

Title: Extension of the Business Impact Target to Regulators IA No: BIS012(F)-16-BRE RPC Reference No: Lead department or agency: BIS / Cabinet Office Other departments or agencies:	Impact Assessment (IA)			
	Date: 28/04/2016			
	Stage: Final			
	Source of intervention: Domestic			
	Type of measure: Secondary legislation			
	Contact for enquiries: David Campbell 020 7215 0950			
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 (EANDCB in 2014 prices)	One-In, Three-Out	Business Impact Target Status
£-10.67m	£-5.38m	£0.6m	In scope	Qualifying provision

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

The Business Impact Target (BIT) is a target for Government in respect of the economic impact of regulation on business. It requires Government departments and organisations exercising a function conferred on a Minister by an act of parliament to assess and report on the costs to business of changes in regulatory activity. The target currently applies to legislation and the actions of UK Ministers including the actions of non-statutory regulators acting for or on behalf of Ministers. Businesses tell Government that the actions of regulators are as important as the content of legislation in determining their experience of regulation. Government is expanding the scope of the BIT to include the activities of statutory regulators.

What are the policy objectives and the intended effects?

The BIT aims to manage and control regulatory burdens on business which, in turn, frees up business resources to be used in more productive ways. Expanding the coverage of the target to include the actions of statutory regulators will allow for a wider range of Government regulatory activity that imposes burdens on business to be captured under the target and reported on. Regulators will have to undertake more routine measurement of the economic impacts of changes to their policies and practices.

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

Option1 - Do nothing. Rely on the existing business impact target and Accountability for Regulator Impact (ARI) policy to ensure that regulatory burdens on business are identified and reduced.

Option 2 - Alter the existing ARI policy and monitor and report on the actions of regulators on an administrative basis.

Option 3 - Legislate to extend the business impact target to ensure that statutory regulators measure and report on the impacts of their actions on business. (Option taken forward)

Will the policy be reviewed? It will be reviewed. If applicable, set review date: 10/2021				
Does implementation go beyond minimum EU requirements?			N/A	
Are any of these organisations in scope?			Micro 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: MARGOT JAMES **Dat** 28/11/2016
e: _____

Summary: Analysis & Evidence

Policy Option 1

Description:

FULL ECONOMIC ASSESSMENT

Price Base Year 2016	PV Base Year 2015	Time Period Years 10	Net Benefit (Present Value (PV)) (£m)		
			Low: -15.61	High: -8.63	Best Estimate: -10.67

COSTS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Low	0.5	0.9	8.6
High	0.6	1.7	15.6
Best Estimate	0.5	1.2	10.7

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

The key monetised costs relate to regulators submitting assessments of the economic impact on business of their qualifying regulatory provisions and publishing a summary of their non-qualifying regulatory provisions. There will also be some familiarisation costs to regulators as they train staff to produce the required documents. The cost to regulators in the first year is estimated to be £1.985M. It is assumed that 50.4% of costs will be recovered from business.

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

None identified

BENEFITS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Low			
High			
Best Estimate			

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

None identified

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

Bringing the activities of regulators into the BIT will ensure that the impact imposed on business by regulators is routinely measured and reported on. This will increase the transparency of the system and provide business with greater assurance that any costs and benefits imposed on them are assessed. Business will also benefit from the savings generated through delivery of the BIT – which are expected to be large - but these impacts would be scored in separate assessments.

Key assumptions/sensitivities/risks	Discount rate (%)	3.5
<p>The estimates of the costs are sensitive to the number of qualifying regulatory provisions (QRP) assessments regulators will submit annually, the number of resubmissions required to have the estimate of economic impact validated, the time taken per submission, the salary of those completing the assessments, the time taken to produce non-qualifying regulatory provisions (NQRP) summaries, and the amount of training staff in regulators undertake.</p>		

BUSINESS ASSESSMENT (Option 1)

Direct impact on business (Equivalent Annual) £m:			Score for Business Impact Target (qualifying provisions only) £m:
Costs: 0.6	Benefits: 0.0	Net: -0.6	
			3.0

Evidence Base (for summary sheets)

