

Title: Impact Assessment of the Proposed Penalty Regime for the Energy Using Products and Energy Labelling Regulations Lead department or agency: Department for Environment, Food and Rural Affairs Other departments or agencies:	Impact Assessment (IA)
	IA No:
	Date: 12/10/10
	Stage: Final
	Source of intervention: Domestic
	Type of measure: Secondary
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Summary: Intervention and Options

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

In November 2009, following a public consultation, the Government appointed the National Measurement Office (NMO) as the Market Surveillance Authority (MSA) responsible for the enforcement of the requirements of the Eco-design of Energy Using Products and Energy Labelling Framework Regulations. The consultation and accompanying Impact Assessment stressed that the benefits of the chosen option could only be realised if they were safeguarded by a proportionate, effective and dissuasive penalty regime.

What are the policy objectives and the intended effects?

The MSA will need to have access to a range of flexible and proportionate enforcement options in order to ensure the highest possible level of compliance with the Regulations. Currently the MSA only has access to criminal sanctions which can be disproportionate and onerous. The accompanying consultation document (Ref 1) looks at options for enforcement, in keeping with the findings of the Macrory review and Hampton principles, i.e. providing a deterrent to non-compliance, be transparent and fair, eliminating any financial gains from non-compliance and therefore safeguarding the benefits of the regulations and create a level playing field for compliant business.

What policy options have been considered? Please justify preferred option (further details in Evidence Base)

The costs and benefits of the preferred option - to introduce civil sanctions have been set against the current situation. This option has been consulted on publicly and stakeholders have been very supportive of its implementation.

In addition, an option initially considered was strengthening the existing criminal sanctions, as well as introducing civil sanctions. This will be considered separately in light of the planned further consultation under the Fairer and Better Environmental Enforcement project, which will set out more detailed proposals to strengthen criminal sentencing of the worst environmental offenders.

Finally, a third option, which is both theoretically possible but practically unrealistic, has been considered. It involves monitoring and enforcement of every single product placed on the market to ensure 100% compliance with the Ecodesign Regulations, but will not be pursued due to the incredibly high costs of implementation.

When will the policy be reviewed to establish its impact and the extent to which the policy objectives have been achieved?	The policy will be reviewed 2 years from the date of commencement.
Are there arrangements in place that will allow a systematic collection of monitoring information for future policy review?	No

SELECT SIGNATORY Sign-off For consultation stage Impact Assessments:

I have read the Impact Assessment and I am satisfied that, given the available evidence, it represents a reasonable view of the likely costs, benefits and impact of the leading options.

Signed by the responsible Minister:..... Date:.....

Summary: Analysis and Evidence

Policy Option 1

Description:

Implementation of a Civil Sanctions Regime

Price Base Year 2009	PV Base Year 2009	Time Period Years 10	Net Benefit (Present Value (PV)) (£m)		
			Low: N/A	High: N/A	Best Estimate: N/A

COSTS (£m)	Total Transition (Constant Price) Years		Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Low	-	-	£5.15m	£70m
High	-	-	£14.9m	£202m
Best Estimate	-	-	£12.5m	£ 170m

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

Annual costs of enforcement under the NMO are estimated in the final compliance and enforcement IA (Ref 3). This includes administration, staffing and testing costs to the NMO of £9.9m over the period 2010-2010 and the additional costs imposed on consumers (through higher heating bills) as well as non-traded CO₂ increases through the Heat Replacement Effect. **These costs are already covered in the previous IA and therefore not counted within this IA.**

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

BENEFITS (£m)	Total Transition (Constant Price) Years		Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Low	-	-	£9.9m	£134m
High	-	-	£28.3m	£385m
Best Estimate	-	-	£24.6	£334m

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

Putting in place this option should guarantee that the rate of non-compliance is reduced by 3%, from 6.2% to 3.2%, and therefore safeguard net benefits of £164m already claimed within the final compliance and enforcement IA (see table p.20 Option 2 in final compliance and enforcement IA for net present value). **These benefits are already covered in the previous IA and therefore not counted within this IA.**

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

As explained within the evidence base, the current 6.2% rate of non-compliance is thought to be a very conservative estimate. With the actual rate of non-compliance likely to be higher, this proposed option safeguards even larger (above £164m) net benefits. There may also be allocative efficiency benefits through an improved ability to make industry pay for non-compliance, reducing overall compliance costs.

Key assumptions/sensitivities/risks

Discount rate (%) 3.5

All costs and benefits of implementing this option have already been claimed within the final compliance and enforcement IA and are therefore not claimed within this IA. However, these costs and benefits will not be realised without an effective and proportionate enforcement regime.

Impact on admin burden (AB) (£m):		Impact on policy cost savings (£m):		In scope
New AB:	AB savings:	Policy cost savings:		
	Net:			

Enforcement, Implementation and Wider Impacts

What is the geographic coverage of the policy/option?	United Kingdom				
From what date will the policy be implemented?	20 November 2010				
Which organisation(s) will enforce the policy?	National Measurement Office				
What is the annual change in enforcement cost (£m)?	£ 0.6m - £1.9m				
Does enforcement comply with Hampton principles?	Yes				
Does implementation go beyond minimum EU requirements?	No				
What is the CO ₂ equivalent change in greenhouse gas emissions? (Million tonnes CO ₂ equivalent)	Traded: -		Non-traded: -		
Does the proposal have an impact on competition?	No				
What proportion (%) of Total PV costs/benefits is directly attributable to primary legislation, if applicable?	Costs:		Benefits:		
Annual cost (£m) per organisation (excl. Transition) (Constant Price)	Micro	< 20	Small	Medium	Large
Are any of these organisations exempt?	No	No	No	NO	NO

Specific Impact Tests: Checklist

Set out in the table below where information on any SITs undertaken as part of the analysis of the policy options can be found in the evidence base. For guidance on how to complete each test, double-click on the link for the guidance provided by the relevant department.

Please note this checklist is not intended to list each and every statutory consideration that departments should take into account when deciding which policy option to follow. It is the responsibility of departments to make sure that their duties are complied with.

Does your policy option/proposal have an impact on...?	Impact	Page ref within IA
Statutory equality duties ¹ Statutory Equality Duties Impact Test guidance	No	
Economic impacts		
Competition Competition Assessment Impact Test guidance	No	10
Small firms Small Firms Impact Test guidance	No	10
Environmental impacts		
Greenhouse gas assessment Greenhouse Gas Assessment Impact Test guidance	No	
Wider environmental issues Wider Environmental Issues Impact Test guidance	No	
Social impacts		
Health and well-being Health and Well-being Impact Test guidance	No	
Human rights Human Rights Impact Test guidance	No	
Justice system Justice Impact Test guidance	No	
Rural proofing Rural Proofing Impact Test guidance	No	
Sustainable development Sustainable Development Impact Test guidance	No	

¹ Race, disability and gender Impact assessments are statutory requirements for relevant policies. Equality statutory requirements will be expanded 2011, once the Equality Bill comes into force. Statutory equality duties part of the Equality Bill apply to GB only. The Toolkit provides advice on statutory equality duties for public authorities with a remit in Northern Ireland.

Evidence Base (for summary sheets) – Notes

Use this space to set out the relevant references, evidence, analysis and detailed narrative from which you have generated your policy options or proposal. Please fill in **References** section.

References

Include the links to relevant legislation and publications, such as public impact assessment of earlier stages (e.g. Consultation, Final, Enactment).

No.	Legislation or publication
1	Consultation on the Introduction of Civil Sanctions and Cost Sharing for the Energy Using Products and Energy Labelling Regulations
2	Impact Assessment of the Proposed Penalty Regime for the Energy Using Products and Energy Labelling Regulations – Draft Stage (Consultation)
3	Impact Assessment of Cost Sharing options available to the Market Surveillance Authority under the Energy Using Products and Energy Labelling Regulations - Final Stage
4	Impact Assessment on the compliance & enforcement regime of the Energy-Using Products (EuP) & Energy Labelling Directives
5	Summary of responses and Government response to the consultation on the introduction of civil sanctions and cost sharing for the Energy Using Products and Energy Labelling Regulations held 23rd March – 15th June 2010

Evidence Base (for summary sheets)

A. BACKGROUND

The EuP Framework Directive includes an obligation for Member States to put in place a robust market surveillance and enforcement regime to ensure compliance with the requirements of the various implementing measures. Specifically, the Directive requires Member States to put in place a **Market Surveillance Authority (MSA)** which has powers to carry out checks on products, request relevant information from manufacturers and request the recall of non-compliant products.

