The purpose of this document

This discussion paper seeks to explore how effective regulatory delivery can benefit businesses and contribute towards UK economic growth.

The Government is committed to creating the conditions in which businesses can develop and grow. On the one hand, this means reviewing the stock of existing regulations and minimising regulatory flow to ensure that burdens are minimised and efforts are focused on providing essential protections. On the other, it means considering the way that necessary regulations are delivered: for businesses, it is often these day-to-day experiences that matter most.

Regulatory delivery is both about the way in which inspections, advice, notices and prosecution are carried out and the attitudes, competency and actions of inspectors. The way that regulation is delivered can have a significant impact on businesses’ operating environments; not only reducing day-to-day business costs but also boosting business and consumer confidence, strengthening UK markets and encouraging local, national and international trade and investment.

This document focuses on the delivery of regulation that impacts directly on businesses outside of the financial and privatised sectors. It is targeted both at those involved in regulatory policy and front line regulatory practitioners. It is not designed to prescribe specific regulatory solutions, as appropriate approaches will naturally vary by local context. Instead, it aims to clarify and inform policy by highlighting three interlinked ways that regulatory delivery can impact on growth, supporting them with case studies of work conducted to date.
Effective regulatory delivery provides a mechanism to move from economic, societal and environmental risks to the outcomes that we all want to see in our local communities. It protects individuals from public health risks, by ensuring clean and safe local places. It safeguards employees from harm at work, enabling a healthy and productive workforce. It ensures that products are fairly priced and traded, protecting consumers from detriment and maintaining their confidence in markets.

But good regulatory delivery can also be good business. Research has indicated that a positive regulatory environment can contribute significantly to economic development and sustainable growth, improving the openness of international markets and creating a less constricted business environment for innovation and entrepreneurship\(^1\). It can protect compliant businesses by enabling fair competition and promoting a level playing field and provide business with the confidence to invest, grow and create new jobs.

In the current economic climate, growth remains a key government priority, underpinning the UK’s aspiration to create a sustainable, balanced and private sector led economy. At a national level, the Government is committed to creating the conditions in which businesses can develop and grow. The One in One Out process and the Statement of New Regulation address the volume and design of new regulation and minimise the costs it imposes. The Red Tape Challenge has laid down the gauntlet to citizens and businesses and has encouraged them to have their say about which regulations may no longer be required and which continue to provide important protections.

However, it is often the day-to-day experience of how regulation is delivered and enforced that matters most to businesses. It is at this level that regulators can develop their understanding of local businesses and build good relationships with them; assessing the risks that affect them, working with them to enable compliance and interacting in a way that builds confidence and trust.

This document explores in more detail how regulatory delivery can support UK economic growth in three key ways: by reducing costs, improving confidence and control and realising wider economic benefits. These three areas of impact suggest that effective regulatory delivery is not a matter of protection or growth but protection and growth – and where regulatory approaches respond to both business and citizen needs, these outcomes are, and can increasingly be, complementary and mutually supportive.

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March 2012

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Introduction: Regulation and Growth

The UK regulatory system

The UK system of business regulation\(^2\) mitigates social, environmental and economic risks posed by day-to-day business operation. By enabling businesses to meet regulatory requirements and enforcing against non-compliance where necessary, regulatory delivery can contribute to a wide range of outcomes: safe workplaces, clean and vibrant local places and strong and diverse markets.

Given that business regulations have often been designed to reduce the risk of harm, regulatory culture has evolved in a way that focuses on prevention and protection. In the past, this has sometimes led to regulatory delivery being viewed solely as a way to stop negative behaviour, rather than a mechanism to support a more positive approach towards compliance. In turn, this has meant that regulatory reform has tended to focus on the costs of regulatory interactions, rather than acknowledgement of their potential benefits.

Over the last decade, there has been growing recognition of the role that effective regulatory delivery can play in not only reducing administrative burdens, but also enabling economic activity. The Hampton Review\(^3\) recognised that encouraging economic progress should make up a key element of regulators’ activity and this recommendation was translated into a key principle of the Regulators’ Compliance Code, which came into force in 2008. This code requires regulators to perform their duties in a way that does not impede business productivity and minimises disruption to the economy\(^4\). A number of subsequent reviews and surveys recognised the value that businesses place on receiving effective advice and guidance to support them in complying with regulatory requirements\(^5\).

