

<b>Title: Simplification and extension of Primary Authority</b>  <b>IA No:</b>  <b>Lead department or agency:</b> Department of Business, Innovation and Skills  <b>Other departments or agencies:</b>	<b>Impact Assessment (IA)</b>	
	<b>Date:</b> 09/08/2015	
	<b>Stage:</b> Validation	
	<b>Source of intervention:</b> Domestic	
	<b>Type of measure:</b> Primary legislation	
<b>Contact for enquiries:</b> Lynsey Pooler (01142075221)		
<b>Summary: Intervention and Options</b>		<b>RPC Opinion:</b> EANCB Validated

Cost of Preferred (or more likely) Option			
Total Net Present Value	Business Net Present Value	Net cost to business per year (EANCB on 2014 prices)	In scope of One-In, Two-Out? Measure qualifies as
£229.31m	£233.25m	-£25.77m	Yes   OUT

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

The Primary Authority scheme was introduced in 2009. It is a statutory scheme devised to provide greater regulatory consistency and certainty for businesses that operate across a number of different local authority areas. The scheme has proven to be very popular with businesses and delivered a number of benefits for business. This includes assured, consistent advice, and a single point of contact with the local regulatory system. The scheme has been extended to cover new areas of regulation and to businesses that share a common approach to compliance. A recent review of the scheme has shown the numerous benefits of the scheme and there is now a desire to ensure that all businesses who wish to enter a Primary Authority partnership. As Primary Authority is a statutory scheme changes to who can join the scheme require further legislation.

**What are the policy objectives and the intended effects?**

The main objective of the policy is to ensure that all businesses, especially small businesses, are able to fully access the benefits of Primary Authority. Rules on eligibility to access to the scheme mean that currently it is disproportionately larger businesses who are able to access the benefits of Primary Authority. This is because larger businesses are more likely to operate in multiple local authorities and to have been eligible under the original criteria for Primary Authority. However even businesses operating in one area or starting up would like Assured Advice in order to base regulatory investment decisions on, particularly if they are involved in specialised regulatory areas. The policy also intends to ensure that the scheme is widened to include national and other regulators as well as local regulators.

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

1) Do nothing. The scheme continues as is with small businesses less likely to access the benefits of regulatory certainty and consistency.

(2) Expansion of the Primary Authority scheme. This is a package of measures including

- Simplifying the scheme to make it easier for small businesses and pre-starts to form primary authority partnerships, including businesses not trading over local authority boundaries
- Simplifying access for co-ordinated partnerships by allowing the co-ordinated partnerships to sign up businesses on behalf of the businesses
- Powers to allow national regulators to enter into Primary Authority partnerships alongside local authorities and issue advice to businesses. National regulators must act consistently with the advice given.
- technical changes to simplify how the scheme operates.

**Will the policy be reviewed?** It will be reviewed. **If applicable, set review date:** 10/2021

Does implementation go beyond minimum EU requirements?			N/A		
Are any of these organisations in scope? If Micros not exempted set out reason in Evidence Base.	<b>Micro</b> Yes	<b>&lt; 20</b> Yes	<b>Small</b> Yes	<b>Medium</b> Yes	<b>Large</b> Yes
What is the CO <sub>2</sub> equivalent change in greenhouse gas emissions? (Million tonnes CO <sub>2</sub> equivalent)			<b>Traded:</b> N/A	<b>Non-traded:</b> N/A	

**I have read the Impact Assessment and I am satisfied that (a) it represents a fair and reasonable view of the expected costs, benefits and impact of the policy, and (b) that the benefits justify the costs.**

**Signed by the responsible Minister:**  **Date:** 10/09/2015

# Summary: Analysis & Evidence

# Policy Option 1

**Description:** Simplification and extension of the Primary Authority scheme

## FULL ECONOMIC ASSESSMENT

Price Base Year 2015	PV Base Year 2016	Time Period Years 10	Net Benefit (Present Value (PV)) (£m)		
			Low: 62.7	High: 1334.1	Best Estimate: 229.31

COSTS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Low	77.3	49.6	489.1
High	15.5	115.3	951.1
Best Estimate	14.8	95.4	786.2

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

The changes to eligibility are estimated to bring an additional 10k to 43k businesses into PA. This is a take up rate of between 0.5%-2%. The large range reflects the uncertainty in the take up rate.

Costs to business which chose to enter scheme: one-off costs (setting up a partnership) between £740k - £1.5m and annual costs (maintenance, cost-recovery costs) between £5.3m to £13m in 2016/7. As there is a growing take up rate assumed we have shown costs in the first year.

Costs to primary authorities: one-off costs (setting up a partnership) between £0.5m - £1.0m and annual costs (administrative costs) between £3.9m to £7.8m in 2017/18. Costs for enforcing authorities (cost of notifications): £0.03m. Additional co-ordinator costs: £0.05m-0.08m

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

BENEFITS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Low	4.2	59.6	489.1
High	8.5	279.3	2285.2
Best Estimate	8.1	123.8	1015.5

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

The changes to eligibility are estimated to bring an additional 10k to 43k businesses into PA. This is a take up rate of between 0.5%-2%. The large range reflects the uncertainty in the take up rate. Benefits to business which chose to enter the scheme: annual benefits between £6.8m and £42.0m in 2016/17 and growing in subsequent years. Benefits to primary authorities (cost recovery): one-off benefits of £0.4 - £0.8m, annual benefits of £3.9m - £7.8m in 2016/7. Benefits for enforcing authorities (by increased efficiency and reduced duplication): 2k in 2016/7. Benefits for co-ordinators and businesses of simplified co-ordinated membership: £1.9m to £3.9m

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

There will be further benefits to businesses in direct partnerships as Assured Advice will give businesses confidence to invest in compliance across their sites and manage their risks while generating growth. Participating businesses in co-ordinated partnerships will have assurance that the approach developed by their co-ordinator (who administers the partnership) for their situation will be respected in their locality. This will reduce business risk.