In June 2009, the consultation “Implementation of the Market Surveillance and Enforcement Requirements of the Eco-design of Energy Using Products and Energy Labelling Framework Directives” was published.²

This consultation examined the rationale and options for putting in place a Market Surveillance Authority (MSA) as required by the Directives. As a result of the feedback received, the preferred option to give this function to a dedicated team in a different Government Agency was chosen.

The previous consultation looked at the options for who would be responsible for enforcing the EuP and Labelling Directives and predicted the theoretical rate of compliance which could be achieved. In all cases, one of the main assumptions was that there would be an effective enforcement process in place i.e. where proportionate and meaningful fines, in the form of improved sanctions, would be issued.

A consultation on the proposals to introduce civil sanctions and cost sharing was held from 23 March to 23 June 2010 (Refs 1 & 5). 20 responses were received from a range of organisations including NGOs, trade associations, manufacturers, a professional association and a power company. Of these,

- 18 supported the proposed range of civil penalties and
- 15 supported the preferred option for cost sharing.

This impact assessment looks at the implications of the options under consideration for the enforcement arrangements, compared to the situation where no civil penalties regime is put in place.

B. RATIONALE FOR INTERVENTION

The Eco Design of Energy using Products (EuP) and Energy Labelling Framework Directives require Member States to put in place a robust market surveillance and enforcement regime to ensure that products placed on the market comply with the requirements of their implementing measures. To ensure that the MSA can enforce these requirements an effective and dissuasive penalties regime is needed in order to ensure that non-compliance is kept at the lowest level possible and that, as a result, the benefits of the measures claimed in the previous impact assessment are safeguarded. (See page 8 of Ref 3 for clarification of what is meant by safeguarding costs and benefits in this Impact Assessment.)

Currently only criminal sanctions are available to the MSA in cases where products are found to be non-compliant. Cases brought against non-compliant manufacturers can be tried at a

² <http://webarchive.nationalarchives.gov.uk/20100505154859/>; <http://www.defra.gov.uk/corporate/consult/eup-labelling/index.htm>

magistrates court or crown court. It is likely that around 95% of cases would be tried at the magistrates court (in part due the costs of going to crown court for both parties) where the maximum fine for non-compliance is £5000.

This approach is disproportionate in two ways:

- The maximum fine in the magistrates court is not likely to be a sufficient monetary deterrent against non-compliance for large companies with a high turnover and thousands of products on the market. In addition the costs to the MSA of trying companies through the Crown courts to secure more proportionate fines are prohibitive.
- For minor offences which could be easily remedied by the manufacturer such, as a mis-printed label for example, it is excessive to use the magistrates court route in order to enforce compliance.

To ensure a high level of compliance, the MSA will need to draw on flexible and proportionate enforcement options to both penalise instances of non-compliance and prevent future breaches. Introducing a system of civil sanctions in the form of administrative penalties has the potential to be the most effective method for resolving instances of non-compliance as well as providing a sufficient deterrent in the first place to discourage non-compliance.

Such penalties would enable the MSA to choose the 'best fit' of enforcement options for each individual case. Proportionate and effective sanctions will do more to level the playing field for compliant businesses and remove economic advantage by ensuring that non-compliant companies incur same or higher costs than compliant companies.

To enforce compliance with the Ecodesign Directive Implementing Measures it is proposed the MSA are able to use the following enforcement actions.

- Compliance Notice
- Stop Notice
- Enforcement Undertakings
- Variable Monetary Penalty

For Energy Using Products, the MSA will be able to enforce compliance by issuing, for retailers and manufacturers, either a Compliance notice (CN), Stop Notice (SN) and Enforcement Undertaking (EU). Additionally for manufacturers the MSA will be able issue a Variable Monetary Penalty (VMP).

For Energy Labelling, the MSA will be able to issue a Compliance notice (CN) and Stop Notice (SN) Enforcement Undertaking (EU) and Variable Monetary Penalty (VMP) to manufacturers. Details for each of the Civil Sanctions are set out below.

As proposed in the previous consultation, Trading Standards retain the responsibility for checking the requirements of retailers to display the energy label correctly.

Relationship between the Final Compliance and Enforcement Impact Assessment (signed-off October 2009), and the Civil Sanctions & Cost-Sharing Impact Assessment (at Final sign-off stage)

It was a requirement of the Ecodesign and Labelling Directives to both put in place a Market Surveillance Authority and ensure that penalties for non-compliance are effective, proportionate and dissuasive. The compliance and enforcement Impact Assessment (Ref 3) conducted a cost

effectiveness analysis of improving compliance through three types of institutional arrangements for product testing.

- Option 1: To continue, as was then the case, with trading standards officers (TSOs) carrying out the enforcement function for all products.
- Option 2: To move the enforcement function to a dedicated team in an existing body or agency.
- Option 3: A hybrid approach, where TSOs would retain responsibility for compliance of domestic products and a separate body or agency would enforce the requirements for nondomestic products.

The analysis pointed to Option 2 as being the most cost effective option to reduce non-compliance (down from 6.2% to 3.2%).

The analysis also considered three product testing regimes, varying in terms of the scope and frequency of testing, for each of the three types of institutional arrangements described above. These were a 5-years rotation, 2-years rotation, and 1-year full testing. It concluded a 2-years rotation was the most cost effective option in each case.

In October 2009, the Final Impact Assessment was signed-off for agreeing to put into place the National Measurement Office (NMO) as the market surveillance authority to ensure UK compliance with the European Ecodesign minimum standards (i.e. Ref 3: the Compliance and Enforcement Impact Assessment).

The **Civil Sanctions Impact Assessment** simply reiterates the impacts in the Final Compliance & Enforcement Impact Assessment, as it was assumed in the Final Compliance & Enforcement Impact Assessment that there was a sufficient penalties regime in place in order to deliver the benefits (i.e. the addition of administrative penalties to criminal penalties required to deliver a realistic disincentive as described in the Civil Sanctions Impact Assessment was already assumed). The Final Civil Sanctions Impact Assessment therefore presents nothing more than the benefits already promised in a previous Impact Assessment, and is simply putting in place the penalties regime to safeguard them.

The **Cost-Sharing Impact Assessment** (Ref 2) models options which analyse various ways to place the cost-burden, associated with ensuring compliance and enforcement, between Government and industry – with options flexing the assumptions around whether all industry players face the burden, or simply those who ultimately don't comply (with the latter further discouraging non-compliance). Further information about the costs of testing is given in: Annexes 2 and 3 of the Cost Sharing Impact Assessment (Ref 2); and in Box 3 on page 19 of the consultation document on the proposals to introduce civil sanctions and cost sharing (Ref 1).

It is therefore intended that, in line with the MSA's approach to compliance issues that the proposed civil sanctions regime will be strengthened and supported by the introduction of a cost sharing scheme as part of the market surveillance authority's compliance testing programme, thereby safeguarding the benefits claimed in the previous impact assessment even further. The Government's preferred civil sanctions scheme has been consulted on alongside the cost sharing policy and a vast majority of respondents have supported both approaches.

Whilst individually, a system of cost sharing and new civil sanctions would encourage businesses to comply with the Ecodesign regulations, together the proposals are expected to create an even greater incentive for manufacturers and retailers to ensure their products are compliant. Both proposals will have a significant behavioural impact on non-compliant businesses. Cost sharing in particular creates a more powerful incentive to be compliant and ensures that non-compliant business are seen to pay for the costs of failed tests which would otherwise be imposed on compliant businesses. In addition, the civil sanctions regime holds a set of flexible and proportionate responses to non-compliance once it is discovered. While civil

sanctions are expected to safeguard the estimated benefits of having introduced a new enforcement body, the cost sharing policy is expected to increase the amount of these safeguarded benefits and reduce the rates of non-compliance beyond those already safeguarded by the civil sanction regime.

The measures together should decrease rates of non-compliance, therefore reducing the costs to Government, consumers and compliant businesses. Now the MSA is in place it is expected that they will discover a much greater number of instances of non-compliance, so although there have been few cases brought to court over the past decade, introducing both civil sanctions and cost sharing policies would avoid the need for cases to go to court, compared to a system where only criminal penalties are available to the MSA. This would therefore lighten the burdens on the judicial system.

C. BASELINE FOR ANALYSIS

Paragraphs 19-21 of the consultation document on the proposals to introduce civil sanctions and cost sharing (Ref 1) explained that the NMO were committed to a collaborative approach to market surveillance and enforcement. They would work closely with industry to improve understanding and assist companies to comply with the regulations. They would carry out a risk-based, proportionate and targeted approach to inspection and enforcement. They would focus on bringing products into compliance, rather than moving straight to issuing penalties or prosecution.

The costs/benefits of the proposed option (introducing civil sanctions) are set against the case in which no such penalty regime is put in place. It should be stressed that the costs and benefits within this IA are the same costs and benefits from the original IA. There are no new costs and benefits to take into account rather the options analysis here form a component of safeguarding the benefits estimated previously.

