IMPACT ASSESSMENT TOOLKIT

A guide to undertaking an Impact Assessment and completing the IA Template
IMPACT ASSESSMENT (IA) TOOLKIT

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Chapter 1: INTRODUCTION

What is the IA Toolkit?

1.1. The IA Toolkit is a guide to undertaking an IA and filling out the IA Template. The completion of an IA is consistent with the Policy Appraisal process as set by the ‘Green Book - Appraisal and Evaluation in Central Government’ and its associated supplements. Links to other sources are provided throughout the IA Toolkit where more detail may be needed.

1.2. The IA Toolkit sets out:
   - possible rationales for government intervention in the economy;
   - how to apply the principle of proportionality to the analysis in an IA;
   - why it is important to value the costs and benefits of options and provides an introduction to how to approach valuation;
   - how to deal with risk, (including public risk\(^1\)), uncertainty and unintended consequences;
   - information you need to complete an IA at different stages of policy development, including Post-Implementation Review (PIR);
   - departmental guidance on Specific Impact Tests; and,
   - Information on approval and publication of IAs.

1.3. The IA Guidance (hyperlink) should be read with the IA Toolkit and sets out:
   - what an IA is;
   - the types of intervention for which an IA is required; and,
   - when an IA must be prepared and published.

1.4. In addition, the following material will support you in preparing an IA:
   - IA Template.
   - Quick-Start Guide about how to fill in each field on the IA Template.
   - IA flowchart, which provides further information on the stages of IA.

\(^1\) Risks that may affect any part of society and to which government is expected to respond
1.5. Key to completing an IA is the estimation of the impacts of the proposals on the UK as a whole, through appraisal of the costs and benefits. This toolkit includes a summary of the approach to appraisal and evaluation in monetising, as far as possible, the costs and benefits of policy proposals. The approach summarised here draws on, and is consistent, with the Treasury’s Green Book and its Supplementary Guidance, with the policy evaluation methodology, as set out in the Magenta Book. More information on these techniques is available from the Green Book web site or by contacting HM Treasury’s Economics Green Book branch by emailing greenbook@hm-treasury.gov.uk.

1.6. This Toolkit is not an exhaustive guidance. If you cannot find the answer you need, please discuss with your departmental economists and better regulation unit advisers, or contact the Better Regulation Executive (BRE).

1.7. The BRE will amend the Toolkit periodically to reflect changes and analytical advances so you should check back periodically to ensure that you are using the most up to date advice.

1.8. Tax and regulation are different levers on behaviour. Although Impact Assessments are published for tax measures which have a significant impact on business administration costs, the tax itself is not a trigger for IA publication, nor are the projected exchequer effects of the tax measure recorded in the IA. Details of tax changes and economic analysis are published instead in the Budget Red Book. Annex 10 provides further information on tax IAs.

1.9. The main body of the IA Toolkit outlines how to complete an IA Template. Specific detail, such as comprehensive or methodological information that will allow you to complete the analysis, is set out in the Annexes.

1.10. The structure of the IA Toolkit is as follows:

- Chapter 2 outlines how the principle of proportionality applies to the analysis of an IA throughout the process;
- Chapters 3 to 6 outlines how to complete the IA Template summary sheets, including:
  - Heading information.
  - Interventions & Options: setting out Rationales for interventions and policy objectives; Policy Options; Post-Implementation Review (PIR) and Ministerial Declaration.
  - Analysis & Evidence: Costs & Benefits; Assumptions, Sensitivities and Risks and Simplification.
  - Implementation, Enforcement, Wider Impacts and Specific Impact Tests.
Chapter 7 sets out the recommended content and structure of the Evidence Base.

Chapter 8 deals with Annexes in the IA Template, in particular Annex 1, the PIR plan.

Annexes provide more detailed information on the following issues:

- **Annex 1**: Publication & quality assurance of Impact Assessments
- **Annex 2**: Valuation of costs and benefits of the policy options.
- **Annex 3**: Key assumptions, sensitivities and risks.
- **Annex 4**: Using IA for the 2010-2015 Simplification Programme.
- **Annex 5**: Implementation & Enforcement.
- **Annex 6**: Guidance to Specific Impact Tests.
- **Annex 7**: Impact Assessments for EU Negotiations.
- **Annex 8**: Other issues in policy development.
- **Annex 9**: Evaluation
- **Annex 10**: Tax Framework for business
- **Annex 11**: Contact Details
- **Annex 12**: Impact Assessment Flowchart
- **Glossary of Terms**.
Chapter 2: PROPORTIONATE ANALYSIS IN THE IA PROCESS

Overview of the IA process

2.1 Impact Assessment is a continuous process, compatible with the Green Book policy appraisal cycle, to help you fully think through the consequences of possible and actual Government interventions: from the early stages of identifying a policy challenge, through the development of policy options, public consultation of those options, final decision-making, and on to the review of the preferred option’s implementation. Review should be carried out to provide the basis for subsequent policy changes and should help identify new policy challenges (perhaps arising from unintended consequences of the intervention itself), before the policy development process begins again.

2.2 The Stages in the Impact Assessment process are fully set out in the IA Guidance and summarised below. See the IA flowchart below for ‘at a glance’ view of the IA process

2.3 The stages in the IA process may be repeated, and therefore may not always be followed sequentially. They are consistent with the broad stages of the policy-making cycle known as ROAMEF (Rationale, Objectives, Appraisal, Monitoring, Evaluation and Feedback), as set out in the Green Book. The recommended level of analysis at each stage is also set out.

Figure 1: key points in the Impact Assessment process
Development stage: This stage should focus on the definition and assessment of the policy challenge, the rationale for government intervention, the identification of policy objectives and the gathering of evidence.

Options stage: This stage should focus on the identification and development of options that may address the policy challenge, and the testing of these options through engaging with a wide range of interested parties ahead of formal consultation. At this stage a qualitative discussion of costs and benefits is a minimum requirement. Also, there should be initial estimates of costs and benefits associated with the different options. You should aim to identify which options would maximise the positive economic, social and environmental impacts and minimise the negative ones.

Consultation stage: This stage refers to when a formal public consultation is undertaken. This stage should focus on firming up the options considered and the analysis to inform them, ensuring that there is adequate quantification of costs and benefits of each option. It is important that consultation is as broad as possible. It should cover all of the relevant stakeholders and not just the most familiar ones. The Risk and Regulation Advisory Council's risk landscape tool can help to identify the groups, organisations that have influence on the issue.

Final Proposal stage: This stage focuses on the costs and benefits of the preferred option (the 'proposal'). It should set out the Post-Implementation Review plan which outlines when and how the measure will be reviewed.

Enactment stage: This stage requires revisions to the Final Proposal stage Impact Assessment to reflect the final contents of the Act, Statutory Instrument or other regulatory measure.

Review stage: This stage is required at Post-Implementation Review (PIR). A PIR Impact Assessment will evaluate the impact of the implemented policy, including any potential amendments to the policy objectives or its implementation recommended as a result of the review. The PIR IA Template is slightly different from the previous stages.

2.4 Whilst Impact Assessment is a continuous process, there are certain points or stages within this process where an Impact Assessment must be formally produced and published. These are:

- The Consultation stage: if a public consultation is undertaken the IA must be published alongside the consultation document.

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2 http://www.bis.gov.uk/files/file47158.pdf
3 Note that an implemented regulatory measure may include alternatives to classic regulation, for example a voluntary code of practice. Where regulation is not formally enacted the Impact Assessment must still be re-published to reflect the final impact of the implemented policy.
• **The Final proposal stage:** first when the Government announces its firm position on a single policy option (this will often be when it publishes its response to the consultation), or again when the proposal enters Parliament.

• **Enactment stage:** when the legislation is enacted (reflecting any changes that have been introduced during the Parliamentary process);\(^4\)

• **The Review stage** - after a Post-Implementation Review is carried out.

The process to publish an IA, and the associated quality assurance process, is set out in Annex 1.

### Applying the Principle of Proportionality

2.5 Proportionality underpins all aspects of the policy making and IA process, including the choice of appropriate interventions, gathering data, the depth of analysis in conducting appraisal (cost-benefit analysis), examination of risks, and Post-Implementation Review.

2.6 As you progress through the policy making process and develop the accompanying Impact Assessment for each stage, it is expected that the quality of data being used and depth of analysis should be refined to make it more specific to the proposals, and to improve its quality and accuracy. Proportionality should guide how much effort and resources should be applied at each step of completing an IA, in particular the estimation of cost and benefits, and the depth of analysis of a Post-Implementation Review.

2.7 The principle of proportionality is not used to guide whether an IA should be undertaken or a PIR carried out, only the scale of effort to complete it. (See IA Guidance for when an IA must be completed).

2.8 In determining the proportionate approach to completing an IA, consider the following questions, along with the specific impact tests:

- What is the scale of the problem identified and the ambition of the policy objective?
- How clear-cut is the case for government intervention?
- What is the likelihood of unintended consequences?
- How clear is the link between the proposed intervention and the intended outcome?
- Are there groups who will be particularly affected by the policy?
- Are there key stakeholders calling for/against action?
- How sensitive is the policy likely to be?

\(^4\) See footnote 3 above.
- Do changes to one variable tip the outcome from (slightly) positive outcome to a (slight) negative one. Such variables would most likely need additional consideration as it could sway the policy decision.

2.9 For low-risk or low-impact interventions, answering all these questions might be disproportionate. However, all IAs are expected to cover the first three questions at least.

2.10 For emergencies, (e.g. the closure of an industry for public health reasons), good policy development processes would include assessing the impacts of proposals, at least, within a few days. This is to help ensure that a disproportionate approach is not being undertaken. Moreover, where a department or agency is, after due consideration of other alternatives and based on a clear rationale for intervention, including the extent of public concern to a perceived crisis, acting using the precautionary principle, some element of cost-benefit analysis should be undertaken in a timely manner and the policy reviewed to see if it is working as intended. The principle of proportionality will guide how much analysis is undertaken in the time available.
Chapter 3: COMPLETING AN IA TEMPLATE: HEADING INFORMATION

<table>
<thead>
<tr>
<th><strong>Title:</strong></th>
<th><strong>Lead department or agency:</strong></th>
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<tr>
<td><strong>Other departments or agencies:</strong></td>
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<table>
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<th><strong>Impact Assessment (IA)</strong></th>
</tr>
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<tr>
<td><strong>IA No:</strong></td>
</tr>
<tr>
<td><strong>Date:</strong> 01/01/2010</td>
</tr>
<tr>
<td><strong>Stage:</strong> Consultation</td>
</tr>
<tr>
<td><strong>Source of intervention:</strong> Domestic</td>
</tr>
<tr>
<td><strong>Type of measure:</strong> Primary legislation</td>
</tr>
<tr>
<td><strong>Contact for enquiries:</strong></td>
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3.1 At the heading of the IA you must include the Title of the IA. We recommend using a title that is clear and easily understood by stakeholders and that refers, where relevant, to any existing legislation or regulation to which the IA relates.

3.2 Provide the name of the Lead department or agency leading the development of the policy/legislation.

3.3 Name the Other departments or organisations involved where a piece of legislation implements policies owned by more than one department or agency. As the IA is drafted you must also specify who is responsible for parts of the evidence and analysis in the IA.

3.4 The IA Number in the IA template will be based on the department’s acronym and a four-digit number. For instance, an Impact Assessment for the Department of Business Innovation and Skills could have the following IA number: BIS1234. The IA number will remain constant for all stages of the policy development process and different policies cannot have the same IA number.

3.5 Where an IA is published (see Annex 1 – Publication and Quality Assurance) the Date must be the date on which the IA is published. For IAs which are not published, give the date the IA is completed.

3.6 You need to select the relevant Stage from the drop down menu. Chapter 2 above provides an overview of the stages in the IA process.

3.7 Specify the Source of intervention, the origin of the regulatory obligation, from the drop down menu, options are:

- Domestic: When the UK Government is proposing the intervention;
- **EU**: When the proposed intervention implements an EU obligation;
- **International**: from an international source other than the EU. This includes:
  - When the Government is proposing legislation to implement international obligations where the EU has negotiated an agreement on behalf of the UK;
  - When the Government is proposing legislation to implement a treaty between the UK and a third party.
  - When the Government is proposing legislation to implement other international obligations.

3.8 Identifying the source of the intervention enables stakeholders to understand the origins of the regulation and for Government to monitor the amount of regulation from each source. The key point is to determine the legal and political source of the regulatory obligation and the cost of implementing that obligation. In the event that there is more than one source for your proposed intervention, you should choose the category which is responsible for the bulk of regulatory requirements in terms of projected cost. You may need to make this decision if the EU is both implementing an international agreement and legislating on its own account, or if you are implementing an international treaty and separately implementing domestic policy. If in doubt which category to choose, please consult the Better Regulation Executive (BRE) or departmental lawyers.

3.9 Identify the **Type of measure** from a drop-down menu i.e. whether the legislation underpinning the IA is primary or secondary legislation, or whether it is a non-legislative measure (in which case you will need to select Other from the drop-down menu).

3.10 **Contact for enquiries**: A contact name (generally the lead policy official), telephone number and e-mail address must be given for all published IAs, to allow stakeholders to raise any queries on the content of the IA.
Chapter 4: COMPLETING AN IA TEMPLATE: INTERVENTIONS AND OPTIONS SECTION

Summary: Intervention & Options

4.1 The ‘Summary: Intervention & Options’ page of the IA Template captures key information about the problem under consideration, the reason why government intervention is necessary the objectives of the policy and the options considered.

4.2 There should be a single Summary: Intervention & Options page at each stage of the IA. However, the amount of information contained might vary at different stages of the IA. For example, there might not be a preferred option at the Development/Options or Consultation stages. And there will be only one, the chosen intervention, presented at the Enactment stage.

Rationales for Intervention and Policy Objectives

<table>
<thead>
<tr>
<th>What is the problem under consideration? Why is government intervention necessary?</th>
<th>Maximum of 8 lines</th>
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<table>
<thead>
<tr>
<th>What are the policy objectives and the intended effects?</th>
<th>Maximum of 8 lines</th>
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4.3 It is essential to articulate clearly the rationale for intervention and the objectives of the policy. The rationale should refer to market failures or to distributional objectives. It may also refer to tackling public risks. Government should not intervene unless it is necessary to do so to achieve specified objectives.

4.4 There are a number of advantages to articulating early, at the start of the policy development process, and supporting with evidence, the problem that the intervention is intended to fix. This section should summarise:

- evidence about the nature of the problem, including its scale and the context in which it arises or has arisen;
- the probability that it will occur and its likely frequency;
- who it will impact on; and
- who is best placed to manage/resolve the problem (is it for the government to act?).

4.5 State clearly the objectives and the outcomes that the policy is intended to achieve. Getting these right is important because it is against these objectives (and related success indicators) that the
success of the policy will be evaluated in the Post-Implementation Review. The principles of better regulation state that, all regulation should be proportionate and targeted, i.e. it should impose the minimum burden necessary to achieve its objective minimising undesirable side-effects. Both of these principles require objectives to be clearly articulated. Clear objectives also facilitate consistent enforcement.

4.6 Argument for government intervention in markets may be based on economic efficiency grounds, to correct a Government failure tackle public risk or to achieve public policy objectives. However, identifying a rationale to intervene does not itself justify intervention.

4.7 Government intervention can incur costs and create economic distortions. These must be taken into account to determine whether intervention is warranted. Whether intervention is justified will depend on whether the proposed intervention can improve on outcomes, taking into account the costs and the risk involved in achieving the improvement.

4.8 Individual arguments for intervention are not necessarily mutually exclusive – several factors may underpin the argument for intervention. It will be important to set out, clearly and concisely, the different arguments.

Addressing market failure

4.9 Economic efficiency is achieved when nobody can be made better off without someone else being made worse off. Such efficiency enhances prosperity by ensuring that resources are allocated and used in the most productive manner possible. One potential cause of inefficiency is where circumstances mean that the private returns which an individual or firm receives from carrying out a particular action differ from the returns to society as a whole. Market failure is a description of a situation where, for one reason or other, the market mechanism alone cannot achieve economic efficiency. This can occur for a number of reasons, which are briefly discussed below.

Public Goods

4.10 The market may have difficulty supplying and allocating certain types of products and services, such as ‘public goods’. Public goods are those that are ‘non-rival’ or ‘non-excludable’ when used or consumed.

- ‘Non-rival’ means that the consumption of the good by one person does not prevent someone else using or consuming that good. Clean air is an example of a non-rival good.

- ‘Non-excludable’ means that if a public good is made available to one consumer, it is effectively made available to everyone. National defence is an example of a non-excludable good.
4.11 Non-excludability can give rise to a problem known as ‘free-riding’. This is when some consumers fail to pay for the provision of the public good because they expect others will do so. This implies that the returns to potential suppliers will be less than society as a whole would be willing to pay collectively. So a market solution would imply too little public goods being produced to be socially optimal.

