Regulatory Policy Committee

Other business impact target methodology issues

Summary and key points

This section provides guidance on the use of profit and gross value added (GVA) as measures of business impact and explains the concept of 'resources used in complying with regulation' and how it should be applied.

Use of profit and GVA as measures of business impact

The impact on business of a change in sales resulting from a regulatory measure should normally be measured in profit rather than revenue terms. Any incremental and unavoidable change in business costs necessary to achieve a change in sales should be deducted from the additional sales revenue.

GVA includes not just company profits, however, but also wages and salaries paid to workers. A key issue in whether GVA might yet be an appropriate measure of business impact is whether the wages part of GVA can be considered to be 'pass-through' (*see section on direct/indirect impacts*). If it can be, the wage cost element would be indirect and GVA would be a reasonable measure of the direct impact on business. An example could be where a measure raises the productivity of existing workers and there is no automatic link between productivity and pay. Departments will need to justify any use of GVA instead of profit, including setting out whether the expected change in GVA or profit arises from a change in the sales of existing businesses, or from businesses entering/leaving the market.

'Resources used in complying with regulation'

This refers to where businesses receive payments from other businesses for providing goods or services necessary for the latter businesses to comply with a regulation. The resources of the former businesses (such as legal firms) providing the service are being used solely to comply with regulation. In the absence of the regulation, there is a potential saving to society from resources previously devoted to regulation being available for productive use elsewhere in the economy.

The payments received (or no longer received) by businesses for providing goods or services necessary to comply with a regulation must not be included in the EANDCB. The impact should also not normally be included in the NPV (unless presented as exactly offset by the cost of the alternative use foregone) because it is not the same as an indirect impact. However, it will still be important to describe such impacts in the IA, particularly where they have significant distributional effects.

The section provides illustrative examples, including in areas such as Sunday trading, broadband universal service obligation and provision of legal/financial services.

5.1 Guidance on the use of profit for the purposes of determining the impact on business

5.1.1 Revenue vs profit

The impact on business of a change in sales that results from a regulatory change should normally be measured in profit rather than revenue terms. Any increase in business costs necessary to achieve the change in sales should be deducted from the sales revenue to arrive at an impact on profit. The incremental costs that should be deducted are discussed further in the section on gross and net profit below. This section focusses on the need to adjust for any necessary increase in bought-in inputs. For retailers these would include the cost of goods at wholesale; for manufacturers the cost of raw materials/inputs. This is illustrated in the case below.

RPC17-FoodSA-3926(2): Reduction of purification times for shellfish purification cycles. The FSA's proposal was to revise its policy on the minimum purification time, following a review of UK regulatory requirements. Before the policy change, the standard time required for purification was a minimum of 42 hours. Under the new policy, businesses wishing to apply a reduced purification period may do so in accordance with their own HACCP (Hazard Analysis Critical Control Points) food safety management systems. This case was given an initial review notice mainly on the use of wholesale prices to measure the benefit to business without any deduction for increased business costs necessary to realise the additional output.

The revised assessment addressed this through two changes. First, including the cost to purification plants of purchasing additional shellfish for purification. Second, explaining that purification establishments typically operate continuously on a 24-hour basis throughout the year, as the purification process itself is generally low maintenance and requires very little activity beyond routine monitoring. On this basis, the assessment's implicit assumption that there are no significant additional fixed or operating costs associated with the increased throughput did not seem unreasonable. The adjustments revised the EANDCB from -£4.0m to -£2.7m.

5.1.2 Gross and net profit

As noted above, where a regulatory measure has a direct impact on sales, the measure of this impact on business is the loss or gain in profit to the business. This is typically calculated by the expected change in sales multiplied by the difference between the wholesale and retail price ('gross profit') and deducting any other necessary and unavoidable change in business costs ('net profit'). For example, where regulatory limits on store opening hours are being eased, the additional (net) profit to a business would be the difference in the wholesale and retail price grossed over the additional goods sold[1], deducting the cost of having to pay staff to work the additional opening hours and of lighting/heating the store during these times.[2]

Gross profit is a simpler method and sometimes provides a reasonable and proportionate estimate of the impact. However, for larger and/or more complex measures departments have occasionally used a net profit measure. Following uncertainty around the appropriate treatment for the electrically assisted pedal cycles case (see box below), the RPC asked the Cross-Whitehall Group on the Economics of Regulation and the Regulatory Framework Group secretariat to consider the criteria for judging which measure is appropriate. The criteria that emerged after consideration by these bodies is summarised in the box below.