Regulation and growth?

The current context of global economic recession highlights the importance of an appropriate trading environment that can maximise business productivity whilst continuing to provide the important protections that maintain consumer and business confidence. Growth is the UK Government’s immediate priority, and the foundation of its plans to create a more sustainable, balanced and private sector led economy. Growth should provide a basis for an increase in production, supporting the creation of new jobs and stimulating higher employment. By reviving the health of our economy, growth can ultimately contribute to higher standards of living for citizens and communities across the UK.

The effective delivery of business regulations facilitates the economic, environmental and social conditions which enable growth. Regulatory interventions identify and address market failures to protect stakeholders and environmental resources. They enable competitive markets, which provide incentives to invest, innovate and improve efficiency, maintain consumer confidence and encourage responsible consumption. They enable businesses to invest in compliance and promote confidence in local and national markets.
Regulating for growth

The outcomes that the regulatory system is designed to achieve cannot be delivered in isolation. Regulatory compliance is often not just a single decision made at a point in the business lifecycle: different businesses face a range of challenges at different times. Some businesses need assurance that the compliance decision they are making will apply across all of their premises to enable them invest in an appropriate solution. Others need clarity on how the requirements apply in their business context to ensure that they make effective use of available resources.

There is significant support from the private sector for a positive partnership between regulators and regulated businesses, based on mutual understanding and the common aim of compliance\(^6\). Given that reputation is a key driver of consumer behaviour, many businesses invest significant resources in compliance processes. As outlined in the Government’s response to the Transforming Regulatory Enforcement consultation\(^7\), this suggests that more widespread use of self-regulatory or co-regulatory approaches, where appropriate, would enable more effective targeting of resources.

While regulations are generally designed in a way that sets out citizens as the ultimate beneficiaries of regulation, the public’s role as consumers and members of their local communities also enables them to play a role in driving positive compliance through demand led approaches that work with the grain of business behaviour. For example, in some markets, where consumers can be provided with the relevant tools and information, they are enabled to endorse the most compliant businesses and identify rogues, encouraging fair competition and a level playing field.

At the same time, relevant professional bodies recognise that good regulation is good business\(^8\) and they are increasingly working with private sector partners to develop collaborative approaches that address key business barriers to product development, investment and growth\(^9\). A series of local projects, including regulatory pathfinder activity within two Local Enterprise Partnerships\(^10\), has illustrated how regulators who work in partnership with the private sector at local level improve the local trading environment.

This document proposes that regulatory delivery can impact on growth in three interlinked areas:

**Impact number 1: Reduce business costs**

By delivering regulation in a way that minimises costs, mitigates regulatory risks and avoids gold plating, regulators can enable businesses to develop an appropriate compliance solution, safeguarding their reputation and keeping transactional costs to a minimum.

**Impact number 2: Improve confidence and control**

By enabling businesses to have confidence in their regulatory decisions, and increasing the use of co-regulation and mechanisms to enable ‘earned recognition’, regulators can enable businesses to have greater control over management processes and invest and plan for the future.

**Impact number 3: Realise wider economic benefits**

Effective regulatory delivery enables a wide range of interlinked social, environmental and economic outcomes, which create the local and national conditions in which enterprise can flourish.
Impact number 1: Reduce business costs

The connection between regulatory delivery and business growth has most traditionally been seen from the perspective of a reduction in administrative burdens: the costs imposed by regulatory enforcement. The Hampton Review highlighted that inflexible or inefficient regulatory enforcement can increase the costs imposed on businesses and reduce the benefits that such activity might otherwise bring\(^{11}\).

The costs imposed by regulations remain a key issue for UK businesses\(^ {12}\). Aside from the costs imposed through regulatory stock and flow, businesses incur financial and time costs when designing appropriate compliance solutions, monitoring existing processes, and dealing with non-compliance and resultant enforcement action, if it arises.

Given that regulators and most businesses share a common goal in compliance, it makes sense to use the regulatory relationship to develop understanding of the areas in which businesses or business sectors encounter challenges and provide them with the tools to comply in a way that works for them. This reduces business costs in three key ways:

**Minimises transactional costs**

Multiple or uncoordinated inspection activity or duplicate data requests can impose significant burdens on businesses and minimise the value of regulatory interactions. By working more closely with other regulatory partners and developing ways to enable greater data sharing, regulators can save businesses both time and money.

