Chapter 4

The development of new regulations

Predictable and systematic procedures for making regulations improve the transparency of the regulatory system and the quality of decisions. These include forward planning (the periodic listing of forthcoming regulations), administrative procedures for the management of rule-making, and procedures to secure the legal quality of new regulations (including training and guidance for legal drafting, plain language drafting, and oversight by expert bodies).

Ex ante impact assessment of new regulations is one of the most important regulatory tools available to governments. Its aim is to assist policy makers in adopting the most efficient and effective regulatory options (including the “no regulation” option), using evidence-based techniques to justify the best option and identify the trade-offs involved when pursuing different policy objectives. The costs of regulations should not exceed their benefits, and alternatives should also be examined. However, the deployment of impact assessment is often resisted or poorly applied, for a variety of reasons, ranging from a political concern that it may substitute for policy making (not true - impact assessment is a tool that helps to ensure a policy which has already been identified and agreed is supported by effective regulations, if they are needed), to the demands that it makes on already hard pressed officials. There is no single remedy to these issues. However, experience around the OECD shows that a strong and coherent focal point with adequate resourcing helps to ensure that impact assessment finds an appropriate and timely place in the policy and rule-making process, and helps to raise the quality of assessments.

Effective consultation needs to be an integral part of impact assessment. Impact assessment processes have – or should have – a close link with general consultation processes for the development of new regulations. There is also an important potential link with the measurement of administrative burdens (use of the Standard Cost Model technique can contribute to the benefit-cost analysis for an effective impact assessment).

The use of a wide range of mechanisms, not just traditional “command and control” regulation, for meeting policy goals helps to ensure that the most efficient and effective approaches are used. Experience shows that governments must lead strongly on this to overcome inbuilt inertia and risk aversion. The first response to a problem is often still to regulate. The range of alternative approaches is broad, from voluntary agreements, standardisation, conformity assessment, to self regulation in sectors such as corporate governance, financial markets and professional services such as accounting. At the same time care must be taken when deciding to use “soft” approaches such as self regulation, to ensure that regulatory quality is maintained.

An issue that is attracting increasing attention for the development of new regulations is risk management. Regulation is a fundamental tool for managing the risks present in society and the economy, and can help to reduce the incidence of hazardous events and their severity. A few countries have started to explore how rule-making can better reflect the need to assess and manage risks appropriately.
Assessment and recommendations

Trends in the production of new regulations

_Trends in the production of new regulations are unclear._ It is difficult to get a clear picture of trends, as there is no consolidated database and the databases that do exist, produced by different organisations both within and outside the government, are not constructed on the same basis. Having a clearer overall picture of trends could be helpful in assessing the effectiveness of measures to control new regulation and simplify the existing stock. The Ministry of Justice database initiative to map statute law should be supported.

**Recommendation 4.1.** The development by the Ministry of Justice of a statute law database, as well as clarifying the law, should also be encouraged because it will allow mapping of trends in the production of regulations over time.

*The production of explanatory guidance notes implies that there are issues with the underlying regulations which may need attention.* The Code of Practice on Guidance of the Better Regulation Executive (BRE) aims to improve the quality of government guidance notes so that businesses spend less money on external advisers. This is a useful and clearly necessary initiative. It does, however, raise some issues, especially as it seems that guidance is increasingly judiciable, meaning in effect that it becomes a form of “tertiary” regulation. Although SMEs in particular cannot be expected to work out which regulations are relevant for their businesses, and simply need to know what is relevant to them, it may also raise the question of the clarity of the underlying regulations, and why they should be so hard to understand. Some other countries have sought to control the amount of guidance required, as well as developing initiatives to address the quality of language used in drafting regulations.

**Recommendation 4.2.** Consideration should be given to carrying out an assessment of guidance notes. Is the flow of guidance increasing? If so why? Should the flow of guidance notes be controlled? Which entities are most likely to be issuing guidance, in relation to which type of regulations? Is there a need to encourage plain language for regulations?

It should be noted that a large part of this recommendation has been addressed with the Anderson Review and the government’s response to it, which includes a number of practical measures to ensure that guidance is helpful and remains up-to-date.

**Box 4.1. Recommendations and comments from the 2002 OECD report: Soft law**

The government should focus on a stricter oversight of soft law and quasi regulations, starting by listing them. A general registry of such ‘regulations’ would also increase transparency and reduce duplicative ‘advice’. A second step should be adapting the current RIA mechanisms to such instruments.

The extensive informality of the British regulatory system may make it more difficult to trace its connection to principles of good regulation. A particular concern is the increased use of “soft law” or “quasi-regulation”. Soft law can be defined as official guidelines, instructive letters, resolutions, recommendations etc. that (1) call for particular behaviour or steps to be taken, but (2) are not covered by procedural safeguards and requirements applicable for formal regulation. Soft law is useful in the
sense that it can be more proactive, dynamic and persuasive than formal command approaches. But the lack of consistent procedural safeguards could reduce transparency and the quality of the regulation, and create uncertainty about the rights of the regulated entity in terms of complaints and redress. Additionally, although a continued or stronger reliance on soft law can decrease transaction costs, in those cases where requirements may not be easy for new entrants to identify, the costs of entry may rise. So, although these strong traditions of informality and the “systemic ease” with establishing new regulatory regimes and institutions have provided the United Kingdom with a flexible and responsive regulatory system, the downside of these features merit attention.

Procedures for making new regulations

The most important policies and legislation are well-covered, but there is a weakness in the forward planning of secondary regulations. Forward planning of secondary regulations appears much less developed than for primary laws, and there is no systematic co-ordination of these.

Recommendation 4.3. Consider putting in place procedures for the forward planning of secondary regulations.

It should be noted that this recommendation is being given effect, with the commitment by the government to publishing a forward regulatory programme, including possible regulatory proposals emanating from primary legislation.

Ex ante impact assessment of new regulations

The new developments signal clearly the energetic promotion of a new culture for rule-making. The United Kingdom is doing far more to promote effective ex ante impact assessment than many other OECD countries. Unlike many other countries, it also seeks to learn and apply lessons from the ex post evaluation of past approaches. The message is that Better Regulation does not just mean “producing good piece of regulation”, but provides evidence-based support for the development of public policy (whether or not it results in a new regulation). Major efforts are being made to integrate impact assessment into policy-making, so that the two processes are interwoven. With this approach, “Better Regulation” is a way of helping governments to frame a policy issue, to discuss it with interested parties, to measure costs and benefits of the different options for addressing the issue, and to secure effective implementation and enforcement of the process for doing this. In sum, there has been considerable progress since the 2002 OECD report.

