Title: Riot Compensation Bill **IA No:** HO0102 **Lead department or agency:** Home Office **Other departments or agencies:**	**Impact Assessment (IA)** **Date:** 11/09/2014 **Stage:** Final **Source of intervention:** Domestic **Type of measure:** Primary legislation **Contact for enquiries:** Kevin Finch, 020 7035 3117

Summary: Intervention and Options

RPC Opinion: GREEN

Cost of Preferred (or more likely) Option				
Total Net Present Value	**Business Net Present Value**	**Net cost to business per year** (EANCB on 2009 prices)	**In scope of One-In, Two-Out?**	**Measure qualifies as**
-£0.7m	£-20.3m	£2.4m	Yes	IN

What is the problem under consideration? Why is government intervention necessary?

The Riot (Damages) Act 1886, ('the Act'), is a piece of legislation which allows uninsured individuals and businesses to claim for the costs of repairing damage to their property and replace goods that have been stolen as a result of a riots. The Act also allows insurers to reclaim most of the costs paid to policy holders incurred because of a riot. Following the riots in the summer of 2011, a number of issues within the Act were highlighted. An independent review made a number of recommendations as to where changes should be made to the legislation. Government intervention is necessary to change the legislation and to update and simplify the processes in the aftermath of riots.

What are the policy objectives and the intended effects?

The objectives are to:

- To produce a modernised piece of legislation to replace the Act and to clarify which losses individuals and businesses can claim for in the event of a riot;
- Protect the most vulnerable in society from damages incurred in riots;
- Discourage greater levels of under insurance;
- Ensure arrangements are put in place to resolve claims under the Act quickly; and
- Take account of the affordability of the Act on the public purse.

What policy options have been considered, including any alternatives to regulation? Please justify preferred option (further details in Evidence Base)

The options considered are:

Option 1 – "Do Nothing"; make no changes to legislation and leave the Act in place;

Option 2 – Repeal the Act and replace with updated legislation, to account for modernisation of the Act and restrict who is eligible to make a claim on the basis of claim size; and

Option 3 - Repeal the Act and replace with updated legislation to account for modernisation of the Act and restrict who is eligible to make a claim on the basis of business turnover.

Option 2 is the preferred option, it is most aligned with government objectives.

Will the policy be reviewed? It will not be reviewed. **If applicable, set review date:** Month/Year

Does implementation go beyond minimum EU requirements?			Yes		
Are any of these organisations in scope? If Micros not exempted set out reason in Evidence Base.	**Micro** Yes	**< 20** Yes	**Small** Yes	**Medium** Yes	**Large** Yes
What is the CO_2 equivalent change in greenhouse gas emissions? (Million tonnes CO_2 equivalent)			**Traded:**	**Non-traded:**	

I have read the Impact Assessment and I am satisfied that (a) it represents a fair and reasonable view of the expected costs, benefits and impact of the policy, and (b) that the benefits justify the costs.

Signed by the responsible Minister: Mike Penning Date: 11/09/2014

Summary: Analysis & Evidence

Policy Option 2

Description: Repeal the Riot (Damages) Act and replace with a cap on the value of claims at £1m.

FULL ECONOMIC ASSESSMENT

Price Base Year 2011	PV Base Year 2014	Time Period Years 10	Net Benefit (Present Value (PV)) (£m)		
			Low: -0.7	**High:** -0.7	**Best Estimate:** -0.7

COSTS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Low	0.0	3.9	**33.6**
High	0.0	15.6	**134.1**
Best Estimate	0.0	5.1	**43.9**

Description and scale of key monetised costs by 'main affected groups'

The main cost to the public sector is the availability of replacement value and vehicle compensation, as well as permitting applications which would currently be deemed out of time (£11.6m). There are some costs to businesses (£42.5m) and individuals (£0.4m), through the restriction on the value of claims that can be compensated. The smallest cost is that of the bureau, which is a cost to businesses of £0.5m and to the public sector of £0.1m. All values are net present value over 10 years.

Other key non-monetised costs by 'main affected groups'

The negotiation costs over the bureau, between the public sector and businesses have not been monetised and will likely be minimal.

BENEFITS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Low	0.0	3.8	**32.9**
High	0.0	15.5	**133.4**
Best Estimate	0.0	5.0	**43.2**

Description and scale of key monetised benefits by 'main affected groups'

The main benefit is the gain of additional compensation for replacement value and will be felt by businesses (£9.0m) and individuals (£0.2m). The gain of vehicle compensation gives individuals a further £0.01m. Support for those claims currently out of time would award individuals (£0.04m) and businesses (£2.3m). The public sector also saves from the introduction of a claims cap to the sum of £42.8m. Businesses running the bureau will also recieve a small amount, £0.1m.

Other key non-monetised benefits by 'main affected groups'

There are a large number of non-monetised benefits. Through the creation of a bureau and formation of a manual, claimants should have an improved level of service in the aftermath of claims, although it is difficult to put a monetary figure on this. Should there be large scale rioting the benefit would be significant.

Key assumptions/sensitivities/risks **Discount rate (%)** 3.5

The main sensitivities relate to the volume and value of claims. The low and high estimates presented here are based on changing the value of claims. Rather than using the median value of claims, the upper quartile and lower quartile values have been used for these estimates.

BUSINESS ASSESSMENT (Option 2)

Direct impact on business (Equivalent Annual) £m:			In scope of OITO?	Measure qualifies as
Costs: 3.7	**Benefits:** 1.3	**Net:** 2.4	Yes	IN

Summary: Analysis & Evidence

Policy Option 3

Description: Repeal the Riot (Damages) Act and replace with a cap on business claims based on turnover limit of £5m.

FULL ECONOMIC ASSESSMENT

Price Base Year 2011	PV Base Year 2014	Time Period Years 10	Net Benefit (Present Value (PV)) (£m)		
			Low: -0.7	**High:** -0.7	**Best Estimate:** -0.7

COSTS (£m)	Total Transition (Constant Price)	Years	Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Low	0.0		6.8	**58.6**
High	0.0		17.2	**148.4**
Best Estimate	0.0		8.0	**69.2**

Description and scale of key monetised costs by 'main affected groups'

The main cost to the public sector is the availability of replacement value and vehicle compensation, as well as permitting applications which would currently be deemed out of time (£26.8m). There are some costs to businesses (£50.2m), through the restriction on which businesses can claim. The smallest cost is that of the bureau, which is a cost to businesses of £0.5m and to the public sector of £0.1m. All values are net present value over 10 years.

Other key non-monetised costs by 'main affected groups'

The negotiation costs over the bureau, between the public sector and businesses have not been monetised and will likely be minimal.

BENEFITS (£m)	Total Transition (Constant Price)	Years	Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Low	0.0		6.7	**57.9**
High	0.0		17.2	**147.7**
Best Estimate	0.0		8.0	**68.5**

Description and scale of key monetised benefits by 'main affected groups'

The main benefit is the gain of additional compensation for replacement value and will be felt by businesses (£25.1m) and individuals (£0.9m). The gain of vehicle compensation gives individuals a further £0.01m. Support for those claims currently out of time would award individuals (£0.05m) and businesses (£1.3m). The public sector also saves from the introduction of a claims cap to the sum of £50.2m. Businesses running the bureau will also recieve a small amount, £0.1m.

Other key non-monetised benefits by 'main affected groups'

There are a large number of non-monetised benefits. Through the creation of a bureau and formation of a manual, claimants should have an improved level of service in the aftermath of claims, although it is difficult to put a monetary figure on this. Should there be large scale rioting the benefit would be significant.

Key assumptions/sensitivities/risks — **Discount rate (%)** 3.5

The main sensitivities relate to the volume and value of claims. The low and high estimates presented here are based on changing the value of claims. Rather than using the median value of claims, the upper quartile and lower quartile values have been used for these estimates.

BUSINESS ASSESSMENT (Option 3)

Direct impact on business (Equivalent Annual) £m:			In scope of OITO?	Measure qualifies as
Costs: 5.3	**Benefits:** 2.6	**Net:** 2.7	Yes	IN

Evidence Base (for summary sheets)

A. Strategic Overview

A.1 Background

The Riot (Damages) Act 1886 ('the Act'), provides compensation for losses caused by riots. It covers all of England and Wales, but excludes riots that occur in Scotland and Northern Ireland.

Liability for paying riot compensation rests with the police. The police have a duty to maintain law and order; when a riot takes place, law and order have broken down and this means the police have failed to do their duty. This was the original rationale for the policy being introduced, of course as time has moved on other factors have come in to play, which means that this rationale on its own may be insufficient.

Under the Act, individuals and businesses, or insurers on their behalf, are able to claim for damages from those responsible, the police, the relevant Police Crime Commissioner (PCC) or the Mayor's Office for Policing and Crime (MOPAC).

The Act has not been used often. The most notable uses have been following the Brixton and Toxteth riots in the 1980s, and the rioting in August 2011. Following the 2011 riots, an independent review of the Act was commissioned by the Home Secretary and published on 8 November 2013. This review identified a number of areas which could be changed. A consultation on changes to the Act closed on 1 August 2014. This Impact Assessment considers the options to change the Act, including the independent reviewer's recommendations as well as alternatives that were proposed in the consultation.

When the Act was originally implemented over 125 years ago, the circumstances in England and Wales were different. The insurance industry was smaller and many individuals and businesses did not have the ability to repair damages that were caused in riots. The provisions in the Act meant that areas vulnerable to riots were able to make the necessary repairs. The insurance market has changed since 1886, with most individuals and businesses having some insurance. However it is still important that those who cannot afford insurance are protected in riots.

The Act also contains terminology and descriptions that can seem vague and difficult to understand. An example is the definition of a riot in the Act, which is "Persons riotously and tumultuously assembled together". This is supplemented by using the Public Order Act definition to determine a riotous group. The wording of the Act can mean it is applied inconsistently, as it is implemented by individual PCCs or MOPAC. Improving how easy the riots legislation is to understand is an important factor in the proposed changes.

The cost of compensation payments from the August 2011 riots is still rising, as the remaining claims are settled. At a time when the Police are facing cuts to

their budgets, the cost of this legislation and any changes should be well thought-out. The options look at the impact on the public purse and try to make sure that any changes which are made to the Act remain affordable.

The Government would prefer to repeal the Riot (Damages) Act 1886, and replace it with new legislation which modernises the language and terminology, clearly sets out what should and should not be covered.

A.2 Groups Affected

Changes to the Act would affect a number of groups. In particular there would be implications for PCCs and MOPAC, large and small Businesses, as well as individuals. Most of the impact on businesses will affect insurers, who currently make the highest number and value of claims under the Act, following payments to both business and individual policy holders.

The recommended option may also affect a number of other government departments. There would be expectations of local government to have an understanding of any resulting legislation.

The financial implications will be of interest to HM Treasury and the effects on business may be of interest to the Department for Business, Innovation and Skills. The potential effects of a cap on leaseholders and private landlords is of interest to the Department for Communities and Local Government.

A.3 Consultation

An independent review of the Act was published on 8 November 2013. The recommendations within this review provided the basis of the proposals in the options. A consultation on the policy ran for eight weeks and closed on 1 August. The results of this consultation can be found in the Government's response to the consultation and have helped to inform the policy options further.

Within Government

We have spoken to HMT, CO, DCLG and BIS regarding these proposals. DCLG colleagues have provided input on the best ways for local government officials to engage with the Act and how they can support claimants in the event of rioting. BIS have also advised us on ways to distinguish between small and large businesses as well as the possible implications.

We have also consulted with Northern Ireland policy leads and the Scottish Office regarding the devolved issues. This policy area is devolved and Northern Ireland and Scotland are not covered by the Act, however the proposed changes may be of interest to them.

Public Consultation

Throughout the consultation period we have spoken further with the Association of British Insurers (ABI), the Chartered Institute of Loss Adjusters (CILA), the

British Property Federation (BPF) and PCCs, among others. These discussions and written responses from these and other organisations and individuals have informed the direction of policy.

B. Rationale

Following the riots in the summer of 2011, the Government conducted an internal review and commissioned an independent review of the Act. These reviews identified recommendations for changes to the Act. Given the recommendations raised in the reviews, there is significant motivation to reform the Act.

Following the riots in 2011 it was found that the Act was often too difficult to understand and bureaucratic to comply with. This creates an excessive burden on Government, police forces and PCCs, businesses and individuals. The reviews highlighted that the processes behind the Act did not need to be as complicated as they were. The benefits from simplifying the process and reducing the difficulties faced when making or processing a riot compensation claim would help to satisfy the Government's aim to reduce regulation on businesses.

The Act excludes certain items which were not relevant in 1886, when the Act was introduced, but may be relevant in the present day. One excluded item is motor vehicles. These had only just been invented in 1886, however in the present day it would be unusual for vehicles to be absent from an area affected by riots. Another change since 1886 is in the insurance market, at the time the Act was introduced, most individuals and businesses were not insured. In order to protect the vulnerable who could not afford to meet the costs of repairing riot damage, the Act allowed for all to claim. In the present day, the insurance market is large and many individuals and businesses take out sufficient insurance. Given these and other changes to society since the introduction of the Act, it is possible that the Act is inefficient and it would benefit from modernisation and better targeting of support.