**Externalities**

4.12 ‘Externalities’ result when a particular activity produces benefits or costs for other activities that are not directly priced into the market. Externalities are associated with, for example, research and development spill-overs, and environmental impacts, such as pollution. A firm might keep down its own costs by not investing in water pollution controls, but in so doing would raise the costs of those firms and individuals relying on using clean water. As a result the polluter has imposed an external cost on other users, or alternatively, a reduction in pollution confers an external benefit upon these other users.

**Imperfect Information**

4.13 Information is needed for a market to operate efficiently. Buyers need to know the quality of the good or service to judge the value of the benefit it can provide. Sellers, lenders and investors need to know the reliability of a buyer, borrower or entrepreneur.

4.14 This information must be available fully to both sides of the market, and where it is not, market failure may result. This is known as ‘asymmetry of information’ and can arise in situations where, for example, sellers have information that buyers don’t (or vice versa) about some aspect of product or service quality. Information asymmetry can restrict the quality of the good traded, resulting in ‘adverse selection’. Another possible situation is where a contract or relationship places incentives upon one party to take (or not take) unobservable steps that are prejudicial to another party. This is known as ‘moral hazard’, an example of which is the tendency of people with insurance to reduce the care they take to avoid or reduce insured losses.

**Market Power**

4.15 Market power can arise as a result of insufficient actual or potential competition to ensure that the market continues to operate efficiently.

4.16 High start up costs can deter entry by competitors in the first place, and therefore create market power. This situation may be exacerbated through organisations acting strategically to protect their position in the market. Examples of this are when an organisation invests in any excess capacity available in the market, or engages in a practice known as ‘predatory pricing’ where prices are set low (e.g. below the
marginal cost of production) to drive out competitors and then raised once they have left.

**Equity and other social welfare objectives**

4.17 Although efficiency improvements often drive government intervention, equity objectives are also a major consideration. Equity arguments for intervention take a variety of forms.

**Equity arguments for intervention**

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<tr>
<th>Equity Argument</th>
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<tr>
<td>Vertical Equity</td>
<td>Redistribution of Income from richer to poorer individuals/families</td>
</tr>
<tr>
<td>Horizontal Equity</td>
<td>Individuals/families with similar needs should be treated similarly</td>
</tr>
<tr>
<td>Social Inclusion</td>
<td>Everyone should have access to income opportunities and services which allow them to fully participate in the life of the society in which they live</td>
</tr>
<tr>
<td>Intergenerational Equity (a)</td>
<td>Balancing the needs of current and future generations</td>
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4.18 Social welfare objectives can include:

- **redistributive goals**, often achieved through the taxation and social security systems but sometimes through regulation. The aim is to increase equity between richer and poorer individuals or families (vertical equity); between individuals with similar needs (horizontal equity); or between generations (intergenerational equity).

- **reducing the risk of criminal activity**. Thus, persons in occupations such as second-hand dealers and dealers in firearms may be required to keep detailed records of transactions to assist police in apprehending and prosecuting suspected criminals.

- **human rights**, **protecting** the vulnerable and disadvantaged, and **relieving** geographic and social isolation.

4.19 As with market failures, individual arguments for intervention are not necessarily mutually exclusive – several factors may underpin the argument for intervention.
**Existing policy levers**

4.20 When considering intervening you should identify what policy levers may already be in place that try to address, or could address, the problem you have identified. This could include regulation or non-regulatory solutions existing within or outside your department.

4.21 If there are existing levers within government that can be utilised to deal with the problem identified, further intervention may not be needed. Instead, you should maximise the use of those existing levers to address the identified market failure and/or equity problem.

4.22 It is important to fully understand the policy landscape by considering the following:

- Is the potentially harmful/inequitable situation newly realised?
- What other existing interventions might overlap with your proposals?
- Are there existing interventions that would partner or complement your proposals?
- Are there existing interventions which would mitigate the intended effects of any new proposals?

4.23 Identify any related or overlapping regulations that already affect those organisations and individuals likely to be affected by your proposal in order to work out the impact of your proposal. Consider the cumulative effect each option may have on those affected; and any interactions there may be with other regulations, both existing or under consideration by the Government, which might affect the effectiveness of your proposed intervention.

**Policy Options**

<table>
<thead>
<tr>
<th>What policy options have been considered? Please justify preferred option (further details in Evidence Base)</th>
<th>Maximum of 11 lines</th>
</tr>
</thead>
</table>

4.24 Set out the policy options that are being considered and presented in the evidence base of the IA. Only genuine policy options should be presented. In some cases, more options will be necessary; in others (e.g. transposing an EU directive with very limited national discretion) fewer may be sufficient.

4.25 When considering the transposition of legislation agreed at EU level, an Impact Assessment should be produced to inform the best approach to UK implementation. The policy options will not include ‘do nothing’ (i.e. not implementing a directive). Rather, the IA should set out clearly the
minimum required to implement in the UK the decision taken at EU level.5

4.26 This information provided in this box of the IA Template will typically change as the policy is developed, according to the IA stage:

- **Consultation stage**: All the options considered should be identified, together with their potential for achieving the stated objectives. A shortlist of options should be taken forward to the next stage of policy development and associated IA (using analysis of the costs and benefits to establish the most feasible solutions – your departmental economists can advise on estimation techniques).

- **Final and Enactment stages**: At the Final and Enactment stages of the IA the chosen or preferred option would be listed, along with a short description of the justification why it is chosen or preferred over the other available options.

4.27 The Evidence Base, other than at the Post Implementation review stage, should contain a description of each of the options considered (including the ‘do nothing’ option). All options must be assessed against the status quo or ‘do nothing’ situation. This will help draw out the implications of no action and also act as a baseline against which to assess the (so-called ‘marginal’) impacts of other options.

### Regulatory and Non-regulatory options

4.28 If you consider regulatory options to address the policy challenge at hand, you should make sure this complies with better regulation principles, as set down below. The principles state that any regulation should be:

- Proportionate: Intervention only when necessary. Remedies should be appropriate to the risk posed, and costs identified and minimised.

- Accountable: Regulatory bodies must be able to justify decisions, and be subject to public scrutiny.

- Consistent: Government rules and standards must be joined up and implemented fairly.

- Transparent: Regulators should be open, and keep regulations simple and user friendly.

- Targeted: Regulation should be focused on the problem, and minimise side effects.

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5 See the [appropriate baseline](#) for Impact Assessments for transposition of EU decisions.
4.29 It is important for non–legislative options to be considered at the outset of policy development. These could include, for example, service charters, quality marks and codes of practice. Information on alternatives to state regulation, such as provision of information or self–regulation, can be found at (Better Regulation Commission) (PDF).

4.30 Information on options for tackling public risks (e.g. monitoring risks and hazards, carrying out research into the nature of the hazard or the level of risk exposure, communication on risks and hazards) can be found in Green Book supplementary guidance on managing risks to the public.

Managing risks to the public: appraisal guidance

4.31 Further information can be found in reports by the Better Regulation Taskforce:

- Routes to Better Regulation; and
- Imaginative Thinking for Better Regulation.

4.32 A number of alternatives to regulation (e.g. codes of conduct, standards, quality marks) may lead to a requirement or demand for independent validation through a system of approval. An example of this is certification. Where independent validation is required, you will need to consider who will carry out the validation process and also how they themselves have been assessed and regulated. The United Kingdom Accreditation Service is a body that can provide advice and assistance on setting up and regulating various independent validation processes.

4.33 The guide sets out four simple principles to follow when considering requiring third party organisations such as business to provide information to consumers, or reviewing the effectiveness of existing requirements.

Warning! Regulated information: a guide for policy-makers (1126KB)

Post-Implementation Review (PIR) at Different Stages in the IA Process

4.34 Government expects policymakers to evaluate policies after implementation. Evaluation is used:

- to identify whether the policy change is achieving the desired results;
- to identify whether costs and benefits are in line with expectations;
- to inform future policy development;
- to improve delivery methods; and
to develop the techniques used to assess the impact of policy interventions.

4.35 Evaluation also improves policy formulation up front, since the knowledge that the policy will be subject to review later on helps to focus preparatory work.

4.36 The PIR aspect of Impact Assessment is a form of evaluation. The IA Guidance sets out the Government’s policy regarding when a PIR is needed, how often a PIR should be carried out; and what conducting a PIR may entail.

4.37 Other than at the PIR stage itself, the front page of the IA Template requires you to set out information on plans for PIR. The information required changes between the IA for policy development stages and the IA for PIR.

**IA for policy development - setting out PIR plans**

<table>
<thead>
<tr>
<th>When will the policy be reviewed to establish its impact and the extent to which the policy objectives have been achieved?</th>
<th>It will/will not be reviewed 01/2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Are there arrangements in place that will allow a systematic collection of monitoring information for future policy review?</td>
<td>Yes/No</td>
</tr>
</tbody>
</table>

4.38 You must specify in the IA Template when a PIR will be conducted to evaluate the extent to which the policy has achieved its objectives. You must also specify how the evaluation will be carried out. This information will evolve through the policy development stages as a preferred option emerges:

- You should provide details of your plans to carry out a PIR in the Consultation, Final and Enactment stage IAs. You will need to answer the PIR-related questions in the front page (above) and then complete the PIR plan in Annex 1 (see Chapter 8 for further information on the Post-Implementation Review Plan. See Annex 9 for further information on evaluation).
- Setting out a PIR plan at consultation stage will allow Departments to seek endorsement of their proposals for a proportionate review.
- You will need to provide your planned date for review of the policy. A date for PIR should ordinarily be set out in the final stage IA. A PIR is normally expected 3-5 years after implementation. Further details are given in the IA Guidance PIR section.
- You will also need to confirm whether or not there are arrangements in place for a systematic collection of information
for monitoring of the implementation of the policy or to support the future PIR. This could involve use of existing arrangements or require the collection of new policy-specific information.

- Where relevant, the PIR plan should also include plans for producing the post-legislative scrutiny Departmental Memorandum.⁶
- If there is no intention to carry out a PIR of the policy, you must set out the reasons in the final box of Annex 1.

**After a PIR is carried out**

<table>
<thead>
<tr>
<th>How have the policy objectives been achieved? Please highlight any unintended consequences.</th>
<th>Maximum of 10 lines</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>What was the original commitment date to review this policy?</th>
<th>01/2010</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>If you did not meet the original commitment date to review this policy please explain why.</th>
<th>Maximum of 3 lines</th>
</tr>
</thead>
</table>

4.39 The information required on the front sheet of the IA template changes at PIR stage.

4.40 You should provide a brief summary of the results of your PIR.

- You should summarise the extent to which the objectives and success criteria of the policy are being met; identify if the implementation of the policy gave rise to unintended consequences; and summarise any policy recommendations. This box is a summary only; the analysis underpinning the summary should be recorded in the Evidence Base (see Chapter 7: Evidence Base).

4.41 You will need to confirm whether the PIR was carried out by the date originally stated in the Final/Enactment IA. The date for review contained in the final or enactment stages IA is not a binding promise. There may be good reasons for Departments to decide nearer the time to change the date for review. In such cases, you should give the reasons behind the decision to delay or forego the planned review.

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Ministerial Declaration

4.42 The IA Guidance sets out the stages within the policy making process at which an IA must be formally produced and published, and what approval is necessary before an IA can be published at the different stages.

4.43 The Minister responsible for the policy (or the Chair or Chief Executive of non-Ministerial Government departments, non-departmental public bodies and other agencies) is required to sign off published Impact Assessments. In the case of joint Impact Assessments, a Minister from the lead department should sign it off.

- **Ministerial 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”.

- **Ministerial Sign-off**: for Final proposal/enactment stages 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) that the benefits justify the costs.”

- **Ministerial Sign-off**: for Review stage Impact Assessments:
  “I have read the Impact Assessment and I am satisfied that it represents a fair and proportionate assessment of the impact of the policy.”

4.44 IAs cannot be published on the IA library if the Ministerial declaration has not been completed.

4.45 Departments must facilitate these declarations by involving their economists from the early stages of policy development and by operating sound procedures for advising Ministers.

4.46 Robust departmental processes might include internal sign-off mechanisms; peer group review by economists; use of external panels of key stakeholders or professional experts to review the evidence; or a requirement that Chief Economists are consulted on all submissions to Ministers that address policy matters that would normally also require an IA (a Chief Economist Review).

4.47 Chief Economists should sign off the robustness and accuracy of the costs, benefit and impact analysis at the different stages; this is an internal sign-off mechanism and does not imply their approval of the policy proposal itself.
4.48 Annex 1 has information on the publishing and quality assurance of IAs, the role of the Better Regulation Executive and of the RPC.
Chapter 5: COMPLETING AN IA TEMPLATE:
ANALYSIS AND EVIDENCE

Introduction: Analysis & Evidence

5.1 This chapter deals with the Analysis & Evidence section of the IA Template, which captures key data and information on each of the policy options considered. This includes monetised and non-monetised costs and benefits, as well as the key assumptions, sensitivities and risks used for estimating them. It should also include the impact on simplification targets.

5.2 All the information presented in the IA Template should be explained in the Evidence Base. It is particularly important that the Evidence Base should show how the headline costs and benefits have been generated by clear and transparent presentation of figures and any assumptions used (see Chapter 7 below for further information on how to complete the Evidence Base): and robust evidence for key non-monetised costs.

5.3 At the Consultation and Final stage IAs, for each policy option considered, use one Analysis & Evidence page and one Implementation, Enforcement & Wider impact pages to capture the impacts. The preferred option or most likely policy option to be taken forward should be included as the Analysis & Evidence page Policy Option 1.

5.4 The impact of the ‘do nothing’ option, does not have to be captured in an Analysis & Evidence page (as it is the baseline against which the impact of the other policy options are assessed, and therefore by definition has incremental cost of zero) but you will need to considered it as a genuine policy option, and therefore a full description of its impact considered as part of the Evidence Base.

5.5 For an IA covering several parts to a Bill, for example, it is sensible to cover the options of each part, but to also have an overall summary Analysis & Evidence page.

5.6 At the Enactment and PIR stage IA, only the chosen policy option should be analysed in the Analysis & Evidence, and Implementation, Enforcement & Wider impact pages of the IA Template.

5.7 However, at the Enactment stage you will still need to provide background of the options considered as part of the Evidence Base (but not at the PIR stage). This evidence may refer back to your previously published Consultation and Final stage IAs.

5.8 Guidance on appraisal is provided by the Green Book chapter 5 and annexes 2 to 4 as well as in supplementary guidance on various
aspects of valuation and risk all of which can be found on the Green book web site.

5.9 Further to this chapter you may want to read the following annexes:

- **Annex 2** provides a general overview to valuation of costs & benefits of the options: coverage of costs & benefits, estimating costs & benefits, sectors and groups affected, discounting;
- **Annex 3** deals with risk (including public risk) and uncertainty and unintended consequences;
- **Annex 4** discusses the methodology for scoring admin burden and policy simplifications against the target;

**Cost and Benefits to be included in the Analysis & Evidence page**

<table>
<thead>
<tr>
<th>Price Base Year</th>
<th>PV Base Year</th>
<th>Time Period Years</th>
<th>Net Benefit (Present Value (PV)) (£m)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>Low: Optional</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>High: Optional</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Best Estimate:</td>
</tr>
</tbody>
</table>

**COSTS (£m)**

<table>
<thead>
<tr>
<th>Low</th>
<th>High</th>
<th>Best Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Transition (Constant Price)</td>
<td>Optional</td>
<td>Optional</td>
</tr>
<tr>
<td>Average Annual (excl. Transition) (Constant Price)</td>
<td>Optional</td>
<td>Optional</td>
</tr>
</tbody>
</table>

Description and scale of key monetised costs by ‘main affected groups’

Maximum of 5 lines

**BENEFITS (£m)**

<table>
<thead>
<tr>
<th>Low</th>
<th>High</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Transition (Constant Price)</td>
<td></td>
</tr>
<tr>
<td>Average Annual (excl. Transition) (Constant Price)</td>
<td></td>
</tr>
<tr>
<td>Total Benefit (Present Value)</td>
<td></td>
</tr>
</tbody>
</table>

5.10 Quantifying the costs and benefits of options enables the decision maker to compare the options and inform choices between them. Issues of equity, and social significance, as well as political considerations, will also influence decisions.

5.11 Relevant costs and benefits are those that arise from the decision at hand, i.e. directly attributable to the policy or intervention of each option (i.e. first round effects). Indirect impacts (or second round effects)
should be brought into the analysis where they are significant. (See Coverage of costs and benefits below).

5.12 For each option you must present only the costs and benefits that are additional (so-called incremental or marginal costs and benefits) to those that would have been incurred if no action were taken. This is referred to as the baseline or counterfactual against which all options are compared, i.e. all potential costs and benefits of each option over and above what would happen in the absence of any intervention.

5.13 Note, the baseline, or counterfactual, may involve changes over time irrespective of whether the policy is implemented. For example, you may expect the number of businesses operating in a developing market to increase over time. It is against this baseline that the incremental, or marginal, cost of all options will be assessed.