Impressive institutional, methodological and support arrangements are in place. The strengthened approach includes substantial efforts to allocate responsibilities appropriately, with economists to support the monetisation of costs and benefits, departments to take responsibility for doing impact assessments with the help of their Better Regulation units, ministers to take political accountability, and for BRE to be the “helpful policeman”. The introduction of a summary sheet has made the process clearer and more transparent, with a greater focus on the costs and benefits of intervention. A suite of comprehensive and accessible guidance has been developed for non-specialists. The guidance is detailed and comprehensive, covering every kind of situation. It would seem hard to “escape” from doing an impact assessment the correct way. There is some overlap in the guidance, which is extensive (hundreds of web pages), and the need for a roadmap to signal the important links, and what should be tackled first. The template
model impact assessment is particularly helpful and should be more easily accessible from all parts of the guidance.

**Recommendation 4.4.** The finishing touch to the comprehensive arrangements that are already in place would be to review the online guidance to eliminate duplication, signal the important links, and ensure that the template is easily accessible from all parts of the system.

Transparency is an important feature of the process. The Code of Practice on Consultation must be followed, the aim being to put the initial analysis out for public scrutiny and to gain new evidence. The BRE lists all final impact assessments produced by departments on its website. These arrangements take the United Kingdom some way beyond those of many other OECD countries.

**Box 4.2. Recommendations from the 2002 OECD report: Impact assessment**

*Extend the scope of RIA disciplines.* The government should focus on a stricter oversight of soft law and quasi regulations, starting by listing them. A general registry of such ‘regulations’ would also increase transparency and reduce duplicative ‘advice’. A second step should be adapting the current RIA mechanisms to such instruments. In parallel, the government should extend RIA disciplines to devolved administrations, independent regulators and non-governmental bodies currently not bound by the guidelines. Lastly, the United Kingdom should continue with its pioneering programme to apply impact assessments to government’s internal regulations with substantial impacts.

*Improve the efficiency of RIA.* Two improvements could increase the efficiency of the current RIA. First, the quantitative assessments should play a major role in RIA in order to sharpen the political appraisal by top decision makers. For this, stricter standards in the quantification of benefits and costs should be adopted and further training to RIA drafters should be organised, expanding and encouraging expertise not only on how but also when to do cost-benefit analysis. Second, in improving guiding principles for regulatory quality beyond general OECD recommendations, the government should consider to streamline the number of essential principles for impact assessment in the regulatory appraisal process and to provide a set of explicit standards for each principle with a specific guidance on the tests to be applied to each of them. A further possible elaboration would be to develop a weighting system permitting to clarify the trade-offs between competing principles in impact assessment.

*Raise the expertise skills available for RIA quality assurance at the central level.* In order to maintain its capacity of overseeing the RIA process effectively the RIU should introduce more specialists to enhance further their multi-disciplinary team, similar to the experts working in the competition authority or sectoral regulators. This adjustment in the staffing policy would be even more important if the RIU were to assume a stronger challenge function as compared to its current emphasis on advising departments and promoting impact assessments across government.

*Move toward more formal standards for regulatory decision-making.* An extension of regulatory impact assessment disciplines to devolved administrations, independent regulators and non-governmental bodies would provide a more homogeneous and transparent regulatory decision-making process, and higher quality regulations. A move toward formalising such requirements in law would improve transparency further, and it would provide citizens with even stronger safeguards and more accountable and predictable results. Formalisation of procedure requirements are already in place for assessments of the stock of legislation (with the Regulatory Reform Act), but not for the flow of new regulations.

**Quality assurance is, however, a major issue that needs sustained attention.** To secure progress and maintain its leadership in this area, the United Kingdom should
increase quality control of impact assessments. How are departments coping with a more demanding system? There appears to be a variability in performance not just between departments but within departments, and linked to this, the supporting arrangements within departments. A random sample review of impact assessments carried out by the OECD after the changes suggests that the guidelines are not always followed by departments, and that not all impact assessments follow the required format. Some are not clear as to the issue to be addressed, which makes it difficult to evaluate the options. Occasionally there is no proper minister sign off (the name is printed). The amount of data and quantification provided is variable. The OECD peer review team also heard that departmental senior managers are not always paying enough attention to the development of draft impact assessments. Proportionality of effort based on a careful evaluation of the relative importance of proposed regulations also needs close monitoring, as carrying out an effective impact assessment is resource intensive work.

Recommendation 4.5. Steps should be taken to strengthen quality assurance in the production of impact assessments, including how senior managers can be encouraged to take a more active role in this (perhaps via their performance evaluation).

Measures of success for the strengthened approach should be developed. It is too soon to evaluate the practical effect of the new approach, which was only fully deployed in late 2007. Stakeholders seem generally to approve, and consider that the system has been strengthened. The tests will be whether any (important) proposals are turned down or modified because of the process, and whether the process provides a real and enforceable challenge to the development of new regulation. Will policy proposals be developed in such a way that the most effective solutions are identified (regulatory or non-regulatory)? Trends in the production of secondary regulations still appear be upwards, suggesting that departments are still too enthusiastic about regulating in response to a policy issue. A related test of success will be if alternatives to command and control regulation are increasingly deployed.

Recommendation 4.6. Establish measures of success for the strengthened approach, and a date for evaluation.

The BRE pilots for dealing with interlocking policies look promising, and are an obvious extension of the impact assessment concept for complex policy areas. The proposals for a new approach to the impact assessment of proposed regulations that are linked but which cut across departmental boundaries is increasingly important for the effective management of complex policies such as climate change. This will be a test of institutional capacities to work together, and requires a significant commitment of co-ordinated effort by participating departments. The traditional Cabinet committee system is not geared to this challenge (it is not used to evaluating multiple initiatives, just one policy at a time).
Recommendation 4.7. Consideration should be given to whether the role of the new better regulation subcommittee of the National Economic Council which is taking over the role of the Panel for Regulatory Accountability, and will therefore deal with regulatory proposals that will have a significant impact, should be further enhanced.