Those costs related to the set up of civil sanctions specifically are already included in the costs of transferring the role of Market Surveillance Authority to the NMO within the previous IA.

D. PROPOSED OPTIONS

INTRODUCE CIVIL SANCTIONS IN THE FORM OF ADMINISTRATIVE PENALTIES IN ADDITION TO STRENGTHENING THE EXISTING CRIMINAL SANCTIONS

The current criminal sanctions available to the MSA are via the magistrates' court, with a maximum £5,000 fine available. In the previous consultation we put forward proposals to strengthen the existing criminal sanctions as well as introduce civil sanctions and most stakeholders were supportive of the ideas. However it was decided not to pursue strengthening of the criminal sanctions at this point.

INTRODUCE CIVIL SANCTIONS (THE PREFERRED OPTION)

It is proposed that, in addition to the existing criminal sanctions, the following civil sanctions are available to the MSA. The sanctions aim to be in-keeping with the findings of Hampton and Macrory as well as mirroring, as closely as possible, the proposals set out by the Fairer and Better Environmental Enforcement project in order to maintain consistency in environmental regulation.

It is proposed the MSA are able to use the following enforcement actions:

- Compliance Notice
- Stop Notice
- Enforcement Undertakings
- Variable Monetary Penalty

For Energy Using Products, the MSA will be able to enforce compliance by issuing, for retailers and manufacturers – either a Compliance notice (CN), Stop Notice (SN) and Enforcement Undertaking (EU). Additionally for manufacturers the MSA will be able issue Variable Monetary Penalty (VMP)

For Energy Labelling, the MSA will be able to issue a Compliance notice (CN) and Stop Notice (SN) Enforcement Undertaking (EU) and Variable Monetary Penalty (VMP) to manufacturers.

As proposed in the previous consultation, Trading Standards retain the responsibility for checking the requirements of retailers to display the energy label correctly.

INTRODUCE CIVIL SANCTIONS AND CHECK EVERY SINGLE PRODUCT PLACED ON THE MARKET

It is proposed that, in addition to the existing criminal sanctions, civil sanctions along the line of the proposed option are put in place and that, in addition, every single product placed on the market is checked for compliance with the Regulations. This is clearly a theoretical but unrealistic option, used here as a qualitative only comparison with the preferred option. While the full cost and benefits safeguarded by this option have not been quantified below, it is possible to conclude that, when compared with the proposed option, this option would:

- safeguard more benefits than the preferred option by reducing the rate of non-compliance further from 3.2% (originally 6.2% conservative estimate reduced to 3.2% by the proposed option) to 0%;
- increase the cost exponentially, as in order to check or test every single product placed on the market (and safeguard the additional benefits above), the NMO annual testing cost, the staff and administrative costs listed in the proposed option will quickly escalate in to the billions of pounds.

Therefore this option is not pursued or quantified further in this assessment.

E. COSTS AND BENEFITS OF THE PROPOSED OPTION

The costs and benefits of non-compliance were assessed within the previous IA. The following section provides a summary of this analysis:

The costs and benefits of the two components of non-compliance were calculated separately in the first impact assessment, the two components were:

i. The projected reductions in energy consumption not being achieved, because products are not as efficient as they claim to be.

The final IA estimated the overall rate of non-compliance to be at around 6.2%. This estimated non-compliance rate is considered to be a very conservative estimate. Non-compliance with Minimum Energy Performance Standards (MEPS) is also expected to be significant but is not added to the current rate of non-compliance due to the risk of double-counting. In practice a product which does not meet the minimum energy label class has a high risk of not meeting the MEPS, thus infringing both regulations.

Table 1 – estimated % level of compliance with the energy labelling framework directive

	% of products in each 'non-compliance category'	% they are deviating from required standard	% currently lost from non-compliance
'Non-compliant' but within tolerance	40	10	4
Deviating by one energy label class	8	20	1.6
Deviating by more than one energy label class	2	30	0.6
TOTAL			6.2

ii. Manufacturers not making the costly improvements necessary to meet the energy-efficiency standards they are claiming.

All of the assumptions remain the same in this Impact Assessment. In summary:

This results in total present value costs of non-compliance of £700m, and total present value benefits of non-compliance of £336m. Therefore, **the Net Present Value foregone due to non-compliance is £364m** (between the period 2010-2020).

It is considered to be disproportionately costly to try to reach a figure of 100% and therefore perfect compliance. There will always be a minority of manufacturers who are prepared to take the risk and introduce non-compliance products onto the market and there will also always be instances of error either in product mislabelling or mistakes made during the manufacturing process which could lead to product non-compliance. Effective market surveillance and enforcement is about minimising as far as possible these episodes of non-compliance.

Administrative burdens were considered for the purposes of this impact assessment, however, the amount expected was considered too minimal to include on the covering summary sheets. The assumption is that an average of 3 businesses will be impacted by the civil sanctions regime per year. It is assumed that a financial clerk, paid at £11.14 per hour (based on category 412 from the standard cost model – <http://www.bis.gov.uk/files/file44505.pdf>), will spend 30 minutes administrative work on civil sanctions, which involves paying a fine or the administrative processes behind ensuring the business's products meet the requirements to bring their products into compliance.

This would amount to an administrative burden of £18.82 per year, impacting non-compliant businesses alone, based on the assumption that they do not push for an appeal against the cost sharing invoice.

PREFERRED OPTION COSTS AND BENEFITS

After evaluation of the options, the preferred option to move the enforcement function to a central body was implemented following the consultation process.

Cost of preferred option from the original IA

NMO - annual testing costs	826,000
Staffing costs (annual)	160,000
Additional admin costs (annual)	60,000
Energy label display enforcement (annual)	50,000

Regime 2 total costs (discounted to 2009) for the period 2010-2020: **£9.9m**

Costs are estimated as salaries of 3-4 full time staff – to run awareness raising activities, a testing programme and take enforcement action where necessary – to be around £220k pa. We estimate that a small proportion of this budget around 15% would be used specifically for set up of the civil sanctions regime in the first year.

Benefits of proposed option

Putting in place the proposed option safeguards the benefits predicted in the first IA. It therefore should facilitate the reduction in the rate of non-compliance from 6.2% to 3.2% and safeguard a net present value of £164m. As this has already been claimed in the final IA on compliance and enforcement, it has not been claimed separately here.

By netting-off the overall costs and benefits of Ecodesign and Energy Labelling, we can estimate the total cost of non-compliance. Based on initial estimates of the total projected net benefits from EuP and ELD, for 21 product categories (for the period 2010-2020), the estimated Net Present Value of these measures is estimated to be as follows:

- **PV Total Benefits:** £11.3bn
- **PV Total Costs:** £2.7bn

It is also estimated that 80% of the total costs of Ecodesign and Energy Labelling measures results from costs incurred by manufacturers and passed on to consumers, and 20% occurs due to costs associated with greater household heating (because of the Heat Replacement Effect when more efficient appliances are used).

The overall costs of non-compliance can be estimated as follows:

- Applying a 6.2% rate of non-compliance to the overall projected benefits from improving compliance (such as reduced energy bills and CO₂e savings), which provides a cost of non-compliance of £700m.
- Applying a 6.2% rate of non-compliance to the costs subsequently imposed on society due to increased household heating requirements (because of the Heat Replacement Effect), suggests a benefit of non-compliance of £34m.

- Applying a 14% rate of non-compliance to costs subsequently not incurred by the manufacturer or imposed on consumers, which suggests a benefit of non-compliance of £302m.

This results in total present value costs of non-compliance of £700m, and total present value benefits of non-compliance of £336m. Therefore, **the Net Present Value foregone due to non-compliance is £364m** (between the period 2010-2020).

Other benefits not achieved due to non-compliance include reductions in energy bills. It is difficult to predict how much money could be lost by consumers who have bought products which operate at a higher energy consumption than expected. However, a significant amount of potential savings could be foregone.

There is likely to be some impact in reducing the 6.2% figure, as at the very least results will be published, however only Option1 can deliver as close as possible to the 3.2% non-compliance rates.

Option 1. Introduce Civil Sanctions

Competition Assessment

Businesses have been calling for a more effective market surveillance regime in order to provide a more level playing field. Proportionate and effective sanctions will do more to level the playing field for compliant businesses and remove economic advantage from those who fail to comply.

Small Firms Impact Test

The proposed option should not disproportionately impact upon small business as it is only under the instance of non-compliance that penalties would be incurred.

Annexes

Annex 1 should be used to set out the Post Implementation Review Plan as detailed below. Further annexes may be added to provide further information about non-monetary costs and benefits from Specific Impact Tests, if relevant to an overall understanding of policy options.