Key assumptions/sensitivities/risks	Discount rate (%)	3.5
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Main assumptions: take up of new extension, benefits to those in the extension, cost to co-ordinators of changes.

Main risks: rate of take-up, extent of benefits to business arising from the extension of the scheme, impact of the changes to co-ordinated partnerships on co-ordinators.

## BUSINESS ASSESSMENT (Option 1)

Direct impact on business (Equivalent Annual) £m:	In scope of OITO?	Measure qualifies as
Costs: 54.4	Yes	OUT
Benefits: 80.1		
Net: 25.8		

## Evidence Base (for summary sheets)

### Summary

This Impact Assessment looks at the Primary Authority measures included in the Enterprise Bill, three of these changes will be enacted by Primary Legislation,

- the extension of PA to include small businesses and pre starts,
- the simplification of co-ordinated partnerships and ;
- Minor technical measures on notification periods.

The remaining measures require secondary legislation before commencement but the impacts and likely scale of these impacts enabled by the primary legislation are described below. The full EANCB for these measures will be included in the Impact Assessment supporting the secondary legislation.

Overall the package has a NPV of between £63m and £1334m (central estimate £229m) and an EANCB (measured in 2014 prices and a present value base of 2015) of -£25.8m.

Below we have set out the assumptions of the main measures as well as the impacts on the affected groups.

### *Extension of Primary Authority to include small businesses and pre starts*

#### *Assumptions*

	Central Estimate	Low Estimate	High Estimate	Evidence
Number of existing businesses eligible for the extension	2,016,610			BIS Analysis of the IDBR 2015
Number of pre starts in UK	320,090			ONS Business Demography statistics 2013
Take up rates for existing businesses	1%	0.50%	2%	Assumption
Take up rates for pre starts	1%	0.50%	2%	Assumption
Business Time taken for set up	10.2		5.1	Central estimate based on acl research <sup>1</sup> , High estimate represents having of cost as costs may be lower if only one local authority is involved.
Business Hourly Earnings for Corporate Managers and Directors	£26.17			Annual Survey of Hours and Earnings (ASHE) 2014
Non-Wage Labour Costs	19.80%			Eurostat 2015
Fee paid by businesses to PAs for set up phase	£387		£193	Central estimate based on acl research, High estimate represents having of cost as costs may be lower if only one local authority is involved.

<sup>1</sup> The acl research was carried out in 2014/2015 by acl consulting as part of a review of the Primary Authority scheme. It looked at the impacts of direct partnerships on businesses in the scheme, Primary Authorities and Enforcing Authorities as well as including a counterfactual group of businesses outside the scheme for comparison. The report is due to be published shortly.

Business annual maintenance time	43		22	Central estimate based on acl research, High estimate represents having of cost as costs may be lower if only one local authority is involved.
Fee paid by businesses to PAs for annual work	£ 3,717		£ 1,859	Central estimate based on acl research, High estimate represents having of cost as costs may be lower if only one local authority is involved.
Annual business benefits	£ 7,500	£ 6,500	£ 10,000	The acl research had a lower estimate of around £14k annual benefits for direct partnerships. These estimates reflect the uncertainty of the benefits is this new group.
Regulator hourly wage	26.17			ASHE 2014
Primary Authority set up hours	18		9	Central estimate based on acl research, High estimate represents having of that these costs may be lower if only one local authority is involved with the businesses.
Primary Authority maintenance hours	143		71	Central estimate based on acl research, High estimate represents having of that these costs may be lower if only one local authority is involved with the businesses.
Enforcing officer notification time	0.75 per month for 6728 business	0.375 per month for 6728 busin esses	1.5 hours per month for 6728 busin esses	Central estimate based on half the costs in the acl research as it is highly likely there will be reductions in this area with only one local authority involved as only one local authority will be notifying the local authority rather than all local authorities. High estimate is the acl research figure. Low estimate is half the central estimate to reflect the uncertainty.
Benefits to enforcing officers	0.6 hours for 6728 businesses	0.3 hours for 6728 busin esses	1.25 hours for 6728 busin esses	Central estimate based on half the costs in the acl research as it is highly likely there will be reductions in this area with only one local authority involved as only one local authority will be notifying the local authority rather than all local authorities. High estimate is the acl research figure. Low estimate is half the central estimate to reflect the uncertainty.

*Net benefit for those involved*

	Businesses	PAs	EAs
2016/17	£3.6m	-£0.2m	-£0.02m
2017/18	£8.7m	-£0.2m	-£0.05m
2018/19	£14.8m	-£0.2m	-£0.07m
2019/20	£18.9m	-£0.3m	-£0.1m
2020/21	£24.0m	-£0.3m	-£0.1m
2021/22	£29.1m	-£0.4m	-£0.1m
2022/23	£34.2m	-£0.4m	-£0.2m
2023/24	£39.3m	-£0.4m	-£0.2m
2024/25	£44.4m	-£0.5m	-£0.2m
2025/26	£49.5m	-£0.5m	-£0.2m

*Simplification of Coordinated Partnerships*

*Assumptions*

	Central Estimate	Evidence
Average number of businesses per co-ordinator	2,400	PA Monitoring data
Current number of partnerships	47	PA Monitoring data
Number of existing partnerships not fully signed up	31	PA Monitoring data
Assumed number of new co-ordinators per year	50	Linear trend from current take up rate
Time taken for new co-ordinators to meet additional requirements	37 hours	Assumption
Hourly wage rate for co-ordinators and businesses	£26.17	ASHE 2014 hourly rate for Corporate Managers and Directors
Non-wage labour costs	19.80 %	Eurostat 2015
Number of co-ordinators saving time by not actively encouraging businesses to sign up to the scheme	10%	Based on stakeholder engagement
Co-ordinator time saved by new system	30 hours	Based on stakeholder engagement
Time saved by individual businesses	0.5 hour	Previous IA s suggested a sign up time of 1 hour. We have assumed businesses will still need to read information on the scheme.