The Act is also an unpredictable cost to the police and Government. The Act could become unaffordable if riots were to be more common in future, although there is no evidence to suggest that this will occur. In light of cuts to Government funding, the reviews indicated that many stakeholders understood the need to save money. The benefits from spending under the Act are limited and often localised. If the Act were more affordable, it may be possible to increase government spending in areas which have wider benefits for the UK.

Finally, in 2011, the compensation arrangements in place meant that there was little incentive for businesses and individuals to take out adequate precautions against rioting. By compensating victims for any damage to property and possessions, existing legislation provided little incentive for the victims to ensure their property and possessions were protected. This is known as moral hazard. Such lack of action in 2011 meant that some claims were significantly higher than they could have been, had the victims taken suitable precautions.

To summarise, the particular issues with the Act were found to:

- Difficult to understand;
- Difficult for individuals and the Police to comply with consistently;
- Out of date, e.g. the exclusion of vehicles, not reflecting insurance market;
- Unpredictable in cost;
- Potentially unaffordable; and
- Encourages lack or protective action among victims and hence represents a moral hazard.

C. Objectives

The objectives are to:

- Replace the Act, modernising and clarifying which losses can be claimed for after riots;
- **Reducing the bureaucracy of claims processes so that it is easier to understand and comply with;**
- **Protect the most vulnerable in society from the damages incurred in riots. This includes the uninsured, underinsured, small businesses and others who are unable to afford repairs after riots;**
- **Discourage greater levels of under insurance than already present in society;**
- **Increase the affordability of the Act on the public purse, by limiting the financial liability on the Police;**
- **Reduce the impact of moral hazard, by encouraging victims to take sufficient pre-emptive precuations**

D. Options

At the consultation stage, a number of options were considered, this included:

1. Do nothing;
2. Repeal the Act and do not replace it;
3. Repeal the Act and replace in line with the independent review recommendations (excluding replacement value and excess); and
4. Repeal the Act and replace in line with the independent review recommendations (including replacement value and excess).

The results of the consultation indicated that a large number of respondents agreed that the current Act is out of date and needed to be replaced with new legislation. For this reason the second option is no longer being considered.

The majority of respondents also agreed with the principles of replacement value and excess payments. For this reason we have retained the fourth option and are no longer considering the third.

Finally, there were several alternatives to the turnover cap proposed by the independent reviewer. We are aware of concerns that the level of the turnover cap is inappropriate and that it is too low, for that reason we have revised our previous option 4, which had a turnover cap of £2m, to now having a turnover cap of £5m. This change in approach to the turnover cap is a result of information received in the consultation. The Association of British Insurers (ABI) provided evidence which suggested that only a third of commercial claims

would qualify under a turnover cap of £2m and that many small businesses would be excluded at this level. They proposed that a turnover cap of £5m, which would capture just over half of all commercial claims, was more appropriate and would protect small businesses.

Another concern was businesses should not be prevented from claiming but should have their claims limited. These changes have generated the following list of options:

1. Do nothing;
2. Repeal the Act and replace in line with the independent review recommendations (except the turnover cap and excess), and to cap claims on the basis of their size (with claims limited to a maximum of £1m); and
3. Repeal the Act and replace in line with the independent review recommendations (except the turnover cap and excess), and to cap claims from businesses with a turnover of £5m or more (previously option 4).

Option 2 is the recommended option, as it is most aligned with Government objectives set out in section C. It presents the lowest cost to business, provides incentives for claimants to change their behaviour and implement appropriate precautions and is simpler to practically implement than a turnover cap as suggested in option 3.

Option 1 is to “Do Nothing”; make no changes to legislation and leave the current Act in place.

Option 2 is to repeal the Act and replace it with new legislation. The main difference from the independent review recommendations is that rather than a turnover cap preventing some businesses from claiming, there would be a limit applied to the amount of money that can be awarded to a single claim. This limit will be £1m. This option was generated following consultation where some individuals/insurers felt this would be a better measure. This approach is reasonable as it would mean that all businesses could claim compensation from the police, which is aligned with the principal of police liability which underlines the act. However, it is true that this method does not specifically protect small businesses that may still have large claims. Other changes are broadly in line with those recommended by the independent reviewer and those presented at the consultation stage. Full details are discussed in the options analysis.

Option 3 is to repeal the Act and replace it. This legislation will provide an update of the Act and its processes. It will restrict the ability of large businesses to claim for damages under the Act, by preventing businesses with a turnover of more than £5m from claiming under the Act. Other changes are broadly in line with those recommended by the independent reviewer and those presented at the consultation stage. Full details are discussed in the options analysis.

Option 1 is expected to be cost neutral, whilst Options 2 and 3 will have a net cost to business and hence create a regulatory IN. Option 2 presents the lowest net cost to business and is therefore recommended.

E. Appraisal (Costs and Benefits)

GENERAL ASSUMPTIONS & DATA

Types and sizes of Riot

- We have assumed three different types of riot, based on the number of claims under the Act. The first is large scale rioting, similar to those in August 2011. The second size is a bureau scale riot, which is relatively large and may cross police area borders. The final size is small scale rioting, which is similar in size to the Bradford and Oldham riots in 2001.
- From data and discussions, with forces and insurers, table 1 outlines the assumptions made regarding the number of claims in each of these types of riots:

Table 1: Riot Sizes and Claims

Riot Size	Evidential figures	Assumed Claims
Large	2,342 valid claims in 2011 riots (Police figures)	2,500
Bureau	Discussions with Police and insurers	500
Small	34 claims on average in each of the 2001 riots (Police figures)	35

Frequency of riots

- The likelihood of a riot occurring is based on their frequency over a 10 year period from 2002 to 2011. Over the 10 years there were 11 riots. Of these, one riot was large scale (August 2011), one riot was bureau scale, the remaining 9 were small scale.

Table 2: Frequency of riots

Riot Size	Frequency (occurrences per year)
Large	0.1
Bureau	0.1
Small	0.9

Claimant types

- There are two main types of claimants, business claimants and domestic claimants. For the purposes of this impact assessment business claimants are split into large and small business.
- The proposals generally treat large businesses as those with an annual turnover of more than £5m. This is different from the consultation stage impact assessment. At consultation stage we pursued the recommendation of the independent reviewer, that this should be at a level of £2m. Consultation responses indicated that the level was too low, and that in many cases a level of £5m would be more appropriate.
- Original data from the Metropolitan Police did not enable grouping businesses by turnover. During consultation however we received an indication from the Association of British Insurers (ABI),that 56% of

commercial claims were from businesses with turnover less than £5m. We have not seen the underlying data from the ABI, but given the ABI's representation of the insurance industry, and a lack of other suitable data, this estimate has been applied to large and bureau scale riots.

- Using data from the Metropolitan Police, regarding the 2011 riots, and from the 2001 riots, we have assumed a similar make up of claimants, varying by the size of riots. The assumptions are in table 3:

Table 3: Claims by claimant type

Riot Size	Total claims	Claimant type (Assumptions)					
		Large business		Small business		Domestic	
		Claims	Percentage	Claims	Percentage	Claims	Percentage
Large	2,500	887	35%	1,129	46%	484	19%
Bureau	500	177	35%	226	46%	97	19%
Small	35	2	4%	28	81%	5	15%

Value of claims

- The value of claims also varies between types of riot and claimant. The values claimed in 2001 were different from those in 2011. This reflects that riots can vary in nature and may target certain victim groups.
- Claim values are assumed to be the median value of claims, according to the data sources from 2011 and 2001 riots. Median values have been used due to the skewedness of the distribution. The majority of claims are low value, although there are some outlying large claims, these claims distort the mean values but not the median values.

Details of the claim values are in table 4:

Table 4: Claim values

Riot size	Claim Size	Large business	Small business	Domestic
Large	<£1m	£5,519		£4,185
	>£1m	£1,455,942		£1,500,000
Bureau	<£1m	£5,519		£4,185
	>£1m	£1,455,942		£1,500,000
Small	<£1m	£224,413	£5,387	£1,854
	>£1m	£4,798,011	£0	£0

Table 5: Claims by size and value

Riot Size	Claim size	Large business	Small Business	Domestic
Large	<£1m	875	1,113	479
	>£1m	13	16	5
Bureau	<£1m	175	223	96
	>£1m	3	3	1
Small	<£1m	1	28	5
	>£1m	1	0	0

Levels of Insurance

- The four police areas that were affected in 2011 provided data on whether claims were insured or uninsured. This data indicated that 83% of claimants had insurance whilst 17% were uninsured.
- No equivalent data was available from the 2001 riots and so these proportions are assumed to apply to all riot sizes.
- Regarding insurance of vehicles, the Association of British Insurers, among other insurance groups have suggested that only 4% of vehicles in England and Wales have third party, fire and theft insurance. This figure has been used as it is informed by industry.

Salaries and staffing levels

- All salaries used include a non wage element of 17.8% (Eurostat). It is also assumed that people work on average 5 days a week. We have used salary data from the Annual Survey of Hours and Earnings (ASHE 2011). These data and assumptions are used to give an approximate daily wage (and non-wage element) for each group considered in this impact assessment. Details of this can be found in table 6. Staffing levels have also been drawn from ASHE and can be found in table 7.

Table 6: Salary adjustment for non-wage element

Group	Weekly Salary (2011)	Salary with non-wage element (additional 17.8%)	Daily salary with non-wage element (5 working days a week)
Pension and Insurance clerks and assistants (ASHE 2011)	£369	£435	£87
Police Officers (sergeants or below) (ASHE 2011)	£748	£881	£176

Table 7: Staffing levels

Group	Number of Jobs (2011)
Pension and Insurance clerks and assistants (ASHE 2011)	41,000
Police Officers (sergeants or below) (ASHE 2011)	228,000

Transfer Costs

- Many of the costs and benefits associated with this policy are transfer costs. This means that one party loses by exactly the same amount that another party gains. These costs have no net impact on society, but they have been considered as the impacts are transferred from one group to another and we are interested in the specific impacts on vulnerable groups including individuals and small businesses.

OPTION 2 - Repeal the Act and replace with a claims cap, but otherwise largely in line with the reviewers recommendations

COSTS

Under this option there will be costs to individuals, Large businesses, Insurers, Central Government, Local Government and the Police. The costs have been broken down into those relating to specific recommendations as put forward in the Independent Review.

Only three of the recommendations are actual costs. The other recommendations represent transfers only.

Recommendation 4 - a riot claims bureau is developed by agreement between the Home Office and the insurance industry, to be staffed by experts in claims handling and loss adjusting drawn from several companies, to be ready to start work immediately after a riot, with delegated power to decide claims.

This recommendation refers to the creation of a bureau which would, in larger riots, be implemented to centrally handle claims and make decisions on them. The bureau is envisioned to be made up of Loss adjustors who would deal directly with claimants and recommend payments. These payments would then be approved or queried by a panel including members of the affected police forces and PCCs offices, as well as local representatives. The recommendation is partially amended as the bureau will largely be staffed by loss adjusters rather than insurers. This has been decided as there would be a conflict of interest for many insurers, who may have policy holders claiming under the act. Chartered loss adjustors have a duty to remain impartial and have experience in controls to protect against a conflict of interest.

This recommendation will have a number of actual costs, including:

- Negotiation costs over the size and makeup of the bureau. These costs have not been quantified as they are likely to be small, however the impacts would fall on loss adjusters and Government.
- Retaining costs of bureau. This will be a cost faced directly by Government and will be related to the full cost of running a bureau. In 2011 the cost of running a bureau was £0.5m for a total of 2,342 claims. The average cost of processing a claim was £194. Using this figure, and the expected number of claims estimates of bureau running costs have been calculated for large and bureau scale riots. The retainer is anticipated to be 10% of the full costs of running a bureau. Costs are also distributed over a period of ten years, in line with the frequency of rioting. These costs will be minimised by using staff at their current bases, rather than locating to a specific office in London.
- Running costs of bureau. This will be incurred by loss adjusters who are retained to run the bureau. The running costs of the bureau are calculated as stated above. These costs will be minimised by using staff at their current bases, rather than locating to a specific office in London.
- PCC model. For smaller scale rioting the bureau will not be implemented. There is not expected to be an additional cost from a PCC lead model in these instances.

Details of these calculations are in Annex A, Table 1.

Table 8 – Summary Costs of Recommendation 4

Affected Group	Average Annual Costs	Present value Costs (over ten years)

Businesses	£0.06m	£0.50m
Public Sector	£0.01m	£0.05m
Individuals	£0.00m	£0.00m
Total	£0.07m	£0.55m

Recommendation 5 - a manual is prepared as soon as practicable to provide guidance on the type of claims that are likely to follow a riot, dealing with claimants unused to making claims and other issues.