Annex 1: Post Implementation Review (PIR) Plan

A PIR should be undertaken, usually three to five years after implementation of the policy, but exceptionally a longer period may be more appropriate. A PIR should examine the extent to which the implemented regulations have achieved their objectives, assess their costs and benefits and identify whether they are having any unintended consequences. Please set out the PIR Plan as detailed below. If there is no plan to do a PIR please provide reasons below.

Basis of the review: [The basis of the review could be statutory (forming part of the legislation), it could be to review existing policy or there could be a political commitment to review];

There will be a political commitment to review the policy after 2 years, to verify that the preferred civil sanctions option is suitably ambitious to reduce the rates of non-compliance.

Review objective: [Is it intended as a proportionate check that regulation is operating as expected to tackle the problem of concern?; or as a wider exploration of the policy approach taken?; or as a link from policy objective to outcome?]

The objective of the review will be to monitor how effectively the regulations are tackling non-compliance of energy using products on the market.

Review approach and rationale: [e.g. describe here the review approach (in-depth evaluation, scope review of monitoring data, scan of stakeholder views, etc.) and the rationale that made choosing such an approach]

The review will consist of an evaluation of the progress made against the baseline in terms of non-compliance rates of selected product types on the market. This evaluation method is the most low-cost method, as it will allow the MSA to carry out tests on more products for a lower cost than formal compliance testing.

Baseline: [The current (baseline) position against which the change introduced by the legislation can be measured]

Defra is currently discussing with the MSA the most appropriate method to estimate compliance rates in the UK. The preferred and low cost option is for the MSA to establish a baseline by carrying out market screening testing on selected product types every three years. This involves a light touch testing programme whereby the MSA can carry out tests on products in stores to estimate the amount of products that do not meet the minimum requirements after an initial test. The MSA will carry out a follow up screening process on the same types of products 2 years later, where the results will be compared against the baseline.

Success criteria: [Criteria showing achievement of the policy objectives as set out in the final impact assessment; criteria for modifying or replacing the policy if it does not achieve its objectives]

The success criteria for implementing the civil sanctions regime for the Ecodesign Regulations is a decrease in non-compliance rates, based on the results of the market screening undertaken by the MSA on selected products.

Monitoring information arrangements: [Provide further details of the planned/existing arrangements in place that will allow a systematic collection of monitoring information for future policy review]

The MSA reports to Defra on a monthly basis on the Ecodesign testing programme, results and issues. In addition, the MSA provides tri-annual and annual reports to Defra on the testing programme, in order to assess the impact the policy has on the rates of non-compliance and the behavioural attitude of businesses.

Reasons for not planning a PIR: [If there is no plan to do a PIR please provide reasons here]

Title: Impact Assessment of Cost Sharing Options available to the Market Surveillance Authority under the Energy Using Products and Energy Labelling Regulations Lead department or agency: Department for Environment, Food and Rural Affairs Other departments or agencies:	Impact Assessment (IA)
	IA No:
	Date: 12/10/2010
	Stage: Final
	Source of intervention: Domestic
	Type of measure: Secondary legislation
	Contact for enquiries: Nicole Kearney - 020 7238 6653

Summary: Intervention and Options

What is the problem under consideration? Why is government intervention necessary?
 Under the Eco-design of Energy Using Products (EuP) and Energy Labelling (EL) Framework Directives, Member State Governments are responsible for market surveillance action in order to ensure compliance with the requirements of the Directives. Government wants to consider the options for improving the design of its market surveillance framework to ensure they deliver greater incentives to compliance and also to share part of the costs involved with industry.

What are the policy objectives and the intended effects?
 Introducing a policy of cost sharing would encourage product compliance with the Regulations, as businesses would be even more deterred from placing non-compliant products on the market, if they must bear part of the costs of product testing. In addition introducing a policy of cost sharing would reduce burden on government expenditure.

What policy options have been considered? Please justify preferred option (further details in Evidence Base)
 1) Cost sharing regardless of whether products are compliant. Government pays 25% of the costs and industry pays 75% of the costs, if the first of the four tests fall outside the permitted tolerance.
 2) Cost sharing only in instances where products are non compliant. Government funds all tests, but on proof of non-compliance (usually following four tests) the manufacturer reimburses all costs associated with testing.

 OPTION 2 is the preferred option in the consultation, as it requires manufacturers of non-compliant products to pay for the testing costs, thereby providing additional incentive to comply with the Regulations, while at the same time increasing the likelihood of a level playing field for businesses.

When will the policy be reviewed to establish its impact and the extent to which the policy objectives have been achieved?	It will be reviewed 11/2012
Are there arrangements in place that will allow a systematic collection of monitoring information for future policy review?	No

Ministerial Sign-off For final proposal stage Impact Assessments:

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) the benefits justify the costs.

Signed by the responsible Minister:..... Date:.....

Summary: Analysis and Evidence

Policy Option 1

Description:

Introduce full cost sharing (25% vs 75%): Government pays first test and industry pays further three tests if required, with no possibility of reimbursement

Price Base Year 2009	PV Base Year	Time Period Years 10	Net Benefit (Present Value (PV)) (£m)		
			Low: 0	High: 24.9m	Best Estimate: £0-24.9m

COSTS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Low	Optional	Optional	Optional
High	Optional	Optional	Optional
Best Estimate		£ 0 - 270.000	£ 0 - 2.3m

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

Scenario A: £0, no change to net costs (from baseline of previous compliance and enforcement IA).

Scenario B: Total costs increase to £870k, representing an additional annual cost of £270k that is incurred by industry.

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

BENEFITS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Low	Optional	Optional	Optional
High	Optional	Optional	Optional
Best Estimate			£ 0 - 27.2m

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

Scenario A: £0, no change to net benefits (from baseline of previous compliance and enforcement IA: i.e. compliance/enforcement IA reduced 6.2% non-compliance to 3.2%, with no further change here)

Scenario B: Increases annual testing budget by £270k (45%). Increased testing should reduce non-compliance. It is assumed that this increase in budget can reduce non-compliance by a further 0.4% (i.e. from 3.2% to 2.8%), representing an additional (from Civil Sanction IA) safeguarded benefit of £27.2m.

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

Consumer confidence in the validity of energy-efficiency claims are important for delivering future EuP policies and for wider environmental behaviour change. The creation of a 'level playing field' for manufacturers and retailers also has competition benefits. Allocative efficiency benefits through improved ability to make industry pay for non-compliance, reducing overall compliance costs.

Key assumptions/sensitivities/risks

Discount rate (%)

Two scenarios are included within this option. Scenario A where Government can decrease expenditure for the testing programme, as costs would be shared with industry, and Scenario B where Government can increase the budget for the testing programme, as the costs are shared with industry. It is important to note that the "additional safeguarded benefits" offered here are only additional vis a vis the "Civil Sanction" Impact Assessment, they do not expand the total amount of potential benefits already included in previous impact assessments.

Impact on admin burden (AB) (£m):			Impact on policy cost savings (£m):	In scope
New AB: n/a	AB savings: n/a	Net: n/a	Policy cost savings:	Yes/No

Enforcement, Implementation and Wider Impacts

What is the geographic coverage of the policy/option?	United Kingdom				
From what date will the policy be implemented?	20/11/2010				
Which organisation(s) will enforce the policy?	National Measurement Office				
What is the annual change in enforcement cost (£m)?					
Does enforcement comply with Hampton principles?	Yes				
Does implementation go beyond minimum EU requirements?	No				
What is the CO ₂ equivalent change in greenhouse gas emissions? (Million tonnes CO ₂ equivalent)	Traded:		Non-traded:		
Does the proposal have an impact on competition?	No				
What proportion (%) of Total PV costs/benefits is directly attributable to primary legislation, if applicable?	Costs:		Benefits:		
Annual cost (£m) per organisation (excl. Transition) (Constant Price)	Micro	< 20	Small	Medium	Large
Are any of these organisations exempt?	No	No	No	No	No

Specific Impact Tests: Checklist

Set out in the table below where information on any SITs undertaken as part of the analysis of the policy options can be found in the evidence base. For guidance on how to complete each test, double-click on the link for the guidance provided by the relevant department.

Please note this checklist is not intended to list each and every statutory consideration that departments should take into account when deciding which policy option to follow. It is the responsibility of departments to make sure that their duties are complied with.