The Business Impact Target

1. The Small Business, Enterprise and Employment (SBEE) Act 2015 places a legal duty on the Government to set a Business Impact Target (BIT) relating to the economic impact on business and civil society organisations of Qualifying Regulatory Provisions (QRPs) that come into force or cease to be in force over the Parliament. In March 2016, the Government set the BIT as £10bn of saving to business¹ with an interim target of £5bn.
2. The SBEE Act requires the Government of the day to publish reports setting out progress made against the BIT. The first annual report is to be published in June 2016. Each report must list all of the QRPs that have come into force or cease to be in force over the relevant reporting period and an estimate of the economic impact of each QRP on business.
3. The metric chosen by Government for estimating the impact on business is the Equivalent Annual Net Direct Cost to Business (EANDCB). The EANDCB is a way of presenting the expected annual cost to business of the regulatory change. The contribution of the measure to the BIT is then calculated as the total economic impact on business over the first five years of the measure, or the full economic impact for measures with duration greater than one year but less than five years.² To meet the BIT, the impact of all the QRPs over their first five years when summed should deliver a saving to business of £10bn.
4. The Act requires that the estimates of the EANDCBs for QRPs are verified by an independent verification body appointed by the Government. The Regulatory Policy Committee (RPC) will perform this role and assessments of the economic impact of QRPs cannot be included in the annual BIT report unless they have been verified by the RPC.
5. The Act provides a broad definition of 'regulatory provisions'. It is for Government to determine which of these regulatory provisions are to be considered qualifying regulatory provisions (QRPs) and therefore contribute to the BIT, and which are non-qualifying regulatory provisions (NQRPs). The Written Ministerial Statement announcing the BIT provides more detail of the types of regulatory provisions to be deemed non-qualifying (e.g. implementing EU or international obligations except in cases of gold-plating).³
6. For legislative NQRPs, the Act requires that their status as NQRPs is confirmed by the RPC and listed within the BIT annual report. For greater transparency of the BIT, Government has decided that for NQRPs requiring policy clearance through the Reducing Regulation sub-Committee (RRC) with a significant economic impact on business, an EANDCB validated by the RPC will be required.⁴

Bringing statutory regulators in scope of the Business Impact Target

7. The BIT as defined by the SBEE Act 2015 applies to legislation and regulatory activity undertaken by UK Ministers, including the activities of non-statutory regulators for, or on behalf of, UK Ministers. However, business consistently tells Government that the actions of regulators are at least as important as the content of legislation in determining their experience of regulation.⁵ Government is responding to this through the Enterprise Act 2016 which contains provisions to extend the BIT to

¹ 'Business' is used here to include both businesses and civil society organisations.

² For an ongoing measure, typically appraised over 10 years, the BIT score would be 5*EANDCB. A measure that is only in force for 3 years would have a BIT score of 3*EANDCB (i.e. the full impact of the measure). Note that temporary measures (with duration less than one year) are not regulatory provisions as defined by the SBEE Act.

³ <http://www.parliament.uk/business/publications/written-questions-answers-statements/written-statement/Commons/2016-03-03/HCWS574/>

⁴ Significant business impact is interpreted as measures that do not qualify for the fast track.

⁵ The consultation stage impact assessments sets out the evidence base for intervention:
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/497021/bis-16-95-bit-ia.pdf

include the regulatory activities of statutory regulators.⁶ This extension will allow for a wider range of regulatory activity that imposes costs on business to be captured under the target. Government has recently completed a consultation regarding the statutory regulators that it proposes to bring within scope of the BIT.