Criteria for determining when a net profit approach is appropriate

The key consideration for departments in deciding which method to use is whether the change in business costs is unavoidable and incremental. The change in costs would be unavoidable if it was a direct effect on business. If a business incurs a cost as a direct result of the proposal, i.e. there is no separate business decision to change the level of labour or capital, a net approach would generally be more appropriate. The impact on profits should reflect the incremental change in cost necessary to achieve the increase in sales.

The following two examples illustrate where a net profit approach was used.

Devolving Sunday Trading Rules (RPC15-BIS-FT-2411). The Sunday Trading Act 1994 limits Sunday trading hours of certain large stores in England and Wales to a single period of six hours between 10:00 hrs and 18:00 hrs. The proposal was to devolve powers to local areas (e.g. city mayors and/or local authorities) permitting them to determine retail opening hours. In its confirmation of the proposal as deregulatory, the RPC flagged up the need for the Department to demonstrate that its method for calculating the additional profit to large stores was appropriate. In subsequent discussion with the Department, it was clear that the Department planned to adopt a 'net profit' approach by deducting variable labour costs from the additional gross profits of large stores. (It was already agreed with the Department that other variable costs, such as heating and lighting, should be deducted.) On the basis that the additional labour costs were an unavoidable consequence of taking advantage of the longer opening hours, and not a separate business decision, these costs met the above criteria. It was, therefore, appropriate to deduct them and use a net profit measure.

[1] For measures with a large impact on the market price, movements in price should also be taken into account wherever possible.

[2] This simplified explanation ignores, for example, displacement of sales.

RPC14-FT-DFT-2242(2) The Electrically Assisted Pedal Cycles (Amendment) Regulations 2015: This measure increased permitted power and top speeds and removed restrictions on weight and the use of three-wheeled EAPCs. In calculating increased profits to retailers, the Department calculated the increase in gross profit (sales revenue less purchasing costs), but then deducted employment and capital costs.

In the following example a gross profit approach was used.

Psychoactive Substances Bill (RPC15-HO-2379): This measure introduced a general ban on the sale, import, export and production of products with psychoactive effects. The IA set out that this would reduce the sales of certain retailers, both online and through retailers known as 'head-shops'. The original IA used a net profit approach, offsetting the total sales lost with reductions in costs such as wages and rent. This received an initial review notice from the RPC on the basis that the loss in profits had not been calculated correctly. The RPC believed that, in this case, a gross profit measure should be used because the change in costs could not be directly attributed to the sale of psychoactive substances. In particular, there was no clear evidence that costs would be reduced.

Whether departments use gross or net profit, departments should clearly communicate the rationale and justification for using their preferred method to the RPC. One way of looking at this issue is that a net profit approach is always appropriate but there will be cases where incremental capital, labour or other costs are so small that this might default to being broadly equivalent to a gross profit approach.

5.1.3 Use of Gross Value Added as a measure of profit for business impact target purposes

RPC consideration of some recent cases have raised issues of how to measure the direct impact on business profit. The DCMS '*Universal Service Obligation'* impact assessment (IA) used 'gross value added' (GVA) data to monetise the benefits of the policy to business users of broadband.

Gross value added (GVA) is the measure of the value of goods and services produced in an area, industry or sector of an economy, net of purchased inputs. As such, GVA excludes 'intermediate consumption', i.e. goods and services consumed or used up as inputs in production, such as raw materials. It largely consists of 'compensation of employees', i.e. wages and salaries paid to the workers of the businesses, and company profits.

GVA is the same as gross domestic product (GDP) but adjusted for taxes and subsidies on products.[3] As the total aggregates of taxes on products and subsidies on products are available only at whole economy level, GVA is used for measuring gross regional domestic product and other measures of the output of entities smaller than a whole economy.

GVA's inclusion of compensation of employees presents a potential problem for its use in business impact target assessments, since only impacts on company profits would normally be included in the EANDCB. DCMS addressed this by applying a factor of 0.39 to the GVA data, on the basis that the Office for National Statistics' UK Economic Accounts indicated that around 39 per cent of GVA consisted of profit.