Does your policy option/proposal have an impact on...?	Impact	Page ref within IA
Statutory equality duties ¹ Statutory Equality Duties Impact Test guidance	No	
Economic impacts		
Competition Competition Assessment Impact Test guidance	Yes	14
Small firms Small Firms Impact Test guidance	Yes	13
Environmental impacts		
Greenhouse gas assessment Greenhouse Gas Assessment Impact Test guidance	No	
Wider environmental issues Wider Environmental Issues Impact Test guidance	No	
Social impacts		
Health and well-being Health and Well-being Impact Test guidance	No	
Human rights Human Rights Impact Test guidance	No	
Justice system Justice Impact Test guidance	Yes	
Rural proofing Rural Proofing Impact Test guidance	No	
Sustainable development Sustainable Development Impact Test guidance	No	

¹ Race, disability and gender Impact assessments are statutory requirements for relevant policies. Equality statutory requirements will be expanded 2011, once the Equality Bill comes into force. Statutory equality duties part of the Equality Bill apply to GB only. The Toolkit provides advice on statutory equality duties for public authorities with a remit in Northern Ireland.

Summary: Analysis and Evidence

Policy Option 2

Description:

Government initially funds all testing, but on proof of non-compliance the company reimburses all of the testing costs whether or not there has been a successful prosecution in the courts.

Price Base Year	PV Base Year	Time Period Years	Net Benefit (Present Value (PV)) (£m)		
			Low: £5.4	High: £12.1m	Best Estimate: 5.4-12.1

COSTS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Low	Optional	0	0
High	Optional	162k	1.4m
Best Estimate		£ 0 - 162k	£ 0 - 1.4m

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

Scenario A: £0, no net change to costs

Scenario B: Total costs increase to £762k, representing an additional annual cost of £162k that is incurred by industry

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

BENEFITS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Low	Optional	Optional	5.4
High	Optional	Optional	13.5
Best Estimate			£5.4 - 13.5m

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

Scenario A: better incentives in place result in reduction in non-compliance of around 0.1% (i.e. from 3.2% to 3.1%) representing £5.4m additional (based on Civil Sanction IA) safeguarded benefit.

Scenario B: Increases annual testing budget by £162k (27%). Increased testing should reduce non-compliance. This option is therefore also assumed capable of reducing non-compliance by 0.2% (i.e. from 3.2% to 3%), representing additional (based on Civil Sanction IA) safeguarded benefits of £13.5m.

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

Consumer confidence in the validity of energy-efficiency claims are important for delivering future Ecodesign policies and for wider environmental behaviour change. The creation of a 'level playing field' for manufacturers and retailers also has competition benefits. Allocative efficiency benefits through improved ability to make industry pay for non-compliance, reducing overall compliance costs. Potential for further benefits through positive behavioural impacts.

Key assumptions/sensitivities/risks

Discount rate (%)

Two scenarios are included within this option. Scenario A where Government can decrease expenditure for the testing programme, as costs would be shared with industry, and Scenario B where Government can increase expenditure for the testing programme, as the Government budget would remain constant, with the addition of the costs shared with industry. It is important to note that the additional safeguarded benefits offered here are only additional vis a vis the "Civil Sanction" Impact Assessment, they do not expand the total amount of potential benefits already included in previous impact assessments."

Impact on admin burden (AB) (£m):			Impact on policy cost savings (£m):	In scope
New AB: n/a	AB savings: n/a	Net: n/a	Policy cost savings:	Yes/No

Enforcement, Implementation and Wider Impacts

What is the geographic coverage of the policy/option?	United Kingdom				
From what date will the policy be implemented?	20/11/2010				
Which organisation(s) will enforce the policy?	National Measurement Office				
What is the annual change in enforcement cost (£m)?					
Does enforcement comply with Hampton principles?	Yes				
Does implementation go beyond minimum EU requirements?	No				
What is the CO ₂ equivalent change in greenhouse gas emissions? (Million tonnes CO ₂ equivalent)	Traded:		Non-traded:		
Does the proposal have an impact on competition?	No				
What proportion (%) of Total PV costs/benefits is directly attributable to primary legislation, if applicable?	Costs:		Benefits:		
Annual cost (£m) per organisation (excl. Transition) (Constant Price)	Micro	< 20	Small	Medium	Large
Are any of these organisations exempt?	No	No	No	No	No

Specific Impact Tests: Checklist

Set out in the table below where information on any SITs undertaken as part of the analysis of the policy options can be found in the evidence base. For guidance on how to complete each test, double-click on the link for the guidance provided by the relevant department.

Please note this checklist is not intended to list each and every statutory consideration that departments should take into account when deciding which policy option to follow. It is the responsibility of departments to make sure that their duties are complied with.

Does your policy option/proposal have an impact on...?	Impact	Page ref within IA
Statutory equality duties² Statutory Equality Duties Impact Test guidance	No	
Economic impacts		
Competition Competition Assessment Impact Test guidance	Yes	14
Small firms Small Firms Impact Test guidance	Yes	13
Environmental impacts		
Greenhouse gas assessment Greenhouse Gas Assessment Impact Test guidance	No	
Wider environmental issues Wider Environmental Issues Impact Test guidance	No	
Social impacts		
Health and well-being Health and Well-being Impact Test guidance	No	
Human rights Human Rights Impact Test guidance	No	
Justice system Justice Impact Test guidance	Yes	
Rural proofing Rural Proofing Impact Test guidance	No	
Sustainable development Sustainable Development Impact Test guidance	No	

² Race, disability and gender Impact assessments are statutory requirements for relevant policies. Equality statutory requirements will be expanded 2011, once the Equality Bill comes into force. Statutory equality duties part of the Equality Bill apply to GB only. The Toolkit provides advice on statutory equality duties for public authorities with a remit in Northern Ireland.

Evidence Base (for summary sheets) – Notes

Use this space to set out the relevant references, evidence, analysis and detailed narrative from which you have generated your policy options or proposal. Please fill in **References** section.

References

Include the links to relevant legislation and publications, such as public impact assessment of earlier stages (e.g. Consultation, Final, Enactment).

No.	Legislation or publication
1	Consultation on the Introduction of Civil Sanctions and Cost Sharing for the Energy Using Products and Energy Labelling Regulations
2	Impact Assessment of Cost Sharing options available to the Market Surveillance Authority under the Energy Using Products and Energy Labelling Regulations - Draft stage (Consultation)
3	Impact Assessment of the Proposed Penalty Regime for the Energy Using Products and Energy Labelling Regulations – Final Stage
4	Impact Assessment on the compliance & enforcement regime of the Energy-Using Products (EuP) & Energy Labelling Directives
5	Summary of responses and Government response to the consultation on the introduction of civil sanctions and cost sharing for the Energy Using Products and Energy Labelling Regulations held 23rd March – 15th June 2010

+ Add another row

Evidence Base

Ensure that the information in this section provides clear evidence of the information provided in the summary pages of this form (recommended maximum of 30 pages). Complete the **Annual profile of monetised costs and benefits** (transition and recurring) below over the life of the preferred policy (use the spreadsheet attached if the period is longer than 10 years).

The spreadsheet also contains an emission changes table that you will need to fill in if your measure has an impact on greenhouse gas emissions.

Annual profile of monetised costs and benefits* - (£m) constant prices

	Y ₀	Y ₁	Y ₂	Y ₃	Y ₄	Y ₅	Y ₆	Y ₇	Y ₈	Y ₉
Transition costs										
Annual recurring cost										
Total annual costs										
Transition benefits										
Annual recurring benefits										
Total annual benefits										

* For non-monetised benefits please see summary pages and main evidence base section

Evidence Base (for summary sheets)

1. BACKGROUND

In 2009, a consultation was published which examined the options for moving the duties for a Market Surveillance Authority (MSA) as required by the Ecodesign of Energy using Products (EuP) and Energy Labelling (EL) Framework Directives away from Trading Standards in Local Authorities to an existing single UK central body. As a result of the consultation, the preferred option, to give this function to a dedicated team in a different Government Agency, was chosen. The Secretary of State (Defra) subsequently appointed the National Measurement Office (NMO) on 2 November 2009. For more detailed information on the MSA, please refer to the accompanying consultation document on introducing civil sanctions and cost sharing.

In order to provide for more effective and fairer enforcement and to stretch the limited resources the Government has at its disposal, the 2009 consultation also included a proposal for introducing a system of cost sharing for product compliance testing. The accompanying Impact Assessment on the Compliance & Enforcement Regime of the Energy-Using Products (EuP) & Energy Labelling Directives raised the issue of implementing a cost-sharing regime (as set out in Option 1 in this IA). However the full costs and benefits of doing so were not appraised in detail. This impact assessment will set out the full costs and benefits of introducing two different options for a cost-sharing policy.

Product testing in order to demonstrate (non) compliance with the EuP and EL requirements is a long and involved process, often requiring a total of 4 tests (depending on the product group) and can cost some £10k to £20k to prove that a single product is non compliant. The costs of product testing include all costs incurred throughout a testing programme, such as the purchase of the products to be tested, the staffing costs, laboratory time, storage and disposal of products etc. Given the high number of products subject to this legislation, and in order to carry out a reasonable amount of testing, a substantial amount of funding is required to take full advantage of the benefits of nominating a new enforcement body.