*Net benefit on those involved*

	Co-ordinators	Business
2016/17	-£0.08m	£3.9m
2017/18	-£0.05m	£1.9m
2018/19	-£0.05m	£1.9m
2019/20	-£0.05m	£1.9m
2020/21	-£0.05m	£1.9m
2021/22	-£0.05m	£1.9m
2022/23	-£0.05m	£1.9m
2023/24	-£0.05m	£1.9m
2024/25	-£0.05m	£1.9m
2025/26	-£0.05m	£1.9m

## Problem under consideration

The Primary Authority (PA) scheme was established in 2009. It was initially devised to provide greater regulatory consistency and certainty for businesses that operate across a number of local authority areas. The scheme allows businesses to partner with one local authority (their primary authority) who can issue Assured Advice to the business. Assured Advice is advice and guidance on compliance issued to the business by the Primary Authority, on which the business can rely and which Enforcing Authorities must have regard to. The Assured Advice provides the business the certainty to invest in the same compliance solution across all their sites knowing other Enforcing Authorities will be content with the solution. Initially the scheme only allowed those firms who operated across multiple local authority boundaries to join the scheme in “direct partnerships”. The scheme has been expanded a number of times since to include new regulatory areas (such as Fire Safety and the Age Restricted Sales of Alcohol) and businesses who share a common approach to compliance (such as Trade Associations and Franchisees) who would share common regulatory problems. Since the scheme introduction, it has grown considerably in popularity, with around 7,000 businesses currently covered. A recent review by the Better Regulation Delivery Office (BRDO) found a number of areas which were causing issues:

- The eligibility rules were restricting who can join the scheme, excluding those businesses in single local authority areas and pre start who may want to join the scheme.
- There are areas of overlap between local authority regulators and national regulators such as certain areas of health and safety where the Primary Authority isn't having the impact it could as Assured Advice can't cover the full regulatory area.
- Businesses were worried about how devolution could have a detrimental impact on the scheme. There is a need to ensure businesses will benefit as much as possible from the scheme despite increased devolution.
- The current method of signing up co-ordinated partnerships is creating an administrative burden for both businesses and co-ordinators (those who administer the partnership).

The review found a desire by stakeholders to simplify access to the scheme to ensure more businesses, particularly those not operating across local authority boundaries, can access the same benefits currently enjoyed by larger businesses. This would mean smaller businesses could access benefits such as Assured Advice on which they can make decisions on how to invest in compliance solutions. There is also a desire to ensure that it is easier for Trade Associations and Franchisees to ensure all their members benefit from the scheme. BIS is putting forward a package of measures in the Enterprise Bill based on findings from the review and stakeholder feedback to simplify and expand the scheme.

## Rationale for intervention

The Primary Authority scheme delivers real benefits to businesses. Research carried out as part of a recent review of the scheme found that businesses valued the scheme with 81% of businesses in PA stating the clarity of advice on matters of non-compliance had improved compared to 25% of businesses not in PA. Three-quarters of Primary Authority businesses had better regulatory relationships with their local authorities compared to 37% of non-Primary Authority businesses. In addition 52% of PA businesses stated the number of enforcement notices they received had reduced compared to 17% of those not in PA.

Currently the eligibility rules around joining PA mean that those who are in larger businesses are more likely to join the scheme than smaller businesses, with 11% of large businesses in the scheme compared to 1% of medium businesses and 0.1% of small businesses. This is because the original scheme was designed for businesses operating across multiple local authority boundaries which were generally larger businesses.

BIS wishes to simplify and extend the scheme to allow all businesses who wish to join the scheme the opportunity to do so. As the scheme is statutory any changes to the scheme require further legislation. The changes suggested would provide benefits in a number of ways:

- by providing opportunities for a business to enter into a partnership with its local authority to provide tailored advice to support compliance. For businesses already in operation, a partnership could improve compliance processes and systems used by a business (for example a food safety management approach for a small food business), increasing business productivity as well as safety.
- Established businesses joining the scheme could get Assured Advice giving them the confidence to invest in regulatory solutions.
- For pre-start businesses, a partnership could provide specialist advice on 'building in compliance' from the start of operations to minimise the cost of compliance – for example, for businesses operating in adventure sports, advice would be provided on specialist health and safety aspects of climbing walls, high wire rope walks etc. Existing businesses would also be able to draw on these specialised pools of advice.

There is also a need to create a simpler system where there are overlaps with other Regulators, for example, Health and Safety, by allowing national regulators a fuller role in the scheme. Finally, the scheme needs to address the future changes to the regulatory system posed by devolution making it harder to provide a single regulatory solution across the UK. We are working with Scotland and Northern Ireland on Memorandums of Understanding to give the scheme more mutual recognition. However we have gained agreement with the Welsh Government on a legislative solution for inclusion in the Enterprise Bill.

## **Description of options considered**

(1) Do nothing. The scheme continues as is with small businesses less likely to access the benefits of regulatory certainty and consistency, low take up rates of co-ordinated partnerships and less consistency with other Regulators and Wales.

(2) Expansion of the Primary Authority scheme. This is a package of measures including

- Simplifying the scheme to make it easier for small businesses and pre-starts to form primary authority partnerships, including businesses not trading over local authority boundaries
- Simplifying access for co-ordinated partnerships by allowing the co-ordinated partnerships to sign up businesses on behalf of the businesses
- Powers to allow other Regulators to enter into Primary Authority partnerships alongside local authorities and issue advice to businesses. Regulators must act consistently with the advice given.
- Technical changes to simplify how the scheme operates. The first change will ensure that all parties comply with the need to notify the Primary Authority. The second change will ensure that if parties are in agreement then notifications can be issued without delay.