8. Following the Secretary of State's determination of the types of regulatory provisions that will not qualify for the target, a number of regulatory activities of regulators are excluded. Principally these areas include casework that relates to specific investigation and enforcement activity; education, communications and promotions campaigns; policy development; and changes to organisational structure.⁷
9. Regulators will be required to produce a set of documents for each BIT Annual Reporting Period.⁸ These are to be published no later than two weeks after the end of the BIT Annual Reporting Period to provide time for the information to be included in the Government's BIT annual report.⁹ The required documents are:
 - A list of all QRPs that have come into force, ceased to be in force, or changed during the BIT Annual Reporting Period;
 - An estimate of the EANDCB for each QRP that has been validated by the RPC; and
 - A summary of all NQRPs that have come into force, ceased to be in force, or changed during the BIT Annual Reporting Period.
10. Non-statutory regulators (who are already within scope of the target, without any further legislative listing) will be required to publish these documents for the first time in June 2016 to coincide with the Government's first BIT annual report. Listed statutory regulators, however, will not be required to produce these documents for the first time until they are listed in regulations under the SBEE Act. This is likely to be within the second BIT annual reporting period. As the BIT is a target for the Parliament, statutory regulators would need to report on all QRPs and NQRPs that came into force or ceased to be in force between 8th May 2015 and 26th May 2017 (i.e. the first two BIT Annual Reporting Periods).
11. Regulators will not be required to calculate EANDCBs for NQRPs. However, each QRP will require an EANDCB to be calculated and verified by the RPC. To do this, regulators will need to submit an economic assessment of the business impact of each QRP. This assessment will follow a proportionate approach and not be as detailed as the impact assessments Government departments submit to RPC for legislative changes. Regulators will only be required to describe the final policy change, identify the impacts on business and calculate a Business NPV, EANDCB and BIT Score based on the direct business impacts. They will not need to appraise different policy options, calculate a societal NPV, present high/low cost estimates or present a Small and Micro Business Assessment (SaMBA).
12. Regulatory independence is fundamentally important to ensuring business and investor confidence in the market, particularly in the economic-regulated sectors. The Government is aware that there are concerns that the extension of the BIT to statutory regulators will undermine that independence.
13. The Government has therefore been careful to design the BIT in a way that ensures independence is not impeded in any way. Regulators will continue to have the same decision-making autonomy as they do now. The BIT will simply require them to assess the impact on business of their decisions and to have that assessment verified by the RPC.

⁶ By 'statutory' regulator we mean a body that is a legally separate entity to UK Ministers that carries out statutory functions that regulate business and/or the voluntary and community sector. In the vast majority of cases these will be bodies that are established under statute. However, given the wide array of regulatory bodies, this category also includes a small number of bodies that have been established either as a company or by Royal Charter rather than by statute.

⁷ The Written Ministerial Statement of 3rd March provides more detail.

⁸ The Annual Reporting Periods are 8th May 2015 to 26th May 2016, 27th May 2016 to 26th May 2017, 27th May 2017 to 26th May 2018, 2017th May 2018 to 26th May 2019, 27th May to 7th May 2020.

⁹ The annual report must be published within one month of the end of the relevant BIT Annual Reporting Period.

14. Since regulators are only required to publish their estimate of the economic impact of each QRP within two weeks after the end of each BIT Annual Reporting Period, there is significant discretion as to when regulators submit their assessments to the RPC. As a result, it will be possible for regulators to combine several QRPs relating to a similar theme (e.g. guidance changes) that can be appraised using similar data and/or methodology into a single submission to the RPC. This should generate efficiencies in the completion of BIT assessments and reduce the time taken to produce the assessments.

Costs and benefits to regulators and business

15. The requirement to produce RPC-validated assessments of QRPs and NQRP summaries will impose resource costs on both statutory and non-statutory regulators. There will also be some familiarisation costs to regulators from understanding the new requirements and providing training to members of staff. Where regulators are industry-funded through fees and charges, some or all of these additional costs will be passed through to business. The costs of the policy will therefore be shared between regulators and business.

16. To estimate the cost to regulators from producing the required documents, we need to estimate the number of BIT assessments that will be produced annually for QRPs. As part of the consultation on the regulators that the Government proposes to bring within scope of the BIT, a questionnaire (see annex) was issued to enable regulators to provide estimates of the number of assessments they expect to produce each year, the number of days taken to produce each assessment, and the wage rate of the officials expected to produce the assessments.¹⁰ Given the uncertainty over the likely number of future assessments, the questionnaire focused respondents on the number of assessments they expect to have to undertake for QRPs in the first Annual Reporting Period (May 8th 2015 to May 26th May 2016) where regulators are more likely to be able to give accurate responses.

17. We received full or partial responses to these questions from 33 regulators out of 69 statutory and non-statutory regulators.¹¹ Some regulators presented a range for their responses. Where this was done, midpoints were used for the best estimate while the high and low values were used to inform the sensitivity analysis (see below). Table 1 shows that the average number of BIT assessments produced in the first year ranged from 3.4 in the small regulators (employing fewer than 100 FTEs on enforcement activity¹²) to 20.5 in the large regulators (employing more than 1,000 FTEs). From this information, the weighted average is calculated as 6.5 assessments per regulator.¹³

Table 1 – Best estimates of number of assessments, time taken, wages and training

	Small (<100 FTE)	Medium (100-999 FTE)	Large (>=1000 FTE)	Weighted Average
Number of assessments in year 1	3.4	6.2	20.5	6.5
Time taken (days)	2.9	6.7	6.8	4.9
Hourly wage (£)	33.33	42.17	35.00	37.11
Training days	8.0	26.3	68.0	22.4

¹⁰ This differs to the approach taken in the consultation stage impact assessment where an estimate of the number of QRP assessments per regulator was made on the basis of the legislative changes made by Departments as part of One-In, Two-Out.