The proposal to introduce a system of cost sharing proved controversial with stakeholders during the last consultation, so it was decided to consult further on cost sharing before deciding to introduce such a system. Government's preferred Option 2 – Cost sharing only in instances where products are found to be non-compliant, takes account of the majority of views from stakeholders and subsequent discussions with other Government Departments and the Devolved Administrations.

A consultation on the proposals to introduce civil sanctions and cost sharing was held from 23 March to 23 June 2010 (Refs 1 & 5). 20 responses were received from a range of organisations including NGOs, trade associations, manufacturers, a professional association and a power company. Of these,

- 18 supported the proposed range of civil penalties and
- 15 supported the preferred option for cost sharing.

For the purposes of this Impact Assessment, two options for the cost-sharing regime will be considered to assess both the key monetised and non-monetised costs and benefits. The two options are:

Option 1: Cost sharing regardless of whether products are compliant, where Government pays for 25% of the costs and industry pays for 75% of the costs, if the tests fall outside the permitted tolerance.

Option 2: Cost sharing only in instances where products are non-compliant, where Government funds all surveillance activities including tests, but on proof of non-

compliance (usually following four tests) the manufacturer reimburses all costs associated with testing. This is the preferred option in the consultation, as it requires manufacturers of non-compliant products to pay for the testing costs, thereby providing additional incentive to comply while at the same time increasing the likelihood of a level playing field for businesses.

In summary, the preferred Option 2 would introduce a system of cost sharing whereby manufacturers are charged for the full costs incurred (i.e. purchase, testing and disposal of product plus staff costs) for testing products that have been placed on the market and are not compliant with the EuP or Energy Labelling Regulations ('the regulations'). This option would safeguard the benefits claimed in the Impact Assessment on the compliance & enforcement regime of the Energy-Using Products (EuP) & Energy Labelling Directives. (See page 8 of Ref 3 for clarification of what is meant by safeguarding costs and benefits in this Impact Assessment.)

2. RATIONALE FOR INTERVENTION

Most of the Ecodesign implementing measures (mostly European Regulations) that have recently been agreed set down detailed criteria for product testing in order to verify compliance after a product has been placed on the market (i.e. market surveillance). In particular, they require that most products need to be tested a total of 4 times to prove that they are non-compliant with the Regulations (a different regime applies to some products such as industrial motors and lamps). Broadly speaking, an appliance must be tested once, and if the performance of the product is outside the range permitted (within a tolerance, usually 15%), a further three models must be tested, and the average result of these 3 tests (usually within a tolerance of 10%) determines whether the product is compliant. Testing costs vary, but our recent experience of testing certain appliances showed the costs of testing a single product to be in the region of £3k-5k, thus the costs of testing 4 models can easily reach £10k-20k. (see Annex 1 for estimated product group testing costs) There are thousands of products covered by these Regulations, and this number will increase considerably as new measures come into force over the coming years (See Annex 2).

While the implementing measures do specify that a total of 4 tests must be carried out to demonstrate that a product is non-compliant, they are silent on who should pay for the tests. Enforcement of the regulations is devolved to Member States, with little detail on this in the individual measures, or the Framework Directives, which, instead, set out the principles that must be followed by Member States in enforcing these measures. Given the high number of products, which will need to be tested over the next few years, we believe that there is a place for cost-sharing in the market surveillance regime to reduce the product testing costs to Government and to transfer a share of these costs to industry, in order to give further incentive to businesses to ensure their products are compliant. As regards "conformity assessment" that is required by manufacturers under the Framework Directives, industry can now follow the "self certification" module which has minimised their costs in this area.

By introducing a system of cost-sharing, responsibility for product testing is distributed more equally between Government and industry, so that Government can take on a more cost-effective regime for product testing, giving industry a greater incentive to comply with the Ecodesign and EL Regulations. In turn, this will ensure that non-compliance is kept at minimum level, creating a fairer playing field for businesses and that the benefits (financial and environmental) claimed in the previous impact assessment are safeguarded even further than those safeguarded with the implementation of civil sanctions.

Relationship between the Final Compliance and Enforcement Impact Assessment (signed-off October 2009), and the Civil Sanctions & Cost-Sharing Impact Assessment (at Final sign-off stage)

It was a requirement of the Ecodesign and Labelling Directives to both put in place a Market Surveillance Authority and ensure that penalties for non-compliance are effective, proportionate and dissuasive. The compliance and enforcement Impact Assessment (Ref 3) conducted a cost effectiveness analysis of improving compliance through three types of institutional arrangements for product testing.

- **Option 1:** To continue, as was then the case, with trading standards officers (TSOs) carrying out the enforcement function for all products.
- **Option 2:** To move the enforcement function to a dedicated team in an existing body or agency.
- **Option 3:** A hybrid approach, where TSOs would retain responsibility for compliance of domestic products and a separate body or agency would enforce the requirements for nondomestic products.

The analysis pointed to Option 2 as being the most cost effective option to reduce non-compliance (down from 6.2% to 3.2%).

The analysis also considered three product testing regimes, varying in terms of the scope and frequency of testing, for each of the three types of institutional arrangements described above. These were a 5-years rotation, 2-years rotation, and 1-year full testing. It concluded a 2-years rotation was the most cost effective option in each case.

In October 2009, the Final Impact Assessment was signed-off for agreeing to put into place the National Measurement Office (NMO) as the market surveillance authority to ensure UK compliance with the European Ecodesign minimum standards (i.e. Ref 3: the Compliance and Enforcement Impact Assessment).

The **Civil Sanctions Impact Assessment** (Ref 2) simply reiterates the impacts in the Final Compliance & Enforcement Impact Assessment, as it was assumed in the Final Compliance & Enforcement Impact Assessment that there was a sufficient penalties regime in place in order to deliver the benefits (i.e. the addition of administrative penalties to criminal penalties required to deliver a realistic disincentive as described in the Civil Sanctions Impact Assessment was already assumed). The Final Civil Sanctions Impact Assessment therefore presents nothing more than the benefits already promised in a previous Impact Assessment, and is simply putting in place the penalties regime to safeguard them.

The **Cost-Sharing Impact Assessment** models options which analyse various ways to place the cost-burden, associated with ensuring compliance and enforcement, between Government and industry – with options flexing the assumptions around whether all industry players face the burden, or simply those who ultimately don't comply (with the latter further discouraging non-compliance). Further information about the costs of testing is given in: Annexes 2 and 3 of this document; and in Box 3 on page 19 of the consultation document on the proposals to introduce civil sanctions and cost sharing (Ref 1).

It is therefore intended that, in line with the MSA's approach to compliance issues that the proposed civil sanctions regime will be strengthened and supported by the introduction of a cost sharing scheme as part of the market surveillance authority's compliance testing programme, thereby safeguarding the benefits claimed in the previous impact assessment even further. The Government's preferred civil sanctions scheme has been consulted on alongside the cost sharing policy and a vast majority of respondents have supported both approaches.

Whilst individually, a system of cost sharing and new civil sanctions would encourage businesses to comply with the Ecodesign regulations, together the proposals are expected to create an even greater incentive for manufacturers and retailers to ensure their products are

compliant. Both proposals will have a significant behavioural impact on non-compliant businesses. Cost sharing in particular creates a powerful incentive to be compliant and ensures that non-compliant businesses are seen to pay for the costs of failed tests which would otherwise be imposed on compliant businesses. In addition, the civil sanctions regime holds a set of flexible and proportionate responses to non-compliance once it is discovered. While civil sanctions are expected to safeguard the estimated benefits of having introduced a new enforcement body, the cost sharing policy is expected to increase the amount of these safeguarded benefits and reduce the rates of non-compliance beyond those already safeguarded by the civil sanction regime.

The measures together should decrease rates of non-compliance, therefore reducing the costs to Government, consumers and compliant businesses. Now the MSA is in place it is expected that they will discover a much greater number of instances of non-compliance, so although there have been few cases brought to court over the past decade, introducing both civil sanctions and cost sharing policies would avoid the need for cases to go to court, compared to a system where only criminal penalties are available to the MSA. This would therefore lighten the burdens on the judicial system.

3. BASELINE FOR ANALYSIS

Paragraphs 19-21 of the consultation document on the proposals to introduce civil sanctions and cost sharing (Ref 1) explained that the NMO were committed to a collaborative approach to market surveillance and enforcement. They would closely work with industry to improve understanding and assist companies to comply with the regulations. They would carry out a risk-based, proportionate and targeted approach to inspection and enforcement. They would focus on bringing products into compliance, rather than moving straight to issuing penalties or prosecution.

