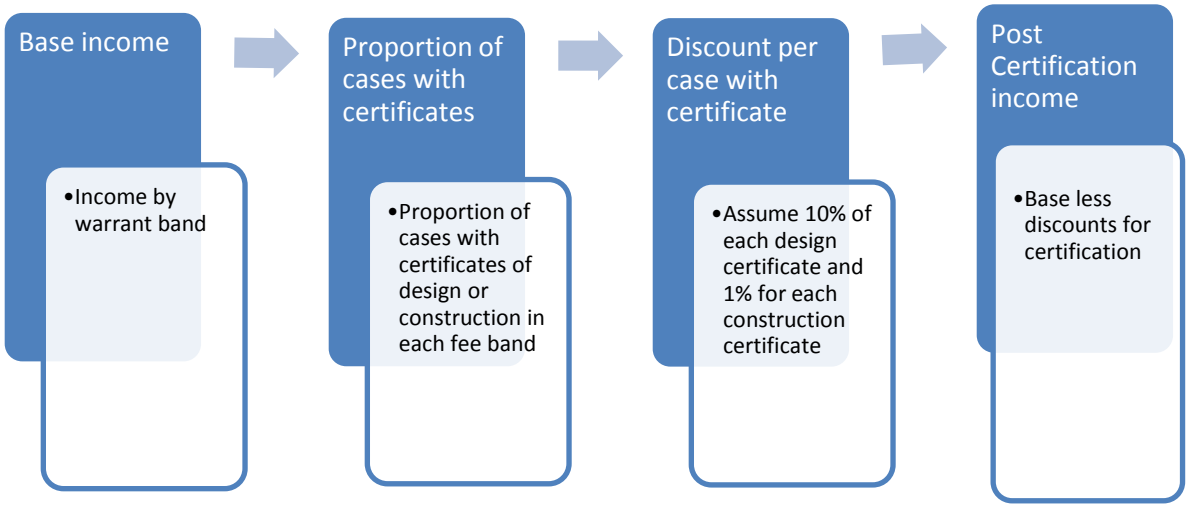
Figure 2.1 Fee Model Structure



2.3.3 This model was used to project current fee income under the existing fee structures (but excluding discounts for certification) and then to project income under a range of changes to the fee structure (also excluding discounts for certification). The alternative fee structures and the results of the modelling are detailed below.

2.3.4 A second stage of the model was used to model the impact of alternative options relating to discounts for certification. The starting point of this element of the model was the final column in Figure 2.1. That column shows modelled income before discounts for certification. The structure of the second stage of the model was as shown in Figure 2.2.

Figure 2.2 Fee Impact of Certification



2.3.5 Comparing post certification income with base income shows the modelled cost of certification. Alternative options for discounts and alternative scenarios for take up were modelled.

2.3.6 In addition to modelling the impact of fee structure changes, an option appraisal was carried out comparing the fee options against the following criteria derived from the brief:

- The overall impact on fee income (the scale of the required overall increase fees to resource verification and to support BSD has been indicated and options were appraised against that)
- The sustainability and reliability of income (i.e. is the structure robust with regard to, for example, fluctuations in the number of larger projects?)
- The degree to which the structure is more cost reflective
- The retention of a degree of cross subsidy and not placing an excessive burden on households/small projects, and
- Associated risks – e.g. related to reduced levels of applications or increased avoidance of regulations.

2.3.7 Alternative options for certification discounts can be combined with the same core fee structure. Options for certification discounts have also been appraised.

2.3.8 While the work of the study has been largely desk based a brief consultation exercise was held in which certifiers were asked to comment on the matter of incentives and the minimum levels of discount likely to be effective in bringing about more use of certification. Four certifying bodies were asked for comments and one response (from Select) was received.

2.3.9 While this study was being carried out BSD also commissioned research on the benefits of the introduction of “ebuilding standards”, a national portal for submission of Building Warrant applications. The interaction between that work and the options for fees is commented on in the conclusions below.