5.14 The baseline, or counterfactual, for estimating the incremental costs and benefits of transposing EU legislation is a notional 'do nothing' scenario, in which no action is taken, though that is not a feasible option. You must include as an option the minimum required to implement the directive in the UK. The marginal costs and benefits of all other options are those over and above the notional baseline of no change so they can be compared against the minimum implementation. For example, if minimum implementation of an EU directive has an incremental cost of £100m (to what would have occurred if the directive were not implemented in the UK), compared with an alternative which could cost £110m, i.e. a further £10m over the minimum implementation option.

5.15 You must provide the estimates of costs and benefits in constant prices, i.e. expressed in ‘real terms’, (as opposed to ‘nominal terms’ or ‘current prices’), which adjusts for the effects of inflation. You must select the latest price information available (the price base) for your estimates, unless there is a good reason not to do so.

5.16 It is likely that most regulatory proposals will impose costs and have benefits that accrue over a number of years. Impacts should be considered over the lifetime of the policy. In order to compare options which have costs and benefits occurring at different times you need to adjust the estimates by discounting the impacts to the same point in time, to estimate the Present Value (PV) of the impacts.

5.17 Discounting is a technique used to compare costs and benefits that occur in different time periods. Discounting is a separate concept from inflation and is based on the idea of ‘time preference’, i.e. in general people prefer to receive goods and services sooner rather than later and prefer to put off paying for things as far into the future as they can. It is the same for regulatory proposals: the sooner the benefits can be realised and the further into the future the costs the more it may be

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7 See genuine policy options for Impact Assessments for transposition of EU decisions.
preferred. The **recommended discount rate is 3.5%**, following the advice in HM Treasury’s Green Book.

5.18 Calculating the present value of the differences between the streams of costs and benefits provides the Net Present Value (NPV) of an option – the primary criterion for deciding whether government action can be justified. See Annex 2 ‘Valuation of the policy options’ for further advice on discounting.

5.19 The following information should be provided at the top of the Analysis and Evidence page:

- **Price Base Year**: The year chosen for the constant price presentation of the estimates.

- **Present Value (PV) Base Year**: The year in which the impacts over time are valued, ie the year to which the future impacts are discounted. This is normally the year in which the estimates are undertaken or policy decisions taken.

- **Time Period**: The length in years of the life of the policy. Use ten years, unless there are good reasons to choose a different period, e.g. because the policy will last for a shorter period or the full range of impacts will not be felt for many years, eg the effects of policy on pensions.

5.20 The Summary: Analysis & Evidence and Evidence Base page requires monetised costs and benefits (in million pounds) to be presented in three ways, to allow decision makers and stakeholders to focus on different aspects of the impact of a policy option:

- **Transition costs and benefits**: These are transient, or one-off costs or benefits that occur, which normally relate to the implementation of the measure. These are expressed as a total over the number of years over which the costs occur.

- **Recurring costs and benefits (excluding Transition)**: These are the costs and benefits that will recur while the policy measure remains in force (they may occur in every year, or at a different frequency, although the scale of the impact may change over time). These are expressed as an annual average (over the life of the policy).

- **Total**: Includes all monetised costs and benefits over the life of the policy, expressed in **Present Value** terms.

5.21 All relevant costs and benefits to government and society of all options should be valued, and the **Net benefits or costs** recorded in the box in the top right of the Summary: Analysis and Evidence sheet. The decision maker can then compare the results between options to help select the best.
- **Net Benefit (PV)** = Total monetised benefit – Total monetised Costs

5.22 In order to reflect the inherent uncertainty of costs and benefits estimates over the lifetime of policies, you may want to provide a **range for your costs and benefits estimates** (low and high points of the range of Transition, Recurring, Total and Net costs and benefits). Such ranges allow decisions to be taken with consideration of problems and uncertainty that might occur.

5.23 Whether or not a range is used, in any case a **Best Estimate** must be provided. This will be the most likely point in the range (having some detailed analysis of the probability distribution of costs and benefits). In the absence of information on the distribution of costs and benefits, use the mid-point of the range. While information on the distribution is preferable, it may not be proportionate in every case to go into such a depth of analysis.

5.24 **Monetised** costs and benefits should normally be based on **market prices** as they usually reflect the best alternative uses that the goods or services could be put to (i.e. the **opportunity cost**).

5.25 There are a few exceptions where valuing at market prices is not suitable. If the market is dominated by monopoly suppliers, or is significantly distorted by taxes or subsidies, prices will not reflect the opportunity costs and adjustments may be required and specialist economic advice will be needed.

5.26 Wider social and environmental costs and benefits for which there may be no market price also need to be brought into any assessment. They will often be more difficult to assess but are often important and should not be ignored simply because they cannot easily be quantified. Other forms of quantification could be used where appropriate (See Estimating Benefits and Estimating Costs below). For example, number of lives saved, increased manpower requirements, changes in emission levels or number of new bits of equipment needed. Such measures should allow options to be compared but may not allow the relative costs and benefits to be weighed up. Costs and benefits should be recorded in qualitative terms only when the above are not possible.

5.27 Summarise on the Summary: Analysis & Evidence page the **key monetised and non-monetised costs and benefits, that impact on particular groups**, such as particular industries, sectors, firm size, social groups or regions. This is important because the options under consideration may have beneficial impacts on some groups and negative impacts on others. These should be explained in detail in the Evidence Base. See Annex 2 ‘Valuation of the policy options’ for further advice on sectors affected.
Key Assumptions, Sensitivities and Risks

| Key assumptions/sensitivities/risks | Maximum of 8 lines |

5.28 The depth of analysis should be proportionate to the likely impact of the policy option but robust enough to inform decision making. It is important to avoid being spuriously accurate when concluding from, and presenting the results of, data generated by the appraisal. As part of this you should also identify any specific risks or areas of uncertainty that may impact on the levels of costs and benefits.

5.29 To deal with uncertainty about the future and the likely impact of the policy options considered you will have to make assumptions when assessing the impact of an option and when comparing between them. You should state clearly what main assumptions you have made in the key assumptions, sensitivities and risk box. These should be tested to ensure the sensitivity of your estimates of costs and benefits to the different assumptions. Changing the assumptions will provide a range of possible estimates. See Annex 3 ‘Risk, uncertainty and unintended consequences’ for further advice on this.

Use of IA for Admin Burden and Policy Costs Simplification

<table>
<thead>
<tr>
<th>Impact on admin burden (AB) (£m):</th>
<th>Impact on policy cost savings (£m):</th>
<th>In scope</th>
</tr>
</thead>
<tbody>
<tr>
<td>New AB: AB savings: Net:</td>
<td>Policy cost savings: Yes/No</td>
<td></td>
</tr>
</tbody>
</table>

5.30 The boxes at the bottom on the page are for recording those savings identified in the IA that are scored against the simplification targets. The simplification targets record impacts on business only. These must be presented in the same constant price base as the impacts presented in the rest of the IA template.

- The net saving against the admin burden simplification target; and
- The gross saving against the policy cost target (but netting off new burdens that arise as part of the same policy package of regulatory reform).

5.31 A completed Impact Assessment is required for simplification measures. The full impacts resulting from simplification measures should be presented in the boxes recording the costs and benefits of the policy options. This way, the merits of each simplification measure can be assessed, e.g. do the benefits (savings) from the simplification measure justify the costs involved in delivering those savings. The boxes recording the impact against the targets present the impacts which are relevant to the delivery against the targets.
5.32 The IA Template is used as an information source for tracking the government’s performance in meeting its own simplification targets (admin burden and policy costs) for the 2010-2015 period. Annex 4 on Admin Burdens and policy cost below provides detailed methodological information.
Chapter 6: COMPLETING AN IA TEMPLATE: IMPLEMENTATION, ENFORCEMENT AND WIDER IMPACTS

Implementation, Enforcement and Wider Impacts

| What is the geographic coverage of the policy/option? | Options |
| From what date will the policy be implemented? | 01/01/2010 |
| Which organisation(s) will enforce the policy? | |
| What is the annual change in enforcement cost (£m)? | |
| Does enforcement comply with Hampton principles? | Yes/No |
| Does implementation go beyond minimum EU | Yes/No |
| What is the CO₂ equivalent change in greenhouse gas emissions? | Traded: | Non-traded: |
| Does the proposal have an impact on competition? | Yes/No |
| What proportion (%) of Total PV costs/benefits is directly attributable to primary legislation, if applicable? | |
| Annual cost (£m) per organisation (excl. Transition) (Constant Price) | Micro | < 20 | Small | Medium | Large |
| Are any of these organisations exempt? | Yes/No | Yes/No | Yes/No | Yes/No | Yes/No |

6.1 Understanding the geographic coverage of the policy option is important, to provide clarity about the scope of the policy and give context to the scale of costs and benefits. Choose one of the options from the menu (see below) If other, specify in the field available next to the menu:

- United Kingdom
- Great Britain
- England and Wales
- England
- Wales
- Other

6.2 Record the date when the policy will be implemented. In line with the rules on Common Commencement Dates, and subject to particular exceptions, legislation bearing on business can only commence on 6 April or 1 October each year. However, for all options considered (including non-regulatory options), the date of implementation of the proposal should be clearly stated on the summary page.
6.3 **Enforcement.** You should indicate:

- **Which organisation(s) will enforce the policy?**
- **What is the change in annual enforcement costs?** This refers to the change in the cost of enforcement with respect to the existing situation. The change in cost may be positive or negative. Use the same constant price base for this calculation\(^8\).
- **Does enforcement comply with the Hampton principles?**

Annex 5 below provides further information on enforcement and implementation issues.

6.4 Understanding whether the proposed options will go beyond **minimum EU requirements** or avoid over-‘gold-plating’ – EU Directives, unless there are exceptional circumstances to do so and the benefits demonstrably outweigh the costs, is important. Hence, if your proposal goes beyond the minimum requirements of the EU Directive that it implements, you will need to make the case for this in the Evidence Base. If the proposal does not relate to an EU Directive, write ‘N/A’.

6.5 Recording the CO\(_2\) equivalent change in **greenhouse gas emissions** resulting from the policy options provides information for Carbon Budgets. The impacts should be recorded in million tonnes of CO\(_2\) equivalent. A Greenhouse Gas Impact Assessment is an integral part of assessing environmental impacts. You will need to indicate the impact on the traded and non-traded sectors. However, if it appears that your policy does not affect an activity or sector that may have a significant impact on emissions of greenhouse gases, you do not need to conduct a full carbon Impact Assessment. See the guidance on A Greenhouse Gas Impact Assessment for further information.

6.6 It is important to identify **whether the proposals have an impact on competition.** Do the policy options make it more difficult for new or existing businesses to enter the market, or will they decrease competitive pressures in the market? Consult the OFT’s guidance on Competition Assessment to help you consider the effect of different policy options on competition. If the policy involves a subsidy then please consult the OFT guidance on how to measure the competition effects of subsidies. If there is a competition effect you will need to complete a Competition Specific Impact Test – see below.

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\(^8\) The cost of enforcement should be recorded on a ‘gross’ basis. For example, if a new regulation requires new enforcement costs of £10m, but £5m of this can be recovered through charges levied on the firms affected, you should record here the change in annual enforcement costs as £10m. Record the net impacts in the evidence base.
6.7 Record the **proportion (%) of Total PV costs/benefits directly attributable to primary legislation.** This information is needed for the reporting by the Better Regulation Executive of the annual Benefit/Cost Ratio, in order to avoid double counting of impacts identified in IAs accompanying both the primary and secondary legislation.

6.8 In understanding the impacts of the policy options, it is important to consider the impacts on business and the third sector **organisations of different size.** State the estimated annual cost per organisation (excluding one-off costs) of the option or proposal under consideration for each of micro (<10 employees), less than 20 employees, small (<50 employees), medium (<250 employees) and large organizations (250+ employees).

6.9 To reduce the disproportionate regulatory burden often faced by micro and small business, careful consideration must also be given to exemption of these categories. Consult guidance on the Small Firms Impact Test (Annex 6) to help you consider the definitions of organisation size and the calculation of costs to organisations.

### Specific Impact tests (SITs)

<table>
<thead>
<tr>
<th>Does your policy option/proposal have an impact on…?</th>
<th>Impact</th>
<th>Page ref within IA</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Statutory equality duties</strong>&lt;sup&gt;9&lt;/sup&gt;</td>
<td>Yes/No</td>
<td></td>
</tr>
<tr>
<td>Statutory Equality Duties Impact Test guidance</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Economic impacts</strong></td>
<td>Yes/No</td>
<td></td>
</tr>
<tr>
<td>Competition</td>
<td>Competition Assessment Impact Test guidance</td>
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<sup>9</sup> 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.
6.10 You must complete a range of tests to ensure that policy development is joined up and that individual policy proposals take account of a number of broad policy objectives. Some of the tests are designed to help policy-makers monetise costs and benefits, whether economic, environmental or social. Other tests enable policy-makers to identify non-monetised costs and benefits, or to identify the differential impacts of policy proposals.

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

6.12 Policy-makers are encouraged to consult the available departmental guidance on Specific Impact Tests at the early stages of policy-making (See Annex 6).

6.13 You must exercise your judgment in applying these tests, ensuring that the overall analysis is proportionate and that there is a clear focus on costs and benefits. Many tests have initial screening mechanisms that enable you to determine quickly whether further assessment is necessary or desirable.

6.14 It is a legal requirement for all policy proposals be subject to the Statutory Equality Assessments stemming from equality legislation. You may fulfil this obligation by completing the Statutory Equality duties impact test. (See Annex 6 with guidance on Statutory Equality duties provided by the Equality and Human Rights Commission.)

6.15 Where the use of Specific Impact Assessments provides evidence contributing to the identification or quantification of (monetised and non-monetised) costs and benefits resulting from the policy options, the results should be set out in the main Evidence Base and included in the Summary: Analysis & Evidence page.

6.16 Where the tests yield information relevant to an overall understanding of policy options, the detailed results may be annexed to the Impact Assessment.
Chapter 7: COMPLETING AN IA TEMPLATE: EVIDENCE BASE

Evidence Base

References

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

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

7.1 In the first page of the Evidence Base you may provide:

- **References:** Include the links to relevant legislation and publications, such as public impact assessment of earlier stages (e.g. Consultation, Final, Enactment). Relevant legislation should be referenced using standard OPSI format.

- Complete the **Annual profile of monetised costs and benefits** (transition and recurring) below over the life of the preferred or chosen policy option (use the spreadsheet attached if the period is longer than 10 years). You may use best estimate figures in the annual profile table. See example below.

- The spreadsheet also contains a saving emissions table that you will need to fill in if your measure has an impact on Greenhouse Gas emissions.

7.2 The Evidence Base should include a mixture of narrative, analysis and research that support the answers given on the summary pages of the IA template.
7.3 It is particularly important that the Evidence Base set out clear evidence that justify the inclusion in the analysis of any monetised as well as non-monetised cost or benefits, and show how the headline costs and benefits have been generated, by clear and transparent presentation of figures and any assumptions used.

7.4 The balance of economic, social and environmental costs and benefits should emerge clearly from this presentation. Use of disaggregated figures should help readers gain a better understanding of the monetised costs and benefits of the policy options that are presented in aggregated terms on the summary pages of the IA. It may also be useful to present a summary table that compared the main monetised costs and benefits of the various options considered.

7.5 The information must stand up to external scrutiny – i.e. it should be accessible to the lay reader, and external parties with an interest must be able to contest the data. It should also be consistent with the HM Treasury Green Book guidance on appraisal and evaluation.

7.6 Departments and regulators are free to choose how to set out the Evidence Base. However, presenting the evidence base following a standard structure has the benefit of improving the transparency of the information contained. It is therefore desirable that the following points are covered:

- Problem under consideration
- Rationale for intervention
- Policy objective
- Description of options considered including ‘do nothing’
- Costs and benefits of each option
- Risks and assumptions
- Administrative burden and policy savings calculations
- Wider Impacts
- Summary and preferred option with description of implementation plan.

7.7 A maximum length of 30 pages is recommended, in order to aid the lay reader and external parties with an interest. Using headings and clear drafting and avoiding repeating material that is presented elsewhere, such as in explanatory notes or explanatory memoranda, would also assist in ensuring the Evidence Base remains a focused document, supporting the summary pages.

7.8 At the Consultation and Final stages, when a number of options (each with its own Summary: Analysis & Evidence page) are being considered, the content of the Evidence Base should clearly address all of the options; when there is a preferred option, the Evidence Base should provide a clear justification.
7.9 At the Enactment stage an option has been chosen, and while the focus should be on the costs and benefits of the preferred option, it should clearly set out a clear justification for its selection, when compared against the other options considered. It may be useful to include reasons for discarding options that are not adopted.

Evidence base for the PIR IA

7.10 It is the duty of officials to monitor the effectiveness of policy implementation and to give frank and impartial advice on the extent to which policies are working as intended and to identify lessons to be learned. Where a policy is failing to achieve its objectives, or where the costs and benefits are significantly different from those anticipated, it is the duty of officials to draw this to a Minister’s attention. The PIR IA is an important component of this process.

7.11 The Evidence Base of the IA at the PIR stage should capture information and evidence collected during routine monitoring and as a result of conducting the PIR and should summarise the findings of the review.