For the purposes of this impact assessment, the baseline is the current situation where an Executive Agency has been put in place as the new MSA and where no cost sharing regime has been put in place. Government is responsible for the full costs of product testing and can only recoup all costs following a successful prosecution in the courts.

The final Compliance and Enforcement impact assessment presented with last year's consultation estimated the overall rate of non-compliance to be at around 6.2%, without the appointment of an enforcement body. This estimated non-compliance rate is considered to be a very conservative estimate, assuming an average 10% legal non-compliance with the Energy Labelling Framework Directive.

This results in total present value costs of non-compliance of £700m, and total present value benefits of non-compliance of £336m. Therefore, the Net Present Value foregone due to non-compliance is £364m (between the period 2010-2020).

By appointing an existing Executive Agency to carry out the role of the MSA, non-compliance rates were estimated to decrease by half, from 6.2% to 3.2%. Having an effective compliance and enforcement regime in place with appropriate sanctions, including a level of testing large enough to deter industry from non-compliance, should safeguard the £164m net benefit claimed in the final compliance and enforcement IA.

The MSA can test a limited number of products. If on average, the cost of one test for a product is £3000, the initial test will cost Government £3000 and each consecutive test conducted on 3 different models of the same product would cost an additional £3000 per test.

The total amount of costs for carrying out all tests to establish whether or not a product is compliant would amount to some £12,000.

4. COST-BENEFIT ANALYSIS OF COST-SHARING OPTIONS

A. Assumptions

The Impact Assessment on the Compliance & Enforcement Regime of the Energy-Using Products (EuP) & Energy Labelling Directives (Ref 3) calculated the estimated costs and benefits of the two components of non-compliance: the projected reductions in energy consumption not being achieved, because products are not as efficient as they claim to be; and manufacturers not making the costly improvements necessary to meet the energy-efficiency standards they are claiming. These assumptions remain the same in this impact assessment.

For the purpose of this impact assessment, we have assumed that if a product falls outside the tolerance by more than 5% in the first test, it is likely to fail overall the 4 tests. This estimate is based on the Market Picture Testing programme carried out by Defra in 2009 (<http://efficient-products.defra.gov.uk/compliance>). This testing is based on a limited sample size with broad assumptions as to which products would fail all 4 tests. This estimate is also the basis for the calculations set out in Annex 3, which set out how the costs of tests are distributed (in percentage) between Government and industry. There is no conclusive evidence on the failure rate of products. In particular, it is difficult to establish whether products that fail the first test are likely to fail all three tests.

As the MSA will be taking a risk-based approach to testing, it is assumed that they will only test products that they expect will fail all four tests.

For the purposes of the cost-benefit analysis of this impact assessment, the average cost incurred by one test will be estimated at £3000 for all products, although it is necessary to note that costs can vary greatly per product group. The assumption is that 200 tests (including retests) will be carried out per year. At a cost of £3000 per test, the testing budget is assumed to be set at £600,000 per annum. This sum is dependent on the MSA's budgeting decisions.

Administrative burdens were considered for the purposes of this impact assessment, however, the amount expected was considered too minimal to include on the covering summary sheets. The assumption is that an average of 15 businesses will be impacted by the cost sharing scheme per year. It is assumed that a financial clerk, paid at £11.14 per hour (based on category 412 from the standard cost model – <http://www.bis.gov.uk/files/file44505.pdf>), will spend 30 minutes administrative work on cost sharing, which involves not more than paying the invoice.

This would amount to an administrative burden of £94.00 per year, impacting non-compliant businesses alone, based on the assumption that they do not push for an appeal against the cost sharing invoice.

B. Analysis of Costs and Benefits

Both Option 1 and Option 2 would give rise to two different scenarios:

Scenario A would allow for Government to decrease its expenditure for the testing programme, as costs would be shared with industry. In this case, Government can carry out the same amount of tests per annum at a lower cost than under the baseline.

Scenario B would increase Government expenditure for the testing programme, as the Government expenditure would remain constant, with the addition of the costs shared with

industry. In this case, Government can perform a higher amount of tests per annum for the same Government expenditure as under the baseline.

a. Costs

According to the calculations in Annex 3, costs will be shared between Government and Industry as follows:

	Baseline	Option 1	Option 2
Government pays % of tests	100%	55%	73%
Business pays % of tests	0%	45%	27%

Assuming that each test costs £3000 and 200 tests are carried out per year, the assumption is that £600,000 is available for product testing. Therefore, the costs to Government and business would be as follows.

Scenario A

Under Option 1, there would be no net change to the total testing budget, however government expenditure would decrease by 45% to £330,000 and industry would share the costs of testing by reimbursing 45% of the costs, £270,000.

Under Option 2, there would be no net change to the total testing budget, however government expenditure would decrease by 27% to £438,000 and industry would share the costs of testing by reimbursing 27% of the costs, £162,000.

	Annual Cost to Government	Annual Cost to Business	Total Annual Testing Budget
Baseline	£600,000	£0	£600,000
Option 1	£330,000	£270,000	£600,000
Option 2	£438,000	£162,000	£600,000

Scenario B

Under Option 1, government expenditure would remain constant and industry would contribute 45% of the baseline testing budget, increasing the product testing budget to £870,000.

Under Option 2, government expenditure would remain constant and industry would contribute 27% of the baseline testing budget, increasing the product testing budget to £762,000.

	Annual Cost to Government	Annual Cost to Business	Total Annual Testing Budget
Baseline	£600,000	£0	£600,000
Option 1	£600,000	£270,000	£870,000
Option 2	£600,000	£162,000	£762,000

b. Benefits [note that all final percentages presented here are relative to a 6.2% non-compliance initial point if no compliance/enforcement was carried out]

Scenario A

This scenario would offer increased incentives to manufacturers to comply with the Regulations, as they would have to bear the cost of product testing (as well as any civil sanctions or criminal penalties). This has not been quantified below.

Government would have the opportunity to reduce costs, by decreasing the budget available for product testing, as quantified below. The benefits estimated in the previous compliance and enforcement impact assessment would be effectively safeguarded, as the baseline amount of testing carried out per annum would not be affected, as is indicated below.

Under Option 1, 200 tests can be performed, maintaining the same level of compliance for a 45% decrease in Government expenditure.

Under Option 2, 200 tests can be performed, maintaining the same level of compliance for a 27% decrease in Government expenditure.

	Annual Cost to Government	Annual Cost to Business	Total tests per year	Percentage of non-compliance	Additional benefits in £
Baseline	£600,000	£0	200 tests	3.2%	£0
Option 1	£330,000	£270,000	200 tests	3.2%	£0
Option 2	£438,000	£162,000	200 tests	3.1%	£5.4m

Scenario B

This scenario would offer even higher incentives to manufacturers to comply with the Regulations than under Scenario A, as they would have to bear the cost of product testing (as well as any civil sanctions or criminal penalties). This has not been quantified below.

Government would have the opportunity to carry out a higher amount of tests at the same level of Government expenditure than under the baseline, as quantified below. The benefits estimated in the previous compliance and enforcement impact assessment would therefore be effectively safeguarded. The rates of non-compliance could be decreased even further than under Scenario A, thus generating additional (based on Civil Sanction IA) safeguarded benefits to those already estimated in the previous impact assessment. This has been quantified below.

Under Option 1, 45% more tests can be carried out with the £600,000 total testing budget.

Under Option 2, 27% more tests can be carried out with the £600,000 total testing budget.

	Annual Cost to Government	Annual Cost to Business	Total tests per year	Percentage of non-compliance	Additional safeguarded benefits in £
Baseline	£600,000	£0	200 tests	3.2%	0
Option 1	£600,000	£270,000	290 tests	2.8%	£24.9m
Option 2	£600,000	£162,000	254 tests	3%	£12.1m

Under Scenario B, it is assumed that the rates of non-compliance could be reduced further than those of the baseline:

Under Option 1, the rate of non-compliance could be reduced by 0.4%.

Under Option 2, the rate of non-compliance could be reduced by 0.2%.

The preferred option will impose a significantly reduced burden on industry than that considered in Option 1. It should also have a positive behavioural impact, that could reduce non-compliance rates further (than the rate estimated by simply taking into account the increase in testing) by providing the correct incentives for industry compliance.

C. Key Non-Monetised Benefits

Introducing a system for cost sharing would, in Scenario B, would reinforce the testing regime and attract other significant benefits that it is not possible to quantify or monetise. By ensuring that a level-playing field is created for UK manufacturers and businesses this regime will be seen as particularly favourable in the current economic climate. Also, as manufacturers become more compliant overtime a virtuous circle of compliance is established and stakeholders such as trade associations can actively and confidently promote energy efficiency messages.