3 Previous Research

3.1 Introduction

3.1.1 A number of studies conducted for BSD in recent years have analysed aspects of the relationship between verifier fees, income and costs. These studies are:

- A Review of the current relationship between building warrant fees and costs (March 2012)
- A Review of the current Building Standards Fee Structure – Phase 1 (March 2012) and Phase 2 (April 2012)
- Research Project to Review the Current Building Standards Fee Structure and Future Requirements – Update 2015

3.2 The Balance of Income and Expenditure

3.2.1 The 2015 update summarises the overall position with regard to Building Standards income and expenditure as follows:

- In 2007-08, according to the item "Planning – Building Control" in the Scottish Local Government Financial Statistics, income to Building Standards departments in Scotland exceeded expenditure by £5 million. However, by 2012-13 the same source showed that expenditure exceeded income by £15.6 million
- The emergence of a deficit was the result of a fall in income driven by the sharp decline in development activity, including house building, resulting from the 2008 financial crisis and subsequent recession. Most local authorities found it difficult to reduce costs rapidly by an equivalent amount
- By 2013-14 substantial cost reductions and an upturn in income had helped narrow the overall financial deficit for Building Standards to £6.9 million.

3.2.2 The most recent Scottish Local Government Financial Statistics show that the overall deficit for Planning – Building Control had fallen to £2.4 million.

3.2.3 Building Standards departments are responsible for functions other than Verification and the existence of a deficit (which now averages just £75,000 per council) does not establish that Verification costs exceed income. Indeed data from annual returns by local authorities to BSD indicate otherwise. In 2013-14 data for 30 authorities indicated a surplus of £4.6 million on Verification activities as compared to a deficit of £183,000 for the same authorities in 2012-13.

3.2.4 There are, however, difficulties in the process of establishing the costs of Verification, notably in relation to the allocation of overheads and BSD now only collects data on labour costs of the service. Nevertheless, it would be reasonable to conclude, given the narrow gap shown by the Local Government Financial Statistics that across Scotland income from Verification probably meets the cost of the service at present. That position is, however, very sensitive to changes in economic conditions which might be influenced by geographical differences between local authorities.

3.3 The Relationship between Fees and Costs

3.3.1 While the system of warrant fees may provide, at present, sufficient resources to support the work of verifiers, the alignment of fees and costs within fee bands is much less balanced. The 2012 study of the relationship between fees and costs mentioned above concluded that projects with an estimated value of work of £5,000 or less, which paid a £100 fee, rarely or never covered the costs of verification. Only when the fee reached £400 (value of work £19,001 to £20,000) could there be confidence that costs would be met.

3.3.2 There was general agreement among authorities consulted during the 2012 study that the fee for demolition warrants (£100) and for amendments to warrants (at least at the lower end of the scale) did not cover costs.

3.3.3 However, the 2012 study also concluded that there were strong arguments against a fully cost reflective fee structure (which might involve a tripling or more of the lowest fee). These arguments were mainly on the grounds that a sharp fee increase might discourage use of the building standards system and lead to an expansion of unauthorized building work not compliant with building regulations.

3.3.4 The dependence of authorities on fees from large projects (whose number can vary considerably from year to year and with the economic cycle) was also highlighted by the research. Almost half of income across Scotland comes from projects with a value of over £320,000 (about 5% of cases) and about 40% from projects with a value of over £1 million.

3.3.5 The same study also reviewed the system of discounts for certification and concluded that the income “loss” to the verifier from a discount was almost always less than the cost of the extra work involved in additional checking of work for which no certificate was provided. The study also found that the discounts given provided little or no incentive to applicants to use certification (though there were other benefits to applicants from certification).

3.3.6 Subsequent work, specifically a workshop held by BSD in October 2014 and attended by a wide range of interested parties including certification bodies, has reinforced those conclusions.

3.3.7 It may also be noted that the discount provided for a certificate of construction, at 1%, would amount to (for example) just over £3 on a project with a value of £13,000 (warrant fee £295). This would almost certainly be less than the cost to the certifier of providing the certificate (which cost would probably be passed to the client). Even for large projects say with a value of work of £140,000 (warrant fee of £1,080) the discount value for certificates of construction is trivial.

3.4 Summary of Issues

3.4.1 The key conclusions of the existing research on fee structures and verifier costs as well as the issues discussed in Section 2 are:

- That the current minimum fees for building warrants, fees for demolitions, for extensions and for minimum fees for amendments do not meet verifiers’ costs

- That the minimum fees are now significantly lower in real terms than when introduced
- That projects paying a fee of under £400 (but over £100) rarely meet costs
- That the rationale for the detailed fee structure is unclear though it is obviously intended to reduce incremental fees relative to increases in the cost of works. This reduction in incremental fees may be in recognition of the acknowledged fact that the burden of work does not rise in line with project cost
- That large projects generally provide fees in excess of cost
- That discounts for certification usually involve sums far less than the cost of verifier work which is “saved” by provision of a certificate
- That discounts for certification of construction provide very little financial incentive to use certifiers.