7.12 As in the other stages of IA, Departments and agencies retain considerable freedom to choose how to set out the evidence in the Evidence Base in the PIR IA. However, it is desirable that the following points should be covered:

- Problem under consideration
- Rationale for intervention
- Policy objective
- Risks and assumptions
- Wider impacts
- Indication of resources used to undertake the PIR
- Results of your PIR

7.13 Some of the point above should reproduce the analysis set out in IAs at earlier stages.

7.14 The information and analysis set out in the Evidence Base will vary significantly according to the intensity with which the review has been carried out.

7.15 Nevertheless, the PIR stage Evidence Base would normally be expected to cover (very briefly, where appropriate) the following topics:

- How the review was carried out (what resources were considered appropriate and why; how long the review took; what information was obtained; who was consulted);
If individual SIs or IAs have been ‘bundled’ into a single PIR, the reasons for this approach;

The views of stakeholders and enforcement bodies as to the effectiveness of the implementation of the policy;

Information used in carrying out the review (eg information collected during routine monitoring, information obtained for the purposes of the PIR, any relevant evaluations carried out by other parties);

(Where relevant) comparisons to implementation in other EU Member States, and any goldplating identified;

The overriding question: whether the policy is working as intended;

(Where appropriate) What are the costs and benefits in hindsight and going forward? and

Any policy conclusions arising from the review, including any recommendations for further actions or evidence-gathering.

7.16 Further guidance is provided in the following paragraphs.

**Proportionality and likely benefit**

7.17 As set out in the IA Guidance, resources devoted to PIR should be proportionate to the likely benefits accruing from PIR. It is for Departments to assess the likely benefits and determine their approach to PIR. However, the likely benefits of a PIR are driven by two main factors:

a) The impact of the policy;

b) The ability of the Department to change policy in response to lessons learned.

7.18 The Department’s assessment of ‘likely benefit’ should feature in the explanation of the Department’s planned approach to PIR (see Chapter 8). Therefore an assessment of ‘likely benefit’ of PIR should ideally be carried out at or before Consultation Stage.

7.19 When a PIR is carried out, its primary focus should be on whether the policy has had the intended effect, setting out any unintended consequences that may have been observed. These are two of the main ‘likely benefits’ of undertaking PIR.

7.20 The first driver of PIR benefits, policy impact, requires a subjective assessment of the extent to which the policy is important to stakeholders, to society and to the achievement of the Department’s
objectives. Factors relevant to the prioritisation of PIRs include the following:

- the size of the costs and benefits compared to the baseline position;
- whether there is a high impact on a particular sector or group;
- whether the policy is key to delivering the Department’s objectives;
- the degree of feedback from stakeholders;
- whether the policy is especially contentious or politically significant;
- whether there is a significant environmental impact; and
- whether the policy mechanism is innovative or uncertain, such that there is high uncertainty as to whether outcomes will be achieved.

7.21 The second driver, the Government’s ability to effect change, is also important. The most obvious example limiting potential to change policy is where the policy under review is an EU Directive which the UK is obliged to transpose under strict EU guidelines. However, the fact that a policy derives from EU law does not in itself mean that there is no opportunity to change, for two reasons:

- EU Directives set out the result to be achieved, leaving form and methods to Member States. In practice this means that policymakers almost always have flexibility in their choice of implementation and enforcement mechanisms.
- EU instruments are themselves periodically reviewed. Where possible, PIRs should be scheduled so as to fit in with any EU-wide evaluation.

7.22 Resources devoted to PIR are expected to fall along a wide spectrum. The two ends of the spectrum are discussed further below; in practice many PIRs will fall between the extremes.

**Desktop reviews**

7.23 Where the likely benefit of a PIR is assessed as falling at the low end of the scale, a ‘desktop review’ is likely to be appropriate. Such reviews are expected to be quick and efficient.

7.24 You should set out in the Evidence Base a summary of how the review was conducted. In a desktop review it should be sufficient to state that the review was carried out by collating previously-available evidence, including the known views of stakeholders and enforcers.
7.25 In order to carry out a desktop review you should collate information collected during monitoring. It may also be helpful to find out whether the policy has been evaluated by a third party, or whether comparable policies in other countries (especially EU) have been evaluated.

7.26 In carrying out a PIR you must take into account the views of stakeholders as to the effectiveness of policy implementation. The aim of eliciting stakeholder views for a PIR is not to reopen the original debate over the policy intent, but to find out whether the policy has been implemented in the most effective and efficient way possible. Those subject to regulation and those enforcing regulation are often best placed to answer this question.

7.27 In carrying out a desktop review:
- where you have reliable current evidence of their views, no further stakeholder engagement is expected;
- where you do not, you should contact a sample of stakeholders and enforcers to elicit their views on the effectiveness of policy implementation and how it might be improved.

7.28 The overriding question to be addressed in a PIR is: is the policy working as intended? This breaks down into a number of subsidiary questions. For a desktop review you should consider at a minimum:
- to what extent has the policy achieved its objectives?
- to what extent have the success criteria been met?
- to what extent have there been unintended consequences?

7.29 All PIRs should address the questions of whether the policy is working as intended. Some qualitative evaluation of the actual costs and benefits is intrinsic to this question, but a ‘desktop review’ will not in most cases be expected to include a full re-estimation of actual costs and benefits. The recommended approach is to ask the question: do I have reason to believe that the expected costs or benefits were materially inaccurate? If the answer is yes, it is likely to be proportionate to amend the estimates, consistently with the principle of proportionality set out in Chapter 2.

**High-intensity PIRs**

7.30 Where the likely benefits arising from a PIR are assessed as high, a higher-intensity PIR is expected. For example, in most cases, policies imposing burdens above £50m a year should be subject to a full review. The resources devoted to a full-scope review are likely to be significant. Such PIRs are likely to be formally managed as projects. For example, the review of the Companies Act 2006 is expected to take 1.4 person-years.
7.31 The questions to be addressed in a full review will be determined during the scoping phase of the project, but a full review should normally consider the following questions, in addition to those addressed during a desktop review:

- To what extent was the causal mechanism linking the intervention with the desired outcome effective?
- Hence, what scope is there for simplification, improvement or deregulation?
- What are the costs and benefits, in hindsight? and going forward?
- (if relevant) have the expected admin burden reductions been realised?
- Is government intervention still required, in light of changing circumstances?
- Do compliance levels indicate that the enforcement mechanism chosen is appropriate?

7.32 The methods you use to answer these questions will depend on the circumstances. The Government Social Research Unit’s Magenta Book provides detailed guidance on social research methods for policy evaluation (add link to Magenta Book). You may also wish to refer to the Green Book or talk to your economists.

7.33 In conducting a full-scope review you are also expected to:

- re-examine each of the relevant specific impact tests; and
- re-estimate the monetised costs and benefits.

7.34 You should consult stakeholders and enforcers, having regard to the Government’s Code of Practice on Consultation

7.35 When conducting a PIR of policies implementing EU obligations, you should compare implementation practice with at least two other major Member States to draw lessons on implementation and enforcement.

7.36 This comparative exercise may also help identify occasions where UK implementation has inadvertently gone beyond the minimum necessary to satisfy our EU obligations.

- It is Government policy to avoid over-implementation – ‘gold-plating’ – unless there are exceptional circumstances and the benefits demonstrably outweigh the costs (see the Transposition Guide) and only then after clearing the policy through the NEC(BR) sub-committee.
- Where a PIR identifies an inadvertent example of gold-plating, the PIR IA should either prompt a recommendation to change the policy implementation to remove the gold-plating, or an explanation of why not such recommendation is being made.


**Bundling**

7.37 In many instances it will be an efficient use of resources to bundle together several items in a single review:

- One advantage of ‘bundling’ policies together is to allow policy-makers to evaluate the cumulative burden arising from related policies, a perspective that is not possible when policy instruments are reviewed on a piecemeal basis.

- Another advantage is that an aggregate perspective is required for the purposes of Post-Legislative Scrutiny (PLS) of Acts. Preliminary assessment of a statute for the purposes of PLS is expected to cover how the principal delegated legislation under the Act has worked in practice. It is expected that in many cases PLS and PIR will be carried out as a single exercise.

7.38 Where a decision is taken to bundle together policies into a single review, the reasons for that decision should be given.

**Lessons learned and further actions**

7.39 Policy is generally formulated in conditions of uncertainty and limited information. In reality, therefore, there will almost always be unintended consequences. Identifying these provides opportunities to learn lessons from experience.

- One of the main aims of a PIR is to identify lessons to be learned. Any lessons should be set out in the Evidence Base. Lessons that might have more general application should also be communicated within Departments, eg to the Department’s economists and Better Regulation Units.

- Despite effective consultation and stakeholder engagement during the policy making process it can be difficult to predict the response of the regulated to newly implemented regulations which can often result in unexpected side-effects. Policy-makers often draw lessons about enforcement mechanisms in the period immediately after implementation, and guidance can usually be improved to reflect early experiences.

- Where there is a material difference between the outcomes intended and those observed, there may be good reason to suggest that the policy, or the implementation strategy, should be amended.

- The Evidence Base should clearly set out proposed future actions arising as a result of the review.
Chapter 8: COMPLETING AN IA TEMPLATE: ANNEXES

Annex 1: Post-Implementation Review Plan

8.1 Annex 1 of the IA template (at all stages other than at the PIR stage) is dedicated to the PIR plan.

8.2 At the consultation stage you will need to provide a high level idea of your proposed approach to PIR and depth of analysis. Setting out a PIR plan at consultation stage will allow Departments to seek endorsement of their proposals for a proportionate review. Stakeholders’ views expressed during consultation may help inform your plan for PIR. At the Final/Enactment stage, your proposed plan for a PIR is likely to be refined and more concrete.

8.3 Setting out a plan for PIR will also help ensure that scheduled PIRs are taken into account in Departments’ Business Plans.

8.4 The resources devoted to PIR should be proportionate to the likely benefits of such a review (see Chapter 7 for a discussion of factors relevant to that assessment). The PIR plan will depend on the likely benefit expected:

- You should therefore first assess the likely benefit of the PIR of the policy, and summarise this assessment in the ‘Review approach and rationale’ field;
- You should then draw up a plan for PIR that is consistent with this assessment, and summarise it in Annex 1.

8.5 It is essential to devote adequate consideration, during the policy development process, to how the policy will be monitored during implementation. Monitoring is a core element of sound policy making (a key stage in the ROAMEF policy cycle). The more routine monitoring is carried out, the more straightforward is the PIR process.

- Monitoring should at the very least involve keeping in regular contact with representatives of those subject to regulations and with agencies responsible for enforcement;
- It may also include routine collection of data, for example relating to compliance rates, pecuniary costs, success indicators etc.
Annex 1: Post-Implementation Review (PIR) Plan

**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]

**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?]

**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]

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

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

**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]

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

**Other annexes**

**8.6** Where the tests yield information relevant to an overall understanding of policy options, results may be annexed to the Impact Assessment
Annex 1: PUBLICATION & QUALITY ASSURANCE OF IMPACT ASSESSMENTS

A1.1 Publishing IAs at Different Stages

A1.1.1 The IA Guidance sets out that there are certain points or stages within the policy making process where an Impact Assessment must be formally produced and published. These are:

- The Consultation stage (if a public consultation is carried out);
- The Final proposal stage: first when the Government announces its firm position on a single policy option (this will often be when it publishes its consultation response), and again when the proposal enters Parliament;
- The Enactment stage: when the legislation is enacted, if changes have been introduced during the Parliamentary process);
- The review stage: when a Post-Implementation Review is carried out.

A1.1.2 All published IAs must be placed on the Impact Assessment library. While this will be the main vehicle for stakeholders to access published IAs, you may also wish to publish the IA with its associated documents on your department’s website.

A1.1.3 Copies of all Enactment IAs must also be placed in the library of both Houses of Parliament. Send one copy of the IA to The Deposited Papers Clerk at each of the addresses below:

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<th>Oriel Room</th>
<th>Derby Gate Library</th>
<th>The Library</th>
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<td>House of Commons Library</td>
<td>1 Derby Gate</td>
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You can ring the Deposited Papers Clerk on 020 7219 2004 or email queries to hclibrary@parliament.uk

A1.1.4 An Impact Assessment should accompany the introduction of a Government Bill to either House of Parliament. A revised IA will be required at each stage of a Bill’s passage through Parliament where there are significant changes to the substance of the Bill which change the estimates of the costs and benefits. In addition, the Explanatory Memorandum to the Bill must include a summary of or
reference the Impact Assessment. You must include a reference to where the complete IA can be obtained using the following standard form of words:

“The final proposal stage Impact Assessment of the costs and benefits that this Bill would have is available at …..[insert a list of those places in Parliament where the IA is available]”

A1.1.5 The Enactment stage IA must present the impacts resulting from the enacted legislation.

A1.1.6 The Explanatory Note accompanying a Statutory Instrument should say that an IA is available, and from where it can be obtained.

A1.1.7 When Statutory Instruments are directly linked to Primary Legislation or are laid under powers created by earlier Primary Legislation or which is itself the subject of an IA, departments must ensure that the new SI IA contains on the costs attributable to the SI, rather than a duplication of the total costs of the Primary Legislation.

A1.1.8 When Statutory Instruments concern a particular change distinct from the provisions of the primary legislation, a new IA should be published in the usual way.

A1.1.9 For all Bills and Statutory Instruments to be debated in Parliament 50 copies of the IAs should be sent to the Vote Office and 10 copies to the House of Lords Printed Paper Office. IAs should also be made available to relevant Standing Committees.


A1.1.11 For Private Members’ Bills that the Government is planning to support, or is not intending to oppose produce an IA by the date set down for Second Reading. It is also good practice to prepare an IA for a Private Members’ Bill being opposed, in order to obtain the evidence to justify the objection to the Bill.
A1.2 Quality Assurance of IAs

A1.2.1 The IA is a policy decision making tool, better IAs should lead to better decision making. Good practice in IA development includes early engagement with stakeholders, and with departmental analysts and economists to ensure good quality analysis informs policy formation.

A1.2.2 It is the responsibility of departments, in first instance, to ensure the quality of analysis of their own IAs by setting up robust departmental processes to that effect.

A1.2.3 The Minister responsible for the policy (or the Chair or Chief Executive of non-Ministerial Government departments, non-departmental public bodies and other agencies) is required to sign off public Impact Assessments. Departments must facilitate these declarations by involving the relevant policy officials, their economists and other analysts from the early stages of policy development and by operating sound procedures for advising Ministers.

A1.2.4 Robust departmental sign-off process might be required. These could include Ministerial Challenge panels, internal sign-off mechanisms; peer group review by economists; use of external panels of key stakeholders or professional experts to review the evidence; or a requirement that chief economists are consulted on all submissions to Ministers that address policy matters that would normally also require an Impact Assessment (a Chief Economist Review).

A1.2.5 Chief economists should sign off the robustness and accuracy of the costs, benefit and impact analysis at the different stages; this is an internal sign-off mechanism and does not imply the approval of the policy proposal itself.

A1.2.6 Collective Ministerial clearance through the National Economic Council (Better Regulation) Sub-Committee is required, as a matter of course, for policies where the total average annual cost on public, private or third sectors is estimated to be more than £20m. Policy proposals also require consideration by a Cabinet Committee where they may raise major policy concerns, are likely to lead to significant public comment or criticism, or where the subject matter affects more than one Department. Policy clearance processes therefore include clearance of Consultation, Final and Enactment Impact Assessments before publication. Review stage Impact Assessments do not require formal clearance before publication.

A1.2.7 Better Regulation Units should be the first port of call for assistant on your regulation related questions.
A1.2.8 The Better Regulation Executive, in its cross-government role, works with departments to provide ongoing practical support for policy-makers, including the sharing of best practice. Each department has a BRE Relationship Manager who can be consulted on detailed aspects of policy and IA development and will be able to support you in improving your use of Impact Assessment.

A1.2.9 One of Parliament's constitutional functions is to oversee the Executive. Accordingly, Parliament may take an interest in the analysis supporting proposed regulation and in how regulation has worked in practice. In practice Impact Assessments are most likely to be scrutinised by Parliamentary Committees, such as House of Commons Select Committees and the House of Lords Committee on the Merits of Statutory Instruments. Although such events are likely to be rare, in principle either House has the power to send back secondary legislation where it considers a proposal to be inadequately reasoned or evidenced.

The Regulatory Policy Committee (RPC)

A1.2.10 The RPC is an independent advisory body sponsored by the Department for Business, Innovation and Skills has been invited by the Government to scrutinise and comment on the quality of analysis supporting policy decisions on new regulations, and on whether the policy design will ensure the benefits justify the costs, including:

i. the accuracy and robustness of the costs and benefits;
ii. whether the range of policy options assessed support minimising costs and maximising benefits; and
iii. the degree to which issues of public risk and the practicalities of ensuring compliance are taken into account.