## **Policy objective**

### ***(1) Removing the eligibility criteria that businesses must meet in order to form a Primary Authority partnership***

This measure will amend the eligibility criteria in the Regulatory Enforcement and Sanctions Act 2008 (RESA) allowing:

- (a) a business that carries out a regulated activity in only one local authority area to enter into a primary authority partnership with a local authority; and
- (b) a business that does not yet carry out a regulated activity to enter into a primary authority partnership with a local authority.

Part (a) would allow businesses the option of forming a partnership with their own local authority or seeking a partnership with another local authority that has specialised expertise, or has the commitment or willingness to form a partnership. There are several examples of where there is specialised advice in the existing scheme,

- Cheshire East which has developed specialist regulatory advice regarding outdoor adventure companies,
- Cornwall Council which has developed expertise in cheese making and
- Warwickshire County Council developing advice for the estate agency sector.

Partnerships for pre-starts would allow pre-start businesses access to specialised regulatory advice before they commence trading, ensuring they can get compliance right from the start which should help to reduce costs.

The overriding objective here is to expand take up amongst smaller firms, allowing them a level playing field with large businesses.

### ***(2) Simplified co-ordinated partnerships***

Co-ordinated partnerships allow two or more persons that share an approach to compliance to enter into a partnership with a primary authority and become regulated persons. Examples of co-ordinated partnerships include a franchisor and its franchisees; a sectoral trade association and its members; or a single company and other companies that are in the same company group. This change, introduced in 2013, has enabled thousands of small businesses to access Primary Authority advice through co-ordinated partnerships. However, given that the amendments created the opportunity for hundreds of thousands of smaller businesses to enter partnerships, the current number of partnerships is significantly lower than it could be. Currently only 4% of businesses in the trade associations signed up to partnerships have completed the application process. Co-ordinators and businesses have reported that the reason for this lower than anticipated sign up is the complexity and bureaucracy of the application process. This measure will therefore alter the way the existing co-ordinated memberships are formed to



simplify the application process. At present co-ordinated partnerships undergo a two stage process for forming a partnership. Stage 1 is for the local authority and the co-ordinator to make a joint application, satisfying BRDO that the businesses met the eligibility criteria. Stage 2 is for each individual business to make its own application. This two-stage process, particularly stage 2, is time-consuming and resource-intensive. This risks deterring small businesses from forming a partnership and accessing the benefits of assured advice, and creates a sizeable administrative burden on all three parties getting the businesses to correctly join up to the scheme. This measure will change the application process so that the partnership application is just between the co-ordinator and the primary authority. The co-ordinator will be responsible for maintaining a list of those in the partnership. This will lead to a huge reduction in the administrative burden placed on small businesses and ensure more businesses are able to access the benefits of the scheme. Businesses will still be able to opt out of the scheme should they wish by informing the coordinator.

### **(3) Changes for Other Regulators**

This measure gives the Secretary of State a number of powers (all of which require secondary legislation to enact). These are

- a) A power, exercisable through secondary legislation by the Secretary of State, to specify regulators other than local authorities who can be a primary authority – or who will be subject to the same requirements under the scheme as a local authority that is not designated as a primary authority.
- (b) A power, exercisable by secondary legislation, to specify regulators other than local authorities and those covered by power (a), who are required to act consistently with primary authority advice
- (c) A power, exercisable by secondary legislation, to specify regulators (and the corresponding regulatory functions) who can play a role to support primary authorities to develop advice, guidance and inspections

Power (a) seeks to give national regulators such as the Health and Safety Executive, the Gambling Commission and the Food Standards Agency the option of playing a statutory role in Primary Authority partnerships so that they could support primary authorities to develop advice, guidance and inspection plans and provide businesses with assurance on which they can rely.

During the review of Primary Authority, businesses reported inconsistent advice where they are dually regulated by a national regulator and a local authority. For example the British Frozen Foods Federation (BFFF), a large retail outlet that also operates warehouses, reported that they are regulated by both a local authority and the HSE. The local authority inspects the business for its retail activity and the HSE in its warehouses. This has resulted in the business having two different sets of procedures for the same activity of working at heights. This power would seek to address such inconsistencies.

It would not be mandatory for national regulators to support primary authorities, however should they elect to play a role in the scheme they would be able to recover the costs, just as local authorities currently do. Early stakeholder engagement has found that some National Regulators would be keen to take on this role.

The national regulators could play a role to support primary authorities where they: (1) operate the same relevant function(s) as local authorities, and the relevant function is in scope of PA (2) where they exercise a similar relevant function to a local authority.

Power (b) gives the Secretary of State a power to specify bodies other than local authorities who will be required to act consistently with primary authority advice, so far as possible. It is our intention that these bodies would have to act consistently with primary authority advice; where they exercise the same relevant functions as local authorities and where that relevant function is in scope of Primary Authority.

It is our current intention that those bodies to be specified in secondary legislation may include new types of local authority which are emerging as a result of local devolution, for example Combined Authorities. It is also anticipated that the police will be listed as they exercise a number of functions which are the same as those exercised by local authorities, and in the case of gambling, as a national regulator.

As part of the review of Primary Authority, businesses reported examples of duplication and inconsistency where bodies such as the police exercise the same relevant functions as local authorities.