The actual costs associated with this option are:

- Writing a manual. This cost has not been quantified, but is likely to be a minimal one off cost.
- Learning time costs. These recurring costs will be felt by insurers and loss adjusters who are retained to run a bureau and the police who need to know best practice in the event of a riot. We estimate that to read and familiarise yourself with the information contained in a manualwill take half a day, and that 100 loss adjusters (the number who may need to be trained to staff a bureau as detailed in recommendation 4) and five members from each police force (or 215 police in total, who will manage the forces interest in riot damages claims) will need to familiarise themselves with this manual, in order to be prepared for the implementation of a bureau. Half the daily salary for pensions and insurance clerks is £44 and for the police is £88.

Details of these calculations are in Annex A, Table 2.

Table 9 – Summary Costs of Recommendation 5

Affected Group	Average Annual Costs	Present value Costs (over ten years)
Businesses	£0.00m	£0.04m
Public Sector	£0.02m	£0.16m
Individuals	£0.00m	£0.00m
Total	£0.02m	£0.20m

Recommendation 6 - local authorities should be asked to include within their emergency plans planning for a riot-recovery service to provide coordinated advice and support for the range of problems that may follow a riot targeted on those most in need of such support and available for as long as it is needed.

The implications of this recommendation are non-legislative and may be progressed without legislation. For this reason the costs and benefits are not captured in this impact assessment.

Recommendation 2 – that insurers should continue to receive compensation under new legislation but that their compensation should be capped.

Recommendation 8 – cap compensation payable to insurers in future by reference to the turnover of the business insured, so that compensation is payable only in respect of payments made to small businesses.

Recommendation 10 - apply the cap to compensation payable directly to victims of riots, that is to those who are uninsured, or to businesses which self-insure, and to excesses which are not covered by insurance.

These recommendations refer to the capping of payments to those businesses whose turnover is greater than £2m. This option does not pursue such a cap and instead implements a cap on the amount that can be paid out on a single claim to £1m. This option was suggested by a number of respondents to the consultation who believed that such a cap would maintain the principal of police liability whilst still giving consideration to the public purse. The value of the cap was set in direct reference to replies to the consultation, respondents felt that this should provide sufficient protection to small businesses whose claims are not high value, whilst limiting payments to large businesses. This is illustrated by the number of claims in 2011, which would have been effected by such a cap. Of the 1,577 claims from 2011 for which we have detailed information, only 21 would have been above this claim cap and therefore not receive their full compensation amount. These 21 were made up of approximately three domestic claims (0.1% of all claims), ten small business claims (0.6% of all claims) and eight large business claims (0.5% of all claims).

There will be some exceptions to this cap such as not-for-profit organisations and charitable organisations and multi-occupancy buildings that have separate freehold and leasehold. Not-for-profit and charitable organisations have been excluded as such a cap could mean that their work and donations to them could be jeopardised. Multi-occupancy buildings have been excluded as it has been brought to our attention that should the building be damaged during a riot, the freeholder may be capped on their claims, leaving the leaseholders with no accommodation.

These costs are transfers and feature as equal and opposite benefits to another group:

- Reduction in compensation experienced by uninsured claimants with claims over £1m. They will see a reduction in payments to a maximum of £1m. Details in Annex A, table 3.
- Reduction in compensation experienced by insurers providing cover for claimants with claims over £1m. This includes Individuals and businesses. Insurers will not be compensated any value which exceeds £1m. Details in Annex A, table 4.

Table 10 – Summary Costs of Recommendation 2, 8 and 10

Affected Group	Average Annual Costs	Present value Costs (over ten years)
Businesses	£4.93m	£42.47m
Public Sector	£0.00m	£0.00m
Individuals	£0.05m	£0.42m
Total	£4.98m	£42.89m

Recommendation 12 – new legislation should include cars and other vehicles within the scope of compensation.

These costs are transfers and feature as equal and opposite benefits to another group:

- Compensation from public sector to individuals with third party, fire and theft vehicle claims. These claims would not be paid under an individuals' insurance, as this type of policy does not provide coverage for the type of damage sustained in riots. The ABI estimates that in 2011, there were 90 claims from individuals and that across the UK only 4% of insurance policies are third party, fire and theft. In 2011, the average individuals claim was £2,134 per claim.
- Compensation from public sector to businesses with third party, fire and theft vehicle claims. The ABI estimates that in 2011, there were 17 claims from businesses and that the average business vehicle claim was £4,995 per claim.

The anticipated numbers of claims have been based on this and can be found in Annex A, table 5.

Table 11 – Summary Costs of Recommendation 12

Affected Group	Average Annual Costs	Present value Costs (over ten years)
Businesses	£0.00m	£0.0m
Public Sector	£0.00m	£0.01m
Individuals	£0.00m	£0.0m
Total	£0.00m	£0.01m

Extended time periods

Outside of the independent reviewers recommendations, we intend to extend the time period under which claims can be submitted to a total of 42 days for submitting a claim and 90 days for submitting supporting information for the claim. The current limits were extended from 14 days to 42 days in 2011, but this time period was expected to be sufficient for the submission of all evidence. This proposal was overwhelmingly supported in the consultation responses.

These costs are transfers and feature as equal and opposite benefits to another group:

- Compensation from public sector to those people who previously were too late to claim. In the 2011 riots, the Metropolitan Police received 59 claims that were out of the time period for submission. These claims were rejected, but they and similar out of time claims could be accepted under this proposal. These claims would be eligible to the level of compensation being offered to current in time claimants.

Details of the number of claims and value of them are in Annex A, Tables 6, 7 and 8.

Table 12 – Summary Costs of extended time claims

Affected Group	Average Annual Costs	Present value Costs (over ten years)
Businesses	£0.00m	£0.00m
Public Sector	£0.27m	£2.36m
Individuals	£0.00m	£0.00m

Total	£0.27m	£2.36m

Recommendation 16 – new legislation should provide for compensation to be paid in future on the basis of the replacement value of the property damaged, not indemnity (except in the case of vehicles).

The Government intends to introduce payments on a new-for-old basis, rather than indemnity as is currently provided, in line with recommendation 16, although there will be certain exemptions including for motor vehicles and items such as perishable stock.

Indemnity value relates to the principle that individuals who are compensated should be left in an equivalent state to that before the damage was caused, i.e. you do not receive money to buy a brand new possession, but rather a possession the same age and condition as the one damaged or stolen. Replacement value would mean that instead of this individuals receive compensation to buy a brand new possession. Following 2011, some businesses and individuals struggled to restore/replace items with the compensation they were awarded, this was due to the fact that second hand items were not always available. New-for-old values would enable them to replace these items.

A small amount of data was provided by Greater Manchester Police which indicated that on average (across 47 claims) the replacement values of the claims were 1.53 times greater than the indemnity cost of the claims.

These costs are transfers and feature as equal and opposite benefits to another group:

- All in time claimants (with claims below £1m) could gain greater compensation. See Annex A table 9.
- All out of time claimants (with claims below £1m) could gain greater compensation. See Annex A table 10.

Tables 9, 10 and 11 in Annex A sets out how the average annual costs have been calculated.

Table 13 – Summary Costs of Recommendation 16

Affected Group	Average Annual Costs	Present value Costs (over ten years)
Businesses	£0.00m	£0.00m
Public Sector	£1.01m	£8.69m
Individuals	£0.00m	£0.00m
Total	£1.01m	£8.69m

Excess Payments

There is also a proposal that claimants under the new riots legislation should pay an excess of £100 per claim that they present.

Costs associated with this are:

- A £100 charge per claim to all claimants.

Details of the calculations behind this are presented in Annex A, Table 12.

Table 14 – Summary Costs of Excess payments

Affected Group	Average Annual Costs	Present value Costs (over ten years)
Businesses	£0.03m	£1.43m
Public Sector	£0.00m	£0.00m
Individuals	£0.00m	£0.05m
Total	£0.03m	£1.48m

Costs of Option 2

The sum of proposals indicates that each group considered (businesses, public sector and individuals) face a cost as a result of this option, although in many cases that cost is a transfer. This will be reflected when considering the benefits. The total costs are in table 15.

Table 15 – Summary Costs of Option 2

Affected Group	Average Annual Costs	Present value Costs (over ten years)
Businesses	£3.68m	£31.67m
Public Sector	£1.38m	£11.84m
Individuals	£0.05m	£0.43m
Total	£5.10m	£43.94m

BENEFITS

Under this option there will be benefits to individuals, large businesses, insurers, Central Government, Local Government and the police. The benefits have been broken down into those relating to specific recommendations as put forward in the Independent Review.

Only three recommendations result in actual benefits. The rest are transfers.

Recommendation 4 - a riot claims bureau is developed by agreement between the Home Office and the insurance industry, to be staffed by experts in claims handling and loss adjusting drawn from several companies, to be ready to start work immediately after a riot, with delegated power to decide claims.

This recommendation is partially amended as the bureau will largely be staffed by loss adjusters rather than insurers.

The actual benefits of this recommendation are as follows:

- Loss adjusters receipt of a retainer. This retainer is likely to be equal to 10% of the running costs of such a bureau. This is a transferred benefit and is counteracted by an equal and opposite cost to Government. The benefits are captured in Annex A, table 1.
- Benefits to claimants through a bureau. The use of a bureau in mid-large scale riots will ensure that claimants are dealt with in a consistent and streamlined manner, by specialists at claims management. These benefits are not quantified but could be significant should a large scale riot occur again.

Table 16 – Summary Benefits of Recommendation 4

Affected Group	Average Annual Benefits	Present value Benefits (over ten years)
Businesses	£0.01m	£0.05m
Public Sector	£0.00m	£0.00m
Individuals	£0.00m	£0.00m
Total	£0.01m	£0.05m

Recommendation 5 - a manual is prepared as soon as practicable to provide guidance on the type of claims that are likely to follow a riot, dealing with claimants unused to making claims and other issues.

The actual benefits of this recommendation are as follows:

- Time savings. This will be experienced by all businesses and individuals involved in the claims process including, PCCs, insurers, loss adjusters and claimants. The full extent of these time savings is not known and so this has not been quantified.
- Transparency. Having a manual, which clearly sets out these allowances in an easy to understand way, will ensure that the process is transparent to claimants. The degree of benefit from transparency is difficult to estimate so it has not been quantified.

There are no quantified benefits of this recommendation.

Recommendation 6 – local authorities should be asked to include within their emergency plans planning for a riot-recovery service to provide coordinated advice and support for the range of problems that may follow a riot targeted on those most in need of such support and available for as long as it is needed.

The implications of this recommendation are non-legislative and may be progressed without legislation. For this reason the costs and benefits are not captured in this impact assessment.

Recommendation 2 – that insurers should continue to receive compensation under new legislation but that their compensation should be capped.

Recommendation 8 – cap compensation payable to insurers in future by reference to the turnover of the business insured, so that compensation is payable only in respect of payments made to small businesses.

Recommendation 10 - apply the cap to compensation payable directly to victims of riots, that is to those who are uninsured, or to businesses which self-insure, and to excesses which are not covered by insurance.

As discussed in the costs section this option, instead of a turnover cap as recommended, pursues a cap on the value of claims.

These benefits are simply transfers and are matched by an equal and opposite cost to another group:

- Saving in reduction of compensation from public sector. PCCs will be limited in the level of compensation that they are required to pay out to large claims. This saving mirrors the cost to businesses and individuals who no longer receive as much compensation as previously. The benefits are clearly set out in Annex A, tables 3 and 4.

Table 17 – Summary Benefits of Recommendation 2, 8 and 10

Affected Group	Average Annual Benefits	Present value benefits (over ten years)
Businesses	£0.00m	£0.00m
Public Sector	£3.63m	£31.27m
Individuals	£0.00m	£0.00m
Total	£3.63m	£31.27m

Recommendation 12 – new legislation should include cars and other vehicles within the scope of compensation.

Recommendation 12, which provides for compensation for vehicle damage, will enable businesses and individuals to reclaim these costs in line with third party, fire and theft insurance.

These benefits are simply transfers and are matched by an equal and opposite cost to another group:

- Benefit to individuals from limited compensation for vehicle damage. Again, the benefits reflect the costs as this would be a transfer. The calculations for the value of this recommendation are set out in Annex A, table 5.
- Benefit to businesses from limited compensation for vehicle damage. As with the benefits to individuals these benefits are a transfer and are set out in Annex A, table 5.

Table 18 – Summary Benefits of Recommendation 12

Affected Group	Average Annual Benefits	Present value Benefits (over ten years)
Businesses	£0.00m	£0.00m
Public Sector	£0.00m	£0.00m
Individuals	£0.00m	£0.01m
Total	£0.00m	£0.01m

Extended Time Periods

The proposed extension of the application period will mean that a number of businesses and individuals whose claims were submitted too late to be considered under the Act will now be covered by new riots legislation.

These benefits are simply transfers and are matched by an equal and opposite cost to another group:

- Compensation to previously late claimants. The benefits reflect the costs as this is a transfer. Benefits would be experienced by businesses, including insurers and individuals. Details of the calculations are in Annex A, tables 6, 7 and 8.