A1.2.11 The RPC does not comment on the Government’s policy objectives, which are a matter for Ministers, but focuses on the cost-effectiveness of the instruments to deliver them. While its role is purely advisory, with ultimate decision making being retained by Ministers, it can comment publicly on whether the Government has been effective in minimising the costs of measures and maximising the benefits, and on whether the benefits justify the costs.

A1.2.12 The Impact Assessment is the main tool by which the RPC makes its assessments. Consequently, where your measure falls within the remit and work programme of the RPC you will need to factor in the involvement of the RPC in the process (see the IA Toolkit for further information on working with the RPC).
Other external stakeholders

A1.2.13 Impact Assessments are available to stakeholders and the general public through their publication on the web. [DN: link to IA Library]. Stakeholder who will typically take a high level of interest in published Impact Assessments include:

- Business organisations such as the British Chambers of Commerce and the Institute of Directors [DN: add links]
- Think Tanks and Pressure Groups
- Academics
- The general public
Annex 2: VALUATION OF COSTS AND BENEFITS OF THE POLICY OPTIONS

This Annex provides a general overview to valuation of costs & benefits of the options including:

- Coverage of costs and benefits to be included in an IA.
- A brief introduction to estimating costs and benefits.
- Other aspects of valuation relevant to an IA such as discounting and an outline of those groups affected you may need to consider.
- Proportionate analysis.

A2.1 Valuing costs and benefits

A2.1.1 The relevant costs and benefits to the UK economy of all options should be valued, where it is proportionate to do so, and the net benefits or costs calculated. The decision maker can then compare the results between options to help select the best. It is important to avoid being spuriously accurate when concluding from, and presenting the results of, data generated by the appraisal. However, the confidence in the data provided by the analysis will need to increase, depending on the importance or scale of the decision at hand (for instance, depending on how much resource will be committed by the decision) and as the policy making process progresses.

A2.1.2 In this context, relevant costs and benefits are those that can be affected by the decision at hand. Although they will vary depending on the scope of the proposal, some general principles apply. It is useful early on in the appraisal process to consider widely what potential costs and benefits may be relevant.

A2.1.3 Costs and benefits considered should normally be extended to cover the period of the policy intervention, although 10 years is considered a reasonable period.

A2.1.4 Costs and benefits should normally be based on market prices as they usually reflect the best alternative uses that the resources could be put to (the opportunity cost).

A2.1.5 Wider social and environmental costs and benefits for which there is no market price also need to be brought into any assessment. They will often be more difficult to assess but are often important and should not be ignored simply because they cannot easily be quantified.
A2.1.6 Economic transfers should normally be included in the analysis as a cost to the organisation bearing the cost and as a benefit to those receiving the transfer\(^{10}\).

A2.2 Coverage of Cost and Benefits

A2.2.1 The **first–round** impacts of proposed measures should be identified, and where possible estimated, in all IAs. For example, if a proposal requires firms in a particular industry to buy new safety equipment, the economic costs to society can be measured by the costs to the firms (both in money and extra management and training time) of buying and using the new equipment; and the benefits to society of the health benefits (measured as improvements to health quality and statistical lives saved).

A2.2.2 As part of this it will be important to capture any first–round **distributional effects** (e.g. if the proposal disproportionately affects small firms or the benefits accrue to a particular group); or **competition effects** (e.g. if the proposal will significantly reduce the number of firms operating in the industry).

A2.2.3 There will also be a few proposals which have a sufficiently large and widespread impact to merit estimating their **macroeconomic effects**, e.g. the introduction of the minimum wage. Consult the Treasury for advice on estimating any macroeconomic impacts if you think your proposal might fall into this category.

A2.2.4 It may not be necessary to record **second–round effects**; where they will be important and informing the policy decision it will be important to identify them, and quantify or forecast them where they are expected to be significant. For example, the extent to which firms will pass on extra costs to their suppliers or customers or reduce the wages they pay or their profits. Effects on jobs in other countries or foreign trade are not normally relevant to the analysis, since displaced workers would be expected to find other jobs and trade will be brought back into balance by changes in domestic or foreign demand or prices.

A2.2.5 Second-round effects are often difficult to estimate and are likely to be speculative, and often represent simply a re–distribution of resources within the economy, without any net overall economic effect. However, an important case relates to where a proposal would **remove a market failure** in an affected industry. For example, regulations allowing the use of electronic signatures on legal documents might allow a more efficient expansion of ICT that was

\(^{10}\) Transfers to the Exchequer resulting from tax changes are not presented in impact assessments but are published in the Budget Red Book.
previously held back by unnecessary requirements for paper documents.

A2.2.6 It might, however, be worth trying to quantify second-round effects in some circumstances. For example, if there are likely to be significant transitional or regional effects, these should be mentioned (e.g. if a large industry would close down in an isolated area and there is likely to be prolonged local unemployment) – and any measures to mitigate these effects should be noted.

A2.2.7 Similarly, significant spill-over or demonstration effects should also be identified. For example, if a proposal to restrict storage of goods on industrial premises increased freight movements, the extra road congestion could have negative spill-over effects on the rest of the economy. Or a regulation which requires the adoption of new machinery or technology might have a beneficial effect on the supply chain.

A2.2.8 Any consideration of second-round effect should be balanced, since highlighting selected second-round effects could bias the analysis. Even if there are no overall economic effects, distributional effects might be important and should be noted in the Summary: Analysis & Evidence Page Evidence Base. In describing such distributional effects, it will be important to list both gainers and losers, to avoid giving the impression that there is an overall positive or negative effect.

A2.3 Estimating Costs

A2.3.1 Costs should be expressed in terms of relevant opportunity costs - it is important to explore what opportunities might exist. Estimates of costs should be forward looking. Costs which have already been incurred and are irrevocable are ‘sunk’, and can be ignored because they do not have any impact on decisions.

A2.3.2 Regulatory costs may be grouped into two broad categories: administrative costs and policy costs.

A2.3.3 Administrative costs (often referred to as red tape) include costs associated with familiarisation with administrative requirements, record keeping and reporting, including inspection and enforcement of regulation. The Standard Cost Model (SCM) provides a framework for measuring the administrative costs of regulation.

A2.3.4 Policy costs are the essential costs of meeting or complying with the policy objectives and includes all costs which are not administrative costs. These may include the additional costs involved in purchasing new equipment, maintaining the equipment and undertaking specified training in order to meet government regulatory requirements.
A2.3.5 The separation of policy and administrative costs is important – this can shed light on the extent to which it may be desirable to find alternative policy options or help identify things that might otherwise be missed, particularly at the early stages of the IA. When policy and administrative costs are compared, this provides some idea about how efficiently the policy can be implemented and therefore how well it is designed. There are also two simplification targets relating to the different costs – see Annex 4.

A2.3.6 Not all policy costs appear as direct expenditure for business. Some regulations, for example, those involving approval processes, may impose costs by delaying decisions. Delay-related costs include standby costs (capital and labour down time) and holding costs (interest on loans, rent, material procurement, builder contract costs, additional consultancies and lost business opportunities). Cost may also be incurred if a firm is unable to deliver on time or is perceived as an unreliable supplier. While unnecessary delays can impose a direct cost on affected businesses they can also add to uncertainty for an investment because other businesses may factor the possibility of delays into their investment decisions.

A2.3.7 An important policy cost to consider is Financial Cost. Financial costs are the result of an obligation to transfer a sum of money to the government or relevant regulatory body. Such costs include administrative charges and licence fees.

A2.3.8 Similarly, market costs are those indirect costs that arise from the impact that regulation has on market structure or consumption patterns. For example, the costs of seeking and obtaining environmental approvals may discourage new firms from entering an industry, thereby discouraging competition and reducing the choices available to consumers. Regulation can also discourage or delay innovation.

A2.3.9 Some costs will be easier to estimate than others – e.g. increased labour costs. Ask your economists for advice as early as possible. Examples of the techniques you can use to put monetary value on the costs include:

- **labour costs** – (familiarisation with new legislation, training, new working practices, time spent taking inspectors around the firm etc). Full time equivalent (FTE) costs should be used to estimate the costs of employee’s time to the employer and should include pensions, national insurance and allowances, as well as basic salaries.

- **cost of new equipment or new production processes** – formal/informal consultation with those likely to be affected might provide the best data here.
- **collecting information and providing proof of compliance** – use labour costs, plus the cost of new equipment required to do this.
- **cost of getting licences** – these will involve estimating the fees plus administrative costs. Enforcement authorities should be able to help with providing estimates.
- **cost of extra legal, accountancy or other consultancy advice** – again consultation or colleagues’ experience might be informative.
- **indirect costs** – ie costs not directly attributable to the intervention – may need to be considered. There may be changes in behaviour such as fewer firms setting up in business, reduced consumer choice, less competition between firms, less innovation etc.

### A2.4 Estimating Benefits

A2.5.1 Benefits need to be estimated to assess whether the costs of pursuing a policy can be justified.

A2.5.2 Conceptually, the benefits of regulation can be measured by individuals’ willingness to pay for an improvement caused by regulation (safer travel, for example), or their willingness to accept compensation for not receiving the improvement.

A2.5.3 Market prices should be used to estimate the value of benefits. For example:

- time savings can be measured by the hours saved multiplied by an estimate of wages
- the benefits from training might be estimated using estimates of the firms’ increased revenue
- there may be some evidence of the costs of something that regulation is intended to reduce. For example, there are measures of the costs (medical expenses and time off work) faced by people who suffer from food poisoning.

A2.5.4 But market prices may not always be available to estimate the value of the benefits and they have to be measured indirectly. For example:

- revealed preference measures infer valuations from behaviour. For instance, expenditures that households make on noise insulation may indicate the value they attribute to a regulation to reduce noise
- surveys can be used to ask people what they would be willing to pay for the benefits of a regulation which, for example, improves the environment or leads to a more equal distribution of income.
A2.5.5 Annex 2 of the Green Book outlines techniques for valuing non-market impacts. Consult your economists for advice as early as possible about putting a monetary value on the benefits.

A2.5 Sectors and Groups Affected

A2.5.1 You need to consider how each option might impact on different sectors and groups. The options under consideration may have beneficial impacts on some groups and negative impacts on others.

A2.5.2 It is important to be as specific as possible and to work with stakeholders to validate assumptions. All significant groups affected by the options should be considered. Use informal consultation at an early stage to help identify groups likely to be affected.

A2.5.3 Include groups that benefit as well as those that bear costs, including those affected directly and indirectly. For example, a policy to reduce pollution will have a direct effect on a polluter who has to behave differently, but may have an indirect effect on the general population in the longer term as pollution is reduced and the environment improves.

A2.5.4 Identify where different options impact on different groups and consider whether the options change the distribution within and between groups. Think about the impact on:

- **Businesses** – specific industries, firm types and businesses of different sizes. Many business sectors have representative organisations which will be willing to help you complete this section of your IA. The Trade Association Forum aims to assist government departments, among others, to access information about UK trade associations and business sectors.

- Make clear where impacts will be different for different parts of the industry, (e.g. banks and building societies, rather than financial advisers), or different parts of a supply chain (e.g. manufacturers, rather than wholesalers or retailers). SIC codes (or ‘Standard Industrial Classification’ codes) are a widely recognised means of classifying business establishments by their type of economic activity (a revision of the codes is scheduled for 2007). By using these codes you can ensure clarity. An index of the SIC codes can be found at [Office for National Statistics: Standard Industrial Classification codes](https://www.ons.gov.uk/).  

- Understanding how markets are affected by the policy options is important. Comprehensive guidance on the conceptual framework, examples, and discussion of practical issues are provided at [Office of Fair Trading: Guidelines for Policy makers](https://www.gov.uk/government/publications/). See the separate section on Competition Assessment for assistance in answering whether the proposals are likely to
prevent, restrict or distort competition in any of the affected markets.

- Policy options might also have an effect on the **voluntary and charitable sectors** and it is important that these are duly considered. Colleagues elsewhere in Government may already have links with these organisations so you might be able to use their contacts, e.g. the **Office of the Third Sector** in the Cabinet Office. Alternatively, contact organisations directly. The **National Council for Voluntary Organisations** could be a useful starting point.

- **Vulnerable and equalities groups** – see also **Specific Impact Tests**.

### A2.6 Discounting Costs and Benefits Occurring Over Time

**A2.6.1** It is likely that most regulatory proposals will impose costs and have benefits that accrue over a number of years. Discounting is a technique used to compare costs and benefits that occur in different time periods. It is a separate concept from inflation, and is based on the principle that, generally, people prefer to receive goods and services now rather than later. This is known as ‘time preference’.

**A2.6.2** Calculating the present value of the differences between the streams of costs and benefits provides the net present value (NPV) of an option – the primary criterion for deciding whether government action can be justified.

**A2.6.3** The **recommended discount rate is 3.5%**. For projects with very long-term impacts, over thirty years, a declining schedule of discount rates should be used rather than the standard discount rate. The schedule of long term discount rates is shown in Annex 6 of the Green Book.

**A2.6.4** The Present values and Discount rate table shows how the present value of £1,000 declines in future years with a discount rate of 3.5%.

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11 However, it is considered that individuals place an increased value on health and safety benefits as their living standards increase. This leads, currently, to an effective discount rate for health and safety benefits of 1.5%. It is considered that the value of preventing a fatality has a constant utility value over time and it is therefore uprated in real terms each year by real GDP per capita growth (i.e., currently, by about 2% per year, since at the moment the real per capita GDP growth is forecast at around 2% per annum). This uprating, coupled with a 3.5% discount rate, gives an ‘effective’ discount rate for health and safety benefits of 1.5% (lower effective discount rates apply to health and safety benefits accruing more than 30 years into the future). It needs to be noted that the real per capita GDP growth forecast could change over time. For further details see the Green Book Annex on Discounting.
### Present Values and Discount Rate

<table>
<thead>
<tr>
<th>Time period (mid year)</th>
<th>PV of payment (mid year)</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>£1,000</td>
</tr>
<tr>
<td>1</td>
<td>£966</td>
</tr>
<tr>
<td>2</td>
<td>£934</td>
</tr>
<tr>
<td>3</td>
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<tr>
<td>8</td>
<td>£759</td>
</tr>
<tr>
<td>9</td>
<td>£734</td>
</tr>
</tbody>
</table>

Year 0 is the present or current year.

The Present Value of a value in year \( t \) is calculated as \( PV = \frac{Value}{(1 + r)^t} \)

For example, the PV of £1000 in year 4 = \( \frac{1000}{(1 + 0.035)^4} = £871 \)

**A2.6.5** The **number of years** that the proposal should be discounted over depends on the policy proposal. While a ten–year period is typical a number of other factors should be taken into account:

- If the main cost is the purchase of a piece of equipment then the expected lifetime of that equipment could be used.
- If the policy has a sunset clause, then the discount period should be the number of years the policy has to run. Sunsetting is a way of ensuring that legislation is reviewed, kept up to date, and not left on the statute book after it has served its purpose. It requires a law to be removed automatically after a fixed period unless something specific is done to keep it in place. It can be applied to the whole legislation or just to particular clauses and powers.
- If the costs or benefits are likely to appear well into the future, you might want to consider a longer timescale.

**A2.6.6** Your departmental **economists** can help with this process. See also Annex 6 of the [HM Treasury Green Book: appraisal and evaluation](https://www.gov.uk/guidance/hm-treasury-green-book) in central Government.

### A2.7 Proportionate analysis

**A2.7.1** The effort applied at each step of completing an Impact Assessment, in particular the estimation of cost and benefits, should be
proportionate to the scale of the costs and benefits, outcomes at stake, and the time available. A less detailed Impact Assessment may be adequate where a regulatory proposal is likely to affect only a few firms or organisations, or many firms or organisations but only to a negligible degree, and the costs and benefits are likely to be negligible. By the same token, more data and analysis will be required where the impact is expected to be substantial.

A2.7.2 As you move through the policy making process and progress the different stages of the accompanying IA, the quality of data being used and depth of analysis should be refined to make it more specific to the proposals, and to improve its accuracy. For example, at the development stage of an IA it may be necessary to use summary data only when identifying and appraising options. However, at later stages of the Impact Assessment process, the rigour of the analysis should increase – especially before committing significant funds or making major regulatory decisions.

A2.7.3 The principle of proportionality does not determine whether an IA should be undertaken or a PIR carried out, only the scale of effort required to complete it.

A2.7.4 The depth of analysis for a Post Implementation Review (PIR) should be proportionate to the likely benefit of conducting the review. A high-impact policy should be subject to a full PIR, including an evaluation of the actual costs and benefits as a result of the policy. In many cases a less detailed review will be appropriate – see later section.

A2.7.5 The diagram below sets out the depth of analysis that could be carried out during Impact Assessment.

- Level 1: Include a description of who will be affected by the proposals. The main groups affected will include business, public sector and consumers;
- Level 2: Include a full description of the costs and benefits
- Level 3: Quantify the effect (e.g. 1000 planning applications per year, 100 hours of management time, 500,000 new houses built per year).
- Level 4: Monetise the effect. It may be the case that the costs but not benefits can be monetised. The use of indicators may help further qualify non-monetised costs and benefits.
- Level 5: Monetise fully all costs and benefits
A2.7.6 Analysis at levels one and two is a minimum requirement and applies in all cases. Levels three and above outline additional analysis which may be appropriate. The question to ask when considering proportionality is whether the Impact Assessment should reasonably provide information at a higher level up the scale.