Power (c) will allow regulators other than local authorities, to fulfil the same role as a local authority in the primary authority scheme. With the effect that:

- a. where such regulators are a primary authority, they will be subject to all the same requirements under RESA as a local authority designated as a primary authority,
- b. where such regulators are not designated as a primary authority, they will be subject to all the same requirements under RESA as a local authority which is not designated as a primary authority,

This solves some of the inconsistencies where by other regulators e.g. the licensing boards for Scotland are carrying out functions similar to Local authorities

#### ***4) Technical changes to the required notification periods following a notification of proposed action and the ability to direct against a proposed enforcement action when it has not be notified.***

The first set of amendments is to enable a primary authority to stop an enforcing authority taking an enforcement action where no notification of such enforcement action has been given by the enforcing authority to the primary authority. Currently if an enforcing authority fails to notify a Primary Authority that it intends to take enforcement action against a Primary Authority business, the only response a Primary Authority or a business can make is a judicial review. Whilst the review should normally succeed this seems unnecessarily risky and costly and is not a satisfactory remedy. This change would allow Primary Authorities to issue a direction to stop enforcement action for 5 working days, giving them the normal consideration period as if the enforcing authority had originally notified them. This will save all parties time and expense.

The second set of amendments is to change the definition of the relevant period to allow an enforcing authority to continue with its enforcement action as soon as the primary authority has informed the enforcing authority that it will not direct against the enforcement action. Currently enforcing authorities must wait five days regardless of whether the primary authority has already agreed with the proposed action. This creates an unnecessary delay in the action which could be avoided, ensuring earlier compliance actions are achieved.

#### **Costs and Benefits of the Simplification and expansion of the Primary Authority scheme**

The analysis looks at each of each individual package measures in turn to calculate the costs and benefits of the scheme.

#### ***Package Measure 1: Removing the eligibility criteria to allow businesses operating in a single local authority and pre start businesses to join the Primary Authority scheme.***

##### *Eligible businesses*

Removing the requirement that businesses need to operate across local authority boundaries in order to join the Primary Authority scheme will mean that any business that is covered by one of the regulations within Primary Authority will be eligible to join the scheme. This leads to a significant widening of the population eligible for the scheme. BIS analysis of the Intra departmental Business Register shows that as a result of these changes 2,016,610 businesses in England and Wales will be eligible for entry into Primary Authority (including those already in the scheme).

Removing the requirement that businesses need to be engaged in the regulatory activity, means that pre starts will be eligible to join the scheme. The ONS Business Demography statistics 2013 shows that there were 320,090 business births in England and Wales in 2013. At least 27.7% of these will be 'eligible' for the Primary Authority scheme as this is the proportion working in retail, food and accommodation (the real figure is likely to be higher). That gives almost 89,000 pre- starts each year who may be interested in joining the Primary Authority scheme. Once we account for the businesses

already in the scheme (just over 6,700). This gives a total eligible population for the new scheme of 2,098,547<sup>2</sup>.

### *Take up rate of the eligible population*

Six years after the original direct partnership scheme was implemented, just over 1,500 businesses are in direct partnerships (This figure excludes those in co-ordinated partnerships). This is a take up rate of just under 5% of the total population eligible for the original scheme. Obviously the original scheme was set up at a time of greater inspections numbers and was designed to deal with specific cross local authority issues so we expect the direct partnership rate to be too high for the newly expanded scheme. However being able to gain regulatory certainty will certainly prove attractive to those in more complex regulatory environments. Therefore it might seem reasonable to assume that 1% of those existing businesses eligible will take up the scheme by 2025/26. Because there is reasonable uncertainty in this estimate, we have provided a wide range of estimates as the high and low estimate of 0.5% to 2%. Whilst we have anecdotal evidence that there is demand by pre start firms in some areas, there is still uncertainty around total demand. As a result we have assumed a wide range of take up from 0.5% to 2% with a central estimate of 1%.

This gives us a range of estimates for total take up from 10,936 to 43,744 with a central estimate of 20,985 by 2025/26. We have assumed a linear take up rate to 2025/26 so an additional 2,099 businesses join PA each year.

Similar to the previous Primary Authority Impact Assessments, one of the main parameters for the high and low estimates is the number of businesses in the scheme (who will receive the cost and benefits). As a result we cannot take the low cost from the high benefits option to give the high NPV (as is usual) as these would we could not have take-up of the benefits without the associated costs. Therefore the high benefit option reflects the highest take up of the scheme (2%) and the costs and benefits for these businesses plus any other assumptions that would lead to lower costs.

### *Costs to business*

A recent evaluation of the direct partnerships showed that as previously assumed businesses incur one off start-up costs and annual maintenance costs in maintaining their partnerships.

#### *One off Costs*

The recent evaluation found that businesses in direct partnerships spent on average 10.2 hours setting up their Primary Authority partnership. Whilst we might expect those in more simplified arrangements with just one local authority to have lower set up costs, we have taken the cautious approach of assuming that the central estimate start-up costs will be the same as in the direct partnerships. To reflect the potential lower costs we have used the assumption that these costs are halved in our high net present value calculation. For the central estimate, using the gross hourly rate for corporate managers and directors of £26.17 from the Annual Survey of Hours and Earning 2014 and the standard uplift for non-wage labour costs (19.8%) gives the opportunity cost to businesses for each partnership of £320.

Primary Authorities can also cost recover for the time they spend setting up the partnership. The acl evaluation found that the average amount cost recovered by Primary Authorities for setting up was £387. We have assumed the same costs will apply for this extension with a high estimate that the cost recovery fee is halved. As result the total start-up cost to businesses of joining PA is £708.

#### *Annual Costs*

Businesses incur two annual costs as a result of their partnerships. Firstly, opportunity costs from working with their Primary Authority on their partnerships and the fees that they pay their Primary Authority for advice.

#### *Opportunity Costs*

The recent research by acl found that on average businesses spend 43.15 hours on maintaining their partnerships in the most recent annual contract period. We might expect that small businesses operating

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<sup>2</sup> The eligible population (2,016,610) minus thus in the scheme already (6,728) plus pre-start businesses (88,665).

over only one geographical area may require less annual input from their Primary Authority. However in order to produce a central estimate of the costs we have assumed that the same time will apply as in the direct scheme. (The high benefit estimate assumes a halving of this time to show the potential benefit if this is the case). Therefore using the hourly rate for corporate managers and directors (£26.17) from ASHE and the standard uplift for non-wage labour costs (19.8%) gives us an annual opportunity cost of £1,353 per Primary Authority business.