The parliament plays an increasingly important role in the ex ante review of new regulations. A number of committees (the Joint Committee on Statutory Instruments, the House of Lords Merits of Statutory Instruments Committee, the House of Commons Regulatory Reform Committee and House of Lords Delegated Powers and Regulatory Reform Committee) have developed a substantive interest in regulatory quality, and there is evidence of considerable efforts to scrutinise secondary regulations.

Alternatives to regulation

The new impact assessment form does not give enough prominence to the option of alternatives to regulation. The new form does not directly draw attention to this aspect, asking why government intervention is necessary, and for analysis of the “zero option” or other “regulatory options”, which are not quite the same thing. It does not raise the possibility directly of applying alternatives to “command and control” regulation.

Recommendation 4.8. Consider whether the impact assessment form should be adjusted to highlight that alternatives to “command and control” regulation could be considered, and link this to guidance on alternatives.

Risk-based approaches

The work of the Risk and Regulation Advisory Council (RRAC) for the development of new risk-based approaches is potentially groundbreaking. The RRAC initiative is important, not just for the United Kingdom but also for other countries that are interested in this approach. The results of its work will need to be translated into the “practical” regulatory policy framework when they come through. The impact assessment process already includes a request to policy makers to consider and assess options from a risk-based perspective.

Recommendation 4.9. The BRE should share and discuss the emerging results of its work on risk with other OECD countries that are also interested in taking this approach.

Regulatory budgets

Regulatory budgets are an ambitious idea for the management of regulatory costs and more broadly, as a core aspect of an integrated vision for the future of Better Regulation in the United Kingdom. If they can be made to work, the United Kingdom proposals for regulatory budgets would deliver several advantages. They will encourage – indeed require – more transparent and systematic forward planning by departments of proposals that might result in regulation. They will deliver a powerful message to business and other stakeholders that the government intends to get a grip on both the stock and flow of regulations.
Proposals have been the subject of careful analysis and development. The consultation paper shows that the government has made a very careful study of all the possible issues involved, including not least methodology and scope. The paper is a model of transparent consultation. It is comprehensive and frank about the issues. It will be important to give effective feedback and explanations to consultees when a decision on the way forward is made.

If regulatory budgets were to be implemented at some point in the future, attention would be needed to the following issues:

- **Giving full weight to the benefits of regulations.** In the United Kingdom’s cost driven impact assessment system – which the introduction of regulatory budgets would reinforce – the implied message is that regulations are essentially a bad thing, or at best a necessary evil. This is not only untrue, but will alienate certain stakeholders. The consultation document acknowledges the technical difficulty of giving benefits their due weight, but this is more than a technical issue. A linked issue is how the system will be able to give effective headroom for unanticipated future regulatory needs.

- **The critical importance of a robust impact assessment process.** Regulatory budgets are dependent on robust estimates of the future impact of regulation. The consultation document acknowledges this, as the costs recorded in impact assessments would be used for the budgets. This underlines the importance of effective quality assurance for the production of impact assessments. The current quality of impact assessments remains uncomfortably uneven.

- **The critical importance of an authoritative and independent oversight body.** The institutional framework for monitoring regulatory budgets needs to be clear and independent. Validating the budgets, checking that the budgets are followed, preventing gaming by departments are among the responsibilities that will need to be covered. Reports to the parliament (as envisaged) would add a further oversight and accountability dimension, as well drawing the parliament itself into a heightened awareness of the need to control regulations.

- **The need to take account of EU regulations.** Securing an effective forward look for EU regulations requires a robust forward planning mechanism at EU level, as well as the effective and timely engagement by departments in Brussels to identify upcoming issues.

**Background**

**General context**

**The structure of United Kingdom regulations**

The United Kingdom does not have a written constitution as such. The constitution exists as a body of statutes, common law based on judicial decision and precedent, and convention. There is no definitive statement of the types of UK law and regulations, which cover a wide range of instruments. Secondary regulations flowing from primary legislation constitute the most important category.
Box 4.3. The structure of regulations in the United Kingdom

Constitutional law. The United Kingdom does not have a written constitution. The parliament is the supreme legislative authority and major legislation requires its approval.

Primary legislation. Most important legislation is contained in acts of the parliament. Before these can become law parliamentary procedure requires them to be considered three times by each chamber. Acts of the parliament can, however, delegate the making of legislation to others. There are specific acts doing so in relation to EU law, and the making of laws that apply in Scotland, Wales and Northern Ireland.

European legislation. Under the European Communities Act 1972, EU law, including legislative instruments made under the EU treaties such as directives and regulations, and decisions of the European Court of Justice, are given full effect in UK law and supremacy over other UK laws. Legislation to implement EU obligations in the United Kingdom is generally made either through acts of the parliament, or through secondary legislation made by ministers under this act.

Delegated (or "secondary") legislation. For practical purposes and so as not to overload the legislature, primary legislation often confers powers on the executive to make legislation. Legislation under these powers is usually made by way of "statutory instruments" which are either notified to, or approved by, the parliament. Many UK laws contain such provisions. The extent of parliamentary scrutiny depends on their significance and importance. Particular scrutiny is given where the powers enable the delegated authority to amend primary legislation in special areas, such as implementation of EU obligations. Most delegated powers do not enable amendment of primary legislation, and are granted to enable detailed implementation of legislation to be carried out efficiently. An example is legislation regulating social benefits, where the basic rules for eligibility would be in primary legislation, but delegated powers would allow the executive to uprate benefits against inflation. In addition, many acts give the executive powers to flesh out the detail of legislation. The Legislative and Regulatory Reform Act is a special case: it sets up a fast-track procedure for the executive to amend regulations which impose unnecessary burdens or to codify existing law.

Other measures having significant legal effects ("soft law"). In many areas of the law, there are a range of materials issued by the executive (the government, or other regulators) that have a significant practical effect in regulating behaviour, for example, codes of practice, or official guidance. In addition, regulators with specific responsibility in certain areas may issue licences to permit activities which, although not laws, effectively regulate behaviour, for example in the case of electricity transmission or generation. These measures are increasingly judiciable.

Devolved legislation. The assemblies in Scotland, Wales and Northern Ireland can make laws in their own areas of competence, or delegate authority to make legislation to executive bodies that report to these assemblies.