4 Modelling and Results

4.1 Introduction

4.1.1 The structure of the model used for projecting fees was set out in Section 2. In this section the assumptions and parameters used in the model are explained and the results presented.

4.1.2 The model does not set out to forecast revenue in any specific year; to do that would require a forecast of the actual level of warrant applications, their distribution and factors including numbers of certificates submitted. Rather the aim is to project and compare income under different scenarios which are consistent with current conditions. The focus is on measuring the financial impact of alternative fee regimes.

4.2 Key assumptions and parameters – Base Model

4.2.1 The baseline income (before consideration of certification) is determined within the model by the following parameters:

- The number of warrants
- The size distribution of the warrants (i.e. fee band)
- The average fee for each type of warrant and each fee band.

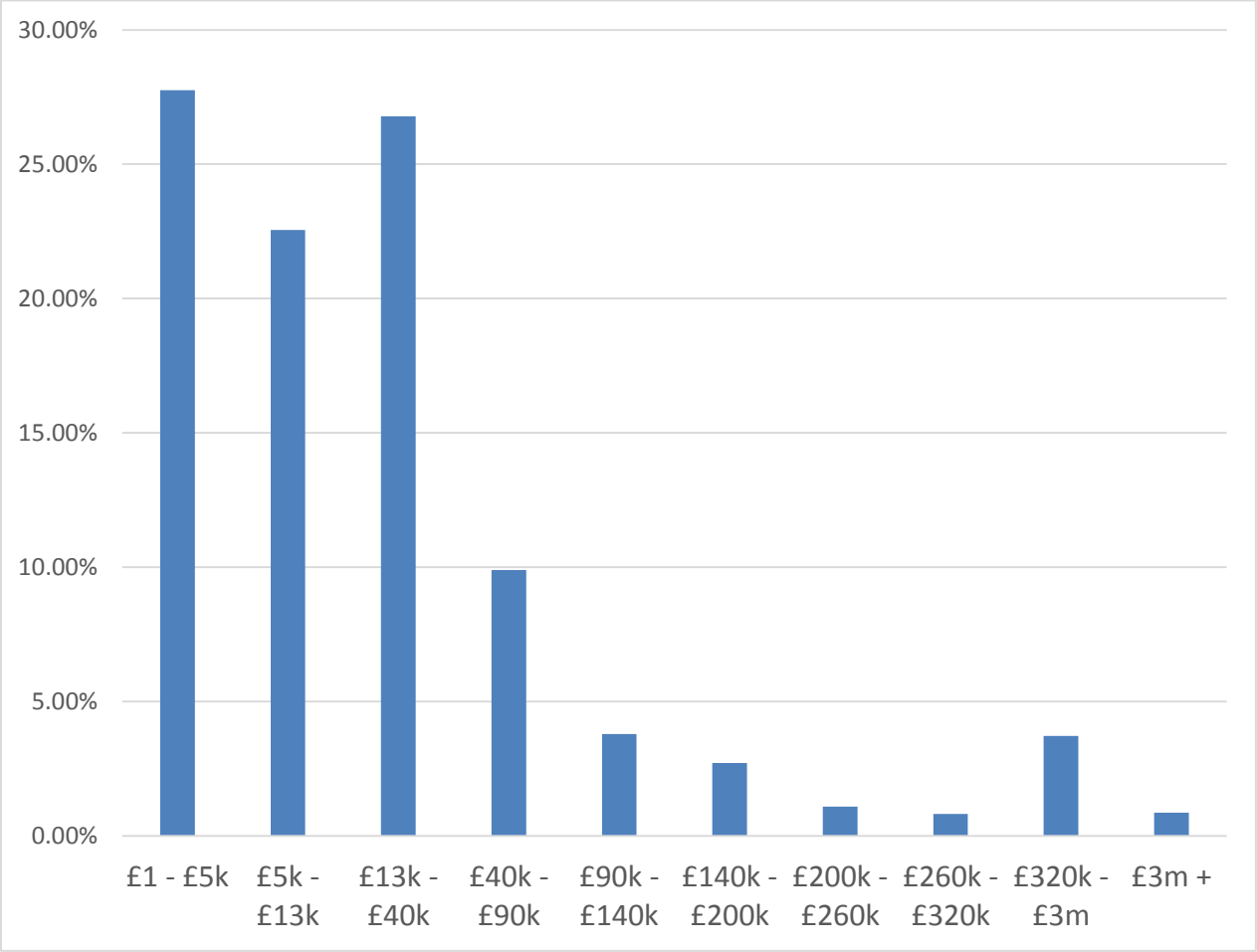
4.2.2 In the modelling the assumed number of building warrants and amendments to warrants is assumed to be as reported to BSD in 2014-15. Data is not available specifically for demolitions, conversions and extensions of building warrant validity but the levels assumed in the model have been agreed in consultation with BSD. The assumptions in the modelling are as follows:

- Building Warrants – 40,428
- Amendments – 9,465
- Conversions – 500
- Demolitions – 500
- Extensions of building warrant validity – 500

4.2.3 With regard to the size distribution of fees, two sources have been considered. BSD have provided data from local authority returns showing building warrants for all Scottish local authorities in 2014-15 broken down into five fee bands. We considered it desirable to base the model on a larger number of fee bands if possible and we have also drawn on more detailed data collected from six local authorities in the 2012 study. After comparing the two data sets, it was concluded that a percentage distribution of warrants across ten fee bands based on the 2012 study data is a reasonable assumption. This distribution is shown in Figure 4.1.

4.2.4 It should be noted that over time the distribution of projects across fee bands will be affected by changes in the general price level. We would expect the distribution of projects to gradually shift up the fee band scale. However, under current conditions of low inflation any such process will be slow and the assumptions on size distribution are likely to be valid for some years.

Figure 4.1 Size Distribution of Warrants by Fee Band



4.2.5 So far as fees are concerned the assumptions made are as follows. In the base case certain fees are fixed sums (i.e. projects up to £5,000 value, demolitions, conversions, extensions of warrants). For the fee bands we have assumed that the average fee in each band is the mid-point of the fee band. For projects of over £3 million (which has no upper limit) we have assumed that the average project is one with a value of £6 million with the corresponding fee.

4.2.6 Fees for amendments to warrants fall into two categories. For those where the additional work related to the amendment has a value of under £5,000 the fee is £50. Above that level the fee is related to the value of the work on the same scale as building warrant fees. We have analysed data on fees for amendments to warrants and conclude that around 77% of amendments attract the minimum fee and that the average fee for the 23% of cases above that threshold is £433. These figures have been used in the modelling.

4.2.7 Using these assumptions the model projects an annual fee income of £31.4 million. This is, of course, a modelled income since it does not allow for certification. As discussed below, we estimate that the current fee loss to certification is around £1.8 million. Building Warrant fee income does fluctuate: it was (for all Scottish authorities) £28 million in 2013 -14 and £29.1 million in 2010/11. We consider that our figure of £31.4 million (equating to under £30 million after certification) is a robust modelled figure for a hypothetical year.

4.3 Results – Base Model

4.3.1 The model was “re-run” using a range of alternative fee assumptions. We begin with those suggested by the brief (leaving aside certification for the moment). The first suggestions involve changing the minimum fee. For fixed fees (e.g. for demolition) this is straightforward. For Building warrants (and amendments) it is more complex since an increased base fee will “cross-over” into existing bands unless other adjustments are made.

4.3.2 The procedure we have adopted to model changes to base fees is simple and, we consider, rational. Thus just as at present a project with a value below £5,000 has a fee of £100, an increase in the minimum fee to (say) £150 could be achieved by requiring all projects with a value of up to £6,666 to pay £150 with the existing fee scale applying thereafter. Table 4.1 shows the results for an increase of 50% on the base fees for the above items.

Table 4.1 Modelling Results – Minimum Fees (50% increase)

Action	Change in Fee Income
Increase Fee for Demolitions by 50%	£25,000
Increase Fee for Extensions of Building Warrant Validity by 50%	£12,500
Increase Fee for Conversions by 50%	£25,000
Increase Minimum Amendment Fee by 50%	£182,000
Increase Minimum Building Warrant Fee by 50%	£610,000
Total Package on Minimum Fees	£856,000

4.3.3 Table 4.2 shows the results for an increase of 100% on the base fees for the above items.

Table 4.2 Modelling Results – Minimum Fees (100% increase)	
Action	Change in Fee Income
Increase Fee for Demolitions by 100%	£50,000
Increase Fee for Extensions of Building Warrant Validity by 100%	£25,000
Increase Fee for Conversions by 100%	£50,000
Increase Minimum Amendment Fee by 100%	£364,000
Increase Minimum Building Warrant Fee by 100%	£1,333,000
Total Package on Minimum Fees	£1,821,000

4.3.5 The total gain from a doubling of all fees is £1.82 million.

4.3.6 In order to produce larger gains it would be necessary to increase fees above the minimum level. We have modelled the impact of various across the board increases in fees. The increased income from the following increase in warrant fees would be as follows:

- 5% - £1.5 million
- 10% - £3.1 million
- 15% - £4.7 million

4.3.7 In view of the scale of increased income considered necessary to support BSD running costs and provide additional resources for verification (a sum of at least £3.0 million), the options which pass that test would appear to be either an across the board increase of about 10% or a “hybrid” of increase base fees and a smaller across the board fee. These options are assessed below after the analysis of certification discounts.