RPC-4107(2)-DCMS: Universal Service Obligation
The proposal allows individuals and businesses the right to request a broadband speed of at least 10 Mbps and places an obligation on universal service providers (USPs) to meet this request, providing they can do so within a reasonable cost threshold of £3,400 per premise.
The proposal was estimated to provide a benefit to business users of £3.51 billion in GVA terms. The Department acknowledged that some of this would be indirect, for example in activities relating to generating new sales, accessing new customers/markets and exporting goods & services. Using a survey relating to a similar policy ('BDUK connection voucher scheme'), which asked businesses how faster internet had improved their productivity, the Department arrived at an assumption that around 39 per cent of this benefit could be considered to be direct.

A key issue is whether the impact on wage costs is direct (and, therefore, to be netted off from the estimated direct cost to business) or pass-through (and, therefore, indirect and disregarded for the EANDCB. In the former case, GVA, with its inclusion of compensation of employees, would not be a good measure of the direct impact on business, or would at least have to be adjusted to a 'profit only' basis (as was done by DCMS). In the latter case, GVA would be suitable because its inclusion of compensation of employees would reflect the full impact effect on business.

In response to this and other cases, the RPC has considered what criteria might be used to assess when GVA might be an appropriate measure of business impact.

Where the source of benefit to business is a productivity improvement, the impact (direct) effect is initially all on profit, with any subsequent effect on wages being

[3] GVA = GDP + subsidies - (direct, sales) taxes.

‘pass-through’ (to employees) and, therefore, indirect. In this case it would seem appropriate to use GVA data to measure the direct impact on profit. By contrast, for business expansion, the profit share of the increase in GVA might be a better measure of the direct impact on business (provided the expansion itself is viewed as a direct effect, which might not be the case - for example if the expansion depended on innovation or other factors). In other words, there is a distinction between impacts on the productivity of existing workers (where the GVA impact might equate to the profit impact) and creation/expansion of businesses (where GVA might need adjusting to remove additional labour costs).

The latter scenario above would be particularly so where expansion was into new markets. For example, in the IA on the measure to raise weight and power restrictions for *electrically assisted pedal cycles* (EAPC) (see box above) above, DfT used profit rather than GVA. This treatment implied that the measure effectively created a new market in EAPC rather than allow an existing market to expand, or at least that the extra labour costs would need to be incurred at or before additional sales could be made.

In the ‘*Prohibiting the commercial dealing of ivory in the UK’* case Defra used GVA data to estimate the loss to businesses from sales that can no longer go ahead. The RPC considered this to be a reasonable approach and explained why in its opinion (see box below).

RPC-4171(2)-DEFRA, 9 April 2018: Prohibiting the commercial dealing of ivory in the UK – RPC’s explanation for why the use of GVA to measure business impact seemed appropriate in this case

Extract from the opinion: ”*The ban on ivory appears to involve a small contraction of an existing (antiques) market, with the very large majority of businesses, in the antique shop sector, being micro-businesses. It seems unlikely, therefore, that there would be a significant immediate reduction in compensation of employees (e.g. reduction in staff or hours worked). Adjustment in compensation of employees might happen over time and could, therefore, be considered indirect. On this basis, GVA would seem to reasonably reflect the impact effect on business, at least for antique shops. For auction houses, it may be the case that labour costs adjust more automatically with sales and that a different approach might, therefore, be appropriate.”*

The length of time over which any adjustment in the compensation of employees is likely to take place was affected by:

- Ivory sales forming a very small proportion of the sales of antique shops.
- Individual antique dealers tending to have very few employees.
- The nature of staff remuneration arrangements.

The first and second of these suggested that labour costs were unlikely to be immediately affected by a ban on ivory sales. On the third, it was felt that it was unlikely that labour costs in antique shops would adjust automatically with reduced sales, although this might be more likely for auction houses (e.g. through use of commission payments). Where staff remuneration arrangements were such that labour costs adjusted automatically with sales then GVA would be less appropriate (as the compensation of employees would be a direct, rather than pass-through, impact).