Local by-laws. There is a minor class of local legislation made by local authorities, for example, enabling them to regulate behaviour in local parks, markets, etc.

Trends in the production of new regulations

Table 4.1 suggests a small but clear upward trend in the number of new statutory instruments – the most common form of regulation – over the past decade. The data, however, needs to be interpreted with caution, as the table covers the period in which the Scottish, Welsh and Northern Ireland assemblies were established with certain regulatory powers, which would have led to an increase. Another factor in the trend may be the overuse of “skeleton bills” (bills that outline the government’s intentions but leave the detail to statutory instruments), which would have given rise to more statutory instruments and less primary legislation. The table may also integrate a growth of EU regulatory activity, which implies that the proportion of domestic-origin regulation is decreasing. Some of the regulations are
amending regulations. All in all, the picture is not clear and difficult to interpret. The government has not traditionally been concerned at this lack of clarity, but the Ministry of Justice initiative to develop the database on statute law suggests that this may be changing.

Table 4.1. Trends in the number of new statutory instruments

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of statutory instruments</th>
</tr>
</thead>
<tbody>
<tr>
<td>1995</td>
<td>3,098</td>
</tr>
<tr>
<td>1996</td>
<td>3,035</td>
</tr>
<tr>
<td>1997</td>
<td>2,917</td>
</tr>
<tr>
<td>1998</td>
<td>2,975</td>
</tr>
<tr>
<td>1999</td>
<td>3,221</td>
</tr>
<tr>
<td>2000</td>
<td>3,195</td>
</tr>
<tr>
<td>2001</td>
<td>3,815</td>
</tr>
<tr>
<td>2002</td>
<td>2,957</td>
</tr>
<tr>
<td>2003</td>
<td>3,033</td>
</tr>
<tr>
<td>2004</td>
<td>3,155</td>
</tr>
<tr>
<td>2005</td>
<td>3,326</td>
</tr>
<tr>
<td>2006</td>
<td>3,196</td>
</tr>
<tr>
<td>2007</td>
<td>3,364</td>
</tr>
</tbody>
</table>


Guidance on regulations and the Code of Practice

In many areas of the law, a range of materials is issued by the executive (central government departments, national regulatory agencies, and local authorities), for example codes of practice, or official guidance. In addition, regulators with specific responsibility in certain areas may issue licences for activities which, although not laws, regulate behaviour. Business sometimes applies pressure for clarification which leads to the production of more guidance. These measures have a significant practical effect in regulating behaviour and are increasingly judiciable i.e. they can be cited in court.

There is no specific tracking of this material (for example, to assess whether the amount of guidance is growing). The BRE Code of Practice on Guidance, which was published in May 2008, has the aim of improving government guidance, so that businesses have less need of advisers and intermediaries to understand regulations. More recently the Anderson Review carried out a comprehensive review on guidance, in order to make it clearer, more accessible and consistent across government, and more likely to yield effective outcomes, and to encourage a culture change in the relationship between regulatory authorities and businesses. In response, the government has committed to piloting a telephone advice service (for tailored and “insured” advice to help businesses comply with employment and health and safety law; removing the disclaimers which bring the accuracy of guidance into question; and encouraging inspectors to avoid prosecution of “reasonable” businesses; and setting out when it will update the most frequently used guidance to comply with the BRE Code of Practice on Guidance.
Box 4.4. The BRE Code of Practice on Guidance

This Code was published in May 2008. Its aim is to improve government guidance. Many businesses seek external advice about how to follow regulations, via accountants, lawyers and consultants, as well as from government directly. The BRE estimates that businesses spend at least GBP 1.4 billion per year on external advice. The root causes of the need for advice are the volume and complexity of regulations; low awareness of government guidance; regulatory changes; the poor quality of government guidance; and uncertainty, risk aversiveness and lack of confidence.

The Code seeks to address these issues in order to minimise the need for businesses to pay for advice. Its recommendations are for government departments to:

- **Improve the regulatory process.** Plan guidance at an early stage in the regulatory process, and issue it quickly
- **Improve communication on regulation.** Raise awareness of the website businesslink.gov.uk. Communicate directly with businesses using high-quality, simple guidance. Communicate with businesses through intermediaries.
- **Improve the quality of government advice on regulation.** Improve feedback mechanisms on guidance. Consider joint badging or outsourcing the design of guidance.
- **Improve the environment for business advice on regulation.** Help businesses become informed consumers of advice services by increasing understanding of regulatory requirements. Take advantage of online forums for businesses to share information on regulations. Provide dedicated guidance for advisers where appropriate.

Processes for making new regulations

The law making process

Box 4.5. The UK law making process

Development of regulations

Nearly all primary legislation originates in the executive, as do most secondary regulations. Only the parliament, however, can enact primary legislation. Bills are usually scrutinised by parliamentary committees prior to debate on the floor of the house. The government’s majority ensures that most government bills are enacted (become law), albeit with amendments reflecting parliamentary concerns.

Enactment of primary legislation

To become law, generally speaking, bills must be passed by both houses, and receive royal assent (a formality). Bills may be amended both in the Commons and the Lords, and in some cases are rejected. The Lords, however, can ultimately only delay the passage of bills, and it does not amend bills concerning taxation.

Scrutiny of secondary regulations

The parliament also has an important role as regards secondary regulations, essentially regulations made under powers conferred in primary laws, most of which are known as statutory instruments. Statutory instruments cannot be amended by the parliament, but (with a few exceptions) are subject to parliamentary approval. A network of parliamentary committees scrutinises these regulations:

- **Joint Committee on Statutory Instruments.** This is a committee of both houses which has been
established for over thirty years. It scrutinises all statutory instruments, assessing regulations from a technical perspective (legal basis and drafting defects). It also has a role in scrutinising the transposition of EU directives into UK secondary regulation (see below).

House of Lords Merits of Statutory Instruments Committee. This was set up very recently in 2004, to strengthen and broaden the scrutiny of statutory instruments. It too considers all statutory instruments, but from a policy merit (hence the committee’s name) perspective that is whether the legislation seems likely to implement its stated policy objective in the most efficient way. It also has a role in the scrutiny of the way EU-origin regulations are transposed (see below). In each case, evidence from the department, the impact assessment and the response to the public consultation exercise are used to evaluate this, but the committee may seek further information or evidence from departmental officials or interested organisations.