Level 1 - Identification of winners and losers

Level 2 - Full description of costs and benefits

Level 3 - Quantification of impacts

Level 4 - Partial valuation of costs and benefits

Level 5 - Fully monetize
Annex 3: KEY ASSUMPTIONS, SENSITIVITIES AND RISKS

A3.1 Risk, Uncertainty and Unintended Consequences

A3.1.1 The Better Regulation Commission report on *Risk, Responsibility, Regulation: Whose Risk Is It Anyway?* suggested that the way the United Kingdom manages risk is leading to regulatory overkill.

A3.1.2 It is important, therefore, that the risks and how likely they are to occur, should be considered in the appraisal.

A3.1.3 The Summary: Intervention & Options page of the Impact Assessment asks you to identify the rationales for market intervention, including tackling public risks. You therefore need to be concerned not just with the risk of policy delivery but also the public risks per se\(^\text{12}\) that the policies are seeking to address. These can pertain to public health but are also relevant in terms of lost welfare of any sort brought about by market failure or equity issues.

A3.1.4 Understanding and correctly analysing these public risks (be they actual or perceived) is vital. As is examining the motivations and behaviour of individuals, groups or organisations at play on an issue and potential unintended consequences from an intervention. The Risk and Regulation Advisory Council have developed a useful tool to help you understand those organisations that have influence on government policy development, the risk landscape.

A3.1.5 Further advice is available at:

- The Risk and Regulation Advisory Council’s final report and tools
- HM Treasury: Managing risks to the public: appraisal guidance
- Strategy Unit: Risk: Improving government's capability to handle risk and uncertainty.

A3.1.6 The Summary Analysis & Evidence page of the Impact Assessment template asks you to highlight key assumptions underpinning the analysis; sensitivities of the estimates to changes in the assumptions; and risks, and how significant they might be, to policy delivery. You should briefly describe the consequences of the risks – could they stop the policy from meeting its objectives?

A3.1.7 You might consider making changes to the options so as to reduce these risks.

\(^{12}\) Risks that may affect any part of society and to which government is expected to respond
A3.1.8 In addition, consider any possible unintended consequences for each of your options. Consider what could go wrong or how the policy could turn out better than expected and how this would affect the costs and benefits. These are not easy to predict but if you start thinking about them early it will help you to minimise problems and deliver your policy objective more successfully.

A3.1.9 The RRAC’s risk landscape can help you to think about the inter-related nature of circumstances that has led to an issue arising and how to identify unintended consequences and impacts. Further information on structuring thinking to consider the wider implications of an intervention can be found in the Cabinet Office’s Strategy Survival Guide.

### A3.2 Testing Your Assumptions

A3.2.1 It is impossible to predict the future with total accuracy. To deal with risk and uncertainty you should state clearly what assumptions you have made, and provide references to any data sources or methodologies used. These should be tested to ensure your final recommendation is not driven by a particular assumption. You should identify any specific risks or areas of uncertainty that may impact on the levels of costs and benefits.

A3.2.2 For risks where it is possible to assign a probability to an event happening (e.g. the risk of fire or accident), you should use this to estimate the expected costs and benefits, ie the best estimate. Often it is not possible to assign a probability to an event. You should use sensitivity analysis to analyse the impact of a number of different scenarios in which your assumptions are varied.

A3.2.3 Sensitivity analysis around key variables is a fundamental aspect of appraising options. It is aimed at testing how vulnerable the options are to uncertainties. For example, ‘switching values’ should be calculated to demonstrate how much benefits would need to fall (or costs to rise) to make it no longer worthwhile to proceed with the option.

A3.2.4 It is relatively rare that adjustments for taxation are required, because similar tax regimes usually apply to different options. However, where tax regimes applying to different options vary substantially, this should not be allowed to distort comparison of the options.

A3.2.5 Differing levels of compliance with your proposal should be investigated. You should not assume that total compliance will always be achieved and explore the implications for the costs of enforcing the

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13 Penalties that arise as a result of non-compliance should not be counted.
It is important to understand what level of compliance is needed to deliver the identified objective of the policy.

A3.2.6 There is evidence that policy-makers are often too optimistic when developing proposals. Optimism bias is the tendency for project appraisers to be overly optimistic, particularly by overstating benefits, and understating timings and costs. You should consider the impact of this ‘optimism bias’ on your benefits and costs. This can be specifically allowed for in your analysis. The HM Treasury Green Book provides guidance on making explicit adjustment for this bias.
Annex 4: USING IA FOR THE 2010-2015 SIMPLIFICATION PROGRAMME

Following on from the 2005-2010 Administrative Burden Reduction Programme, the Government has set new burden reduction targets under the 2010-2015 Simplification Programme. This Programme includes an overall target to reduce £6.5bn in costs to business over five years.

A4.1 Administrative Burden Simplification

A4.1.1 The 2010-2015 Programme does not include a new cross-government baseline.

A4.1.2 Each IA requires the benefits and costs to be expressed in constant prices and to record the Price Base Year on the template. Departments are also required to estimate their Simplification Savings in the same constant prices. BRE will inflate/deflate as required for reporting on aggregate performance against the targets.

A4.1.3 All simplification savings should be calculated using evidence-based assumptions; it is important that Departments ensure that the data used can be validated.

A4.2 Admin Burden Simplification Savings

<table>
<thead>
<tr>
<th>Impact on admin burden (AB) (£m):</th>
</tr>
</thead>
<tbody>
<tr>
<td>New AB:</td>
</tr>
</tbody>
</table>

A4.2.1 An IA is required for all new regulations or other new interventions. The value of an Admin Burden Simplification should be estimated using three steps:

- First: Calculate the new admin burden and/or admin reduction as explained in the 2010-2015 Simplification Methodology document.
- Second: Enter the figures on the IA template, including the Price Base Year. Include the value of the Simplification savings within the benefits box in the Summary: Analysis and Evidence page, and any new admin burdens introduced in the costs box.
- Third: record the new burdens, savings and net impact in the box at the bottom of the Summary: Analysis and Evidence page. These values will score against the target.

A4.2.2 If your admin burden reduction causes a one-off or transition cost in order to achieve the simplification saving, they have to be quantified.
carefully and included in the one off transition costs box at the top of the Summary: Analysis & Evidence page. One-off or transition costs or savings are NOT included in the scoring against the admin burden target.

A4.2.3 **De-Minimis information requirement:** If you are dealing with a simplification proposal whose sole aim is to reduce admin burden (i.e. there are no other admin or policy costs or benefits associated with the proposal), it will usually not be necessary to complete all sections of the IA Summary: Analysis & Evidence page. In these cases carry out the following steps:

- Fill in the box ‘Impact on Admin Burden’;
- Demonstrate in your Evidence Base that there are no other impacts from the proposal.

### A4.3 Policy Costs Simplification Savings

<table>
<thead>
<tr>
<th>Impact on policy cost savings (£m):</th>
<th>In scope</th>
</tr>
</thead>
<tbody>
<tr>
<td>Policy cost savings:</td>
<td>Yes/No</td>
</tr>
</tbody>
</table>

A4.3.1 The inclusion of a policy cost target is a key addition to the 2010-2015 Programme. The target is a £5bn reduction in annual costs to business by March 2015. Policy costs are the compliance costs which result from fulfilling legislative requirements to meet government policy goals. They are equivalent to total costs less the administrative burdens.

A4.3.2 Policy cost savings will be scored on a gross basis across Government as a whole – i.e. the target will not constrain the Government from implementing essential new regulation. However, when calculating the value of a policy cost simplification, new burdens that arise as part of the same package of regulatory reform must be netted off.

A4.3.3 Simplification measure will only be counted if they simplify a regulation which existed at 31st March 2010. Any policy cost simplifications introduced as part of the Common Commencement Date in April 2010 can therefore be counted against the gross target. It should also be noted that simplification measures are counted from the date of implementation, rather than the point at which the legislation is introduced/enacted. EU self-declared simplifications which increase costs to UK businesses will not be included as policy cost savings. Where an EU simplification reduces the costs to business, it can be included in the savings target delivery.
A4.3.4 The figure for policy costs savings should be documented in the IA template in the ‘Policy Costs Savings’ section. In order to calculate the figure, departments must adhere to the following assumptions, which are also reflected in the simplification methodology:

- It should include costs-to-business only;
- It should be measured in annually recurring costs;
- Departments will be required to work out the best estimate of business-as-usual (BAU) costs to measure the incremental (or marginal) costs for the IA and simplification;
- It does not include transition costs or any changes to the value of benefits. (However, data on both of these will be documented elsewhere in the IA template);
- Secondary savings for businesses e.g. as a result of competition, innovation and market structure, will be included in the savings, where they are deemed to be material and significant. Where some businesses gain from the simplification but others lose though increased costs, should be netted off;
- It should only include changes in fees and charges where they result from a change in the fee structure. Incremental changes to fees and charges within an established structure will not be included.

A4.3.5 For IOs to 3rd Parties please refer to the new Simplification Programme 2010-2015 Methodological Framework document.
Annex 5: IMPLEMENTATION & ENFORCEMENT

A5.1 Implementation

A5.1.1 The Evidence Base enables you to outline implementation and delivery plans covering the main issues for each option. These might include:

- Ownership – e.g. who is responsible for implementation and who will make decisions?
- The aims of implementation – focus on the policy objective and outcomes considered necessary, including success criteria.
- Timetable for implementation – key decision points and milestones. Build in some flexibility.
- Identification of stakeholders – who will be involved in implementation and who may be more widely affected?
- Communication strategy – including allowing for early warning to those who will be affected, especially small businesses and other organisations.
- Risk analysis – consider risk management for the delivery and implementation of each option.
- Enforcement and monitoring will affect delivery of policy objective and how success is reviewed.
- OGC Gateway Reviews examine how a programme or project will be organised to deliver its objectives. Further detail can be found: http://www.ogc.gov.uk/what_is_ogc_gateway_review.asp
- Consider how implementation will fit within existing initiatives, including those by other government departments and inspection agencies, and aggregated burdens.
- The IA Guidance provides information on Business Link: common commencement dates.

A5.2 Enforcement

A5.2.1 When considering enforcement options, policymakers should consider the principles of the Hampton and Macrory Reviews (see below) and the joint guidance issued by BRE and the Ministry of Justice on creating new regulatory penalties and offences.¹⁴
### Hampton Review principles

**A5.2.2** Sir Philip Hampton’s 2005 Review considered how to reduce unnecessary burdens on business, without compromising regulatory regimes. He set out some key principles that should be consistently applied throughout the regulatory system, including:

- Regulators, and the regulatory system as a whole, should use comprehensive risk assessment to concentrate resources on the areas that need them most;
- All regulations should be written so that they are easily understood, easily implemented, and easily enforced, and all interested parties should be consulted when they are being drafted;
- Businesses should not have to give unnecessary information, nor give the same piece of information twice;
- The few businesses that persistently break regulations should be identified quickly, and face proportionate and meaningful sanctions;
- Regulators should provide authoritative, accessible advice easily and cheaply; and
- When new policies are being developed, explicit consideration should be given to how they can be enforced using existing systems and data to minimise the administrative burden imposed.

**A5.2.3** More specific guidance on the application of these principles in practice can be found in the assessment framework developed by the National Audit Office and the Better Regulation Executive for the process of Hampton Implementation Reviews. [http://www.berr.gov.uk/files/file48275.pdf](http://www.berr.gov.uk/files/file48275.pdf)

### Macrory Review: sanctions

**A5.2.4** The 2006 Macrory Review of Regulatory Enforcement found that regulators were over-reliant on criminal prosecution as a means of enforcement and recommended that regulators be given access to a range of alternative civil sanctions that would allow them to tackle breaches of regulation in more proportionate, flexible and meaningful ways.

**A5.2.5** In designing new enforcement regimes you will need to consider in particular whether the behaviour warrants the intervention of the criminal law at all, and what alternatives there may be to criminal offences. Professor Macrory envisaged that criminal prosecution should be reserved for the breaches of legislation which have serious consequences.

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A5.2.6 In creating any new civil or criminal sanctions, you should consider the following points:

- Nature and potential harm of the conduct to be targeted
- What are you seeking to do about that conduct?
- Who are you targeting?
- What existing sanctions might be available for that conduct?
- Are there any constraints on your choice between criminal offences and civil sanctions?
- If you are consolidating existing offences, are they still necessary and proportionate?

A5.2.7 Part 3 of the Regulatory Enforcement and Sanctions (RES) Act 2008 provides a set of civil sanctions which can be applied to existing relevant regulatory criminal offences by statutory order. We would expect that new legislation creating regulators or offences that fall outside of the scope of Part 3 of the Act will make its own provision for civil sanctions, but should follow the Part 3 model, regardless of whether the penalties are alternatives to criminal prosecution.

Who will enforce the policy?

A5.2.8 Government policy is that no new regulator should be created where an existing one can do the work. Of particular importance, you should consider who will enforce the policy. Are there others who could help to enforce the policy? If you decide that active enforcement is required, you must involve the potential enforcement authorities at an early stage and describe this in the IA. If local authority regulatory services are to enforce the new policy you must contact the Local Better Regulation Office.

A5.2.9 If you propose creating a new enforcement body, make sure that you are clear as to why an existing agency would not be able to carry out enforcement of the new proposals. The activities of a new body will also need to be integrated properly with those of any existing agencies. Consider issues such as recruitment and training of staff. You will need to ensure that the proposal follows the principles and criteria set out in the BRE’s guidance on setting up new regulators. You will also need approval from HM Treasury and the Better Regulation Executive.

A5.2.10 It is important that whichever body is responsible for enforcement will act in line with the five principles of good regulation – i.e. in a way that is consistent, proportionate, accountable, transparent and targeted only at cases in which action is needed. This is a requirement of the RES Act and departments should apply the same criteria to regulators whenever new, non-RES Act civil sanctioning powers are to be conferred upon them. Departments should also ensure that their
regulatory bodies are brought within the scope of the Regulators’ Compliance Code, if they are not already covered by it, so as to ensure that they enforce regulations in accordance with the best practice standards set out in the Code.
Annex 6: SPECIFIC IMPACT TESTS

The following section introduces the individual impact tests in the checklist and provides links to the departmental guidance.

A6.1 Statutory Equality Duties Guidance

A6.4.1 Public bodies, including government departments, have legal duties to take action to deliver better outcomes for people of different racial groups, disabled people and men and women, including transsexual men and women. In the planned Equality Bill, these three duties will be harmonised into one, covering the protected characteristics of age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, sex and sexual orientation. This is likely to come into effect in April 2011.

A6.4.2 Equality impact assessments help meet the requirements of the equality duties. Under the new single duty a mechanism for assessing the impact on equality will continue to be an important tool. A policy, decision or a service delivery initiative, should be impact assessed if it is relevant to equality, with the most relevant policies assessed first and most thoroughly. This involves systematically assessing the likely (or actual) effects of policies, looking for opportunities to promote equality as well as negative or adverse impacts. If any negative or adverse impacts amount to unlawful discrimination or harassment, they must be removed. Where an EIA is done as part of a wider impact assessment, it must be to the same level of detail as a standalone EIA.

A6.4.3 The EHRC guidance offers a step by step approach to integrating EIAs into the day to day business of the organisation. In preparation for the new duty, the guidance addresses EIAs across all equality mandates. It also sets out how to determine whether a policy needs an EIA, and what you need to do if you conclude that it does not. The guidance can be accessed here:

http://www.equalityhumanrights.com


A6.1.1 Section 75 of the Northern Ireland Act 1998 requires designated public authorities to have due regard to the need to promote equality of opportunity between specific groups and individuals - persons of different religious belief, political opinion, racial group, age, marital status, or sexual orientation; between men and women generally;
between persons with a disability and persons without; and between persons with dependents and persons without. Public authorities must also have regard to the desirability of promoting good relations between people of different religious belief, political opinion or racial group. A number of designated public authorities in Great Britain with a remit in Northern Ireland are obliged to comply with these duties. [link]

### A6.2 Competition Assessment

#### A6.3.1 Many Government policies affect the scope and nature of competition between firms. Where a policy restricts competition, this can be expected to lead to an economic cost. Conversely, some policies – such as removing regulations – can stimulate greater competition and economic benefits. The Competition Assessment (CA) is designed to identify these costs and benefits, and ensure they are taken into account in the overall Impact Assessment (IA). The CA also seeks to help the design of policy proposals in a way that meets policy objectives, without unduly limiting or damaging competition in markets. [link]

### A6.3 Small Firms Impact Test

#### A6.3.1 The Small Firms Impact Test (SFIT) becomes a mandatory part of the Impact Assessment (IA) process when your proposal imposes or reduces costs on business. It has two main stages:

- **Stage 1** – Starting the SFIT
- **Stage 2** – Identifying and exploring more fully the potential to minimise the impact of the requirements on small firms e.g. exemptions, simplified inspection, less frequent reporting etc. for businesses with fewer than 20 employees.