#### Cost Recovery

The recent research found that the average annual amount cost recovered from direct Primary Authority businesses was £3,717. We have used this as the amount that the new partnerships will pay. This leads to a total annual cost for business of £5,070.

#### Benefits to business

The acl research asked several questions about the value that Primary Authority businesses put on their partnership. Over three-quarters (76%) of businesses had developed better regulatory relationship with local authorities compared to 37% of non-Primary Authority businesses and three-quarters agreed that instances of non-compliance was more easily solved compared to just 26% on non-PA businesses. When asked about their willingness to pay, 76% of partnerships valued it at least what they paid for it with 45% willing to pay at least double. The research also directly asked what monetary benefits firms received from their partnership. When asked directly to attribute a benefit that they had accrued as a result of the scheme in the last year, those that could give a value (only 30%) suggested an average benefit of £82,450. Even if we assumed those who could not give a value received no benefit, the average annual benefit received is just under £15k, which exceeds the average cost. This would be a very conservative estimate as clearly a greater proportion of firms are willing to pay at least what they pay for the scheme (and for 45% at least double) than can self-report its exact value. This means there is a substantial benefit to direct partnerships in the scheme. However it would be sensible to assume that individuals joining the scheme operating only in one area may not get the same scale of benefits that those in multiple areas do. Given the scheme is voluntary, we can safely assume that businesses will only join where the benefits overweight the costs. Due to the uncertainty we have assumed a range of annual benefits from £6,500 (where there is only a small net benefit) to £10,000. The central estimate is £7,500.

#### Net Benefits

Deducting annual costs from benefits gives an annual net benefit to business of joining the scheme of £2430. There is also a one off set up cost of £707. Applying this costs and benefits to linear take up profile given previously.

Year	Net Benefit
2016/17	£3.6m
2017/18	£8.7m
2018/19	£13.8m
2019/20	£18.9m
2020/21	£24.0m
2021/22	£29.1m
2022/23	£34.2m
2023/24	£39.3m
2024/25	£44.4m
2025/26	£49.5m

This would give an EANCB for this measure of -£23.8m.

## **Primary Authorities**

### **Cost**

For Primary Authorities working in direct partnerships, there were two types of cost, one off costs for setting up the partnerships and annual costs for maintaining the partnership. For these we have adopted the cautious approach of assuming the same costs apply as for the direct partnership for the central estimate. For the high benefit estimate we assume all costs are halved due to the reduced complexity of businesses only operating in one area.

#### Set up costs

The acl research found that Primary Authorities spent 17.92 hours setting up a direct partnership. We use the Annual Survey of Hours and Earnings 2014 hourly wage for Quality Assurance and Regulatory Professionals of £21.81 uplifted by the standard 19.8% for non-wage labour costs. This gives the average start-up costs for each business of £468. The linear take up give previously assumes that 2099 businesses will join each year. This gives a total yearly start-up cost for Primary Authorities of around £980k.

#### Annual Costs

The acl research found Primary Authorities annual spend on average 142.96 hours maintaining the partnership. Using the ASHE hourly wage rate and the standard non-wage labour cost uplift gives an opportunity cost of £3,735 per business.

### **Benefits**

#### Cost recovery for set up phase

The acl research found that the average rate cost recovered for the start-up phase was £387. This is slightly less than the opportunity cost of time spent which may indicate that councils choose not to fully cost recover for all the time they spend initially setting up the partnership.

#### Cost recovery for maintenance phase.

The acl found that on average businesses paid £3,717 annual maintenance to Primary Authorities for their partnerships, very similar to the opportunity cost of the time spend.

#### Net Benefits

Based on the acl research and wage rates from ASHE, Primary authorities have a net benefit of -£81 in the set up phase (i.e. a net cost) and an annual net benefit of -£18 for each new business.

### **Enforcing officers**

#### Costs

The latest acl research found that enforcing officers are still incurring an opportunity cost in having to spend time notifying Primary Authorities and giving them feedback. The research estimated that each enforcing authority spends on average a total of 1.5 hours per month for all the businesses currently in the scheme (just over 6,700 partnerships). However given under the new scheme the majority of partnerships will be with the local authority we would expect this cost to be lower. Therefore for the best estimate we have assumed costs will be halved, with a high cost estimate using the acl costs and a low cost estimate of a quarter of the costs. To estimate the time taken by the scheme we can work out the yearly time taken by each Enforcing Authority per business (0.75 multiplied by 12 months divided by the number of businesses currently in the scheme (6,728 businesses) so approximately 0.0013 hours for each additional business to individual enforcing authorities. Taking into account that there are approximately 350 enforcing authorities in the scheme means that for each business joining the scheme there will be an opportunity cost borne across of the enforcing authorities in the scheme of 0.47 hours. Whilst this is a relatively low cost per business given the number of businesses likely to join the scheme it is still likely to be significant and so worth taking into account. Taking into account ASHE wage rates for quality assurance and regulatory professionals and the standard uplift for non-wage labour costs (19.8%) gives a per business annual cost of £12 for each business joining the scheme . Given the linear

take up this will constitute a cost of £26k in the first year after the expansion and reach just under £260k after the 10 years.

### Benefits

The latest acl research found that because of changes in the regulatory landscape (less inspections than 10 years ago) the benefits to enforcing authorities were significantly less than had been estimated previously. They found whilst there was scope to achieve higher benefits through better co-ordination between primary authorities and enforcing authorities, the current scheme was probably only leading to an average annual saving of around 1.25 hours for each enforcing authority. Again this is likely to be reduced under the new extension so we have assumed a best estimate of half of these costs. This gives a per business annual time saving of 0.039 hours per business. Taking into account ASHE hourly wage rates and non-wage labour costs. This gives a benefit per business of £1.02 per business. Given the linear take up this will constitute a benefit of £2k in the first year after the expansion and reach just under £20k after the 10 years.