Based upon the RPC's treatment of these cases, and the thinking behind it, the following criteria are relevant to judging when GVA might/might not be an appropriate measure of the direct profit impact on business:

Whether the impact comes from:

i) Changes in the productivity of existing workers (where the GVA impact might equate to the profit impact).
ii) Creation or expansion of businesses in the same market (where GVA might need adjusting to remove additional labour costs).
iii) Creation or expansion of businesses into new markets (where the expansion itself is more likely to be indirect but, if it were direct, GVA is likely to need adjusting to remove additional labour costs).

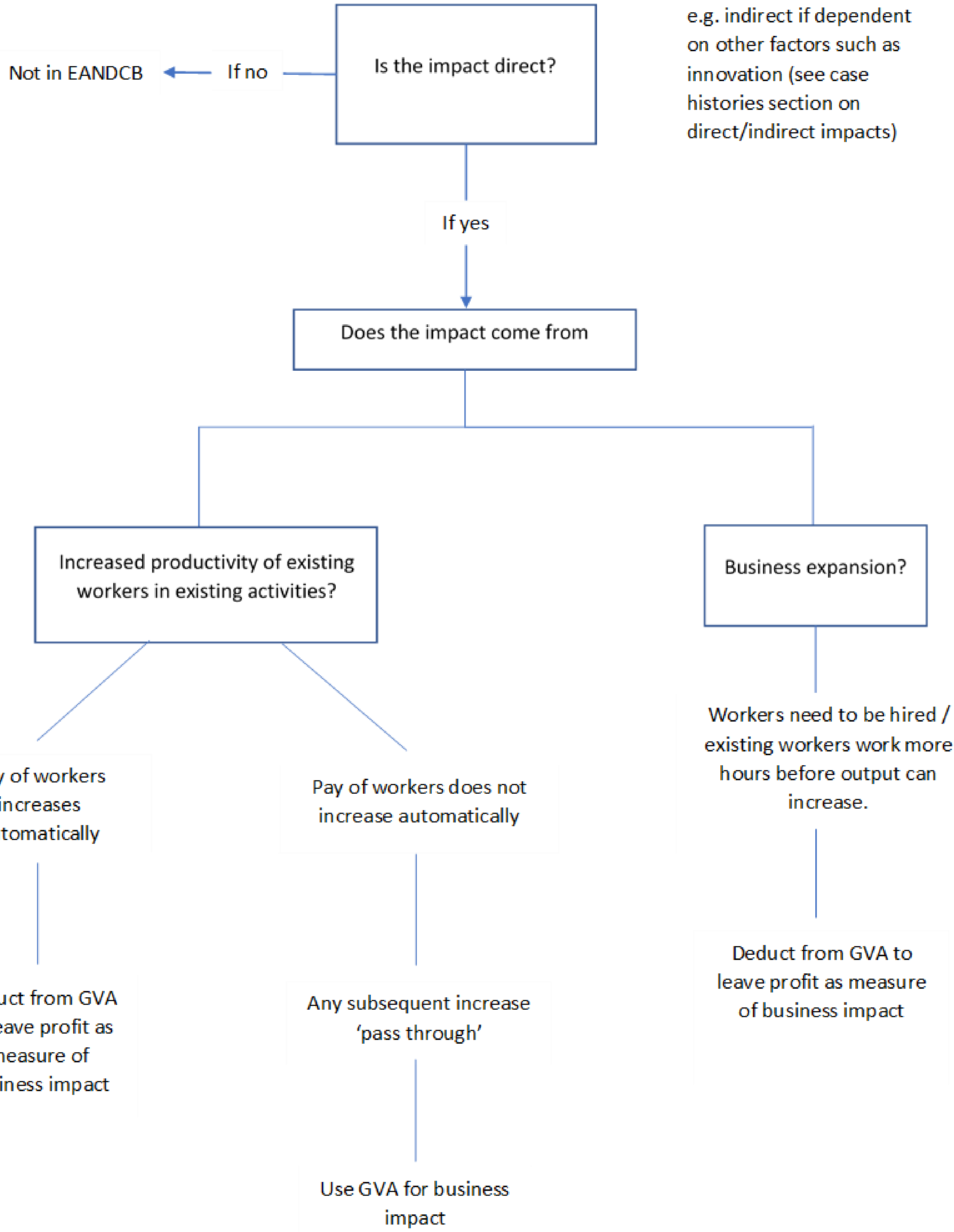
Based upon the ivory case, the likely speed of adjustment in the compensation of employees might also be affected by the following criteria:

a) the proportion of total sales affected in each business;
b) the (employee) size of the businesses affected; and
c) the nature of staff remuneration arrangements.