Table 19 – Summary Benefits of extended time

Affected Group	Average Annual Benefits	Present value Benefits (over ten years)
Businesses	£0.27m	£2.32m
Public Sector	£0.00m	£0.00m
Individuals	£0.00m	£0.04m
Total	£0.27m	£2.36m

Recommendation 16 – new legislation should provide for compensation to be paid in future on the basis of the replacement value of the property damaged, not indemnity (except in the case of vehicles).

The Government intends to introduce payments on a new-for-old basis, rather than indemnity as is currently provided, in line with recommendation 16, although there will be certain exemptions including for motor vehicles and items such as perishable stock.

The introduction of new-for-old payments rather than old-for-old will have two major effects, those on claims originally within time and those on claims submitted in the extended time period.

These benefits are simply transfers and are matched by an equal and opposite cost to another group:

- Increase in compensation for currently in time claimants. In time claimants will be eligible for replacement value rather than indemnity value on their claims. This is a transfer of the costs to government, and the calculations can be found in Annex A, table 9. For in time claims, it is estimated that individuals will benefit by £0.02m on average annually, whilst businesses including insurers will benefit by £0.99m on average annually.
- Increase in compensation for out of time claimants. Similarly to in time claimants this is a transfer of the cost to government set out in Annex A, table 10. For extended time claims, it is estimated that individuals will benefit by £0.00m on average annually, whilst businesses will benefit to the extent of £0.06m annually.

Total benefits of this option are in Annex A, table 11.

Table 20 – Summary Benefits of Recommendation 16

Affected Group	Average Annual Benefits	Present value Benefits (over ten years)
Businesses	£1.05m	£9.05m
Public Sector	£0.00m	£0.00m
Individuals	£0.02m	£0.20m
Total	£1.07m	£9.25m

Excess payments
There is also a proposal that claimants under the new riots legislation should pay an excess of £100 per claim that they present.

Benefits associated with this are:

- Government receipt of excess payments.

Details of the calculations behind this are presented in Annex A, Table 12.

Table 21 – Summary Benefits of Excess payments

Affected Group	Average Annual Benefits	Present value Benefits (over ten years)
Businesses	£0.00m	£0.00m
Public Sector	£0.03m	£1.48m
Individuals	£0.00m	£0.00m
Total	£0.03m	£1.48m

Unquantified benefits
In addition to the above there are significant un-quantified benefits of this option. By capping claims to a maximum of £1m, businesses and individuals should be better encouraged to take out sufficient levels of insurance and other protection, as they will not necessarily be able to reclaim the full value of losses. This reduces the scope for moral hazard, where businesses or individuals do not take out appropriate security measures to protect their possessions in the event of riots and instead rely upon guaranteed government compensation. We are unable to measure this as it is unclear what volume of behavioural change is expected.

Benefits of Option 2
The overall quantified benefits of Option 2 are described in table 22.

Table 22– Benefits of Option 2

Affected Group	Average Annual Benefits	Present value Benefits (over ten years)
Businesses	£1.33m	£11.43m
Public Sector	£3.67m	£31.56m
Individuals	£0.03m	£0.25m
Total	£5.02m	£43.24m

Given the present value costs of this option (£43.94m) and the present value benefits (£43.24m), the net present value of this option is £-0.7m. The majority of costs and benefits are transfers and produce a neutral NPV, however, the implementation of a bureau, which will improve processes and experiences for claimants presents a cost. This is the only actual cost and totals £0.7m, hence the negative monetised NPV. There could however be significant benefits which are unquantified, should they amount to £0.09m on average annually this option would become cost neutral.

ONE-IN-TWO-OUT (OITO)

This section looks at the overall impact on businesses, both large and small. A further analysis of the distribution of these impacts is discussed in Annex B, the Small and Micro Business assessment for the policy.

Costs (INs)

There are significant INs under this option, they amount to an Equivalent Annual Costs to Business of £3.68m.

The first and most significant IN is the restriction on claims of more than £1m. This cost amounts to £3.58m on average annually, with £3.02m falling on insurers and £0.57m on uninsured businesses on average each year. This is a present value cost of £30.85m.

Another large cost will be that of running the riot claims bureau should it be necessary. This is estimated at £0.06m annually on average or a present value cost of £0.50m. Again this will largely fall on loss adjusters that are retained to be part of the bureau. The costs of reading and understanding a manual on the new riots legislation will also be a very small cost, amounting to a present value cost of £0.04m. Also the introduction of an excess imposes average annual costs of £0.03m and present value costs of £1.43m.

Benefits (OUTs)

As well as INs, this option produces some OUTs or savings for businesses with an equivalent annual benefit to business of £1.33m. This is partially a redistribution of the INs.

Those businesses who are unable to meet the current time constraints, for submission of a claim and provision of evidence, would see a small benefit under this option. This will produce payments to uninsured businesses of £0.05m and insurers of £0.23m on average each year. The present value benefits are £0.36m to uninsured businesses and £1.96m to insurers.

Another benefit will be the compensation available for business vehicles which are damaged. It is not anticipated that this will affect a large number of vehicles, but there would be a present value benefit over ten years of less than £0.01m.

There are other benefits to businesses, loss adjusters who are retained to run a bureau will receive a payment for doing so although it is not expected to be a large amount at just £0.01m annually on average with a present value benefit of £0.05m.

Finally by enabling replacement value compensation payments there will be large benefits of £0.16m average annually to uninsured businesses and £0.89m on average each year to insurers. The present values over ten years of these are £1.37m to uninsured businesses and £7.68m to insurers.

NET

The present value of cost (PVC) to business is £20.25m over a period of 10 years. This gives an equivalent annual net cost to business of £ 2.35m. The policy is a NET IN.

OPTION 3 - Repeal the Act and replace with a turnover cap of £5m, but otherwise largely in line with the reviewers recommendations

The premise for which recommendations are proceeded in this option is largely the same as Option 2. The main difference is the turnover cap which will change the number of claims that are compensated.

COSTS

Under this option there will be costs to individuals, large businesses, insurers, central government, local government and the police. The costs have been broken down into those relating to specific recommendations as put forward in the Independent Review.

Only three of the recommendations are actual costs. The other recommendations represent transfers only.

Recommendation 4 - a riot claims bureau is developed by agreement between the Home Office and the insurance industry, to be staffed by experts in claims handling and loss adjusting drawn from several companies, to be ready to start work immediately after a riot, with delegated power to decide claims.

This recommendation is partially amended as the bureau will largely be staffed by loss adjusters rather than insurers.

The actual costs of this recommendation are identical to that of Option 2. The turnover cap has no bearing on the running of a bureau.

Details of these calculations are in Annex A, Table 1.

Table 23 – Summary Costs of Recommendation 4

Affected Group	Average Annual Costs	Present value Costs (over ten years)
Businesses	£0.06m	£0.50m
Public Sector	£0.01m	£0.05m
Individuals	£0.00m	£0.00m
Total	£0.07m	£0.55m

Recommendation 5 - a manual is prepared as soon as practicable to provide guidance on the type of claims that are likely to follow a riot, dealing with claimants unused to making claims and other issues.

The actual costs of this recommendation are identical to that of Option 2. The turnover cap has no bearing on the writing of a manual.

Details of these calculations are in Annex A, Table 2.

Table 24 – Summary Costs of Recommendation 5

Affected Group	Average Annual Costs	Present value Costs (over ten years)
Businesses	£0.00m	£0.04m
Public Sector	£0.02m	£0.16m
Individuals	£0.00m	£0.00m
Total	£0.02m	£0.20m

Recommendation 6 - local authorities should be asked to include within their emergency plans planning for a riot-recovery service to provide coordinated advice and support for the range of problems that may follow a riot targeted on those most in need of such support and available for as long as it is needed.

The implications of this recommendation are non-legislative and may be progressed without legislation. For this reason the costs and benefits are not captured in this impact assessment.

Recommendation 2 – that insurers should continue to receive compensation under new legislation but that their compensation should be capped.

Recommendation 8 – cap compensation payable to insurers in future by reference to the turnover of the business insured, so that compensation is payable only in respect of payments made to small businesses.

Recommendation 10 - apply the cap to compensation payable directly to victims of riots, that is to those who are uninsured, or to businesses which self-insure, and to excesses which are not covered by insurance.

These recommendations refer to the capping of payments to those businesses whose turnover is greater than £2m. This option pursues a slightly different route, using a turnover cap of £5m. Information from the ABI suggested that only a third of commercial claims in 2011 would qualify under a £2m turnover cap, and that many small businesses would remain unprotected. They proposed that as over half of commercial claims were from businesses with a turnover of £5m or less this level may be more appropriate and provide protection for more small businesses.

This change effectively means that any businesses described as large would not receive compensation for riot damages.

These costs are transfers and feature as equal and opposite benefits to another group:

- Complete loss of compensation for uninsured businesses with a turnover of more than £5m. These businesses will receive no compensation under this proposal. Details in Annex A, table 13.
- Reduction in compensation experienced by insurers providing cover for business claimants with a turnover of over £5m. Insurers will not be compensated for any claim from these businesses. Details in Annex A, table 14.

To illustrate the effect of such a change, consider that, of the 1,577 claims in the Metropolitan Police area from 2011 for which we have detailed information, 560 would no longer qualify for compensation.

Table 25 – Summary Costs of Recommendation 2, 8 and 10

Affected Group	Average Annual Costs	Present value Costs (over ten years)
Businesses	£5.24m	£45.10m
Public Sector	£0.00m	£0.00m
Individuals	£0.00m	£0.00m
Total	£5.24m	£45.10m

Recommendation 12 – new legislation should include cars and other vehicles within the scope of compensation.

These costs are transfers and feature as equal and opposite benefits to another group:

- Compensation from public sector to individuals with third party, fire and theft vehicle claims. These claims would not be paid under an individual's insurance, as this type of policy does not provide coverage for the type of damage sustained in riots. The ABI estimates that in 2011, there were 90 claims from individuals and that across the UK only 4% of insurance policies are third party, fire and theft. In 2011, the average individuals claim was £2,134 per claim.
- Compensation from public sector to small businesses with third party, fire and theft vehicle claims. The ABI estimates that in 2011, there were 17 claims from businesses and that the average business vehicle claim was £4,995 per claim.

The anticipated numbers of claims have been based on this and can be found in Annex A, table 15.

Table 26 – Summary Costs of Recommendation 12

Affected Group	Average Annual Costs	Present value Costs (over ten years)
Businesses	£0.00m	£0.00m
Public Sector	£0.00m	£0.01m
Individuals	£0.00m	£0.00m
Total	£0.00m	£0.01m

Extended time periods

Outside of the independent reviewers recommendations we intend to extend the time period under which claims can be submitted to a total of 42 days for submitting a claim and 90 days for submitting supporting information for the claim. This proposal was overwhelmingly supported in the consultation responses.

These costs are transfers and feature as equal and opposite benefits to another group:

- Compensation from public sector to those people who previously were too late to claim. In the 2011 riots, the Metropolitan Police received 59

claims that were out of the time period for submission. These claims were rejected, but they and similar out of time claims could be accepted under this proposal. These claims would be eligible to the level of compensation being offered to current in time claimants.

Details of the number of claims and value of them are in Annex A, Tables 6, 7 and 16.

Table 27 – Summary Costs of extended time claims

Affected Group	Average Annual Costs	Present value Costs (over ten years)
Businesses	£0.00m	£0.00m
Public Sector	£0.15m	£1.31m
Individuals	£0.00m	£0.00m
Total	£0.15m	£1.31m

Recommendation 16 – new legislation should provide for compensation to be paid in future on the basis of the replacement value of the property damaged, not indemnity (except in the case of vehicles).

The Government intends to introduce payments on a new-for-old basis, rather than indemnity as is currently provided, in line with recommendation 16, although there will be certain exemptions including for motor vehicles and items such as perishable stock.

Indemnity value relates to the principle that individuals who are compensated should be left in an equivalent state to that before the damage was caused, i.e. you do not receive money to buy a brand new possession, but rather a possession the same age and condition as the one damaged. Replacement value would mean that instead of this individuals receive compensation to buy a brand new possession. Following 2011, some businesses and individuals struggled to restore/replace items with the compensation they were awarded, this was due to the fact that second hand items were not always available. New-for-old values would enable them to replace these items.

A small amount of data was provided by Greater Manchester Police which indicated that on average (across 47 claims) the replacement values of the claims were 1.53 times greater than the indemnity cost of the claims.

These costs are transfers and feature as equal and opposite benefits to another group:

- Individual and small business in time claimants could gain greater compensation.
- Individual and small business out of time claimants could gain greater compensation.

Table 17, 18, 19, 20 and 21 in Annex A sets out how the average annual costs have been calculated.

Table 28 – Summary Costs of Recommendation 16

Affected Group	Average Annual Costs	Present value Costs (over ten years)

Businesses	£0.00m	£0.00m
Public Sector	£2.54m	£21.81m
Individuals	£0.00m	£0.00m
Total	£2.54m	£21.81m

Excess payments

There is also a proposal that claimants under the new riots legislation should pay an excess of £100 per claim that they present.