**Mitigates regulatory risks**

In addition to the risk of harm to individuals or the environment, incidents of non-compliance result in significant direct costs for businesses. By enabling businesses to recognise and address these risks and prevent incidents from occurring, regulators can save businesses the money spent on dealing with the adverse effects of non-compliance and on any resultant enforcement action, including the costs of staff time and lost sales.

**Minimises reputational costs**

A desire to win and retain custom means that businesses are naturally focused on protecting their customer relationships and building a positive reputation for the quality of product they supply or the service they provide\(^ {13}\). Incidents of non-compliance may impose secondary costs through their impact on consumers’ perspectives of a company or brand, staff turnover or employee productivity. By developing approaches that bear these reputational drivers in mind, regulators can work with the grain of business activity and support longer term compliance.
Streamlining inspection activity in Staffordshire

Further to identifying evidence of duplicate visits in their previous year’s activity, South Staffordshire District Council and Staffordshire County Council developed a pilot project which sought to enable more coordinated service delivery and make better use of shared intelligence to reduce burdens on the business community.

Over a six month period, potential duplicate visits were identified in 43 premises. A working group of Trading Standards and Environmental Health professionals was convened to consider how to manage the visits and develop training for participating officers. 18 of these inspections were carried out by Trading Standards teams and 25 were conducted by Environmental Health colleagues. Feedback received via satisfaction surveys indicated that 94% of businesses inspected felt the contact was helpful. The findings suggest that such coordinated approaches can help minimise time and money costs imposed on businesses, whilst continuing to deliver positive regulatory outcomes.

Primary Authority: Leeds City Council and BSS Group plc

BSS Group plc was concerned about the need to properly address the risk from legionella at its sites. Not having the necessary specialist expertise internally, the company hired a consultant to put together a control strategy.

The consultancy produced reports recommending a series of actions, including detailed risk assessments at all sites and a variety of specific control measures. The total cost for implementation of the recommendations was estimated to be in excess of £1m.

BSS spoke to Leeds City Council, its primary authority, to get detailed advice on legionella. Leeds City Council was able to advise that the business should control legionella by eliminating all sources of aerosols where possible, and then only applying controls where they could not be eliminated. The cost of implementing this recommendation is negligible and can be dealt with through existing processes.

The Chinatown Initiative: Westminster City Council

London’s Chinatown is the largest in Europe and it attracts a high number of tourists and domestic visitors each year. Boasting nearly 80 restaurants, its touristic appeal is closely associated with its culinary offer.

Westminster City Council became aware of a number of persistent high risk food premises within the area. To protect public health and avoid potential food safety incidents impacting on the reputation of the wider business community, officers developed a Chinese Masterchef competition which improved awareness of food hygiene issues and linked high safety standards to culinary excellence.

Drawing on the relationships formed with the Chinese community, the Council then worked at the premises to identify barriers to compliance and provide appropriate support to address them. The programme resulted in a 57% reduction in the number of high risk premises and consumer complaints were reduced by 45%, increasing diners’ protection from food borne illness and maintaining the economic area’s reputation as a tourist destination.
Impact number 2: Improve confidence and control

While a reduction in regulatory costs is often the main focus of calls for reform, there is evidence to suggest that effective regulatory delivery can also contribute to the growth agenda from a more positive starting point.

For businesses, regulatory compliance is one of a number of considerations that they need to bear in mind in their day-to-day activities. Rather than regulatory compliance being another item on a long ‘things to do’ list, businesses need compliance solutions that they can integrate into existing management processes, enabling them to increase their control over day-to-day risks.

By working with individual companies or business communities, and providing information specific to industries or sectors, regulators can help businesses design simple compliance management processes. These increase both the confidence to meet legal requirements and the level of control over wider costs, potentially impacting on profitability. By acknowledging these processes and the compliance they enable, regulators can develop their relationships with private sector partners and hold a constructive dialogue about potential areas for improvement in future. This strengthens consumer confidence in national and local markets in three key ways:

**Provides day-to-day management control**

Although some businesses that possess appropriate knowledge or in-house expertise prefer to design their own compliance solutions, others may prefer to be advised on simple procedures to incorporate safety into their day-to-day practices. A good understanding of business sectors, the range of requirements they need to meet and, where possible, the individual business context will enable regulators to assess the appropriate approach to use when supporting businesses to maintain management control.