The flow chart below provides a guide to departments.

The RPC has noted that impact assessments should cover or include the following:

- A clear statement of assumptions regarding how businesses will react to the proposed measure.
- Clarity on whether the change in GVA/profit comes from a change in the sales of existing businesses or from businesses entering/leaving the market.
- Businesses' ability to vary capital as well as labour, which is important for long-run marginal costs.
- The online nature of sales businesses, where there is likely to be greater flexibility to adjust supply to changes in demand.


Is the impact direct?
e.g. indirect if dependent on other factors such as innovation (see case histories section on direct/indirect impacts)
If no
Not in EANDCB
If yes
Does the impact come from
Increased productivity of existing workers in existing activities?
Business expansion?
Pay of workers increases automatically
Deduct from GVA to leave profit as measure of business impact
Pay of workers does not increase automatically
Any subsequent increase 'pass through'
Use GVA for business impact
Workers need to be hired / existing workers work more hours before output can increase.
Deduct from GVA to leave profit as measure of business impact

5.2 ‘*Resources used in complying with regulation* ‘

5.2.1 What this means and why it is needed

In order to comply with regulation, businesses may feel the need to buy services from other businesses. This can take different forms. These may be “pure administrative costs”, such as having to use the services of legal firms. In these cases it is clear that society’s resources are being absorbed into activity to comply with regulation. Alternatively, there will be instances where, as with the first category, businesses need to purchase services/products from other businesses, but where the service/product may be under-provided by the market. Possible examples include insulation and financial advice.

In the first case, it is absolutely clear that the benefits to service providers, such as legal firms, should not be included in the EANDCB. The EANDCB should only consist of the cost to businesses subject to the regulatory requirement. The RPC considered whether there should be any different treatment in respect to the second type of case. The benefits to society of the additional provision, e.g. reduced carbon emissions or better use of financial advice, should, of course, be reflected in the NPV. However, it was agreed that the benefits to providers here should also not score in the EANDCB. The key principle is that, if a BIT qualifying regulation imposes a cost on business, then that cost should be scored in the BIT. If these costs are a benefit to other businesses, this should not be scored, otherwise the true cost of regulation is not being captured.

The best way to understand the RPC’s position on this is that the resources of the providers, e.g. legal firms, are being used solely to comply with regulation. In the absence of the regulation, there is a potential saving to society from resources previously devoted to regulation being available for productive use elsewhere in the economy.

An alternative but complementary way of looking at this, is the opportunity cost approach. This is where the additional income to providers of services demanded by businesses to comply with regulation is exactly offset by the income that would have been gained by using the resources in an alternative way.

5.2.2 Application of ‘resources used in complying with regulation’

This section provides examples of how the RPC has applied ‘resources used in complying with regulation’, broken down by type of economic activity. The first category below relates to the “pure administrative costs” referred to above.

Providers of legal services

Enabling digital by default (RPC13-MOJ-1867): this measure simplified the process of applying for lasting power of attorney, which resulted in a loss of income to solicitors. The RPC was clear that this loss of income to solicitors should not be counted as a direct cost to business for BIT purposes.

The approach below was also in accordance with 'resources used in complying with regulation' and illustrates the 'opportunity cost' way of looking at this issue, described above.

Prisons and Courts Bill reforming the soft tissue injury (whiplash) claims process (RPC-3432(3)-MoJ) The reforms were aimed at addressing concerns about the number and cost of low-value 'whiplash' claims for soft tissue damage arising from road traffic accidents (RTA), and the impact of these claims on society through increased motor insurance premia.
The department expected the reforms to reduce the demand for services of some groups, such as lawyers and medical experts. The department's IA stated: "*Throughout this IA their estimated loss or gain in revenue is included in the costs and benefits sections for each option, but is not included in the NPV calculations. Similarly, this same approach is applied in the costs to business section, where any costs to these groups have not been considered as a cost to business. The reason for this approach is because, while the Governments reform package will lead to a reduction in demand for such services, it is legitimate to assume for the purposes of this IA (and in line with the standard practice for calculating the effects of changing demand on suppliers) that those affected will replace the lost work with other legal work of an equivalent economic value*."