4.4 Certification

4.4.1 The base model does not allow for certification discounts. We have modelled these by applying to the model assumptions concerning the level of certification and based on previous research and information from BSD and from certifiers.

4.4.2 We understand that the level of activity in terms of certification of construction is not increasing and, indeed, may be falling. We have made a base estimate of the fee costs of accepting certificates based on the following assumptions derived from research and data:

- Certification of design is negligible for projects under £5,000
- For all projects 50% have a certificate of design (mainly structures) (this is 67% of projects above the minimum scale)
- 26% of all projects have (on average) one certificate of construction
- Discounts are 10% for each certificate of design and 1% for each certificate of construction.

4.4.3 On the basis of these assumptions we estimate the current value fee discounts to be £1.8 million. We have modelled changes to discounts and alternative assumptions on take up. So far as certificates of design are concerned take up is good but almost entirely confined to structures. We have modelled an increase in the discount to 20% and a take up increase to 80% and 90% of all projects above the minimum. Our discussions with certifiers lead to the conclusion that there is little point in modelling an increase in discounts of a few percentage points as the impact on take up would be negligible. We have, therefore, modelled discount increases to 10%, 20% and a minimum discount of £25.

4.4.4 Table 4.3 sets out the results of this modelling.

Table 4.3 Modelling Results: Certification Discounts

Change in Discount	Change in Take Up	Impact on Revenue
Certificates of Design		
Increase Discount to 20%	None	-£1.74 million
Increase Discount to 20%	Take up by projects above £5000 80%	-£2.4 million
Increase Discount to 20%	Take up by projects above £5000 90%	-£2.9 million

Certificates of Construction		
Increase Discount to 10%	None	-£0.67 million
Increase Discount to 20%	None	-£1.3 million
Minimum Discount £25	None	-£0.22 million
Increase Discount to 10%	Take up 40%	-£1.0 million
Increase Discount to 20%	Take up 40%	-£2.1 million
Minimum Discount £25	Take up 40%	-£0.3 million

4.4.5 Because take up is already relatively high for certificates of design, the cost of any increase in discounts (which may, at least for structures be unnecessary) is high. In contrast the cost of increasing discounts for construction is more limited. A minimum or flat rate fee discount could be a relatively cost effective measure to encourage certification in all but the largest projects.

4.5 Option Appraisal

4.5.1 In light of the above analysis the following options for changes to the main fee structure were identified:

- Option 1 – increasing the minimum fees for all warrant types by 50%
- Option 2 – increasing the minimum fees for all warrant types by 100%
- Option 3 – increase all fees (including minimum fees) by 10%
- Option 4 – increasing minimum fees by 50% and all other fees by 5%
- Option 5 – increasing minimum fees by 50% and all other fees by 10%
- Option 6 – increasing minimum fees by 100% and others by 5%
- Option 7 – increasing minimum fees by 100% and others by 10%

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4.5.2 These options are assessed in Table 4.4 against the following criteria as discussed above:

- The overall impact on fee income (specifically with regard to the scale of the increase in fees required to resource verification and support BSD)
- The sustainability and reliability of income (i.e. whether the structure is robust with regard to, for example, fluctuations in the number of larger projects)
- The degree to which the structure is more cost reflective
- The retention of a degree of cross subsidy and not placing an excessive burden on households/small projects
- Associated risks – e.g. related to reduced levels of applications

4.5.3 The assessments against the second, third and fourth criteria are on a three point scale where one is the minimum positive impact and three the highest.