#### A6.3.2 Full guidance on the SFIT, available here [link]. The SFIT can also help officials complete the cost benefit analysis part of the IA template. You should contact BIS’s Enterprise Directorate at the earliest stages of policy development if your proposal is likely to have a significant impact on small businesses. Enterprise Directorate can offer you assistance and advice on completing the SFIT. Call Enterprise Directorate on 020 7215 6032 or e-mail [link].
A6.4 Greenhouse Gas Impact Assessment

A6.4.4 Since 2003, the Government has committed itself to making Greenhouse Gas Impact Assessments an integral part of assessing environmental impacts. DECC has upon its creation taken over responsibility of tracking greenhouse gas emissions. The carbon budgets team (contact: GHGappraisal@decc.gsi.gov.uk) can provide guidance whether a greenhouse gas impact assessment is not required (e.g. if there is a clear case that there will be no impact on emissions or the impact will be minimal).

A6.4.5 Any net impacts on greenhouse gas emissions (i.e. reductions or increases in emissions, reported as carbon dioxide equivalents) over the lifetime of the policy should be split by sectors (traded vs non-traded) and entered into the relevant box of the Summary: Analysis & Evidence page.

<table>
<thead>
<tr>
<th>What is the CO₂ equivalent change in greenhouse gas emissions?</th>
<th>Traded:</th>
<th>Non-traded:</th>
</tr>
</thead>
</table>

A6.4.6 These emission changes need to be monetised and factored into the cost and benefit analysis.

A6.4.7 Technical guidance can be found in the guidance on valuation of energy use and greenhouse gas emissions for appraisal and evaluation, published by DECC: http://www.decc.gov.uk/en/content/cms/statistics/analysts_group/analysts_group.aspx.

A6.4.8 The guidance toolkit enables analysts to establish the monetary impacts of changes to greenhouse gas emissions by entering the annual changes of energy consumption (again increases and decreases are relevant).

A6.4.9 It also allows for the assessment of the proportion of emission reductions that are achieved cost-effectively under PSA 27 indicator 6 (see Chapter 4 of the guidance). This indicator should be entered into the emission table attached to the evidence base of the IA template, together with the information on annual emission changes.

A6.4.10 Since this information is required for tracking progress in meeting Carbon Budgets it is important to make it available via the IA and to send the table to the carbon budgets team (GHGappraisal@decc.gsi.gov.uk).

A6.4.11 Analysts only need to populate the annual emission changes (savings as a positive number, increases as a negative number), the changes per carbon budget period will be automatically calculated. The table can be extended should the policy under consideration impact greenhouse gas emission beyond 2050.
A6.5  Wider Environmental Impact Test

A6.5.1 The purpose of the Wider Environmental Impact Test is to enable departments to understand and quantify, where possible in monetary terms, the environmental consequences of their proposals. The test refers to all environmental impacts apart from carbon, for which separate guidance is available (see above).

A6.5.2 As part of the Impact Test, a checklist is provided as a starting point. This is to ensure you have identified where policy options have significant wider environmental impacts (above and beyond any effects on greenhouse gas emissions). The range of potential impacts can be wide ranging, including impacts on air quality, water quality and quantity, flood risk, biodiversity, landscape and noise. Identification of potentially significant environmental impacts at an early stage in policy development will facilitate a process of exploration of options to evaluate and reduce any negative impacts and enhance any positive impacts on the environment. Consideration and exploration of these issues will help to ensure policies are in keeping with the principles of sustainable development.

A6.5.3 Where policy options are identified as resulting in potential environmental impacts, the checklist and associated guidance identifies where further analysis is required and provides up-to-date guidance on how to go about assessing, quantifying and valuing any environmental changes. In cases where it is identified that the environmental impacts could be significant and wide ranging, affecting multiple environmental attributes and resulting in potentially significant effects on economic values (including market and non market values), the use of an ecosystem services framework is the recommended approach for analysis. Ecosystem services are defined as services provided by the natural environment that benefit people. The framework offers a more comprehensive approach to understanding how policies impact on the wider environment.

A6.5.4 Full guidance on taking account of wider environmental impacts in policy appraisal is available on Defra’s website [http://www.defra.gov.uk/corporate/policy/guidance/env-impact/index.htm](http://www.defra.gov.uk/corporate/policy/guidance/env-impact/index.htm) and is updated as and when new information is available. Economists in the Natural Environment Economics Team at Defra can offer general advice and support on this guidance. Please e-mail nee@defra.gsi.gov.uk.

A6.6  Health & Well Being

A6.6.1 The Health IA (HIA) considers the effects policies, plans, programmes and projects have on health and well-being, and in particular, how they can reduce health inequalities. Non-health sector policies and projects, where health is not a primary objective, may have major...
implications on the health and well-being of people. HIA can ensure that the health and well-being of people likely to be affected by such policies and projects is maintained or enhanced. Screening questions for health and well-being can be found from the Department of Health: Health IA.

A6.7 Human Rights

A6.7.1 Will the proposals have Human Rights implications? Further details can be found at Ministry of Justice: Human Rights.

A6.8 Justice Impact Test

A6.8.1 The justice impact test considers the impact of Government policy and legislative proposals on the justice system - including impacts on the courts, and tribunals, prisons and probation, the legal aid budget or the prosecuting bodies and judiciary. It is intended to help policy makers take a systematic look at the impact of their initiatives on the justice system by quantifying the cost and considering the operational implications of their proposals, in order to get the best outcomes for users of, and those operating within, the justice system. [http://www.justice.gov.uk/guidance/justice-impact-test.htm](http://www.justice.gov.uk/guidance/justice-impact-test.htm)

A6.9 Rural Proofing

A6.9.1 The Government is firmly committed to ensuring that all domestic policies and programmes take account of the circumstances and needs of rural people and places. Rural places (basically defined as places with communities of fewer than 10,000 people) make up 86% of the country and are home to 20% of the population.

A6.9.2 Across the whole country people rightly expect high quality services that meet their needs, and it is the job of policy-makers to design policies that are capable of delivering these services equitably for everyone. However, communities in rural areas tend to be more dispersed and further from the main economic centres, and the ability of rural people to access services, e.g. via public transport or broadband ICT, cannot be taken for granted. Rural people also tend to be older than their urban counterparts (the median age in rural areas is nearly six years higher than in urban ones and the proportion of people over 60 is greater). The delivery of services in rural areas can, therefore, be problematic, and the challenges presented by the geography and demography of rural places needs to be factored into policy design at the outset, and checked at appropriate stages throughout the development and implementation phases.

A6.9.3 Rural proofing is the tool by which this is achieved. It requires policy makers to consider key questions on how any policy may affect rural people, businesses and communities. Specifically, it requires policy-makers to:
Consider whether the policies they are developing will have any impacts on rural areas;
Assess the significance of those impacts; and
where appropriate, adjust the policy to address the needs of those who live in rural areas.

A6.9.4 Defra’s Rural Policy Team and the Commission for Rural Communities (CRC) are able to advise policy-makers in Whitehall departments on the likelihood and possible scale of rural impacts, and suggest actions that might be taken to mitigate these. They cannot, however, do the rural proofing for Government colleagues. The CRC has also produced a detailed Rural Proofing Toolkit, which can be used as part of the rural Specific Impact Test.

http://www.ruralcommunities.gov.uk/publications/crc97ruralproofingtoolkit

A6.10 Sustainable Development Impact Test

Sustainable Development

A6.10.1 The UK Government is committed to sustainable development – essentially that the current generation satisfies its basic needs and enjoys an improving quality of life without compromising the position of future generations. This should be a central principle underpinning all policy development.

Purpose of the Sustainable Development Impact Test

A6.10.2 The role of the Sustainable Development Specific Impact Test is to reflect further on the conclusion of the impact assessment (the balance of monetised and non-monetised costs and benefits) in order to determine whether there are compelling sustainability-related reasons to amend the policy, or to otherwise alter the conclusion of the impact assessment.

Applying the test

A6.10.3 The Sustainable Development Specific Impact Test should be applied when first considering an issue and throughout the policy development process as appropriate. The test can help policy analysts to understand issues in a broader context and to identify the evidence required to appraise policy options

A6.10.4 The results of the test are also extremely important when putting advice to ministers. The test can show ministers whether or not the options are compatible with sustainable development.
Further help

Annex 7: EU NEGOTIATIONS/PROPOSALS

A7.1 Producing UK IAs for EU proposals

A7.1.1 You are required to carry out an IA on EU proposals that have force in the UK or require implementation in the UK, as you are on the UK Government’s own proposals. Once the Commission has adopted a proposal a formal IA should be produced, and updated along the EU policy cycle, particularly at these points:

- To accompany an explanatory memorandum on an EU proposal for the UK Parliament;
- To accompany letters seeking cabinet committee clearance on UK negotiating lines;
- On amendments to the Commission’s proposals made by the European Parliament and Council; and
- On adoption and publication of an EU proposal in the EU Official Journal.

A7.1.2 To feed into the production of a formal IA as outlined above you should do the following:

- Anticipate measures in the pipeline – be in regular contact with UKRep, Commission officials and other Member States, and make use of Commission forward-looking documents;
- Analyse likely impacts – estimate ballpark costs, benefits and admin burdens of measures in the Commission’s Legislative Work Programme to feed into formal IAs later down the line;
- Influence the Commission based on this analysis – lobby the Commission before proposals are adopted, with support from other Member States and stakeholders where possible. (team does this fit here or should we take it out?)

Baseline and policy options in IAs transposing EU legislation

A7.1.3 When considering the transposition of legislation agreed at EU level, an Impact Assessment should be produced to inform the best approach to UK implementation. The policy options will not include ‘do nothing’ (i.e. not implementing a directive). Rather, the IA should set out clearly the minimum required to implement in the UK the decision taken at EU level.16

A7.1.4 The baseline, or counterfactual, for estimating the incremental costs and benefits of transposing EU legislation is a notional ‘do nothing’ scenario, in which no action is taken, though that is not a feasible option. You must include as an option the minimum required to

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16 See the appropriate baseline for Impact Assessments for transposition of EU decisions.
implement the directive in the UK\textsuperscript{17}. The marginal costs and benefits of all other options are those over and above the notional baseline of no change so they can be compared against the minimum implementation. For example, if minimum implementation of an EU directive has an incremental cost of £100m (to what would have occurred if the directive were not implemented in the UK), compared with an alternative which could cost £110m, i.e. a further £10m over the minimum implementation option.

A7.1.5 Infraction costs avoided through implementation of an EU directive should not be included as a benefit of the options considered. Similarly infraction costs that result from non-implementation should not be included in the notional ‘do nothing’ baseline. The risk of infraction should be dealt with in the risks section of the impact assessment.

A7.1.6 When analysing the impacts of implementing an EU directive you should assess impacts on the UK and present these in the IA template. However, it might be useful to include, in the evidence base, a comparison of the impact on the UK with impacts in other EU countries.

A7.1.7 See HMG’s ‘Transposition guide: how to implement European directives effectively’ (insert link) for more on the above or contact the BRE’s Europe team.

A7.2 Using and influencing European Commission IAs

A7.2.1 The European Commission is committed to producing IAs for all significant proposals included in its Annual Legislative and Work Programme. (See European Commission: the Commission's work programme. The Commission has comprehensive guidelines on what IAs should cover and how they should be carried out. (See European commission: IA Guidelines)

A7.2.2 Commission IAs are a valuable evidence base for officials negotiating EU legislation and it is important that they are discussed in Council negotiations before the proposals themselves are debated. If necessary, you should lobby the Chair of meetings to follow this practice.

A7.2.3 If requested to do so by the Commission, you should consider sharing UK data on the likely impact of a proposal. In cases where you think that the Commission is not sufficiently aware of the impact of a potential proposal on the UK, you should consider taking the initiative to lobby the Commission directly to consider UK data.

\textsuperscript{17} See genuine policy options for Impact Assessments for transposition of EU decisions..
A7.2.4 Clarification should be sought from the Commission if its IA does not meet its own guidelines, particularly if it:

- lacks evidence of thorough consultation – see Commission of the European Communities: guidelines on consultation
- fails to include viable options
- does not include adequate quantification of effects.

A7.2.5 You should make use of the UK IA when lobbying other Member States to win support for the UK position. It may be that you can alert them to potential outcomes which would affect them which the Commission IA has not identified. You should also consider sharing your IA with UK Members of the European Parliament, and other Members such as committee rapporteurs.

A7.2.6 The Council and Parliament have committed themselves to carrying out IAs on substantive amendments to Commission proposals. Should the UK IA contain data which point towards a possible evidence–based alternative policy outcome not covered by the Commission either in its proposal or IA, you should lobby in the Council and Parliament to encourage them to prepare an IA on the amendment.
Annex 8: OTHER ISSUES IN POLICY DEVELOPMENT

A8.1 Supply Chain Analysis

A8.1.1 Examining and articulating the opportunities and challenges in the supply chain as part of policy-making is good practice. It recognises that Government action can shape markets directly or indirectly through the levers it uses including, regulation or alternatives.

A8.1.2 Analysing the impact of a proposal in the supply chain will help tailor policy to encourage an effective response from business and identify business opportunities that support UK industrial capability and growth. For Government, supply chain analysis does the following:

- Ensures Government has a thorough understanding of markets, enabling it to act more strategically and at an early-stage of the policy-making process
- Means officials can better understand strengths and weaknesses in UK-based supply chains
- Means officials can better understand the impact policy has on businesses
- Gives officials a range of available policy options that identify business opportunities

A8.1.3 Supply chain analysis may be taking into account in policy making by:

- Considering the business impacts of policy proposals;
- Considering where potential business opportunities may exist;
- Assessing the barriers UK-based businesses face in competing for these opportunities\(^\text{18}\); and
- Joining up any further government action to remove/reduce these barriers.

A8.1.4 Analysis may be undertaken when it is clear which discrete supply chain is being affected and where it is clear where the supply chain starts and stops. Supply chain analysis should be undertaken if a proposal involves any of the following?

1. More than one Government department
2. Potentially significant\(^\text{19}\) impact on business
3. Require engagement with business

\(^{18}\) Further information can be found in OFT guidance
\(^{19}\) ‘Significant’ implies high impact in terms of a company’s revenue or profits, or high impact in terms of significantly shaping growth in a market and the wider economy
4. Cover any of the *New Industry, New Jobs* sectors:
   i. Low carbon
   ii. Ultra low carbon vehicles
   iii. Digital Britain
   iv. Life sciences and pharmaceuticals
   v. Advanced manufacturing
   vi. Professional and financial services
   vii. Engineering construction
   viii. Industrial opportunities in an ageing society
   ix. Construction

**Understanding the impact of policy on business**

A8.1.5 The following embedded documents provide more detail on: supply chain analysis; how government can aid business opportunities; and a supply chain analysis example, including the associated business opportunities identified.

![Insert Document](32_100316_example.xhtml)

**Mapping supply chains**

A8.1.6 Mapping the policy-relevant supply chains (in a proportional manner) will inform whether the policy options yield impacts on business and hence commercial opportunities. It is important to understand:

- How large are any barriers/knowledge gaps in the industry (the constraints to growth)?
- How will the further action improve the performance of UK companies and allow them to win more business?
- That the types of business opportunities identified can include: company revenue; company profits; industry Gross Value Added.
- What is the impact of policy options on each stage of the supply chain?
- What actions does Government need to take to develop UK-based capability?

A8.1.7 Engagement and discussion with business itself will be key to understanding the proposed policy options in terms of supply chain effects and possible business opportunities. Business will also be well placed to inform policy makers as to any barriers to realising these business opportunities and thus any remedial actions that can also be planned to remove these barriers.
A8.2 EU Services Directive/Provision of Services Regulations Text

Does your proposal have an impact on service providers?

A8.2.1 The impact of a proposal that affects the access to, or the exercise of, a service activity needs to be considered.

A8.2.2 You must check any new policy proposal in scope of the Provision of Services Regulations 2009 (http://www.opsi.gov.uk/si/si2009/uksi_20092999_en_1) that imposes a new or amended requirement (for example authorisation scheme, certification process, registration process, approval system, continuing requirement) on service providers to ensure that it is compliant with the Regulations. Failure to do so could lead to a successful legal challenge.

A8.2.3 You can adopt new legislation and requirements that are compliant with the Regulations but they must also be reported on via BIS to the European Commission for their scrutiny. New authorisations and associated information will also need to be accessible remotely and electronically through the Point of Single Contact on businesslink.gov.uk. Legislation that cannot be justified under the terms of the Regulations or is in conflict with its requirements (for example if an application cannot be submitted electronically) must be amended or removed.