Costs associated with this are:

- A £100 charge per claimant.

Details of the calculations behind this are presented in Annex A, Table 22.

Table 29 – Summary Costs of Excess payments

Affected Group	Average Annual Costs	Present value Costs (over ten years)
Businesses	£0.02m	£1.50m
Public Sector	£0.00m	£0.00m
Individuals	£0.00m	£0.08m
Total	£0.02m	£1.58m

Costs of Option 3

The sum of proposals indicates that each group considered (businesses, public sector and individuals) face a cost as a result of this option, although in many cases that cost is a transfer. This will be reflected when considering the benefits. The total costs are in table 28.

Table 30 – Summary Costs of Option 3

Affected Group	Average Annual Costs	Present value Costs (over ten years)
Businesses	£5.3m	£45.83m
Public Sector	£2.7m	£23.34m
Individuals	£0.00m	£0.01m
Total	£8.00m	£69.18m

BENEFITS

Under this option there will be benefits to individuals, large businesses, insurers, Central Government, Local Government and the police. The benefits have been broken down into those relating to specific recommendations as put forward in the Independent Review.

Only three recommendations result in actual benefits. The rest are transfers.

Recommendation 4 - a riot claims bureau is developed by agreement between the Home Office and the insurance industry, to be staffed by experts in claims handling and loss adjusting drawn from several companies, to be ready to start work immediately after a riot, with delegated power to decide claims.

This recommendation is partially amended as the bureau will largely be staffed by loss adjusters rather than insurers.

The actual benefits of this recommendation are identical to that of Option 2. The turnover cap has no bearing on the running of a bureau.

Details of these calculations are in Annex A, Table 1.

Table 31 – Summary Benefits of Recommendation 4

Affected Group	Average Annual Benefits	Present value Benefits (over ten years)
Businesses	£0.01m	£0.05m
Public Sector	£0.00m	£0.00m
Individuals	£0.00m	£0.00m
Total	£0.01m	£0.05m

Recommendation 5 - a manual is prepared as soon as practicable to provide guidance on the type of claims that are likely to follow a riot, dealing with claimants unused to making claims and other issues.

The actual benefits of this recommendation are identical to that of Option 2. There are no quantifiable benefits.

Recommendation 6 – local authorities should be asked to include within their emergency plans planning for a riot-recovery service to provide coordinated advice and support for the range of problems that may follow a riot targeted on those most in need of such support and available for as long as it is needed.

The implications of this recommendation are non-legislative and may be progressed without legislation. For this reason the costs and benefits are not captured in this impact assessment.
Recommendation 2 – that insurers should continue to receive compensation under new legislation but that their compensation should be capped.

Recommendation 8 – cap compensation payable to insurers in future by reference to the turnover of the business insured, so that compensation is payable only in respect of payments made to small businesses.

Recommendation 10 - apply the cap to compensation payable directly to victims of riots, that is to those who are uninsured, or to businesses which self-insure, and to excesses which are not covered by insurance.

The benefits of this option differ from those in option 2, as no large business will qualify for compensation.

These benefits are simply transfers and are matched by an equal and opposite cost to another group:

- Saving in reduction of compensation from public sector. PCCs will be limited in the level of compensation that they are required to payout to large claims. This saving mirrors the cost to businesses and individuals

who no longer receive as much compensation as previously. The benefits are clearly set out in Annex A, tables 13 and 14.

Table 32 – Summary Benefits of Recommendation 2, 8 and 10

Affected Group	Average Annual Benefits	Present value benefits (over ten years)
Businesses	£0.00m	£0.00m
Public Sector	£5.24m	£45.10m
Individuals	£0.00m	£0.00m
Total	£5.24m	£45.10m

Recommendation 12 – new legislation should include cars and other vehicles within the scope of compensation.

Recommendation 12, which provides for compensation for vehicle damage, will enable businesses and individuals to reclaim these costs in line with third party, fire and theft insurance.

These benefits are simply transfers and are matched by an equal and opposite cost to another group:

- Benefit to individuals from limited compensation for vehicle damage. Again, the benefits reflect the costs as this would be a transfer. The calculations for the value of this recommendation are set out in Annex A, table 15.
- Benefit to businesses from limited compensation for vehicle damage. As with the benefits to individuals these benefits are a transfer and are set out in Annex A, table 15.

Table 33 – Summary Benefits of Recommendation 12

Affected Group	Average Annual Benefits	Present value Benefits (over ten years)
Businesses	£0.00m	£0.00m
Public Sector	£0.00m	£0.00m
Individuals	£0.00m	£0.01m
Total	£0.00m	£0.01m

Extended Time Periods

The proposed extension of the application period will mean that a number of businesses and individuals whose claims were submitted too late to be considered under the Act will now be covered by new riots legislation.

These benefits are simply transfers and are matched by an equal and opposite cost to another group:

- Compensation to previously late claimants. The benefits reflect the costs as this is a transfer. Benefits would be experienced by businesses, including insurers and individuals. Details of the calculations are in Annex A, table 7, 8 and 16.

Table 34 – Summary Benefits of extended time

Affected Group	Average Annual Benefits	Present value Benefits (over ten years)
Businesses	£0.15m	£1.25m

Public Sector	£0.00m	£0.00m
Individuals	£0.00m	£0.05m
Total	£0.15m	£1.30m

Recommendation 16 – new legislation should provide for compensation to be paid in future on the basis of the replacement value of the property damaged, not indemnity (except in the case of vehicles).

The Government intends to introduce payments on a new-for-old basis, rather than indemnity as is currently provided, in line with recommendation 16, although there will be certain exemptions including for motor vehicles and items such as perishable stock.

The introduction of new-for-old payments rather than old-for-old will have two major effects, those on claims originally within time and those on claims submitted in the extended time period.

These benefits are simply transfers and are matched by an equal and opposite cost to another group:

- Increase in compensation for currently in time claimants. In time claimants will be eligible for replacement value rather than indemnity value on their claims. This is a transfer of the costs to government, and the calculations can be found in annex A, tables 17 and 19. For in time claims, it is estimated that individuals will benefit by £0.10m on average annually, whilst businesses including insurers will benefit by £2.42m on average annually.
- Increase in compensation for out of time claimants. Similarly to in time claimants this is a transfer of the cost to government set out in Annex A, tables 18 and 20. For extended time claims, it is estimated that individuals will benefit by £0.00m on average annually, whilst businesses will benefit to the extent of £0.01m annually.

Total Average Annual benefits of this option are in Annex A table 21.

Table 35 – Summary Benefits of Recommendation 16

Affected Group	Average Annual Benefits	Present value Benefits (over ten years)
Businesses	£2.43m	£20.96m
Public Sector	£0.00m	£0.00m
Individuals	£0.10m	£0.86m
Total	£2.53m	£21.81m

Excess payments

There is also a proposal that claimants under the new riots legislation should pay an excess of £100 per claim that they present.

Benefits associated with this are:

- Government receipt of excess payments.

Details of the calculations behind this are presented in Annex A, Table 22.

Table 36 – Summary Benefits of Excess payments

Affected Group	Average Annual Benefits	Present value Benefits (over ten years)
Businesses	£0.00m	£0.00m
Public Sector	£0.02m	£1.58m
Individuals	£0.00m	£0.00m
Total	£0.02m	£1.58m

Un-quantified benefits

This option is likely to change the behaviour of fewer claimants than Option 2. It will prevent large businesses from claiming and will encourage them to take out appropriate insurance and apply suitable protective measures but will not provide such incentives for small businesses and individuals. This is likely to offer a lesser scope for mitigating the moral hazard associated with compensation than Option 2 which will manifest as a greater cost to government.

Benefits of Option 3

The overall benefits of Option 3 are described in table 37.

Table 37 – Benefits of Option 3

Affected Group	Average Annual Benefits	Present value Benefits (over ten years)
Businesses	£5.32m	£22.26m
Public Sector	£2.71m	£45.30m
Individuals	£0.08m	£0.92m
Total	£8.04m	£68.48m

Given the present value costs of this option (£69.18m) and the present value benefits (£68.48m), the net present value of this option is -£0.7m. There is expected to be an overall negative monetised impact from this option.

ONE-IN-TWO-OUT (OITO)

This section looks at the overall impact on businesses, both large and small. A further analysis of the distribution of these impacts is discussed in Annex B, the Small and Micro Business assessment for the policy.

Costs (INs)

There are significant INs under this option, they amount to an Equivalent Annual Costs to Business of £5.3m.

The first and most significant IN is the restriction of claims from large businesses. This cost amounts to £5.24m on average annually, with £4.35m falling on insurers and £0.89m on uninsured businesses on average each year. This is a present value cost of £45.1m.

Another large cost will be that of running the riot claims bureau should it be necessary. This is estimated at £0.06m annually on average or a present value cost of £0.50m. Again this will largely fall on loss adjusters that are retained to be part of the bureau. The costs of reading and understanding a manual on the new riots legislation will also be a very small cost, amounting to a present value

cost of £0.04m. Also the introduction of an excess imposes average annual costs of £0.02m and present value costs of £1.50m.

Benefits (OUTs)
As well as INs, this option produces some OUTs or savings for businesses with an equivalent annual benefit to business of £2.6m. This is partially a redistribution of the INs.

A small benefit will go to those who submit claims too late for consideration under the current RDA. This will produce payments to uninsured businesses of £0.02m and insurers of £0.13m on average each year. The present value benefits are £0.17m to uninsured businesses and £1.08m to insurers.

Another benefit will be the compensation available for business vehicles which are damaged. It is not anticipated that this will effect a large number of vehicles but there would be a present value benefit over ten years of less than £0.01m.

There are other benefits to businesses, specifically loss adjusters who are retained to run a bureau will receive a payment for doing so although it is not expected to be a large amount at just £0.01m annually on average with a present value benefit of £0.05m.

Finally by enabling replacement value compensation payments there will be large benefits of £0.33m average annually to uninsured businesses and £2.11m on average each year to insurers. The present values over ten years of these are £2.83m to uninsured businesses and £18.01m to insurers.

NET
The present value of cost to business is £23.57m over a period of 10 years. This gives an equivalent annual net cost to business of £2.7m. The policy is a NET IN.

F. Risks

General Risks for all options

The main risk of this option is that it has been suggested that without the security of payments under the Act for all claimants, insurers may need to increase premiums or withdraw cover from areas to reflect the true risk that they would take on with respect to riots.

This in turn may lead to businesses being unable or unwilling to establish themselves in areas that are affected most. No evidence has been produced as to the extent of the increase in premiums.

Anecdotal evidence points to the fact that premiums have risen in areas that have faced riots, and that premiums are still raised from the Toxteth riots in the 1980s. However it has been identified that increases in premiums may not only be caused by riot damages, but may also be linked to a general rise in the level of criminality or damage in areas, which often go hand-in-hand with levels of rioting.

Despite this, data published by the ABI (Annual General Insurance Overview Statistics 2012) indicates that there was no increase in claims in 2011, in fact the value of claims fell by 13% that year. This indicates that the large scale rioting witnessed did not have a significant impact on the level of claims and it is unlikely that partially covering the costs of riots should mean a large increase in premiums. In the same set of data, net written premiums are indicated to have actually fallen in 2012, the following year, by 1%. It is possible that this is down to people not taking out insurance they previously had, because individual premiums had risen, however it is also possible and more likely that total premiums were unaffected by the rioting.

Insurers do not currently capture riots in the premium models, and as such do not know the extent of changes in premiums. Given this, insurers would have to write riots into their models before any change in premiums. Additionally, given the infrequency and relatively low cost (compared to other exceptional events), the cost to insurers of writing this risk in is likely to be quite high.

Given the data following the 2011 riots, the difficulties of assessing the risk, and the low value of doing so, it is considered highly unlikely that this risk will materialise. If it does materialise, it is believed that the costs to businesses and individuals through increased premiums, will be minimal.

Without further information on pricing models it is impossible to evaluate the extent of this risk. We are considering further research into this area.

A potential legal risk is that it may not be possible to change compensation from the current replacement value system to a system of new-for-old payments. This relates to the fact that the Riot (Damages) Act is currently set in relation to common/tort law, which states that damages should not be compensated to a better state but only to an equal state.

OPTION 2 – Repeal the Act and replace with a claims cap, but otherwise largely in line with the reviewers recommendations

There is a potential for legal challenges associated with this option. Primarily there is the possibility of legal challenge from the level the cap is set at. One of the problems with a cap is that it has to be set at a level, and anyone claiming for a larger value than the cap could be disappointed and mount a legal challenge. Although 99% of claims in 2011 were below this cap level, some of the claims which were above £1m, were greatly above it, and the difference in compensation to claim might make such a legal challenge viable.