House of Commons Regulatory Reform Committee and House of Lords Delegated Powers and Regulatory Reform Committee. These committees focus on the proper use of powers conferred on ministers under the Legislative and Regulatory Reform Act to use a fast-track procedure for the amendment or repeal of burdensome or inconsistent regulations (which was put in place as an aid to Better Regulation policy). The Lords Committee has the wider remit to consider the use of all delegated powers, whether or not linked to the act. Both committees take their scrutiny beyond technical matters. Notably, the Regulatory Reform Committee has just published a report on the effectiveness of the BRE and the government’s Better Regulation Strategy.

Forward planning

For the most important policies and major legislation there are a number of mechanisms. The incoming government policy manifesto sets out the main lines of its proposed policy and legislative programme during its period of office. The annual Queen’s speech on the opening of the parliament sets out the main lines for the coming year. The government routinely publishes consultations in Command Papers (Green Papers and White Papers) when preparing major reforms. Within government, a Cabinet committee (Legislation Committee or L-Committee) challenges, prioritises and consolidates the legislative programme. On 11 July 2007, for the first time, the Prime Minister made a statement setting out a draft version of the legislative programme, several months ahead of the Queen’s speech on the annual opening of the parliament, which is traditionally the first opportunity to hear about the programme.

Command papers are all published on line. These only cover a proportion of total consultations. Departmental consultations and impact assessments are another source of information for those who wish to follow developments.

Forward planning procedures for secondary regulations are much less developed and there is no systematic co-ordination. Departments pursue their own agendas for the making of secondary regulations, including EU-origin regulations. However this is now changing. In April 2009, the government committed itself to publishing a forward regulatory programme. The aim is to support business planning, as the programme will include existing and possible future regulatory proposals, including those emanating from secondary legislation.

Administrative procedures

The United Kingdom does not have a general administrative procedure law of the kind that exists in some other OECD countries, setting out formal criteria and obligations for the development of regulations. It relies instead on a range of codes and guidance covering different policy fields and issued by different government entities. For central
government departments, the *ex ante* impact assessment guide sets out the steps that departments should follow when developing regulations and policy proposals, and the Consultation Code of Practice sets standards for consultation documents. Regulations made by independent regulators are not constrained by these guides, and these authorities have developed their own standards and practices, albeit often similar to government guidance. Finally, the judicial review process can be seen, in the absence of a general administrative law, as a means of promoting good administrative practice.

**Legal quality**

The Legislation Committee (L-Committee) is a Cabinet committee chaired by the leader of the House of Commons. It examines legislation and decides which bills may be introduced in the parliament. All legislative proposals require clearance by L-Committee as well as the relevant policy committee. L-Committee has also developed a role in relation to Better Regulation. It monitors policy proposals across government at an early stage, and looks for solutions that might avoid the need for new legislation.

Primary laws (bills) are drafted by specialist government lawyers at the Parliamentary Counsel Office (PCO). The PCO employs around 40 lawyers, who work in teams per bill. Departments instruct these lawyers on the policy which the legislation is to implement.

Secondary regulations are drafted by a specialist legal unit staffed by government lawyers within departments. These units have increasingly been drawn into policy issues that goes beyond their primary remit of drafting and legal quality. They provide advice on policy development to ensure that desired changes are legally effective and to minimise the number of new laws. For example the BERR unit is providing advice on the development of company law.

The number of government lawyers has increased significantly over the last ten years, but so has the workload. The BERR lawyers tentatively suggest that a number of factors are at work; as well as a greater role in policy development, increased demand for judicial reviews, more regulations being made at different levels (EU, national, devolved), an increased scope for citizens and business to challenge administrative action based on the Human Rights Act, greater transparency from the Freedom of Information Act 2000, and finally, environmental information regulations. Other factors may be changes in the structure of the Government Legal Service (GLS), including more part-time working (Box 4.6).

**Box 4.6. The Government Legal Service (GLS)**

All central government lawyers are members of the Government Legal Service (GLS). The GLS establishes close links between lawyers across departments, sets the standard, and provides comprehensive training. At the start of their career in the GLS, lawyers attend a week-long training course with specific sessions on legal powers and bases, clarity in drafting and Better Regulation. Other training sessions are available which cover aspects of these topics in more detail. This training is supported by a dedicated website – Legal Information On Line (LION) – which has guidance and training materials on a range of topics including constitutional powers, secondary legislation and Better Regulation. Additionally departments have their own in-house training covering these topics. There is an annual conference on administrative law.
Ex ante assessment of the impact of new regulations

Policy on impact assessment

Early developments

Assessment of the costs and benefits of proposed regulation has a long history in the United Kingdom. Cost Compliance Assessments were used from the early 1980s. The system was amended and renamed Regulatory Impact Assessments (RIAs) in the 1990s. Important changes were introduced by the government in 2007 following consultation and in response to the National Audit Office (NAO)’s annual reports on RIAs, to address shortcomings in the system.

RIAs were the subject of considerable criticism. The most important weakness, picked up by the NAO, was the lack of integration of RIAs into the policy-making process, meaning that they were rarely used to challenge the need for regulation and influence policy decisions. In effect, senior officials and ministers tended to ignore RIAs or use them as an ex post justification for decisions that had already been made. RIAs often did not come early enough in the policy-making process, and did not set out the case for regulation clearly enough (the reason for government intervention, the exact nature of the problem, data on costs and benefits). The old system was also complex, and departments could to a large extent choose how they set out their assessments. Finally, there were concerns that new policies are developed in an increasingly pressured environment, with growing social and environmental worries which may encourage the adoption of new regulations.

In July 2006, the government launched a public consultation and subsequently introduced a revised impact assessment process. The revised system was phased in from May 2007, and was fully operational from November 2007. The government’s objectives for the revised system are to embed impact assessments at the centre of policy making, and at its earliest stages, improve the quality of the economic and other analysis that underpins policy making, increase the transparency of the analysis underpinning policy options, and hold departments accountable for the regulation they introduce.