Table 4.4 Fee Structure Option Appraisal

Option	Impact on Fee Income	Reliability of Income	Cost Reflection	Cross Subsidy	Other Risks
Option 1 50% minimum/fixed fee increase	+£856,000	●●●	●●	●●	None
Option 2 100% minimum/fixed fee increase	+£1,821,000	●●●	●●●	●	Possible disincentive to use system
Option 3 Increase all Fees by 10%	+£3,100,000	●	●	●●●	None
Option 4 Increase minimum/fixed by 50% and others by 5%	+£2,335,000	●●●	●●	●●	None
Option 5 Increase minimum/fixed by 50% and others by 10%	+£3,814,000	●●	●	●●	Increased cost burden on large projects

Option 6 Increase minimum/fixed by 100% and others by 5%	+£3,287,000	●●●	●●●	●	Possible disincentive to use system for small projects
Option 7 Increase minimum/fixed by 100% and others by 10%	+£4,752,000	●●●	●●●	●	Possible disincentive to use system for small projects Increased cost burden on large projects

4.5.4 Four of the options (3, 5, 6 and 7) fully meet the income generation impacts identified as required by BSD. Of these, Option 3 scores poorly on the issue of cost reflection and retain dependence on high value projects for income (thus not improving reliability of income). Option 5 has limited impact on cost reflectivity and would increase the cost burden on large projects. Option 7 imposes higher costs than may be necessary.

4.5.5 We consider that Option 6 ranks best against the appraisal criteria.

4.5.6 It should be noted that the implementation of any percentage increase in the fee scale would require a new scale to be drawn up. As noted above, the fee scale involves an increase of £15 per additional £500 of project cost between £5,000 and £10,000, £15, per £1,000 of additional cost between £10,000 and £20,000 and so on. A reworking of the scale to achieve an average increase of 5% in each fee band would be required.

4.6 Certification

4.6.1 Given the relatively high take up of certification of design (in relation to structures), any increase in the certification discount would involve substantial costs and a high degree of deadweight (in that increased discounts would be given to projects which would be certified in any case). An increase in the discount large enough to have any potential effect on take up would have a fee cost of £2.5 million to £2.9 million depending on the increase in take up. While the 2012 study found that for most local authorities the discount for certificates of design was less than the value of the verifier work saved, it is not clear that this would apply if fee discounts were doubled.

4.6.2 In relation to certificates of construction, there appears to be more scope for increases in discounts. The modelling above suggested that increasing the discount to 10% would, even with a sharp rise in take up, cost only around £1 million.

4.6.3 Perhaps more significantly, the introduction of minimum discount of £25 would offer a potentially significant incentive to certification in smaller projects (and would usually cover the costs of certification to the client). The fee costs would be modest (around £300,000) as there would be an increase in the discount for certification in large projects where the fee loss from a percentage increase in discount would be greatest.

4.7 Conclusions

4.7.1 A major aim of the study was to model the financial impact of various potential changes to the building warrant fee system and these results are set out above. The model constructed can readily be adapted to model further scenarios and to examine impacts at the local authority level.

4.7.2 The key conclusions of the study are as follows:

- There is a strong case for increasing the minimum and fixed fee rates on two main grounds. First, these fees have not been increased by since 2005, a period over which the general price level has risen by 40%. Second, at present these fees do not generally cover the cost of the work involved and in many cases would not do so even if increased in line with inflation
- It is suggested that an increase of at least 50% and more reasonably 100% could be justified on these grounds alone
- Increasing the minimum/fixed fees will not, in itself, generate the additional resources required to fund BSD and to provide a more robust financial platform for verification
- The funds required to support BSD and to provide a sound platform for verification work could be generated by an across the board increase in fees equivalent to 10%. However, this form of increase would not remedy the existing imbalance between fee income and effort which exists in the system and it would leave authorities highly dependent on a relatively few large projects for much of their income
- The option appraisal indicates that the option best able to meet the criteria used to assess changes to the fee system would be a doubling of minimum/fixed fees and a modest (5%) increase in all other fees
- Increasing the use of certification of design might be encouraged by an increase in fee discounts but because of the relatively high use of certificates of design (structures) the cost of this in terms of lost fee income would be high
- It would be desirable to increase fee discounts for certificates of construction. An increase from 1% to 10% would, if combined with an increase in take up, have an annual cost of about £1 million
- Introduction of a minimum discount of £25 could provide a strong incentive to use of certification in smaller projects at limited financial cost (40% take up resulting in -£0.3 million less fees)
- An increase in the take up of certification will increase the level of fee discounts, however this would be mitigated somewhat by reduced levels of verification by the local authority for those certified aspects.

4.7.3 Finally, in relation to proposals for fee increases, it should be noted that work being carried out at the same time as the present study indicates that the introduction of an “eBuilding Standards” system could give rise to very significant savings to applicants

for Building Warrants. These savings should be considered when assessing the significance of the financial cost to applicants of fee increases.