Independent financial advisers

This category differs from "pure administrative costs" in that the financial advice provided a benefit to individuals and society. This benefit would be captured in the NPV. However, the income to independent financial advisers from the regulatory requirement to use them should not be included in the EANDCB or NPV.

Amendments to the Pension Schemes Bill (private sector defined benefit transfers) (RPC14-HMT-2212): the proposal required employers to pay for independent financial advice for employees who are moved from a defined benefit to defined contribution pension scheme. The RPC disagreed with the Treasury counting the additional income to independent financial advisers (IFAs) as a direct benefit, offsetting the costs to employers.

By way of illustrating the point, the RPC noted that if an employer had its own in-house financial advice service, and if this were used to meet the requirement, it would seem perverse to conclude that the regulatory requirement had no net cost to that business.

In the example below, the IA correctly excludes the lost income to independent financial advisers from the EANDCB and NPV. The RPC opinion noted that the lost income should
not, however, be described as indirect (since this would imply it should be included in the NPV).

Simplifying advice requirements for safeguarded pension benefits and introducing new consumer protections (RPC-3663(1)-DWP): Individuals with 'safeguarded benefits' (pension benefits with certain potentially valuable guarantees – such as guaranteed annuity rates or GARs) valued at over £30,000 were required to take regulated independent financial advice before they can have flexible access to their pension. For certain kinds of safeguarded benefits, the proposal was to replace the existing valuation method with the transfer value of the pension pot and, given that this is significantly lower than the amount needed to provide for a member's accrued benefits, this would result in fewer individuals being required to seek independent financial advice.

In its discussion of non-monetised impacts, the opinion referred to the need to discuss any residual risk to individuals (of making the wrong pension choice) who will no longer receive independent financial advice.

Providers of medical advice/services

Proposed amendment to the Control of Asbestos Regulations 2012 (RPC17-HSE-4030(1)). The proposal is was to change the requirement for medical examinations for licensed workers from two to three years, aligning it with the requirement for non-licensed work. This would result in a loss of income to approved/authorised doctors. The impact assessment (IA) notes that "…*foregone revenue to ADs would be the opposite of the financial costs savings for licensed employers*…" and excluded it from the EANDCB and NPV. This treatment was in accordance with "resources used to comply with regulation". The RPC opinion noted that HSE's description of the impact as indirect was incorrect, since this would imply it should be included in the NPV.

In this case it was considered that twice-yearly medical examinations were unnecessary and that reducing this frequency to every three years would not increase risk to individuals and reduce the NPV.

(See also the whiplash case above for the treatment of impacts on medical experts).

Certification bodies (including garages)

A common application of ‘resources used to comply with regulation’ is where businesses are required to get certification of their products from designated organisations, which are themselves often businesses. This occurs in the transport and food sectors, in particular. The increase or decrease in fee income to these certifying bodies resulting from regulatory or deregulatory measures should not be included in the EANDCB.

Review of Vehicles of Historical Interest (VHIs) roadworthiness testing RPC15-DFT-3771(1): Part of the proposal included exempting vehicles from testing if they are at least 40 years old and was estimated to save vehicle owners around of £129 million (NPV) in test fees, of which £3.9 million was a direct saving to business. There was an equivalent revenue loss to garages, which was correctly excluded from the EANDCB in line with ‘resources used in complying with regulation’.

DfT Exemptions from annual roadworthiness testing rules for certain specialised heavy vehicles in Great Britain, Approved Testing Facilities RPC17-3646(1): The proposal brought two vehicles types (category N, motor vehicles with at least four wheels designed and constructed for the carriage of goods, and category O, trailers designed and constructed for the carriage of goods or persons) within scope of an EU directive mandating roadworthiness testing. The IA correctly excluded the additional revenue to Approved Testing Facilities, resulting from the increase in the number of tests, from the EANDCB. The RPC opinion noted that the income should not be described as indirect and included in the business NPV.