¹¹ There were 15 non-statutory regulators and 54 statutory regulators included (Land Registry and Chief Land Registrar have been merged into one statutory regulator for this analysis). Only 4 non-statutory regulators responded to the survey, so we do not provide separate estimates for the two groups of regulators.

¹² Data on FTEs employed in enforcement activity is taken from the 2012, 2013 or 2014 Regulators' Questionnaire (using the most recent data available).

¹³ Across the 69 regulators, 33 (47.8%) are small, 28 (40.6%) are medium and 8 (11.6%) are large.

18. As part of the questionnaire, we also asked regulators if they expected the number of assessments to increase or decrease in future years. 15 of the 25 responses to this question indicated “no change” with the remainder reporting “don’t know” (3 responses), “an increase” (6 responses) or “a decrease” (1 response).¹⁴ Given these responses, it would appear reasonable to assume that the 6.5 assessments calculated for the first year is a suitable estimate for the number of assessments in all years, although we allow for some growth in the High cost estimates.
19. Table 1 also provides data on the average number of days regulators expect to spend on each assessment (4.9 days) and the hourly wage of the officials writing the assessments (£37.11).
20. Using the data presented in Table 1 and some additional assumptions, it is possible to estimate the resource cost to regulators of producing QRP assessments in the first year. With 69 regulators producing on average 6.5 assessments, there would be a total of 449 QRP assessments¹⁵ to be submitted to the RPC in the first year. It is likely that some estimates of the impact on business will not be validated by the RPC when they are first submitted and a form of resubmission will be required.¹⁶ This is more likely to occur in the initial years as regulators develop their capability in producing assessments. As a conservative assumption, we assume that each measure is submitted 1.5 times to obtain RPC validation. This reflects the early experience of RPC scrutiny of Departments’ full impact assessments where 56% of first time submissions were rated as fit for purpose.¹⁷ Using this assumption, we estimate the total number of submissions (including resubmissions) in a year would be 674.
21. Each submission is assumed to take 4.9 days to complete. It is likely that a resubmission would take less time to complete, but in the absence of any specific data on this, we assume that both the initial submission and any subsequent resubmission each take 4.9 days of staff time. The daily wage of the staff undertaking the assessments (assuming 7.5 hours per day and including 20.2% uplift for non-wage costs) is estimated at £334.55.
22. The total cost of producing the 674 assessments is £1.105M. Added to this is the cost of producing an additional 53 assessments from one regulator who responded that they would produce a large number of assessments in year 1 as a one-off.¹⁸ This increases the total cost in year 1 to £1.237M.

Table 2: Estimates of cost in the first year

	Low estimate	Best estimate	High estimate
No. regulators	69	69	69
Assessments per regulator p.a.	6.4	6.5	8.4
No. of assessments p.a.	442	449	580
No. of submissions per measure Year 1	1.2	1.5	1.5
No. of submissions	530	674	870
No. of days per submission	4.8	4.9	5.0

¹⁴ Those that expected an increase or decrease did not record the expected number of future assessments.

¹⁵ Rounded to the nearest whole assessment.

¹⁶ RPC can either issue a Red (not fit for purpose) opinion or an Initial Review Notice for which the regulator would have 10 days to respond addressing the points raised.

¹⁷ ‘Regulatory Policy Committee scrutiny during the 2010 to 2015 parliament’

¹⁸ The response from this regulator was not included in the average number of assessments presented in table 1.