**Ensures recognition for investment in compliance**

Legitimate businesses invest significant amounts of time and money in complying with regulations. Safety and quality of products are critical to maintaining a positive brand image and a satisfied customer base, which in turn contributes to steady sales and a healthy bottom line.

By acknowledging the processes that businesses put in place and making their compliance visible to their customer base, regulators incentivise businesses to own responsibility for regulatory risks as part of their wider business activities and be rewarded for their investment through public recognition of their efforts. This helps businesses stand apart from their competitors, both ensuring repeat business from existing clients and attracting interest from, and maintaining the confidence of, large business investors.

**Enables confident future planning and investment**

Businesses need to understand how regulatory regimes impact upon them to enable them to identify the most cost effective means of compliance for their business context. Good risk assessment should be transparent to the business and should be supported by assurance that enables investment decisions to be made on a sound understanding of future compliance requirements. Primary Authority is one example of a mechanism that can be used to enable earned recognition.
**Safer Food, Better Business: Food Standards Agency**

New food hygiene legislation made it a legal requirement for food businesses to implement a food safety management system (FSMS) based on HACCP principles. The Food Standards Agency estimated that this could increase compliance costs for 400,000 SMEs and small catering and retail businesses in particular may find implementing the requirements a challenge. To address these concerns, the FSA worked with a wide range of businesses to develop an optional, business friendly management system. This contained a pull out step-by-step checklist and diary pages to record checks. The pack was tailored to different sectors and published in various languages, to cater for the wide-ranging needs of business communities.

An evaluation report revealed that all businesses questioned felt that using FSMS helped them stay compliant with food hygiene legislation and gave them confidence that they were managing food safely. 87% of SMEs also reported that FSMS helped them manage their businesses, with 45% commenting that it actually made their businesses more profitable.

**Health and Safety Made Simple: Health and Safety Executive**

All reputable employers want to do their best to meet their health and safety obligations and protect their workers and members of the public. However, the volume of health and safety regulation can lead to confusion and uncertainty about responsibilities under the law. These challenges can have a disproportionate effect on small businesses, which rarely have in-house health and safety advisers.

To make it easier for employers, the Health and Safety Executive developed a single and accessible piece of guidance called ‘Health and Safety Made Simple’. This approach is targeted at small and medium-sized employers in low risk businesses and explains their basic health and safety duties in plain English.

The guidance covers a range of topics from appointing a competent health and safety advisor and writing a health and safety policy to completing risk assessments and obtaining Employees Liability Compulsory Insurance. It tells businesses what is needed and how they can approach compliance, signposting more detailed industry specific advice.

**Buy with Confidence: An interregional partnership initiative**

Each year, a third of British adults experience at least one known consumer problem that results in financial loss, resulting in an estimated £6.6 billion worth of detriment. This can lead to business reputation being devalued in the eyes of consumers and a change in purchasing behaviour to the detriment of businesses, especially smaller retailers and market traders.

The Buy with Confidence Scheme was developed by a partnership of Local Authority Trading Standards Services to address these issues. The scheme provides consumers with a list of local businesses which have given their commitment to trading fairly. Every business listed has undergone a series of detailed checks before being approved as a member of the scheme. In return, business members benefit from publicity and regular advice and assistance on regulatory requirements. The scheme now covers around 5000 businesses, with the majority of members being small, local tradesmen. Its extensive feedback system has indicated that over 95% of comments received are extremely positive and qualitative interviews conducted with members have suggested that participation can result in significant benefits to their business.
Impact number 3: Realise wider economic benefits

Business regulation is designed to enable a wide range of interlinked social, environmental and economic outcomes. Through their delivery, regulators can create the local and national conditions in which economic activity and enterprise can flourish.

In practice, this benefits businesses in three key ways:

**Ensures a level playing field**

Competitive, well-functioning markets give consumers choice on the price and quality of the goods they buy and stimulate businesses to innovate and become more efficient to meet changing consumer needs. This process drives long-term productivity gains and supports stronger economic growth.