### Net Benefits

So for enforcing officers there is a net cost to each additional business in Primary Authority of around £11. It may be the case that as the scheme expands to new businesses operating in one are these costs are reduced both through less officers having contact with each business and the scheme ensuring increased compliance with individual businesses.

### Net benefits to local authorities

The table below shows the impact of the changes on local authorities (enforcing authorities plus primary authorities). The impact is estimated to be slightly negative. However these are cautious estimates using evaluations of the scheme to date. BRDO are taking measures to address the impact on local authorities through non legislative measures such as guidance on cost recovery. These measures aim to make the impact on local authorities neutral (or even positive).

	Net Benefit
2016/17	-£0.2m
2017/18	-£0.3m
2018/19	-£0.3m
2019/20	-£0.4m
2020/21	-£0.4m
2021/22	-£0.5m
2022/23	-£0.6m
2023/24	-£0.6m
2024/25	-£0.7m
2025/26	-£0.8m

## **Net benefits to society**

The following table gives the net benefit to society in each year.

2016/17	£3.4m
2017/18	£8.5m
2018/19	£13.5m
2019/20	£18.5m
2020/21	£23.6m
2021/22	£28.6m
2022/23	£33.6m
2023/24	£38.7m
2024/25	£43.7m
2025/26	£48.8m

Using the standard HMT discount rate (3.5%), this gives a net present value to society of £211m. The baseline year is 2016.

### ***Package Measure 2: Corporate membership of the Primary Authority scheme.***

The second measure in this package is simplifying the sign up process for co-ordinated partnerships. Presently the system for signing up co-ordinated partnerships relies on Co-ordinators setting up the partnership then getting each of their individual members to sign up. This is because current legislation requires that that the relationship is between the regulator and a person carrying out a regulated activity. This is currently creating an administrative burden for the co-ordinators with many putting considerable effort into getting members to sign up without much success. The current take up by businesses in trade associations who are members is just 4%. This issue means that whilst these companies may still be getting the benefit of the advice, they are not protected by the assurance of the advice without spending time signing up. This is also a very time consuming process; the average co-ordinator has 2,400 businesses in their scheme. Taking the previous impact assumption of one hour per business sign up time, this process takes on average 2,400 hours plus the co-ordinator's time and effort in encouraging sign-up. Therefore there is a real need to simplify the process ensuring that companies can easily access the Assured Advice without the burden on them and the co-ordinators.

Measure 2 is that members of co-ordinated partnerships will be enrolled on to the scheme unless they opt out which will make the process of gaining the assured advice much simpler for businesses. This will not change any other aspect of the co-ordinated partnership process.

#### **Cost and Benefits**

##### **The number of co-ordinated partnerships**

There are currently 47 co-ordinated partnerships in Primary Authority. These partnerships represent 134,000 businesses. However, presently only 4.3% of these businesses have signed up. This is driven by 31 of these partnerships where sign up by business is incomplete (and in some cases exceptionally low). Under the new changes all of these businesses would be auto enrolled onto the scheme, giving them the benefit of assured advice.

##### **Future co-ordinated partnerships**

The original Impact Assessment suggested that between 900 and 1,100 businesses would join Primary Authority as a result of co-ordinated partnerships. This projection has already been exceeded so new projections are needed. The Trade Association forum shows that there are 2,400 trade associations in the UK. The British Franchisee Association suggests that there are 930 UK brand franchisees. There are currently 29 co-ordinated partnerships in discussion with BRDO about joining the scheme. Given the

take up since 2013 and the ongoing interest we have assumed a continuation of the existing trend which gives 50 new partnerships joining the scheme every year, building up to an additional 500 co-ordinated partnerships in 2026.

There are 2 parties that will experience changes as a result of this change, co-ordinators and businesses in the partnerships.

#### Coordinators

##### Costs

Under the changes the co-ordinators will still continue the set-up and negotiations with Primary Authorities as before (and included in previous IAs). The main change will be that co-ordinators will be responsible for maintaining a list of their members and their details so that enforcing officers will be able to verify if someone is a member. We have assumed that maintaining a list of members of the trade association will take the average co-ordinator 1 week (37 hours) to maintain. In reality many co-ordinators will take less time than this or many already have this information. However in order to present a cautious estimate we have assumed a full week. Using the ASHE wage rate for Corporate Managers and Directors of £26.17 uprated for non-wage labour costs (19.8%) for 37 hours gives a total cost per co-ordinator of £1,160 for each co-ordinated partnership. For the existing partnership that will change we assume that all coordinators who do not have all members signed up (currently 31 partnerships) will have to maintain a list. This represents a cost of £36k. All new partnerships will have to maintain a list. This will give an annual cost of around £60k (50 new partnerships each year at a cost of £1,160 a partnership).

##### Benefits

Currently some co-ordinators expend a considerable amount of time and effort to ensure their members do sign up. Examples include regular email reminders, promotions at AGMs, and a dedicated helpline for the sign up process. However despite this their members are still not signing up. This may be due to time constraints or inertia. Auto enrolment would reduce this effort. Based on early stakeholder engagement it is easy to see how for a small proportion of the co-ordinators (10%) the changes to the scheme may have real time savings. Here we have assumed 4 days of savings 30 hours. Using the ASHE wage rate for Corporate Managers and Directors of £26.17 uprated for non-wage labour costs (19.8%) gives a saving for 10% of partnerships of £941. As existing co-ordinators have already engaged in a lot of activities to drive up members we have not assumed any savings for this group. For all new partnerships the average saving would be £94 (£941\*10%). This represents an annual benefit of £5k (50 new partnerships \* £94).