Hourly wage	36.01	37.11	38.24
Daily wage ¹⁹	324.63	334.55	344.73
Total cost of assessments²⁰	0.926M	1.237M	1.633M
Days per NQRP summary	5	10	15
NQRP cost	0.112M	0.231M	0.357M
Staff days training	20.5	22.4	23.3
Total training cost	0.459M	0.517M	0.554M
Total cost	1.497M	1.985M	2.544M
Cost recovery	50.4%	50.4%	70%
Cost to business	0.754M	1.000M	1.781M
Cost to regulators	0.743M	0.985M	0.763M

23. Regulators will also be required to produce a summary of their NQRPs. Although quantified assessments of the economic impact on business of NQRPs are not required, regulators will still need to record and publish these summaries. The RPC will provide assurance to regulators on draft summaries that are submitted in advance of publication. The questionnaire did not cover the time taken to produce NQRP summaries but following informal conversations with a few regulators we assume that, on average, regulators will spend 10 days per year producing these documents.²¹ Applying the same daily wage rate, this gives an estimated cost to regulators of £0.231M.
24. Finally regulators will incur familiarisation costs associated with understanding the new reporting requirements and training members of staff to complete QRP assessments and NQRP summaries. As part of the consultation questionnaire, regulators were asked to estimate the number of staff days that would be spent on training. The average was found to range from 8.0 days for small regulators to 68.0 days for large regulators with an overall weighted average across of 22.4 days. Assuming a daily wage rate of £334.55 gives the total estimated one-off familiarisation cost of £0.517M.
25. The total cost to regulators in year 1 associated with QRP assessments, NQRP summaries and familiarisation is estimated to be **£1.985M**.
26. It is expected that some of the costs to regulators will be passed through to business through cost recovery. The estimates used for cost recovery are taken from the consultation with regulators that was undertaken as part of the development of the Small Business Appeals Champion policy. During that consultation in 2013, 58 regulators were asked if they would recover the costs of appointing the Champions. Responses were received from 24 regulators with 13 reporting that they would cost recover in full and 11 indicating they would not recover the costs. For those regulators which did not respond to this question we used the responses from the 2012 Regulators' Questionnaire on the extent to which their regulatory enforcement activity was fully, partially or not cost recovered. We assigned values of 100%, 50% and 0% to these responses respectively. Where no information for a regulator was available from these two sources, we assumed 50% would be recovered. Across the regulators we estimated that 50.4% of cost would have been recovered if regulators had to cover the

¹⁹ Assuming 7.5 hours per day and a 20.2% uplift for non wage costs (Eurostat, 2015).

²⁰ This includes the costs of an additional 53 assessments reported by one regulator as a one-off.

²¹ One regulator reported NQRP summaries would be the work of two FTEs. This is a significant outlier compared to the five days we assume from other regulators, but to allow for this we assume the average time taken across 69 regulators to produce NQRP summaries is 10 days.

costs of appointing the Champions. Although this relates to a different policy, it is the best estimate available of the extent to which regulators would cost recover from business.

27. Applying the assumption of 50.4% cost recovery gives an estimate of the cost to business in the first year of **£1.000M**. This is comprised of £0.623M of costs associated with QRP assessments, £0.116M of costs from NQRP summaries, and £0.261M of familiarisation costs.
28. In subsequent years, regulators would only incur the ongoing costs associated with QRP assessments and NQRP summaries. As described previously, 60% of the regulators that responded believed there would be no change in the number of assessments in future years. For the best estimate, we therefore continue to assume that the 449 QRP assessments described above (69 regulators producing 6.5 assessments) will be produced each year. However, we assume that, over time, fewer resubmissions are needed to validate the EANDCBs. It is assumed that each QRP requires 1.4 and 1.3 submissions in years 2 and 3 before reaching a steady state value of 1.2.²² As a result, the number of submissions is 629 in year 2, 584 in year 3 and 539 in the remaining years.
29. Table 4 presents the profile of costs to regulators and business over the assumed 10 year appraisal period.
30. Some regulators presented ranges for the number of BIT assessments they expected to produce, the time taken for each assessment, the wage rate and the amount of staff days spent on training. High and low estimates for each regulator’s responses were then constructed and then averaged to produce upper and lower bound estimates (table 3).