Current policy

The current policy is not a radical departure from the previous system. It builds on previous developments but seeks to sharpen the approach:

- Impact assessments should be developed for all policy proposals with potential regulatory impacts, including formal legislation, codes of practice or information campaigns.
- Monetisation of costs and benefits is emphasised and central to the process.
- Economists are increasingly involved, from the earliest stages of policy making. Departmental chief economists must sign impact assessments that go to ministers, as validation that the cost-benefit analysis has been effectively conducted.
- New standard form (designed by the economists) summarises essential information on one page and draws attention to the monetised results.
Enhanced guidance and training is available.

Strengthened political engagement and accountability via a ministerial declaration both for “consultation” and final impact assessments (sign-off on the front page of the new form).

New website where summaries of published impact assessments will be available, together with links to departmental websites.

Increased emphasis on post-implementation review of proposals. Departments must set a date for when the policy will be reviewed, to assess whether it has been effective in delivering the expected policy goals.

To underline the integral relationship between impact assessment policy development rather than regulation as such, the word “regulatory” has been dropped, and the process is now called impact assessment (impact assessment). The new form further emphasises the policy link, by asking departments “what policy options have been considered”.

The scope of impact assessment in terms of institutional coverage includes central government departments and some regulatory agencies, depending on their status. Agencies which have a more independent status may have set up their own arrangements for impact assessment (alongside other Better Regulation processes such as consultation).

Link to administrative burden reduction

The new form records changes in administrative burdens. Departments are required to include information on additions to the administrative burden placed on business arising from new regulation; decreases to the administrative burden arising from simplification of regulation or deregulation; and the net impact of these changes. A “light touch” impact assessment should also be produced for non-legislative simplification measures. The administrative burden calculator, which is accessible to all, provides the necessary figures to calculate the burdens of new proposals.10

Institutional framework

The Better Regulation Executive

The BRE’s role is best defined as the “helpful policeman”. It oversees and frames the process of developing impact assessments (including the production of guidance) but does not have any formal powers to block impact assessments. It is the responsibility of departments to produce impact assessments. Some – not all – of these are scrutinised by the BRE, taking a proportionate approach, and focusing on policies with the highest costs or stakeholder concerns.11 It also seeks to focus its efforts on the earlier stages of policy development. The BRE account managers for each department aim to keep in close touch over the policy developments in that department which may give rise to proposals for regulation. It participates in officials’ groups, and correspondence, to prepare issues. The BRE can propose the review of impact assessments by the Panel for Regulatory Accountability if it considers that the analysis and evidence presented is inadequate.
Government economists

Reflecting the strong emphasis on cost-benefit analysis and monetisation, the new approach emphasises support from the network of government economists embedded in each department. Departments are encouraged to involve their economists at an early stage, not least for help in preparing the analysis. The submission of a proposal to the minister for political sign-off first requires sign-off by the department’s chief economist. The BRE considers that economists’ involvement helps to take the process outside the political arena. Perhaps for the same reason, we were told that it was initially disliked by departments, who resented the loss of “policy” autonomy, and the need to take a more rigorous approach.

Box 4.7. The Government Economic Service

The Government Economic Service (GES) is the equivalent of the Government Legal Service for lawyers working in central government. It sets the standard for the 600 economists spread around central government departments (excluding those economists who work in the Treasury in non-specialist policy posts). The BERR chief economist is joint-head of the GES. Relations with academia, internal courses, to teach new skills, aim to develop master level degree course for economists. Courses address how economists support and enhance policy making. Strategic Policy Analysis Group in BERR. Part of the team advises on impact assessment. GES Chief Economists Group. The GES also provides training to economists in the analytical skills needed to undertake cost benefit analysis in support of impact assessment.

Departmental Better Regulation Units and peer review groups

Departmental Better Regulation Units (BRUs) play an important role in the co-ordination and provision of advice and guidance to officials within departments, alongside the BRE. They are free to develop their own approach to this, for example when and how to intervene in the development of an impact assessment. Peer review groups have also been established within and between departments, co-ordinated by the BRUs and departmental economists.

Box 4.8. Examples of departmental support arrangements for impact assessment

BERR has introduced an Impact Assessment Peer Review Group for impact assessments. The group engages as early as possible in the policy making process, providing a quality control and challenge function. It focuses on impact assessments which are likely to represent a costly regulatory burden on business or are politically sensitive. Members of the group include the BERR Performance and Evaluation Team, BRE, the BERR Better Regulation Champion and economists from across the Department. A cross-departmental structure has also been set up between DCLG and BERR economists, to review impact assessments produced by the other department.

DEFRA has introduced a different mechanism, based around a threshold of costs, and various layers of scrutiny within the department. High-value or politically sensitive impact assessments are subject to scrutiny by economists who were not involved in the policy development, with the departmental chief economist acting as the final arbiter.

The Panel for Regulatory Accountability

All proposals which are likely to impose a significant burden on the private, public or third (voluntary) sectors – defined as one that is likely to impose a cost of over GBP 20
million per year or disproportionately impact a particular sector – require clearance from the Panel for Regulatory Accountability (PRA). These include proposals stemming from the EU. Clearance can be sought by correspondence or in a meeting if particularly significant or controversial. The PRA can ask the responsible minister to change their approach if it considers that the benefits of a proposal do not justify the costs. In 2007, over 40 impact assessments and 22 simplification plans were cleared through the panel. As well, 10 meetings of the officials’ shadow committee were held. The BRE explains that the PRA itself does not meet often because many issues are cleared at official level or by correspondence, and also because it believes that Better Regulation is now more firmly embedded in policy-making. It also notes, however, that there can be tensions, for example as regards employment law and the burdens on business.

All policy proposals with implications for other departments go through the Cabinet clearance process and may go through PRA in addition. These committees may also consider the issue of administrative burdens and other Better Regulation matters.

The role of the parliament

The parliament’s formal role in the scrutiny and approval of regulation, described above, has evolved over the last few years to encompass policy as well as legal aspects. It takes an increasing interest in the existence and quality of impact assessment and other material such as the results of consultation which is attached to draft legislation. The final full-impact assessment is attached to draft laws laid before the parliament. Committees with a specific remit to check not only legal quality but also underlying policy coherence have been set up and are increasingly demanding in this regard.

Guidance and training

A range of new materials, mostly on line, and some of it interactive, has been developed by the BRE and government economists. Transitional training was also arranged when the new system was introduced to explain the changes. Training in impact assessment and cost-benefit analysis has been incorporated into the general training courses provided by the National School for Government.