##### Net Benefits for co-ordinators

Deducting the costs from benefits gives a net benefit to new co-ordinators of -£1066 (i.e. a net cost). For existing co-ordinators the benefit is -£1.160.

#### Businesses in the co-ordinated partnerships

##### Costs

The changes to the scheme should not impact negatively on businesses in the partnership or change how the relationship works.

##### Benefits

As a result of auto enrol businesses will no longer have to undergo the sign up process associated with the current scheme. This was previously estimated to take 1 hour per business and based on BRDO's knowledge of the scheme since co-ordinated partnerships started the estimate appears to be accurate. We assume they will still have to read information on the scheme in order to understand how they will benefit and so have assumed that they will save 30 minutes on the total sign up process. The net benefit to each business is then £16. Assuming that each new partnership has on average 2,400 members the saving will represent a net saving to businesses in new partnerships of £38k (2,400 businesses\*£16).



There will also be a saving for existing partnerships as all businesses not already in the scheme will be auto-enrolled and so gain the benefit of assured advice without the administrative burden. So just fewer than 128k businesses will be enrolled saving these businesses any administrative burden. This represents a one off saving of £2m for those in existing partnerships (127,907 businesses\*£16).

#### Net benefits

For the existing co-ordinators there will be a one off net benefit of £2m. For each new partnership joining the scheme there is a total net benefit of £38k per a new partnership.

Total net benefits for co-ordinators and business.

Deducting costs from benefits gives a net benefit in the first year of £3.9m and £1.9m in the all subsequent years. This means that this measure has a net present value of 18m and an EANCB of £-2.0m

### **Package measure 3: Powers regarding Other Regulators**

This measure gives the Secretary of State a number of powers (all of which require secondary legislation to enact). These are

a) A power, exercisable through secondary legislation, to specify regulators other than local authorities who can be a primary authority – or who will be subject to the same requirements under the scheme as a local authority that is not designated as a primary authority.

(b) A power, exercisable by secondary legislation, to specify regulators other than local authorities and those covered by power (a), who are required to act consistently with primary authority advice

(c) A power, exercisable by secondary legislation, to specify regulators (and the corresponding regulatory functions) who can play a role to support primary authorities to develop advice, guidance and inspections

As these changes require secondary legislation to enact we have not calculated the EANCB. The secondary legislation will obviously be subject to a further Impact Assessment and consultation giving us a better evidence basis to base the EANCB on. We here discuss an initial assessment of the likely impact and scale of the changes.

For power a the change allows 2 separate things: that a National Regulator may join the Primary Authority scheme and that it may act in both the Primary Authority role and the Enforcing Officer role. So far early stakeholder engagement has shown that those National Regulators who already engage with the scheme would welcome the opportunity to cost recover for issuing assured advice. The acl work showed that local authorities were able to almost fully cost recover their costs for businesses. The National Regulators likely to join have some experience of cost recovering for their advice and so it is likely they would be able to fully recover for their time. Businesses of course will only enter partnership with National Regulators if they consider that the benefits outweigh the costs to them. Therefore we would not expect any negative costs imposed on business. The second part of power a and power b , will require that National Regulators act consistently with Primary Authority advice. This will require them to have regard to Primary Authority advice and Inspection Plans. This effectively means that the National Regulators covered by these rule would be acting similarly to the enforcing officers in the direct Partnerships. This mean they will incur some costs as those Local Authority enforcing officers do. Further consultation on the secondary legislation will need to investigate the likely volume of businesses that will come into contact with each National Regulator in order that we can estimate the size of this cost. If we assume the costs are the same as for the current scheme then each new National Regulators could incur costs of £733 a year in enforcing costs in 2026/27 when the scheme will have the highest number of businesses. It will be lower in previous years. The ability of National Regulators to cost recover for this means that there is a possibility of some pass through by National Regulators. The Small Business Appeals Champions suggested that National Regulators were likely to cost recover 50.4% of the costs from business. Thus even in the worst case the likely amount passed through to business would be £26k, or £52k with full cost recovery.

For power c, a power, exercisable by secondary legislation by the Secretary of State for Business, to specify regulators (and their corresponding regulatory functions) who can play a role to support primary

authorities to develop advice, guidance and inspections. These roles like the Primary Authority will be able to fully cost recover for their work so will not incur any additional costs from this power.

#### **Package Measure 4: Technical changes to notification period**

This measure has 2 parts. These 2 changes are largely technical with limited impact on those involved. Firstly where a notification is likely to be served, presently an enforcement authority firstly contacts the Primary Authority who has 5 days to consider the notice before informing the business who has 10 days. This change is to allow enforcing officers to move onto the next stage when the party is in agreement with the notice. So if primary authorities agree after 3 days the enforcing authorities can then go to the business 2 days earlier and where the business agrees before the 10 days the notice can be served earlier. Obviously none of the parties have to agree to these changes so they are only likely to be done in cases where there is either a genuine case to answer or the businesses are happy with the notice being served. Early stakeholder engagement with regulators suggested that they would welcome the change to the 5 day notification as helping to speed up the process. There will also be benefits to the general public from these changes as if everyone agrees to the notice then the business can move towards compliance faster. This however would be difficult to quantify.

The second measure allows Primary Authorities to stop an enforcement notice issued to businesses which has not previously been notified to the Primary Authority to give the PA time to consider the notice. Whilst stakeholder engagement suggests that the number of cases where this has occurred is limited, the costs to the individual Primary Authority and business can be large with at least one case ending up in court. There we have not costed the potential benefits to business as these will be very small, but it is worth bearing in mind that to individual businesses and primary authorities involved in court cases the costs could be considerable. The main impact of this measure is to ensure that Primary Authority works as should and that businesses and Primary Authorities are not bearing unnecessary costs due to Enforcing Officers failing to take due regard of the scheme. It does not change the main operation of the scheme but ensures that where enforcing officers mistakenly forget to notify primary authorities the scheme is not disregarded.