Regulatory activity builds business and consumer trust in open and fair markets by ensuring that goods and products are safely and fairly traded, enforcing against rogue traders, and providing businesses with the tools to identify illegally traded goods in their supply chain.

**Provides local community benefits to businesses and citizens**

Good regulatory delivery plays an important role in enabling a range of societal outcomes that in turn contribute to and strengthen local economies, communities’ resilience to economic shocks and ensure availability and choice of local goods and services.

By working with businesses to improve local environmental quality, for example, regulators can increase footfall in town centres and encourage future investment. By working with employers to raise awareness of workplace hazards, regulators support the creation of a more positive working environment, raising productivity and economic performance.

**Contributes to shared outcomes at a national level**

The impacts of regulatory interventions are not limited to geographical areas but can be felt by businesses and citizens at local and national level. Many outcomes require regulators to work in a joined up way across the country, to protect national assets that underpin conditions for sustainable economic growth.

The natural environment, for example, is a significant part of the UK’s asset base. Effective regulatory delivery protects against market failures that might lead to environmental resources being used in a way that weakens prosperity and increases the economy’s resilience to environmental risks, establishing the conditions for sustained economic growth.
Maintaining confidence in online markets: Office of Fair Trading

Online shopping in the UK is worth around £50bn and plays a significant role in driving market innovation and competition. Despite UK consumers being the biggest online shoppers in Europe, one in four people worry more about online shopping than offline. Overall, one in seven consumers has experienced a problem when buying online, of whom 37% have since been reluctant to buy online again. Recognising that continuing online innovation must be met with strategic approaches to tackle new and complex forms of unfair trading, the Office of Fair Trading developed and launched a National E-consumer Protection Strategy. This sets out a number of measures to provide clarity on consumer law, promote a more joined up and intelligence led approach towards enforcement, support businesses in building compliance at new sites, and provide clear information and consistent messages to empower consumers.

Keep Your Business in Business: West Midlands Arson Taskforce

Arson is a significant risk to any business. It costs the economy £45million a week and 75% of businesses affected by a major fire do not recover. Incidents can result in significant job losses, a reduced availability of goods and services and can also impact on other neighbouring or supply chain businesses. Effective management of fire risks, linked to continuity planning, has been recognised as a key contributor to business resilience.

Recognising a rise in the number of local arson attacks, the West Midlands Arson Taskforce drew up the ‘Keep Your Business in Business’ resource. Designed and developed with the local business community, it provides a comprehensive guide to carrying out fire risk assessments in line with current legislation, and best practice information on fire safety measures, arson prevention and disaster recovery.

Since its introduction, the programme has made a significant contribution to the attainment of around a 70% reduction of arson in buildings other than dwellings. The partnership is now developing a revised version of the resource, aimed at supporting SME businesses, which may be more vulnerable to the impacts of arson attacks.

Animal disease: protecting against industry losses

The UK livestock industry helps to underpin much of the £70 billion UK food and drink sector and has an annual retail value itself of more than £24 billion. It also accounts for a large proportion of the 0.5 million people directly employed in agriculture in the UK.

Animal diseases can be spread by direct contact and animal movements can accelerate this process dramatically. Disease outbreaks bring restrictions on the movement and sale of animals at markets, resulting in a threat to livelihoods and a dramatic reduction in tourism.

The foot and mouth outbreak in 2001 resulted in total losses of £9 billion, affecting not only the agricultural sector itself but also hotels, restaurants, distribution companies, transport and communication enterprises.

By enforcing at critical control points of markets, slaughterhouses, high risk farms and ports, regulators work to reduce the risk of the introduction or spread of notifiable disease, protecting businesses from losses and maintaining consumer confidence in the industry.
Conclusion: Supporting UK business growth

Good regulatory delivery provides essential protections from risks posed by day-to-day business operation. It protects citizens from unsafe food and products, from public and occupational health risks, and from fraud and financial detriment. It also protects businesses, ensuring fair competition and a level playing field.

Good regulation is also good business. It can reduce compliance costs by clarifying requirements, providing accessible advice about solutions, developing monitoring processes, and enabling recognition of investment in compliance. By supporting local and national businesses to grow, it can also contribute to the development of economic wellbeing within communities, creating new jobs, raising levels of income and providing greater choice and availability of local services.