OPTION 3 – Repeal the Act and replace with a turnover cap, but otherwise largely in line with the reviewers recommendations

There is a similar risk with this option as compensation is being removed for some larger businesses. There is a potential for legal challenge over level at which compensation is restricted. It is possible that a business with turnover just over £5m faces a total loss in the aftermath of riots. They could potentially challenge the level at which the cap has been set on a basis that it is arbitrary. Similar problems could arise with those firms on the border of the cap level or

those who progress above it and have not made adjustments to their insurance policies.

Sensitivity Analysis

The main sensitivity to this analysis is the value of claims that could be submitted. Currently estimates use the median claim value from a sample of claims in 2011 or in earlier small scale riots. However, the distribution of claims values is skewed. Table 38 details the upper quartile, lower quartile and median values of personal, small and large business claims.

Table 38: Values of claims

Riot Size	Claimant type	Boundary	Lower Quartile	Median	Upper Quartile
Large/Bureau Riot	Large Business	<£1m	£1,855	£5,519	£20,916
		>£1m	£1,343,588	£1,455,942	£3,687,500
	Small Business	<£1m	£1,855	£5,519	£20,916
		>£1m	£1,343,588	£1,455,942	£3,687,500
	Individual	<£1m	£1,500	£4,185	£10,425
		>£1m	£1,412,625	£1,500,000	£1,852,500
Small Riot	Large Business	<£1m	£112,712	£224,413	£336,113
		>£1m	£4,798,011	£4,798,011	£4,798,011
	Small Business	<£1m	£1,578	£5,387	£21,373
		>£1m	£0	£0	£0
	Individual	<£1m	£854	£1,854	£3,838
		>£1m	£0	£0	£0

We have considered the impact of whether claims are higher (by using the upper quartile of values) in the high estimate or lower (by using the lower quartile of values) in the low estimate. A change in the value of claims will have zero net impact, as any change in costs is offset by a change in benefits as claims only affect transfers. We have also considered sensitivity around the ratio of new-for-old. This ratio is based on a very small sample of claims from 2011 and may not be fully representative. The original assumption is that new-for-old is worth 1.53 times the value of old-for-old. This is altered by 25% in each case, so that in the low estimate it is anticipated to be 1.15 times and in the high estimate it is 1.91.

The changes associated with these sensitivities are detailed in table 39.

Table 39: Sensitivity analysis of claims values

		Current NPV	High Estimate values NPV	Low Estimate values NPV
Option 2	Businesses	-£20.3m	-£43.4m	-£25.36m

	Public Sector	£19.7m	£42.5m	£24.9m
	Individuals	-£0.2m	£0.2m	-£0.3m
	Total	-£0.7m	-£0.7m	-£0.7m
Option 3	Businesses	-£23.6m	£6.65m	-£34.57m
	Public Sector	£22.0m	-£9.67m	£33.63m
	Individuals	£0.9m	£2.32m	£0.23m
	Total	-£0.7m	-£0.7m	-£0.7m

A second sensitivity is around the frequency of riots which could occur in future. Throughout the impact assessment the frequency of riots over the ten years to 2011 has been used as an approximation for the number of riots in future years. The frequency of riots has however changed greatly over time and appears to be becoming less frequent. Rather than a full sensitivity analysis of this point, we have included information on the cost of each size riot, without adjusting for frequency. These are summarised in table 40.

Table 40: Values of riots

		Large Riot NPV	Bureau Riot NPV	Small Riot NPV
Option 2	Businesses	-£6.5m	-£1.7m	-£13.1m
	Public Sector	£5.9m	£1.0m	£12.4m
	Individuals	-£0.2m	£0.0m	£0.0m
	Total	-£0.7m	-£0.7m	-£0.7m
Option 3	Businesses	-£2.6m	-£0.9m	-£21.1m
	Public Sector	£1.1m	£0.1m	£20.3m
	Individuals	£0.7m	£0.1m	£0.0m
	Total	-£0.7m	-£0.7m	-£0.7m

G. Enforcement

We will consider the enforcement throughout the development of guidance on compensation in the result of a riot, and will be included in further discussions with PCC offices which is where the main focus of enforcement will be. One of the options that we are considering is mandating that PCCs and their offices should give regard to the new riots legislation and the guidance documents that are produced.

H. Summary and Recommendations

The table below outlines the costs and benefits of the proposed changes.

Table 41 Costs and Benefits		
Option	**Costs**	**Benefits**

2	-£0.7m NPV	
	£43. 9m (PV over 10 years)	£43.2m (PV over 10 years)
	Cost to Businesses: £31.7m Cost to individuals: £0.4m Cost to Government: £11.8m	Benefit to Businesses: £11.4m Benefit to individuals: £0.2m Benefit to Government: £31.6m
3	-£0.7m NPV	
	£69.2m (PV over 10 years)	£68.5m (PV over 10 years)
	Cost to Businesses: £45.8m Cost to individuals: £0.0m Cost to Government: £23.3m	Benefit to Businesses: £22.3m Benefit to individuals: £0.9m Benefit to Government: £45.3m
Source: Home Office Estimates (numbers may not sum due to rounding)		

The options have the same net present value, so there is no way to distinguish them simply on net monetised impact.

Option 2 is the recommended option for a number of factors. It offers the lowest net cost to business, offering protection to them from reductions in compensation or potential increases in insurance premiums. It is also much simpler to implement than a turnover cap, which would require the checking of tax returns, some businesses which have not been trading for an entire tax year may be unable to provide evidence of turnover levels. A claims cap will also provide ease of understanding to claimants, insurers and to PCCs, businesses will immediately know, if their damage is extensive that the maximum they will receive is £1m, PCCs will also be able to determine their maximum liability (the number of claims received multiplied by £1m). It also provides largest large net benefit to government, ensuring that consideration has been given to the public purse, it is true that this is not the largest net benefit to government, given by option 3, however the difference over 10 years is small and justified by the reduced costs to businesses under option 2. Finally, it reduces the scope for moral hazard as victims will not be compensated for excessive losses and will thus be encouraged to secure their property effectively, a behaviour that will bring about greater gains. For these reasons Option 2 meets the majority of the objectives of the policy and is therefore the recommended option from this economic analysis.

Option 3, although similar to option 2, it does not offer as much protection for businesses. It is also a lot more complicated to enforce, requiring access to tax returns and would have substantial evidential requirements on businesses to prove their level of turnover in addition to the value of their claims. This increases the bureaucracy of the scheme. This option does not meet as many of the objectives of the policy and is therefore not recommended.

Option 2 is the recommended option as it satisfies most of the objectives of the policy despite a net present cost of £0.7m over the course of 10 years.

I. Implementation

The Government plans to present a draft bill for pre-legislative scrutiny in late 2014 - early 2015. The government intends to introduce legislative change to the way riot compensation payments are made after May 2015.

J. Monitoring and Evaluation

The effectiveness of the new regime would be monitored by collecting data from PCCs offices and the riot claims bureau should there be a riot. The experiences of these offices, in providing compensation under new riots legislation, will be valuable to evaluate if changes need to be made to the policy and how best to focus these changes.

We will also seek to collect information on what safety precautions businesses had in place during the riot, to determine the benefits associated with a reduction in moral hazard.

K. Feedback

If the recommended option is progressed, we will feedback into the policy through secondary legislation if possible.

If it seems that there are a number of riots which are large scale, but do not fit the criteria which would trigger implementation of the riots claims bureau, then the criteria can be amended, so that the Home Secretary can choose to implement the bureau despite the riots not meeting the criteria. A riots claims bureau may be triggered by the Secretary of State if a riot occurs in more than one force area, but in the event of a large riot in a single force area, that PCC can ask the Secretary of State to consider implementing a Bureau.

Also it may be possible to amend the membership of the riots claims bureau and its governance group, if over time it seems that there are a number of relevant individuals who are not part of the process or if current members have become less relevant to proceedings.

If over time it becomes apparent that those most vulnerable in society are faced with excessive costs of insurance or riot damages, it may be necessary to review the legislation again and determine whether the level of cap imposed is sufficient to protect those groups most at risk.

Annex A – Calculations

Table 1: Retainer of bureau

The number of claims expected in a riot, multiplied by the average bureau cost per claim. This gives the total Bureau cost in each size of riot. To find the expected average annual cost, this is multiplied by the frequency of riots and added across all riot sizes.

Size of riot	Claims	Average bureau cost per claim	Total Bureau cost	Frequency of riots	Average Annual Value
Large	2000	£194	£486,028	0.1	£48,603
Bureau	500	£194	£97,206	0.1	£9,721
				Expected Average Annual Cost to business	£58,323
				Expected Average annual cost to Public Sector (10%)	£5,832
				Expected Average annual benefit to Business (10%)	£5,832

Table 2: Learning time costs of manual

The number of individuals requiring training multiplied by half of the daily salary.

Group	Number of staff trained	Daily Salary	Half Daily Salary	Average Annual Value
Insurance	100	£176	£88	£4,352
Police	215	£87	£44	£18,950
			Expected Average Annual Cost to Public Sector	£23,301

Table 3: Uninsured claims above £1m

The number of claimants with claims above £1m multiplied by the proportion of claimants who are uninsured. This gives the number of uninsured claims. This is multiplied by the average cost per claim to give the total current cost. The proposed cost is given by the number of uninsured claims multiplied by the new maximum £1m. The difference between proposed and current cost is then multiplied by the probability of a riot to give the average annual cost.

Riot Size	Claimant type	Volume of Claims >£1m	Proportion Uninsured	Uninsured claims	Average Cost per Claims	Current Total cost	Proposed Total Cost	Difference	Probability of Riot	Average Annual Value
Large	Large business	13	17%	2	£1,455,942	£3,107,610	£2,134,432	£967,947	0.1	£96,795
	Small Business	16	17%	3	£1,455,942	£3,955,140	£2,716,550	£1,231,932	0.1	£123,193
	Individual	5	17%	1	£1,500,000	£1,212,746	£808,497	£402,076	0.1	£40,208
Bureau	Large business	3	17%	1	£1,455,942	£621,522	£426,886	£193,589	0.1	£19,359
	Small Business	3	17%	1	£1,455,942	£791,028	£543,310	£246,386	0.1	£24,639
	Individual	1	17%	0	£1,500,000	£242,549	£161,699	£80,415	0.1	£8,042
Small	Large business	1	17%	0	£4,798,011	£425,092	£88,806	£335,473	0.9	£301,926
	Small Business	0	17%	0	£0	£0	£0	£0	0.9	£0
	Individual	0	17%	0	£0	£0	£0	£0	0.9	£0
Expected Average Annual Cost to business										£565,911
Expected Average Annual Cost to Individuals										£48,249
Expected Average Annual Benefit to Public Sector										£614,160

Table 4: Insurer claims above £1m

The number of claimants with claims above £1m multiplied by the proportion of claimants who are insured. This gives the number of insured claims. This is multiplied by the average cost per claim to give the total current cost. The proposed cost is given by the number of insured claims multiplied by the new maximum £1m. The difference between proposed and current cost is then multiplied by the probability of a riot to give the average annual cost

Riot Size	Claimant type	Volume of Claims >£1m	Proportion Insured	Insured claims	Average Cost per Claims	Current Total cost	Proposed Total Cost	Difference	Probability of Riot	Average Annual Value
Large	Large business	13	83%	11	£1,455,942	£15,172,448	£10,421,053	£4,756,626	0.1	£475,663
	Small Business	16	83%	13	£1,455,942	£19,310,388	£13,263,158	£6,053,888	0.1	£605,389
	Individual	5	83%	4	£1,500,000	£5,921,052	£3,947,369	£1,975,857	0.1	£197,586
Bureau	Large business	3	83%	2	£1,455,942	£3,034,490	£2,084,211	£951,325	0.1	£95,133
	Small Business	3	83%	2	£1,455,942	£3,862,078	£2,652631	£1,210,778	0.1	£121,078
	Individual	1	83%	1	£1,500,000	£1,184,211	£789,473	£395,171	0.1	£39,517
Small	Large business	1	83%	1	£4,798,011	£2,080,332	£433,582	£1,648,562	0.9	£1,483,706
	Small Business	0	83%	0	£0	£0	£0	£0	0.9	£0
	Individual	0	83%	0	£0	£0	£0	£0	0.9	£0
Expected Average Annual Cost to business										£3,018,071
Expected Average Annual Benefit to Public Sector										£3,018,071

Table 5: Vehicle claims

The expected number of vehicle claims multiplied by the proportion of claims that are covered by third party fire and theft insurance. The third party claims are then multiplied by the average value of vehicle claims in the 2011 riots and subsequently multiplied by the frequency of a riot to give the average annual value.

Riot size	Claimant type	Volume of claims	Proportion of third party claims	Third party claims	Average value of claims	Total value of claims	Probability of riot	Average Annual Value
Large	Business	18	4%	1	£4,995	£3,626	0.1	£363
	Individual	96	4%	4	£2,134	£8,199	0.1	£820
Bureau	Business	4	4%	0	£4,995	£725	0.1	£73
	Individual	19	4%	1	£2,134	£1,640	0.1	£164
Small	Business	0	4%	0	£4,995	£51	0.9	£46
	Individual	1	4%	0	£2,134	£115	0.9	£103
Expected Average Annual Benefit to business								£481
Expected Average Annual Benefit to Individuals								£1,087
Expected Average Annual Cost to Public Sector								£1,568

Table 6: Number of Out of time claims

The Metropolitan Police's share of rejected claims was 78% (from force data). This implies that the total number of out of time claims in 2011 was 77 (59 claims divided by 78%). This is then divided by the total number of claims to give a proportion of claims that would be out of time. This proportion is then multiplied by the anticipated number of claims in each size of riot.