Less non-compliant products on the market will also increase consumers' confidence in the purchases they make. It is also essential that in further developing product policies the Government has confidence in the actual levels of performance of the energy-using products procured and sold on the UK market, while contributing to the single market goals of the European Community.

Impact on Small Businesses

Implementing a system of cost-sharing is unlikely to affect small businesses.

The MSA is required to focus on raising awareness of the EuP and EL requirements, so the industry and small businesses will be made aware of the consequences of placing non-compliant products on the market. Businesses that acknowledge the EuP requirements will avoid placing non-compliant products on the market and will therefore not be impacted by this cost sharing policy.

Small businesses which continue to place non-compliant products on the market will be proportionately affected; however, any impact will be proportionate to the non-compliant action.

Competition Assessment

An effective cost sharing regime is expected to improve compliance in the market for Energy-using Products and should therefore increase competition, helping to create a fairer and level playing field for business, especially under Scenario B.

Option 2 ensures that only non-compliant business shares costs with Government, in comparison to Option 1 where no distinction is made between responsible and rogue

businesses. Option 2 ensures that rogue businesses have no competitive advantage over responsible businesses.

It is unlikely that this policy will affect the number of firms on the market, or the ease at which new firms can enter the market. Cost sharing would not contribute to the possibility of anti-competitive behaviour between manufacturers, retailers or importers.

It is possible that, a firm producing illegal non-compliant products could lose market share as a result of a reinforced testing programme and better enforcement. However, there is expected to be an overall positive impact on competition, ensuring that all firms are competing on equal terms and ensuring that consumers can have confidence in the claims made by businesses and the information they are provided with.

Cost sharing under Option 2 will safeguard the benefits of reducing non-compliance rates as calculated in the Impact Assessment on the Compliance & Enforcement Regime of the Energy-Using Products (EuP) & Energy Labelling Directives. If the second scenario is adopted under Option 2, more benefits could be safeguarded than those claimed from the baseline.

Annexes

Annex 1 should be used to set out the Post Implementation Review Plan as detailed below. Further annexes may be added where the Specific Impact Tests yield information relevant to an overall understanding of policy options.

Annex 1: Post Implementation Review (PIR) Plan

A PIR should be undertaken, usually three to five years after implementation of the policy, but exceptionally a longer period may be more appropriate. A PIR should examine the extent to which the implemented regulations have achieved their objectives, assess their costs and benefits and identify whether they are having any unintended consequences. Please set out the PIR Plan as detailed below. If there is no plan to do a PIR please provide reasons below.

<p>Basis of the review: [The basis of the review could be statutory (forming part of the legislation), it could be to review existing policy or there could be a political commitment to review];</p> <p>There will be a political commitment to review the policy after 2 years, to verify that the preferred cost sharing regime is suitably ambitious to reduce the rates of non-compliance.</p>
<p>Review objective: [Is it intended as a proportionate check that regulation is operating as expected to tackle the problem of concern?; or as a wider exploration of the policy approach taken?; or as a link from policy objective to outcome?]</p> <p>The objective of the review will be to monitor how effectively the regulations are tackling non-compliance of energy using products on the market.</p>
<p>Review approach and rationale: [e.g. describe here the review approach (in-depth evaluation, scope review of monitoring data, scan of stakeholder views, etc.) and the rationale that made choosing such an approach]</p> <p>The review will consist of an evaluation of the progress made against the baseline in terms of non-compliance rates of selected product types on the market. This evaluation method is the most low-cost method, as it will allow the MSA to carry out tests on more products for a lower cost than formal compliance testing.</p>
<p>Baseline: [The current (baseline) position against which the change introduced by the legislation can be measured]</p> <p>Defra is currently discussing with the MSA the most appropriate method to estimate compliance rates in the UK. The preferred and low cost option is for the MSA to establish a baseline by carrying out market screening testing on selected product types every three years. This involves a light touch testing programme whereby the MSA can carry out tests on products in stores to estimate the amount of products that do not meet the minimum requirements after an initial test. The MSA will carry out a follow up screening process on the same types of products 2 years later, where the results will be compared against the baseline.</p>
<p>Success criteria: [Criteria showing achievement of the policy objectives as set out in the final impact assessment; criteria for modifying or replacing the policy if it does not achieve its objectives]</p> <p>The success criteria for implementing the cost sharing policy for the Ecodesign Regulations is a decrease in non-compliance rates, based on the results of the market screening undertaken by the MSA on selected products.</p>
<p>Monitoring information arrangements: [Provide further details of the planned/existing arrangements in place that will allow a systematic collection of monitoring information for future policy review]</p> <p>The MSA reports to Defra on a monthly basis on the Ecodesign testing programme, results and issues. In addition, the MSA provides tri-annual and annual reports to Defra on the testing programme, in order to assess the impact the policy has on the rates of non-compliance and the behavioural attitude of businesses.</p>
<p>Reasons for not planning a PIR: [If there is no plan to do a PIR please provide reasons here]</p>

Annex 2 – Product group testing costs

Detailed testing group example: Domestic Wet Goods

The domestic wet goods product group is representative of the types of products which will be tested under this compliance regime. It consists of:

Small and large washing machines – currently around 950 models on the market
washer/driers and dishwashers – currently around 900 models on the market

In total, following introduction of the measures, we can expect there to be at least 1700 models on the market.

Testing 12 products each from Large Washing Machines, Small Washing Machines, Washer/Driers, Dishwashers = 48 products @ £3000 each) = **£144,000**

Retesting at estimated 15% failure rate (7 products fail, test a further 3 of each = 21 products) = **£63,000**

Total detailed testing cost for four specific products from the Domestic Wet Group (£144,000 + £63,000) = **£207,000 (rounded to £205K)**

ANNEX 3 - Estimated costs based on the 2009 market picture testing failure rates

Example scenarios have been based on an average of £3000 per test

Example 1: Washer/Driers

23 machines tested

6 machines failed first test on energy consumptions

5 machines failed all 4 tests.

- **Baseline:**

MSA pays 23 tests + 6x3 retests = 41 tests in total (£3000 x 41 = £123,000)

Business pays 0 tests, but undergoes enforcement action after a successful prosecution

- **Option 1:**

MSA pays 23 tests + 0 retests = 23 tests in total (£3000 x 23 = £69,000)

Business pays 6x3 retests = 18 in total (£3000 x 18 = £54,000)

- **Option 2:**

MSA pays MSA pays 23 tests + 6x3 retests = 41 tests initially (£123,000)

Business pays 0 tests initially

If 5 out of 6 retests fail:

Business reimburses MSA all costs of failed tests: 5 products x 4 tests = 20 tests in total (£3000 x 20 = £60,000)

So MSA pays 41 tests – 20 reimbursed tests = 21 tests in total (£3000 x 21 = £63,000)

Example 2: Ovens

24 machines tested

2 machines failed first test on energy consumption

0 failed all 4 tests.

- **Baseline:**

MSA pays 24 tests + 2x3 retests = 30 tests in total (£3000 x 30 = £90,000)

Business pays 0 tests, but undergoes enforcement action after a successful prosecution

- **Option 1:**

MSA pays 24 tests + 0 retests = 24 tests in total (£3000 x 24 = £72,000)

Business pays 2x3 retests = 6 in total (£3000 x 6 = £18,000)

- **Option 2:**

MSA pays 24 tests + 2x3 for retests = 30 tests initially (£90,000)

Business pays 0 tests initially

If 0 retests fail:

No reimbursement by business to the MSA

Example 3: Fridges

12 machines tested

7 machines failed first test on energy consumption

2 machines failed all 4 tests.

- **Baseline:**

MSA pays 12 tests + 7x3 retests = 33 tests in total (£3000 x 33 = £99,000)

Business pays 0 tests, but undergoes enforcement action after a successful prosecution

- **Option 1:**

MSA pays 12 tests + 0 retests = 12 tests in total (£3000 x 12 = £36,000)

Business pays 7x3 for retests = 21 tests in total whether or not the product is proved non-compliant (£3000 x 21 = £63,000)

- **Option 2:**

MSA pays 12 tests + 7x3 for retests = 33 tests initially (£99,000)

Business pays 0 tests initially

If 2 of the retests fail:

Business reimburses MSA all costs of failed tests: 2 products x 4 tests = 8 tests in total
(£3000 x 8 = £24,000)

So MSA pays 33 tests – 8 reimbursed tests = 25 tests in total (£3000 x 25 = £75,000)

Total distribution of costs under each scenario:

Baseline: MSA pays 104 tests – Business pays 0 tests

Option 1 : MSA pays 57 tests – Business pays 47 tests

Option 2 : MSA pays 76 tests – Business pays 28 tests