Box 4.9. Guidance and training to support impact assessment

**Impact Assessment Guidance.** The guidance explains the nature and content of an impact assessment, when it should be completed and when it should be published. It is accessible to non-economists. It is aimed mainly at the Better Regulation Units.

**Impact Assessment Toolkit.** This provides more detailed information on how to complete an impact assessment and where to find the information needed for it. It includes a very helpful flowchart and the template for presenting results. The online toolkit is wordy and repetitive, and could usefully be edited. It is not that accessible (on the BERR website), and there is other competing information.

**Cost-Benefit Analysis.** This is based on the guidance provided by the Treasury Green Book, a long-established central guidance for departments on the economic assessment of spending and investment, and related guidance including the preparation of business cases for the public sector.

**Impact Assessment Online Training.** This provides an overview of the process and explains its key components to those new to impact assessments or those who want to know how it has changed. The BRE estimates that it should take approximately one hour to complete, which includes a case study where the process is applied to a fictional policy proposal. The training is broken down into various modules, so that users can return to them at any time to refresh their memory.
Process and methodology

The quantification of costs and benefits is now the core part of the process. Options appraisal is the main analytical component. This involves establishing robust evidence to support a number of policy options and undertaking cost benefit analysis to identify most effective option.

The new form (Annex C) has a front page summary with figures, which is the most important innovation. It requires departments to summarise the problem under consideration, why government intervention is necessary, policy objectives and the intended effects, what policy options have been considered, justification of the preferred option, a date for review of the policy and a monetised summary of the results of the cost-benefit analysis (including net impact on administrative burdens). There is provision for annexes to provide supporting data and details of specific impact tests, but also for departments to add a qualitative analysis (the BRE seeks to discourage the overuse of annexes for this purpose).

There is provision for specific impact assessments. Most of these tests are optional. However if regulation is particularly relevant to one of these tests, they become compulsory (for example environmental impact test for the law on carbon emissions). There are threshold tests used to assess whether a full test should be carried out. Some tests are required by law (for example assessing impacts on race, disability and equality).

Box 4.10. Stages in the development of an impact assessment

- **Development stage impact assessment.** A benchmark case is identified and options built up against this baseline. The broad implications (costs, benefits) for main affected groups are identified.
- **Options stage impact assessment.** Informal consultation with stakeholders. If costs exceed GBP 5 million or the issue is especially sensitive, develop a complete impact assessment.
- **Draft of consultation stage impact assessment.** Clearance if necessary through the PRA, collective ministerial agreement.
- **Agreed consultation stage impact assessment.** Sent out for public consultation, after sign-off by the minister.
- **Final proposal stage impact assessment.** Takes account of consultation, leading policy option is identified.
- **Clearance through Panel** for Regulatory Accountability and collective ministerial agreement.
- **Implementation stage** (final impact assessment). Ministerial sign-off.
- **Review stage impact assessment.** Review to establish what the regulation is achieving.

* See summary sheet in Annex C and flowchart in Annex D.
Public consultation and communication

The Code of Practice on Consultation must be followed. It states how impact assessments should be used in consultation exercises. The impact assessment guidance also underlines this. Consultation normally takes place when policies are at a stage where the problem has been identified, options for tackling the issue have been partly worked up and, through informal consultation and desk research, and initial figures have been put into the impact assessment. The purpose of the consultation is therefore to put the initial analysis out for public scrutiny and to gain new evidence to inform policy development. Consultation impact assessments and final impact assessments are published on departmental websites.

The BRE lists all final impact assessment produced by departments on its website.14 From April 2008, an online impact assessment library contains summary information from all final impact assessments, as well as copies of the impact assessments themselves.15

Dealing with complex policies

The BRE is currently testing a new approach for policy issues which cut across departmental boundaries. The essence of the approach is to combine into a single impact assessment the data and information from several separate but linked policy proposals, and then to assess and weigh this up as a single policy. The practical objective is to produce not a series of separate impact assessments, but one headline impact assessment. The combined impact assessment form under development puts the aggregate costs and benefits on the front page, including annual costs and one-off costs to business, as well as benefits.

One of the tests is on climate change policies, because of concern that intense policy pressure on departments to do something will result in multiple overlapping initiatives, regulatory complexity, double counting of benefits, and lack of clarity for business as to potential implications for investment decisions.16 The BRE has therefore initiated a process to develop a Better Regulation impact assessment approach to the growing set of initiatives aimed at tackling climate change. It has set up a joint working group with the Department for Environment Food and Rural Affairs (DEFRA), the Department for Transport (DfT), the BERR and the Department for Communities and Local government (DCLG) among others, encouraging departments to come together and map a shared strategic approach. It gets involved in “live” specific issues, such as smart meters roll out which make up the bigger picture, and tries to catch proposals in the pipeline. The aim is to move away from piecemeal analysis and carry out an integrated analysis of these policies using impact assessment principles, not least quantification of costs and benefits. The BRE chair put it this way: “give departments and stakeholders simple messages with scary numbers”.

The approach raises a number of challenges. There are so many potentially relevant measures that the BRE was forced to make choices. Considerable effort is needed for the co-ordination. This is because specific policies are at different stages of development. Departments sometimes have an understandably positive view of the value of “their” initiative, which is “lost” in the overall assessment (what makes sense in a specific policy setting is not necessarily positive for the overall picture). There are also methodological issues such as the difficulty of quantifying benefits over the longer term. The BRE is, however, hopeful that it can develop an approach which can be rolled out to other complex areas in due course.
Alternatives to regulation

The United Kingdom’s approach to alternatives includes the following (non-exhaustive) aspects:

- Impact assessment guidance underlines that alternatives to regulations should always be considered before regulating. Before this, the Better Regulation Task Force report “Alternatives to State Regulation” outlines a number of options where alternatives should be considered, as well as providing guidance on when they should be considered. The new form, however, does not highlight the need to consider alternatives, only the option of “no regulation”.

- Information is an alternative to regulation, but only if it is used correctly. The “Scores on the Doors” scheme promoted by the Food Standards Agency and rolled out by local authorities to rate restaurants for food safety is one good example. A BRE project with the National Consumer Council on the effectiveness of disclosure requirements suggests, however, that product information may not be especially helpful if it is too dense, and is not costless if it raises the price of a product.