	Out of time claims in 2011	As a proportion of total number of claims	Large Scale Riot	Bureau Scale Riot	Small Scale Riot
Metropolitan Police Service (78% of all rejected claims)	59	3%			
All Forces	77	3%	80	16	1

Table 7: Expected extended time claims

The total number of claims in each size riot is then multiplied by the proportion of claimant types.

Riot size	Total Number of out of time claims anticipated	Claimant type		
		Large business	Small business	Individuals
		Number of claims		
Large	80	28	36	15
Bureau	16	6	7	3
Small	1	0	1	0

Table 8: Cost of Extended time claims

The number of claims are multiplied by the value that the claimant will receive on average, or the maximum of £1m. This cost is then added together for claims above and below £1m and then multiplied by the probability of a riot. This gives the Average annual cost, which can be apportioned between insured claims (83%) and uninsured claims (17%).

Riot Size	Claimant type	Volume of Claims <£1m	Volume of Claims >£1m	Average Cost per claim <£1m	Cost of Claims <£1m	Cost of Claims >£1m	Probability of Riot	Average Annual Cost	Average Annual Insured Cost (83%)	Average Annual Uninsured cost (17%)
Large	Large business	28	0	£5,519	£155,372	£404,132	0.1	£55,950	£46,490	£9,460
	Small Business	36	1	£5,519	£197,746	£514,350	0.1	£71,210	£59,169	£12,041
	Individual	15	0	£4,185	£64,488	£153,080	0.1	£21,757	£18,078	£3,679
Bureau	Large business	6	0	£5,519	£31,074	£80,826	0.1	£83,190	£9,298	£1,892
	Small Business	7	0	£5,519	£39,549	£102,870	0.1	£14,242	£11,834	£2,408
	Individual	3	0	£4,185	£12,898	£30,616	0.1	£4,351	£3,616	£736
Small	Large business	0	0	£224,413	£88,455	£5,658	0.9	£84,702	£70,380	£14,322
	Small Business	1	0	£5,387	£2,702	£7,201	0.9	£8,913	£7,406	£1,507
	Individual	0	0	£1,854	£400	£2,143	0.9	£2,289	£1,902	£387
Expected Average annual Benefit to individuals								£4,802	£0	£4,802
Expected Average Annual Benefit to business								£269,802	£228,172	£41,630
Expected Average Annual Cost to Public Sector								£274,603	£228,172	£46,432

Table 9: Replacement value costs (in time claims)

Multiply the average cost per claim by the ratio of new-for-old to find the average additional new-for-old cost of each claim. This is then multiplied by the number of in time claims under £1m, to find the total additional cost. This is then multiplied by the frequency of riots to find an average value. This can then be apportioned to insured and uninsured businesses and individuals.

Riot Size	Claimant type	Total claims <£1m	Ratio of new to old	Average cost per claim	Additional cost of new-for-old	Total Additional Cost	Probability of riot	Average Annual value	Average Annual Insured value (83%)	Average Annual Uninsured value (17%)
Large	Large business	875	0.53	£5,519	£2,925	£2,548,170	0.1	£254,817	£211,731	£43,086
	Small Business	1,113	0.53	£5,519	£2,925	£3,243,126	0.1	£324,313	£269,476	£54,837
	Individual	479	0.53	£4,185	£2,218	£1,057,641	0.1	£105,764	£87,881	£17,883
Bureau	Large business	175	0.53	£5,519	£2,925	£509,634	0.1	£50,963	£42,346	£8,617
	Small Business	223	0.53	£5,519	£2,925	£648,625	0.1	£64,863	£53,895	£10,967
	Individual	96	0.53	£4,185	£2,218	£211,528	0.1	£21,153	£17,576	£3,577
Small	Large business	1	0.53	£224,413	£118,939	£123,770	0.9	£111,393	£92,558	£18,835
	Small Business	28	0.53	£5,387	£2,855	£80,213	0.9	£72,192	£59,985	£12,207
	Individual	5	0.53	£1,854	£982	£5,112	0.9	£4,601	£3,823	£778
Expected Average annual Benefit to individuals								£22,238	£0	£22,238
Expected Average Annual Benefit to business								£987,821	£839,271	£148,549
Expected Average Annual Cost to Public Sector								£1,010,058	£839,271	£170,787

Table 10: Replacement value costs (out of time claims)

Multiply the average cost per claim by the ratio of new-for-old to find the average additional new-for-old cost of each claim. This is then multiplied by the number of out of time claims under £1m, to find the total additional cost. This is then multiplied by the frequency of riots to find an average value. This can then be apportioned to insured and uninsured businesses and individuals.

Riot Size	Claimant type	Total claims <£1m	Ratio of new to old	Average cost per claim	Additional cost of new-for-old	Total Additional Cost	Probability of riot	Average Annual value	Average Annual Insured value (83%)	Average Annual Uninsured value (17%)
Large	Large business	28	0.53	£5,519	£2,925	£62,197	0.1	£6,220	£5,168	£1,052
	Small Business	36	0.53	£5,519	£2,925	£79,160	0.1	£7,916	£6,578	£1,338
	Individual	15	0.53	£4,185	£2,218	£34,043	0.1	£3,404	£2,829	£576
Bureau	Large business	6	0.53	£5,519	£2,925	£12,439	0.1	£1,244	£1,034	£210
	Small Business	7	0.53	£5,519	£2,925	£15,832	0.1	£1,583	£1,316	£268
	Individual	3	0.53	£4,185	£2,218	£6,809	0.1	£681	£566	£115
Small	Large business	0	0.53	£224,413	£118,939	£46,695	0.9	£42,025	£34,919	£7,106
	Small Business	1	0.53	£5,387	£2,855	£1,426	0.9	£1,284	£1,067	£217
	Individual	0	0.53	£1,854	£982	£211	0.9	£190	£158	£32
Expected Average annual Benefit to individuals								£723	£0	£723
Expected Average Annual Benefit to business								£63,824	£53,633	£10,191
Expected Average Annual Cost to Public Sector								£64,547	£53,633	£10,914

Table 11: Total Replacement value costs

Sum of Tables 9 and 10.

	Average Annual value	Average Annual Insured value (83%)	Average Annual Uninsured value (17%)
Expected Average annual Benefit to individuals	£22,961	£0	£22,961
Expected Average Annual Benefit to business	£1,051,645	£892,905	£158,740
Expected Average Annual Cost to Public Sector	£1,074,606	£892,905	£181,701

Table 12: Excess values

The number of claims submitted (In time, out of time and motor) multiplied by the excess value of £100.

Riot Size	Claimant type	Total Claims	Total Excess Values	Average Annual value	Average Annual Insured value (83%)	Average Annual Uninsured value (17%)
Large	Large business	916	£91,581	£9,161	£7,609	£1,552
	Small Business	1,169	£116,942	£11,660	£9,685	£1,975
	Individual	503	£50,292	£5,029	£4,147	£882
Bureau	Large business	183	£18,316	£1,832	£1,522	£310
	Small Business	233	£23,326	£2,333	£1,938	£395
	Individual	101	£10,058	£1,006	£830	£176
Small	Large business	2	£197	£177	£146	£31
	Small Business	29	£2,873	£2,585	£2,147	£438
	Individual	6	£550	£495	£407	£88
Expected Average annual Cost to individuals				£1,146	£0	£1,146
Expected Average Annual Cost to business				£31,239	£28,431	£2,807
Expected Average Annual Benefit to Public Sector				£34,278	£28,431	£3,954

Table 13: Uninsured business claims above £5m turnover

The number of business claimants with turnover above £5m multiplied by the proportion of claimants who are uninsured. This gives the number of uninsured claims. This is multiplied by the average cost per claim to give the total current cost. The total current cost is then multiplied by the probability of a riot to give the average annual cost

Riot Size	Claimant type	Volume of Claims	Proportion Uninsured	Uninsured claims >£1m	Average Cost per Claims >£1m	Current Total cost	Probability of Riot	Average Annual Value
Large	Large business >£1m claim	13	17%	2	£1,455,942	£3,107,610	0.1	£310,761
	Large business <£1m claim	875	17%	149	£5,519	£820,600	0.1	£82,060
Bureau	Large business >£1m claim	3	17%	1	£1,455,942	£621,522	0.1	£62,152
	Large business <£1m claim	175	17%	30	£5,519	£164,120	0.1	£16,412
Small	Large business >£1m claim	1	17%	0	£4,798,011	£426,092	0.9	£383,482
	Large business <£1m claim	1	17%	0	£224,413	£39,858	0.9	£35,873
							Expected Average Annual Cost to Business	£885,953
							Expected Average Annual Benefit to Government	£885.953

Table 14: Insurer claims turnover above £5m

The number of business claimants with turnover above £5m multiplied by the proportion of claimants who are uninsured. This gives the number of uninsured claims. This is multiplied by the average cost per claim to give the total current cost. The total current cost is then multiplied by the probability of a riot to give the average annual cost

Riot Size	Claimant type	Volume of Claims	Proportion Insured	Insured claims >£1m	Average Cost per Claims >£1m	Current Total cost	Probability of Riot	Average Annual Value
Large	Large business >£1m claim	13	83%	11	£1,455,942	£15,172,448	0.1	£1,517,245
	Large business <£1m claim	875	83%	726	£5,519	£4,006,459	0.1	£400,646
Bureau	Large business >£1m claim	3	83%	2	£1,455,942	£3,034,489	0.1	£303,449
	Large business <£1m claim	175	83%	145	£5,519	£801,292	0.1	£80,129
Small	Large business >£1m claim	1	83%	1	£4,798,011	£2,080,331	0.9	£1,872,297
	Large business <£1m claim	1	83%	1	£224,413	£194,602	0.9	£175,142
						Expected Average Annual Cost to Business		£4,353,697
						Expected Average Annual Benefit to Government		£4,353,697

Table 15: Vehicle claims turnover cap

The expected number of vehicle claims multiplied by the proportion of claims that are covered by third party fire and theft insurance. The third party claims are then multiplied by the average value of vehicle claims in the 2011 riots and subsequently multiplied by the frequency of a riot to give the average annual value.

Riot size	Claimant type	Volume of claims	Volume of small business claims (56% business claims)	Proportion of third party claims	Third party claims	Average value of claims	Total value of claims	Probability of riot	Average Annual Value
Large	Business	18	10	4%	0	£4,995	£2,031	0.1	£203
	Individual	96	N/A	4%	4	£2,134	£8,199	0.1	£820
Bureau	Business	4	2	4%	0	£4,995	£406	0.1	£41
	Individual	19	N/A	4%	1	£2,134	£1,640	0.1	£164
Small	Business	0	0	4%	0	£4,995	£29	0.9	£26
	Individual	1	N/A	4%	0	£2,134	£115	0.9	£103
Expected Average Annual Benefit to business									£269
Expected Average Annual Benefit to Individuals									£1,087
Expected Average Annual Cost to Public Sector									£1,356

Table 16: Cost of Extended time claims

The number of claims are multiplied by the value that the claimant will receive on average. This cost is then added together for claims above and below £1m and then multiplied by the probability of a riot. This gives the Average annual cost, which can be apportioned between insured claims (83%) and uninsured claims (17%).

Riot Size	Claimant type	Volume of Claims <£1m	Volume of Claims >£1m	Average Cost per claim <£1m	Average cost per claim >£1m	Cost of Claims <£1m	Cost of Claims >£1m	Probability of Riot	Average Annual Cost	Average Annual Insured Cost (83%)	Average Annual Uninsured cost (17%)
Large	Small Business	36	1	£5,519	£1,455,942	£197,746	£748,863	0.1	£94,611	£78,655	£16,006
	Individual	15	0	£4,185	£1,500,000	£64,488	£229,620	0.1	£29,411	£24,438	£4,973
Bureau	Small Business	7	0	£5,519	£1,455,942	£39,549	£149,773	0.1	£18,932	£15,731	£3,201
	Individual	3	0	£4,185	£1,500,000	£12,898	£45,924	0.1	£5,882	£4,888	£995
Small	Small Business	1	0	£5,387	£0	£2,702	£0	0.9	£2,432	£2,021	£411
	Individual	0	0	£1,854	£0	£400	£0	0.9	£360	£299	£61
Expected Average annual Benefit to individuals									£6,028	£0	£6,028
Expected Average Annual Benefit to business									£145,650	£126,031	£19,618
Expected Average Annual Cost to Public Sector									£151,678	£126,031	£25,647

Table 17: Replacement value costs for in time claims <£1m

Multiply the average cost per claim by the ratio of new-for-old to find the average additional new-for-old cost of each claim. This is then multiplied by the number of in time claims under £1m, to find the total additional cost. This is then multiplied by the frequency of riots to find an average value. This can then be apportioned to insured and uninsured businesses and individuals.