Table 3 – High and Low estimates of assessments, time taken, wages and training

	Small (<100 FTE)	Medium (100-999 FTE)	Large (>=1000 FTE)	Weighted Average
Number of assessments in year 1	High: 4.7 Low: 3.2	High: 8.0 Low: 5.9	High: 25.0 Low: 21.3	High: 8.4 Low: 6.4
Time taken (days)	High: 2.9 Low: 2.9	High: 7.0 Low: 6.4	High: 6.8 Low: 6.8	High: 5.0 Low: 4.8
Hourly wage (£)	High: 34.17 Low: 32.50	High: 43.38 Low: 41.06	High: 37.00 Low: 32.80	High: 38.24 Low: 36.01
Training days	High: 8.0 Low: 8.0	High: 27.2 Low: 23.0	High: 73.0 Low: 63.0	High: 23.3 Low: 20.5

31. In the low estimate, it is also assumed in every year that each assessment requires 1.2 submissions to the RPC to obtain verification and that NQRP summaries require 5 days of staff time to complete. Applying these assumptions with those in table 3 gives an estimate of the total cost of **£1.497M** with £0.754M (50.4%) of costs being recovered from business.
32. For the high estimate, the number of assessments in future years is assumed to be 10% higher than in year 1, reflecting the responses of six regulators reporting that assessments would increase after the first year. The same assumptions for resubmission are made as in the best estimate but the time taken to complete NQRP summaries is assumed to increase to 15 days. The total cost is then

²² Between 2010 and 2011 there was a substantial increase in Departments’ impact assessments being rated as fit for purpose from 56% to 76%. Since 2011 this percentage has remained relatively steady between 76% and 82%. ‘Regulatory Policy Committee scrutiny during the 2010 to 2015 parliament’

estimated to be **£2.544M** with £1.781M of costs recovered from business (assuming a higher rate of cost recovery of 70%).

33. The estimate of the total cost of producing BIT assessments for QRPs is likely to be overestimated. A number of regulators already undertake some cost-benefit analysis relating to changes to their regulatory activities. This may take the form of Business Engagement Assessments that were encouraged under the voluntary Accountability for Regulator Impact (ARI) policy or impact assessments that are similar in content to those produced by departments for legislative changes. Not all of the costs estimated here should therefore be considered as additional. However, it has not been possible to establish the true baseline relating to the costs associated with producing assessments of economic impact on business.
34. Regulators will also be able to group QRPs relating to a common theme into one BIT assessment. For the assumption of 6.5 assessments per regulator, we assume this includes regulators' best estimates of the amount of grouping that will be possible based on their current information of how the QRP process will operate. Over time, and with more experience of producing QRP assessments, greater efficiencies may be realised through the grouping of similar measures into one assessment.²³ The 6.5 may therefore overstate the average annual number of assessments in the long run, but would seem a reasonable assumption based on regulators current understanding and experience of the new process.

Costs to the independent verification body (RPC)

35. The requirement on regulators to submit assessments of the economic impact on business of their QRPs and summaries of their NQRPs will impose a resource cost on the RPC. Under the best estimate, up to 449 assessments could require RPC validation each year which would represent a significant increase in caseload compared to the previous Parliament where RPC scrutinised 1,223 policy proposals over the whole Parliament. This would be mitigated by other changes being made to streamline the process, for example, departments no longer needing to submit fast track assessments to the RPC²⁴, but there is expected to be a net increase in resourcing requirements for the RPC. These resource costs, however, accrue to the public sector and will be managed within existing budgets. They would not score in the NPV, Business NPV or EANDCB.

Benefits to business

36. Businesses will be expected to benefit from the extension of the BIT to include the actions of statutory regulators. Bringing the activities of regulators into scope of the BIT will ensure that the impact imposed on business by regulators is routinely measured and reported on. This will increase the transparency of the system and provide business with greater assurance that any costs and benefits imposed on them are thoroughly assessed. It is not possible, however, to monetise the indirect benefits to business from greater transparency.
37. The objective of the Business Impact Target is to continue to drive down the costs to business from complying with regulation. Widening the BIT to include the activity of regulators will help to deliver a wider range of deregulatory savings to business over the Parliament. Business will be expected to benefit from the savings generated, but to avoid double-counting, we assume these benefits will be assessed in the impact assessments that accompany each change within the scope of the BIT and do not attempt to include them here.

Equivalent Annual Net Direct Cost to Business (EANDCB)

38. This measure will impose a cost on regulators from undertaking economic assessments of the impact of QRPs and producing summaries of NQRPs. In previous cases relating to imposing costs on regulators, RPC have judged that where the regulator is funded by industry, all of these costs should

²³ One regulator reported the need to produce 10 to 20 QRP assessments but these may be grouped into themes.