A8.2.4 For further information please consult the guidance ‘What to do if your work affects service businesses’: http://www.berr.gov.uk/files/file54438.pdf The guidance contains user friendly flowcharts that will guide you through the steps that you need to take, and point you to the sections of the guidance that you will need to look at. It includes:

- guidance on the scope of the Regulations
- flowcharts to guide you through the process of checking new policies for compliance with the Regulations
- reporting forms to inform the European Commission via BIS of new requirements imposed on services providers
- information on how to ensure that new schemes are accessible electronically
- the legal basis for the above

A8.3 Front Line Public Services

A8.3.1 It is important to demonstrate that the impact of a proposal on frontline public services has been mitigated as far as possible and any remaining burden is justified and proportionate in relation to the time
spent delivering service outcomes. This should be shown in the evidence base of the IA.

A8.3.2 An Impact Assessment is required if the proposal:

- **Is of a regulatory nature and imposes** any additional administrative or reporting burden on the public sector or bodies that deliver public services;
- Introduces new regulatory costs of more than £5m (annual equivalent costs) on the public sector or bodies that deliver public services;
- Is likely to attract high levels of political or media interest.

In the case of interventions which are regulatory in nature but not legislative-based, further clarification is being developed. In the meantime, if there is any uncertainty whether an IA should be produced, contact the relevant account manager in the BRE.

**Background**

A8.3.3 We are used to calculating policy costs but policy can also create administrative burdens on public sector front line workers in a variety of ways i.e. requests for information from the front line to central Government. Cumulatively, administrative burdens can affect the delivery of public services.

**How costs should be calculated**

A8.3.4 Policy costs should be calculated as normal.

- The cost of administrative burdens or information requests should be calculated using the Standard Cost Model [or equivalent].
- Costs should be clearly stated within the evidence base supporting the IA (see also Chapter 5) and highlighted in the boxes representing ‘main affected groups’ in the IA template.

**How to demonstrate a burden has been mitigated**

A8.3.5 Show you have followed good practice by engaging frontline professionals early in the development of policy proposals:

- Demonstrate there has been proper consultation of the front line, as with any other stakeholder group, following better policy making principles.
- Demonstrate that any new administrative burden has been considered in the context of the total cumulative administration burden required of the relevant front line workers.
- Demonstrate that alternative options to administrative burdens have been fully explored and any preferred option mitigates burdens in the most effective way
Annex 9: EVALUATION

Evaluation and Post Implementation Review

A9.1 Policy evaluation is the assessment of the design, implementation and results of a project, programme or policy that is ongoing or completed. The assessment should be systematic and objective and should relate to specific evaluation criteria.

A9.2 The Post Implementation Review (PIR) stage of Impact Assessment is a form of evaluation, and should draw on the approaches, methods and practice of evaluation. Please see relevant chapters in the main body of this IA Toolkit for further information on PIR.

The Magenta Book

A9.3 The Magenta Book was developed to aid policy makers and analysts when planning and carrying out evaluation in government. The Magenta Book is currently being revised and updated. This Annex will be expanded once the new version is finalised.

The current version of the Magenta Book is available at: http://www.nationalschool.gov.uk/policyhub/magenta_book/

Why evaluate?

A9.4 Evaluation can answer questions about:
- The impact and effectiveness of the policy (including cost effectiveness); did it meet its objectives?
- How and why the policy was effective or not
- Were there any unintended consequences of the policy?
- What lessons can be learned about implementation

Carrying out an evaluation

A9.5 Good evaluation will:
- Be planned early in the process of policy development, so that salient information to inform the evaluation can be collected.
- Have clearly defined parameters and research questions.
- Use methods appropriate to the questions to be answered.
- Take account of the context in which an intervention takes place.
- Make proportionate use of resources.

20 For further detail see Clarifying the relationship between Policy Evaluation, Post-Legislative Scrutiny and Post-Implementation Review, Better Regulation Executive, March 2010.
- Produce findings that aid decision making in the policy area.
- Add to the evidence base for future policy development.

**Annex 10: TAX FRAMEWORK FOR BUSINESS**

A10.1 At Budget 2010, the government committed to reporting in Impact Assessments against the six principles contained in the Tax Framework for Business.

For all tax measures you should read the Framework at [http://www.hm-treasury.gov.uk/business_tax_framework.htm](http://www.hm-treasury.gov.uk/business_tax_framework.htm) and then add a table to your evidence base as follows:

At Budget 2010, the government committed to reporting in Impact Assessments against the six principles contained in the Tax Framework for Business.

For this change the analysis is as follows.

<table>
<thead>
<tr>
<th>Competitiveness –</th>
<th>[Insert appropriate text here and in each box below]</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fairness -</td>
<td></td>
</tr>
<tr>
<td>Minimising distortions -</td>
<td></td>
</tr>
<tr>
<td>Simplicity -</td>
<td></td>
</tr>
<tr>
<td>Stability and certainty –</td>
<td></td>
</tr>
<tr>
<td>Improving Tax administration / Reducing compliance costs</td>
<td></td>
</tr>
</tbody>
</table>

A10.2 Contact the Better Regulation and Policy team in HMRC for further detail on how to report against the Framework.
Annex 11: CONTACT DETAILS

- **Better Regulation Executive**
  The BRE’s role is to work with government departments, agencies and regulators to help ensure that regulations and policy proposals are fair and effective.

  The BRE is a user of IAs; it does not intend to assure the quality of IAs.

  BIS,
  3rd Floor,
  1 Victoria St,
  London SW1H 0ET
  Email: breadmin@berr.gsi.gov.uk
  Telephone: 0200 7215 5000

- **Cabinet Office European Secretariat**
  The Cabinet Office European Secretariat produces information and guidance on different EU decision making procedures.

  70 Whitehall,
  London
  SW1A 2AS
  Telephone: 020 7276 0086

- **Departmental Better Regulation Units**
  Your first port of call for further advice on IA issues in this guide should be your BRU contact whose job it is to establish and promote the principles of good regulation and better policy making in your department.

- **Cabinet Office Economic and Domestic Secretariat**
  The Cabinet Office Economic and Domestic Secretariat produces information and guidance on policy making procedures.

  70 Whitehall,
  London
  SW1A 2AS
  Telephone: 020 7276 0083

- **Regulatory Policy Committee**
  Secretariat to the Regulatory Policy Committee
  Kingsgate House
  Victoria Street
  London, SW1E 6SW
Annex 12: IMPACT ASSESSMENT FLOWCHART

1. Is this a road closure order?
   - NO

2. Is it a change to statutory fees or taxes covered by a predetermined formula or in respect of other changes to taxes or tax rates, where there are negligible associated administrative costs or savings?
   - YES
   - NO
   - YES / Don’t Know
   - NO

3. Development stage
   - Refine options, costs, benefits and evidence base.
   - Ministerial Sign Off.
   - Collective Ministerial clearance through the National Economic Council (Better Regulation) Sub Committee*

4. Options stage
   - Consultation stage
   - Refine options, costs, benefits and evidence base.
   - Ministerial Sign Off.
   - Collective Ministerial clearance through the National Economic Council (Better Regulation) Sub Committee*
   - 12-14 weeks

5. Final Proposal stage
   - Government announces its firm position on a policy, responding to consultation, and again when the proposal enters Parliament
   - Focus on costs and benefits of option.
   - Ministerial Sign Off.
   - Collective Ministerial clearance through the National Economic Council (Better Regulation) Sub Committee*

6. Enactment stage
   - Revise to reflect changes during Parliamentary process
   - Ministerial Sign Off.
   - Collective Ministerial clearance through the National Economic Council (Better Regulation) Sub Committee*
   - 3 – 5 years

7. Review stage

* Policies where the total average annual cost on public, private or third sectors is estimated to be more than £20m. Policy proposals also require consideration by a Cabinet Committee where they may raise major policy concerns, are likely to lead to significant public comment or criticism, or where the subject matter affects more than one Department.
GLOSSARY OF TERMS

**Additionality**: An impact arising from an intervention is additional if it would not have occurred in the absence of the intervention.

**Administrative costs**: (often referred to as red tape) include costs associated with familiarisation with administrative requirements, record keeping and reporting, including inspection and enforcement of regulation.

**Adverse Selection**: When asymmetric information restricts the quality of the good traded. This typically happens because the person with more information is able to negotiate a favourable exchange.

**Appraisal**: The process of defining objectives, examining options and weighing up the costs and benefits, risks and uncertainties of those options before a decision is made.

**Assessment(s)**: Either an appraisal or an evaluation (or both).

**Better Regulation Principles**: are:

- **accountability** (regulatory bodies must be able to justify decisions, and be subject to public scrutiny),

- **consistency** (government rules and standards must be joined up and implemented fairly.),

- **proportionate** (intervention only when necessary. Remedies should be appropriate to the risk posed, and costs identified and minimised.),

- **targeted** (Regulation should be focused on the problem, and minimise side effects) and

- **transparency** (Regulation should be focused on the problem, and minimise side effects).

**Best estimate**: This will be the most likely point in the range.

**Cost Benefit Analysis**: Analysis which quantifies in monetary terms as many of the costs and benefits of a proposal

**Cost of capital**: The cost of raising funds (expressed as an annual percentage rate).

**Crowding out**: The extent to which an increase in demand occasioned by government policy is offset by a decrease in private sector demand.

**Deadweight**: Expenditure to promote a desired activity that would in fact have occurred without the expenditure.

**Discounting**: Discounting is a technique used to compare costs and benefits that occur in different time periods.
**Discount rate**: The annual percentage rate at which the present value of a future pound, or other unit of account, is assumed to fall away through time.

**Economic cost (or opportunity cost)**: The value of the most valuable of alternative uses.

**Economic Efficiency**: This is achieved when nobody can be made better off without someone else being made worse off.

**Evaluation**: Retrospective analysis of a project, programme, or policy to assess how successful or otherwise it has been, and what lessons can be learnt for the future. The terms ‘policy evaluation’ and ‘post-project evaluation’ are often used to describe evaluation in those two areas.

**Expected value**: The weighted average of all possible values of a variable, where the weights are the probabilities.

**Externalities or spillovers**: External costs and benefits that occur when an activity imposes costs (which are not compensated) or generates benefits (which are not paid for) on parties not directly involved in the activity. Pollution is the most common example of a negative externality, while immunisation against a contagious disease is an example of an activity that generates a positive externality.

**First–round impacts (also known as direct effects)**: impacts of proposed measures directly attributable to the intervention.

**GDP deflator**: An index of the general price level in the economy as a whole, measured by the ratio of gross domestic product (GDP) in nominal (i.e. cash) terms to GDP at constant prices.

**Gold-plating**: Implementation of an EU directive that goes beyond the minimum requirements necessary to comply with the directive.

**Horizontal Equity**: Individuals/families with similar needs should be treated similarly.

**IA Guidance**: the HM Government document setting out government policy on the scope and process of Impact Assessments. It explains what an IA is; the types of intervention for which an IA is required; and when an IA must be prepared and published.

**IA Process**: Impact Assessment is a continuous process, compatible with the Green Book policy appraisal cycle, to help you fully think through the consequences of possible and actual Government interventions: from the early stages of identifying a policy challenge, through the development of policy options, public consultation of those options, final decision-making, and on to the review of the preferred option’s implementation.
IA stages: There are five stages of the IA process.

- **Development Stage:** This stage should focus on the definition and assessment of the policy challenge, the rationale for government intervention, the identification of policy objectives and the gathering of evidence. This is the only stage of the IA process not to be public.

- **Consultation Stage:** This stage refers to when a formal public consultation is undertaken. This stage should focus on firming up the options considered and the analysis to inform them, ensuring that there is adequate quantification of costs and benefits of each option.

- **Final Proposal IA Stage:** This stage focuses on the costs and benefits of the preferred option (the ‘proposal’). It should set out the Post-Implementation Review plan which outlines when and how the measure will be reviewed.

- **Enactment Stage:** This stage requires revisions to the Final Proposal stage Impact Assessment to reflect the final contents of the Act, Statutory Instrument or other regulatory measure, which may have changed through the parliamentary process.

- **Review Stage:** This stage is required after a Post-Implementation Review (PIR) has been conducted. A PIR Impact Assessment will evaluate the impact of the implemented policy, including any potential amendments to the policy objectives or its implementation recommended as a result of the review.

**Impact statement:** A description, quantified where possible, of all the significant impacts of a proposal, and of how they are distributed between those affected.

**Implementation:** The activities required during the period after appraisal to put in place a policy, or complete a programme or project, at which point ‘normal’ service is achieved.

**Information asymmetry:** Differences in information held by parties to a transaction where this information is relevant to determining an efficient contract or a fair price or for monitoring or rewarding performance.

**Intergenerational Equity:** Balancing the needs of current and future generations

**Market failure:** An imperfection in the market mechanism that prevents the achievement of economic efficiency.

**Market value:** The price at which a commodity can be bought or sold, determined through the interaction of buyers and sellers in a market.

**Moral Hazard:** An example of information asymmetry where a contract or relationship places incentives upon one party to take (or not take) unobservable steps which are prejudicial to another party.
**Net Present Value (NPV):** The discounted value of a stream of either future costs or benefits. The term Net Present Value (NPV) is used to describe the difference between the present value of a stream of costs and a stream of benefits.

**Opportunity cost (or Economic cost):** The value of the most valuable of alternative uses.

**Optimism bias:** The demonstrated systematic tendency for appraisers to be over-optimistic about key project parameters, including capital costs, operating costs, works duration and benefits delivery.

**Policy costs:** are the essential costs of meeting or complying with the policy objectives and includes all costs which are not administrative costs. These may include the additional costs involved in purchasing new equipment, maintaining the equipment and undertaking specified training in order to meet government regulatory requirements.

**Present Value (PV) Base Year:** The year in which the impacts over time are valued, i.e., the year to which the future impacts are discounted. This is normally the year in which the estimates are undertaken or policy decisions taken.

**Present Value:** The future value expressed in present terms by means of discounting.

**Price Base Year:** The year chosen for the constant price presentation of the estimates.

**Price index:** A measure of the amount by which prices change over time. General price indexes cover a wide range of prices and include the GDP deflator and the Retail Price Index (RPI). Special price indices apply to one commodity or type of commodity.

**Public goods:** which display both of the following characteristics: they are non-excludable, which means that anyone can have access to them once they are provided; and they are non-rivalrous, which means that any person can benefit from them without diminishing anyone else’s enjoyment. National defence, lighthouses and street-lighting are commonly cited examples of public goods. Once provided, the benefits of public goods can be enjoyed by all parties, although it is not feasible to charge all users for these goods. As a result, public goods may not be provided, or will be under-provided, unless governments intervene.

**Pure time preference:** Pure time preference is the preference for consumption now, rather than later.

**Real price:** The nominal (i.e. cash) price deflated by a general price index, e.g., RPI or GDP deflator, relative to a specified base year or base date.
Recurring costs and benefits (excluding Transition): These are the costs and benefits that will recur in every year while the policy measure remains in force (although the scale of the impact may change over time). These are expressed as an annual average (over the life of the policy) in the IA summary pages.

Relevant cost/benefit: All costs and benefits that can be affected by decisions and that are therefore related to the objectives and scope of the proposal in hand.

Revealed preference: The inference of willingness to pay for something which is non-marketed by examining consumer behaviour in a similar or related market.

Second-round effects (also known as Indirect impacts): – impacts not directly attributable to the intervention – which may need to be considered. These may be changes in behaviour such as fewer firms setting up in business, reduced consumer choice, less competition between firms, less innovation etc.

Sensitivity analysis: Analysis of the effects on an appraisal of varying the projected values of important variables.

Shadow price: The opportunity cost to society of participating in some form of economic activity. It is applied in circumstances where actual prices cannot be charged, or where prices do not reflect the true scarcity value of a good.

Social Benefits: The total increase in the welfare of society from an economic action - the sum of the benefit to the agent performing the action plus the benefit accruing to society as a result of the action.

Social Costs: The total cost to society of an economic activity - the sum of the opportunity costs of the resources used by the agent carrying out the activity, plus any additional costs imposed on society from the activity.

Social Inclusion: Everyone should have access to income opportunities and services which allow them to fully participate in the life of the society in which they live

Stated preference: Willingness to pay for something that is non-marketed, as derived from people’s responses to questions about preferences for various combinations of situations and/ or controlled discussion groups.

The Standard Cost Model (SCM): provides a framework for measuring the administrative costs of regulation.

Time Period: The length in years of the life of the policy.

Time preference rate: Preference for consumption (or other costs or benefits) sooner rather than later, expressed as an annual percentage rate.
**Transfer payment:** is a redistribution of income from one economic agent to another.

**Transition costs and benefits:** These are transient, or one-off costs or benefits that occur, which normally relate to the implementation of the measure. These are expressed as a total over the number of years over which the costs occur.

**Unintended consequences:** are outcomes that are not (or not limited to) the results originally intended in a particular situation

**Vertical Equity:** Redistribution of Income from richer to poorer individuals/families

**Willingness to Accept:** The amount that someone is willing to receive or accept to give up a good or service.

**Willingness to Pay:** The amount that someone is willing to give up or pay to acquire a good or service.

**Time Period:** The length in years of the life of the policy. (Use ten years, unless there are good reasons to choose a different period, e.g. because the policy will last for a shorter period or the full range of impacts will not be felt for many years, e.g. the effects of policy on pensions.)

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