Riot Size	Claimant type	Total claims <£1m	Ratio of new to old	Average cost per claim	Additional cost of new-for-old	Total Additional Cost	Probability of riot	Average Annual value	Average Annual Insured value (83%)	Average Annual Uninsured value (17%)
Large	Small Business	1,113	0.53	£5,519	£2,925	£3,243,126	0.1	£324,313	£269,476	£54,837
	Individual	479	0.53	£4,185	£2,218	£1,057,641	0.1	£105,764	£87,881	£17,883
Bureau	Small Business	223	0.53	£5,519	£2,925	£648,625	0.1	£64,863	£53,895	£10,967
	Individual	96	0.53	£4,185	£2,218	£211,528	0.1	£21,153	£17,576	£3,577
Small	Small Business	28	0.53	£5,387	£2,855	£80,213	0.9	£72,192	£59,985	£12,207
	Individual	5	0.53	£1,854	£982	£5,112	0.9	£4,601	£3,823	£778
Expected Average annual Benefit to individuals								£22,238	£0	£22,238
Expected Average Annual Benefit to business								£570647	£492,636	£78,011
Expected Average Annual Cost to Public Sector								£592,885	£492,636	£100,249

Table 18: Replacement value costs for out of time claims <£1m

Multiply the average cost per claim by the ratio of new-for-old to find the average additional new-for-old cost of each claim. This is then multiplied by the number of out of time claims under £1m, to find the total additional cost. This is then multiplied by the frequency of riots to find an average value. This can then be apportioned to insured and uninsured businesses and individuals.

Riot Size	Claimant type	Total claims <£1m	Ratio of new to old	Average cost per claim	Additional cost of new-for-old	Total Additional Cost	Probability of riot	Average Annual value	Average Annual Insured value (83%)	Average Annual Uninsured value (17%)
Large	Small Business	36	0.53	£5,519	£2,925	£79,160	0.1	£7,916	£6,578	£1,338
	Individual	15	0.53	£4,185	£2,218	£34,043	0.1	£3,404	£2,829	£576
Bureau	Small Business	7	0.53	£5,519	£2,925	£15,832	0.1	£1,583	£1,316	£268
	Individual	3	0.53	£4,185	£2,218	£6,809	0.1	£681	£566	£115
Small	Small Business	1	0.53	£5,387	£2,855	£1,426	0.9	£1,284	£1,067	£217
	Individual	0	0.53	£1,854	£982	£211	0.9	£190	£158	£32
Expected Average annual Benefit to individuals								£723	£0	£723
Expected Average Annual Benefit to business								£14,337	£12,514	£1,823
Expected Average Annual Cost to Public Sector								£15,060	£12,514	£2,546

Table 19: Replacement value costs for in time claims >£1m

Multiply the average cost per claim by the ratio of new-for-old to find the average additional new-for-old cost of each claim. This is then multiplied by the number of in time claims under £1m, to find the total additional cost. This is then multiplied by the frequency of riots to find an average value. This can then be apportioned to insured and uninsured businesses and individuals.

Riot Size	Claimant type	Total claims >£1m	Ratio of new to old	Average cost per claim	Additional cost of new-for-old	Total Additional Cost	Probability of riot	Average Annual value	Average Annual Insured value (83%)	Average Annual Uninsured value (17%)
Large	Small Business	16	0.53	£1,455,942	£771,649	£12,281,705	0.1	£1,228,171	£1,020,504	£207,667
	Individual	5	0.53	£1,500,000	£795,000	£3,765,881	0.1	£376,588	£312,912	£63,676
Bureau	Small Business	3	0.53	£1,455,942	£771,649	£2,456,341	0.1	£245,634	£204,100	£41,534
	Individual	1	0.53	£1,500,000	£795,000	£753,176	0.1	£75,317	£62,582	£12,735
Small	Small Business	0	0.53	£0	£0	£0	0.9	£0	£0	£0
	Individual	0	0.53	£0	£0	£0	0.9	£0	£0	£0
Expected Average annual Benefit to individuals								£76,411	£0	£76,411
Expected Average Annual Benefit to business								£1,849,299	£1,600,098	£249,201
Expected Average Annual Cost to Public Sector								£1,925,710	£1,600,098	£325,612

Table 20: Replacement value costs for out of time claims >£1m

Multiply the average cost per claim by the ratio of new-for-old to find the average additional new-for-old cost of each claim. This is then multiplied by the number of out of time claims under £1m, to find the total additional cost. This is then multiplied by the frequency of riots to find an average value. This can then be apportioned to insured and uninsured businesses and individuals.

Riot Size	Claimant type	Total claims >£1m	Ratio of new to old	Average cost per claim	Additional cost of new-for-old	Total Additional Cost	Probability of riot	Average Annual value	Average Annual Insured value (83%)	Average Annual Uninsured value (17%)
Large	Small Business	1	0.53	£1,455,942	£1,498	£748,863	0.1	£150	£124	£26
	Individual	0	0.53	£1,500,000	£446	£229,620	0.1	£44	£37	£7
Bureau	Small Business	0	0.53	£1,455,942	£300	£149,773	0.1	£29	£24	£5
	Individual	0	0.53	£1,500,000	£89	£45,924	0.1	£9	£7	£2
Small	Small Business	0	0.53	£0	£0	£0	0.9	£0	£0	£0
	Individual	0	0.53	£0	£0	£0	0.9	£0	£0	£0
Expected Average annual Benefit to individuals								£9	£0	£9
Expected Average Annual Benefit to business								£223	£192	£31
Expected Average Annual Cost to Public Sector								£232	£192	£40

Table 21: Total Replacement value costs

Sum of Tables 17, 18, 19 and 20.

	Average Annual value	Average Annual Insured value (83%)	Average Annual Uninsured value (17%)
Expected Average annual Benefit to individuals	£99,381	£0	£99,381
Expected Average Annual Benefit to business	£2,434,506	£2,105,441	£329,065
Expected Average Annual Cost to Public Sector	£2,533,887	£2,105,441	£428,445

Table 22: Excess values

The number of claims submitted (In time, out of time and motor) multiplied by the excess value of £100.

Riot Size	Claimant type	Total Claims	Total Excess Values	Average Annual value	Average Annual Insured value (83%)	Average Annual Uninsured value (17%)
Large	Small Business	1,166	£116,631	£11,663	£9,688	£1,975
	Individual	503	£50,292	£5,029	£4,147	£882
Bureau	Small Business	233	£23,326	£2,333	£1,938	£395
	Individual	101	£10,058	£1,006	£830	£176
Small	Small Business	29	£2,873	£2,585	£2,147	£438
	Individual	6	£550	£495	£407	£88
Expected Average annual Cost to individuals				£1,146	£0	£1,146
Expected Average Annual Cost to business				£21,960	£19,153	£2,807
Expected Average Annual Benefit to Public Sector				£23,111	£19,153	£3,954

Annex B: Small and Micro Business Assessment

Both options considered have a distributional impact on business.

A small and micro sized business assessment (SMBA) applies for all measures that come into force after 31 March 2014. The new Act is expected to be presented in draft form after October 2014 and will be considered for full legislation after May 2015.

The policy proposal will have an impact on any uninsured and underinsured business that suffers damage from riots as well as on insurers. It is not a legislative requirement on them, however the level of compensation they receive may change.

The main aim of the proposal is to modernise current legislation from its original 1886 form.

Current Practice

Currently all businesses will receive a level of compensation based on the indemnity value of buildings and their contents. This means that if these items are damaged they will be restored to the same level as previously. There is no coverage for vehicles under current legislation.

Business impacts

We expect all types of businesses to be affected, although insured businesses will feel no direct impact. Uninsured businesses of all sizes will be compensated directly and insurers will compensated on behalf of all insured businesses.

Option 2 will limit claims from all sizes of business and will mean that no individual business will be compensated for amounts greater than £1m.

Option 3 will be more targeted by business size and will limit businesses with turnovers of more than £5m. Under EU law, small businesses have turnovers of less than €10m. This means that a number of small businesses may be unable to claim with a £5m turnover limit. This limit however, captures 56% of all business claims following riots and has been informed by the insurance industry.

Table 1 sets out the proportion of businesses that are insured and uninsured, the terminology of small and large business does not follow EU law, but instead follows the same usage as in the impact assessment. Small businesses are considered to be those with less than £5m turnover. We are aware that this means that some small businesses under law, will actually be captured in the large business category, but the numbers of these will be low and the values attached to this group will also be low.

Table 1: Proportion of businesses affected

	Insured	Uninsured	Total	Option 2 (reduced compensation)	Option 3 (no compensation)
Small business claim <£1m	46%	9%	55%	0%	0%
Small business claim >£1m	1%	0%	1%	1%	0%
Large business claim <£1m	36%	7%	43%	0%	43%
Large business claim >£1m	1%	0%	1%	1%	1%
Total	83%	17%	100%	2%	44%

As well as considering the proportion of claims that will be ineligible to claim, it is important to consider the level of costs that they face. As mentioned above, insured businesses will see no impact, they will receive settlement from their insurers as normal. It will be their insurers that see a change in the compensation available to them. For this reason when looking at value of impacts we consider uninsured small businesses (turnover <£5m), uninsured large businesses (turnover >£5m) and Insurers.

Table 2 details the recommendations under option 2 and the impact they have on these three groups as Net Present Value over 10 years. Table 3 does the same for recommendations proposed in option 3.

Table 2: Impacts of Option 2 Recommendations on businesses.

Recommendation	Uninsured Small Business	Uninsured Large business	Insurers (Large businesses)	Total
4) Run a bureau	£0.00m	£0.00m	-£0.45m	-£0.45m
5) Familiarise with manual	£0.00m	£0.00m	-£0.04m	-£0.04m
2+8+10) Claims capped at £1m	-£1.27m	-£3.60m	-£25.98m	-£30.85m
12) Vehicle Coverage	£0.00m	£0.00m	£0.00m	£0.00m
Out of time support	£0.14m	£0.22m	£1.96m	£2.32m
16) Replacement value	£0.69m	£0.68m	£7.69m	£9.05m
Excess	-£0.12m	-£0.08m	-£1.19m	-£1.43m
Total	-£0.47m	-£2.71m	-£17.06m	-£20.25m
Proportion of Business NPV	2.3%	13.4%	84.2%	100%

Table 3: Impacts of Option 3 Recommendations on businesses.

Recommendation	Uninsured Small Business	Uninsured Large business	Insurers (Large businesses)	Total
4) Run a bureau	£0.00m	£0.00m	-£0.45m	-£0.45m
5) Familiarise with manual	£0.00m	£0.00m	-£0.04m	-£0.04m
2+8+10) Claims capped at £1m	£0.00m	-£7.63m	-£37.48m	-£45.10m
12) Vehicle Coverage	£0.00m	£0.00m	£0.00m	£0.00m
Out of time support	£0.17m	£0.00m	£1.08m	£1.25m
16) Replacement value	£2.83m	£0.00m	£18.12m	£20.96m
Excess	-£0.19m	£0.00m	-£1.31m	-£1.50m
Total	£2.98m	-£7.63m	-£18.92m	-£23.57m
Proportion of Business NPV	-12.6%	32.4%	80.3%	100%

In both options it can be seen that small businesses (with less than £5m turnover) are protected. Under option 2 they face just over 2% of the net present value to businesses, whilst larger businesses face a much greater cost. Under option 3, small businesses will actually see gains, whilst large businesses an insurers face costs.

In order to fully protect small businesses from costs under option 2, it would mean revising the proposal of capping claims at a total of £1m to a lower value. It would be difficult to change this cap without hindering the policy.

From the costs faced by businesses and individuals the public sector makes savings and it is these savings which help to fund the additional support for businesses in the form of out of time support and replacement value. If the cap were to be removed then, under option 2, the net impact on small businesses would become positive, with a present value of £2.98m. Unfortunately such a change will increase costs to the public sector, bring the net impact from £19.7m present value, to -£49.4m present value. This is unaffordable and dismisses one of the objectives of the policy, which is to consider the impact on the public purse. To make the policy affordable to the public sector, the recommendation of replacement value would have to be dropped from the option. This would then reduce benefits experienced by small businesses, by a total of £2.83m, so that the net present value would be just £0.15m to small businesses.

In addition to this, it is worth considering the volume of claims that would be capped under option 2. It is assumed that in a small riot, no claims from small businesses would be capped. In a bureau scale riot there would be a cap imposed on up to one claim from small businesses. In a large scale riot up to three claims from small businesses would be capped. Given the frequencies of

riots over ten years, the total number of small business claims that would be capped is up to four claims.

For these reasons, it is not possible to remove the cap on claims without a reduction in the benefits experienced by small and large businesses. The cap has a minimal impact on small businesses but is required in order to maintain the benefits of the policy.