²⁴ Deregulatory measures and regulatory measures with low cost to business (less than £1M of gross costs in every year) qualify for the fast track. Departments are now responsible for assessing which measures qualify for the fast track and no longer require RPC confirmation.

be considered as a direct cost on business. In addition to any cost recovery through increased fees, any remaining cost to the regulators form an opportunity cost to business. For example, if the regulator made efficiency savings to cover these costs, such savings would normally have been expected to be passed to business through lower fees, meaning that a saving has been foregone.

39. Across the 69 regulators potentially in scope of this measure, we do not have a clear picture of their funding arrangements and ability to cost recover from business as not all are fully or partially funded by industry. The best information we have is from previous analysis of Small Business Appeals Champions where 50.4% of the total costs could potentially have been recovered. We therefore use this estimate to proxy the extent to which regulators are funded by industry and thus the direct costs to business for inclusion in the EANDCB. This 50.4% is applied to both the annual ongoing costs and the one-off familiarisation costs.
40. The remaining costs to the regulators would not be included in the EANDCB but are included in the overall NPV of the proposal. Any costs from businesses familiarising themselves with the change are voluntary and assumed to be offset by the benefits, leaving no net impact.
41. Table 4 sets out the costs that are used to calculate the NPV, Business NPV and EANDCB of the proposal. It is assumed that the transition costs fall only in year 1 and the ongoing costs last for 10 years.

Table 4 – Summary of costs to business and regulators

	Year 1*	Year 2	Year 3	Year 4 +
<i>Low estimate</i>				
Business	0.754	0.473	0.473	0.473
Regulators	0.743	0.465	0.465	0.465
<i>Best estimate</i>				
Business	1.000	0.636	0.599	0.562
Regulators	0.985	0.626	0.589	0.553
<i>High estimate</i>				
Business	1.781	1.327	1.250	1.173
Regulators	0.763	0.569	0.536	0.503

Note: Shaded cells indicate direct business impacts to be included in Business NPV and EANDCB calculations. * familiarisation costs to business and regulators are included in Year 1.

42. The provisions in the SBEE Act 2015 (as amended by the Enterprise Act 2016) will require both statutory and non-statutory regulators to report all of their QRPs and NQRPs from the start of the current Parliament. Non-statutory regulators will have to report against the BIT for the first time in June 2016 while statutory regulators will not have to produce their required documents until June 2017. However, all regulators (and particularly non-statutory regulators) have been incurring some costs of the new arrangements since 2015. For the purposes of this assessment therefore, we have taken the most appropriate start date for the appraisal and calculating the EANDCB to be 2015.²⁵
43. The NPV and the Business NPV (both measured in 2016 prices and a present value base of 2015) are estimated to be -£10.67M and -£5.38M under the best estimate.

²⁵ This smooths out the costs over the ten year appraisal period. Few QRP summaries will be produced in year 1 so the costs in year 1 are overestimated. In year 2, the costs are underestimated as more assessments will be produced than assumed as statutory regulators will be brought into scope and have to produce assessments for QRPs since the start of the Parliament.

44. The EANDCB (measured in 2014 prices and discounted to a 2015 base) and rounded to the nearest £100K is estimated to be **£0.6M**.²⁶ The contribution to the BIT is then calculated as **£3.0M (Net Burden, IN)**.

²⁶ The EANDCB is not sensitive to the profile of costs described in para 42. For example, only scoring familiarisation costs in 2015 and then two years of ongoing costs in 2016 (to allow for regulators having to produce QRP assessments and NQRP summaries from the start of the Parliament) still gives a rounded EANDCB of 0.6M. Alternatively, the year the costs begin (implementation date) could be set as 2016 but this is also found to give an EANDCB of 0.6M.

Annex – Consultation Questionnaire

Question 1

The Government will shortly publish its determination of the regulatory activities to which the business impact target will apply. Given this determination, how many BIT assessments do you estimate that your organisation would be required to produce for the year May 2015- May 2016 as a result of the extension of the target to regulators?

Question 2

Do you expect any substantial change in this figure for subsequent years?

Question 3

On average, what level of official would produce these assessments?

Question 4

On average, what would be their hourly wage?

Question 5

Given the Government's intent that BIT assessments should be proportionate to the impact of the regulatory change proposed, how many staff days do you estimate it would take officials to produce each BIT assessment?

Question 6

How many officials in your organisation would you expect to require some form of training to produce BIT assessments?

Question 7

How many days training would be required for each official?