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<th>Nature of impact</th>
<th>How does this work in practice?</th>
<th>What are the benefits for business?</th>
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<td>Reduce costs</td>
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Seizing growth potential in the tourism industry: A case study

The tourism and hospitality sector is key to the UK economy. Comprising over 200,000 businesses, it is one of Britain’s six largest industries, providing 1.36 million jobs and generating over £90 billion in direct spend each year. With the overwhelming majority of businesses being SMEs and micro-businesses, the industry is ripe in growth potential and it is estimated that 510,000 new hospitality jobs can be created by 2020.

The recent report from the Tourism Regulation Taskforce, *Smart Regulation and Economic Growth*, emphasises that the creation of an appropriate regulatory environment plays a vital role in seizing this growth potential. In addition to suggesting amendments to regulatory stock, the report acknowledges the importance of effective regulatory delivery, supported by consistent and reliable advice, coordinated and risk-based approaches, strong standards of professional competency and dialogue between regulators and the sector.

As the examples illustrate below, effective delivery of necessary regulations can establish a fair trading environment and help businesses in the tourism industry make confident compliance decisions, reduce costs and support growth at local and national level.

**Reducing costs**

**Minimising transactional costs:** The tourism industry operates across a number of regulatory regimes. By coordinating inspections between food, health and safety, trading standards, fire and licensing officers, regulators can streamline their interactions with businesses, using available data to target higher risk premises.

**Mitigates regulatory risks:** By obtaining accessible and reliable advice, businesses can ensure that they get compliance right first time, reducing, for example, the risk of food poisoning through poor hygiene practices, or injuring customers or staff through poor health and safety practices.

**Minimises reputational costs:** Peer-to-peer feedback websites make it easier than ever before for consumers to share positive or negative experiences of hotel stays. Regulatory failure could have a serious impact on how the business is perceived by current and future customers and may discourage booking or reduce repeat custom.

**Increasing confidence and control**

**Provides day-to-day management control:** The introduction of effective systems to manage compliance has a positive impact on wider business management processes such as stock control. Ensuring compliance in relation to food stock rotation, for example, not only increases food safety but results in less waste and reduced business costs.

**Ensures recognition for investment in compliance:** Local and national regulators conduct sampling to monitor the number of bacteria present in sea water to ensure its safety. Voluntary schemes, such as Blue Flag, enable a connection between water quality and the suitability of the location as a tourist destination.

**Enables confident future planning and investment:** Current and reliable advice on fire safety, for example, can inform the refurbishment or extension of premises, avoiding the need for later amendments to ensure compliance, at additional cost to the business.
Realising wider economic benefits

**Ensures a level playing field:** Through a consistent and proportionate local enforcement regime, managers can have confidence that fellow businesses are subject to the same requirements and that they are operating in a fair trading environment.

**Provides local community benefits to businesses and citizens:** Safe and well run hotels and restaurants draw in tourists and repeat customers. Where a business is enabled to grow and expand, it provides amenities and employment opportunities for local people and contributes to the development of local tourism. Similarly, a strong tourist market drives local demand.

**Contribute to shared outcomes at a national level:** The safety of hotels and restaurants across the UK ensures the ongoing reputation of UK a positive tourist destination, encouraging overseas visitors which make a significant contribution to UK GDP.

Next steps

The examples outlined in this document are not designed to be exhaustive but seek to illustrate the ways that national and local regulators are, and can increasingly, contribute to business growth. The Resources for Regulators material, which can be accessed at http://www.lbro.org.uk/resources can provide additional practical examples and case studies on the topic of collaboration, engagement with customers and delivering local outcomes.

We are now looking to work closely with the Local Government Association and a range of national and local regulatory partners to collate additional examples and develop a practical toolkit which can enable service leaders and practitioners to develop their work in this area.

If you have any case studies or ideas that you would like to share to inform the development of this piece, you can email these to enquiries@lbro.org.uk
End notes

2. This document focuses specifically on the delivery of regulation that impacts directly on businesses outside of the financial and privatised sectors.
9. Further details about the two regulatory pathfinders can be found here: http://www.bis.gov.uk/policies/economic-development/leps/lep-toolbox/helping-smes/local-regulation