- Perhaps most promising for the long run is the new approach to risk and regulation, which seeks to put at the centre of the policy making debate the question of whether regulation is actually needed, and whether certain risks should be carried by the state (via regulation) or by individuals.

Risk-based approaches

New RRAC led initiative

The government has launched an important new initiative, led by the Risk and Regulation Advisory Council (RRAC), to examine how public risk can best be addressed in developing new policy and regulation. The initiative is based on the 2008 BRC report “Public Risk: The Next Frontier for Better Regulation”. Anecdotal evidence suggests problems with an increasingly risk averse and litigious society. When should the state manage a risk on behalf of everyone through regulation, and when should another body or individuals themselves be allowed to manage the risk? Failure to get the balance right can lead to burdensome and resented restrictions on freedoms, an uncomfortable expansion of the “nanny state”. The government has identified the need for a more mature dialogue with the public on what really needs to be done, when “something must be done”. The aim is to map a pathway that tackles risk issues at the start of the policy and rule-making process. The work will also consider how best to manage more effective responses to crises such as food scares, where political/media pressures often suggest tightening regulation, which is not necessarily the best option.

The work is experimental and has yet to be adopted across UK policy-making, though some departments and parts of others already make good use of some techniques recommended by the RRAC. Instead of the usual approach of setting up a committee and publishing a report with recommendations on the subject, the process begins with the identification of a network of people from the widest possible range of relevant backgrounds to engage in a facilitated workshop and continuing debate, including those who are often deliberately avoided in “traditional” consultations. Topics selected for in-depth case studies include: risk aversion in the police; implementing appropriate health and safety measures in small organisations; promoting community resilience. Each topic
has a forum facilitated by coaches. Apart from the main Risk Forum and follow-up engagement on each topic, further academic research and reviews of the literature are being carried out, and workshops examining the roles of different “risk actors” (such as media, insurers, standards-setters, parliamentarians, the judiciary) are being developed to improve understanding of the complex interactions of the public risk landscape.

**Risk assessment as part of impact analysis**

Impact assessment guidance asks policy makers to:

- consider risks and how likely they are to occur and their likely impact on meeting the objective of the policy;
- calculate an expected value of all risks for each option, and consider how exposed each option is to future uncertainty; and
- consider risk management for the delivery and implementation of each option.

The front page of the new impact assessment form requires departments to highlight any key assumptions, sensitivities or risks underpinning the cost and benefit calculations, and asks that risks or uncertainties associated with the policy options or proposal under consideration should be further addressed in the background pages.

The guidance also refers policy makers to the Treasury’s advice on managing risks to the public, and appraisal and evaluation in central government.

**Controlling the flow of new regulation**

The idea of regulatory budgets was first floated in the 2005 BRC “Less is More” report as a way of controlling the flow and therefore the cumulative effect of new regulation. Plans to consider the introduction of regulatory budgets were announced in the March 2008 BERR White Paper "Enterprise: Unlocking the United Kingdom's Talent". The BRE followed with the launch of a public consultation in August 2008 on the potential introduction of regulatory budgets to limit the cost of new regulation. The groundwork was laid with the new impact assessment process and its emphasis on quantification, the annual publication of regulatory costs, and most recently the launch of an online library of impact assessments. The consultation paper proposed that if introduced the regulatory budgets system would start with the new financial year in April 2009. (For more on the project of regulatory budgets, see Annex E)

The underlying rationale, as set out by the BRE, is that regulatory costs need to be managed because there is a limit to the costs from regulation that the economy and individual businesses can absorb, and that current incentives for policy makers make regulation an easy option compared to government spending. Regulation is not a cost-free good. The consultation document put regulatory budgets in the context that the government has two main levers for achieving its objectives, fiscal (spending or taxation) and regulatory. Both impose a real cost on the economy, diverting resources from productive activities if they are not used proportionately. But they are subject to different degrees of scrutiny and control. Public spending and taxation are subject to strict controls by the Treasury and the parliament. But the cost of regulation is less precisely known and subject to less overall scrutiny. There is a risk that, especially in a tight fiscal environment, regulation is used even if it is not the best option, simply because the controls on other levers are so strong. The government also believes there is scope to
improve the way it prioritises new regulatory proposals. Regulatory budgets would allow departments to make better informed decisions about the detail, prioritisation and timing of new policies, including assessing potential conflicts and exploiting synergies.

The government has decided not to implement regulatory budgets at this stage, given the economic situation. Rather, it will undertake a programme of Better Regulation measures tailored to the “present exceptional economic circumstances”. The details of these measures are set out in a statement by the BERR Secretary of State on 2 April 2009. They include the establishment of a new Better Regulation subcommittee of the National Economic Council; a new external Regulatory Policy Committee; and to publish a forward regulatory programme.24

Notes

1. Some 13th century statutes still apply.

2. According to government lawyers EU-origin regulations account for a large share of new regulations.

3. The recently established Local Better Regulation Office draws attention to the difficulties of interpretation, citing the example of soft toys, which may used for other purposes. When is a toy not a toy? It may not be clear which regulation needs to be applied.


7. One exception is the Legislative and Regulatory Reform Act, which gives ministers power to amend burdensome legislation. The act has built-in procedural requirements on consultation, communication, impact assessments etc.


9. The new guidance says “impact assessments are generally applicable to all government interventions affecting the private sector, the third sector (voluntary sector), and public services, regardless of source: domestic or international”. See also the flow chart at www.berr.gov.uk/bre/policy/scrutinising-new-regulations/preparing-impact-assessments/toolkit/page44201.html. Impact assessments are routinely carried out on Better Regulation policies as well as other policies, most recently on the proposals for Regulatory
Budgets. Scope does not uniformly extend to regulatory agencies. It depends on their status in relation to departments. Some are free to make their own arrangements, and do so.


11. Its predecessor the RIU examined all impact assessments, and ended up rewriting many of them.


17. This is not covered in the same depth as the 2002 report.


19. This section covers the issue of risk management in relation to the development of new regulations. The issue of risk-based enforcement of existing regulations is addressed in a later section.

20. The United Kingdom’s first efforts at addressing risk began in 2000, linked to national security.

21. www.hm-treasury.gov.uk/media/0/B/Managing_risks_to_the_public.pdf.

22. www.hm-treasury.gov.uk/economic_data_and_tools/greenbook/data_greenbook_index.cfm..