Review of classic vehicles roadworthiness testing’ RPC-DfT-3273(1): The proposal was to replace the current exemption for vehicles registered before 1960 from having an MOT test with an exemption covering vehicles over 40 years old. This would result in fewer MoT tests overall. The IA recognised that the saving to classic vehicle owners would be matched by a loss of revenue to garages. The RPC opinion noted this should not be included in the EANDCB, in line with ‘resources used to comply with regulation’.

There were two other impacts which would be reflected in the NPV, both related to fewer cars being tested. First, a small increase in the number of road accidents, and, second, an indirect reduction in the amount spent on repairs.

Reducing the frequency of Certification Body inspections at Intensive Pig and Poultry farms regulated under the Environmental Permitting Regulations DEFRA-EA-3939(1): The proposal by the Environment Agency (EA) involved a reduction in the number of Certification Body visits and associated fees for farms that are members of an appropriate quality assurance framework. The EA's assessment incorrectly included the lost fee income to CBs in the EANDCB and NPV, although this did not affect the rounded EANDCB figure of -£0.1 million.

Manufacturers of equipment

The principle applying to services, such as legal and financial advice, applies also to goods. In addition to the example below, additional profit to manufacturers of, say, insulation materials or smart meters, that are being installed to meet regulatory requirements fall under 'resources used to comply with regulation'. The benefits to society of the additional provision, e.g. reduced carbon emissions from better insulation, should, of course, be reflected in the NPV.

Heat networks (RPC-3408(1)- BIS-NMRO). The Heat Networks (Metering and Billing) Regulations 2014 implemented aspects of the Energy Efficiency Directive in the UK. In its original form, the implementation applied to any building that had a 'heat network' (a system that distributes heating or cooling from a central source to multiple final customers). The proposal included a requirement on owners of any building to assess the viability of installing heat meters or cost allocators if not already installed and fit individual meters if technically and economically feasible. The EANDCB correctly excluded the profit to manufacturers of heat meters required by regulation. The original proposal, contrary to the intention of the EU requirements, brought a significant number of buildings into scope of the requirements, most notably 'Houses in Multiple Occupation' (HMOs). The regulator considered that the application of the requirements would have very limited or no scope to deliver energy savings, meaning that the cost of the requirements would be disproportionately expensive, with very limited potential to reduce energy use. The guidance implementing the requirements was amended in July 2015 to address this. This was estimated to result in the installation of 16,000 fewer meters, saving around £20 million in present value terms over ten-years. In line with 'resources used to comply with regulation', the loss of revenue to heat manufacturers was also not included in the EANDCB.

Retailers

Abolition of the tax disc (RPC13-DfT-2127): this measure abolished the paper tax disc which was displayed in vehicles to show that the owner had paid vehicle excise duty. These discs were obtained through post offices. The EANDCB did not include lost income to the Post Office because this benefit came from providing a service that businesses (and individuals) needed to comply with regulation.

Advertising/newspapers

Limited Partnership Reform – removal of requirement to advertise changes in the Gazette RPC-HMT-3325(1): The Treasury's proposed reforms included a measure whereby Private Fund Limited Partnerships would not be required to advertise changes in the Gazette. The RPC opinion noted that the lost revenue to the Gazette should not be included in the EANDCB.

5.2.3 'Resources used in complying with regulation' and NPV

It is clear from the above that payments received (or no longer received) by businesses for providing goods or services necessary to comply with a regulation must not be included in the EANDCB. The description of the cases above also make reference to how this should be treated in the NPV.

This impact should not normally be included in the NPV (unless exactly offset by the cost of the alternative use foregone – see the opportunity cost explanation above). This is because 'resources used in complying with regulation' are not the same as indirect impacts. In fact, these impacts can follow directly from the regulation, e.g. a gain in income to independent financial advisers resulting from a new regulatory requirement for businesses to make provision for this to employees.

Cases where the IA correctly excludes this impact from the NPV and business NPV include *Control of Asbestos Regulations* and *Simplifying advice requirements for safeguarded pension benefits* referred to above.

The example below shows how including the impact in the NPV (without an offsetting opportunity cost) can distort the NPV.

Review of Vehicles of Historical Interest (VHIs) roadworthiness testing RPC15-DFT-3771(1): Although lost revenue to garages was correctly excluded from the EANDCB, it was described as indirect and, therefore, included in the NPV. This resulted in a spurious negative societal NPV in the original IA submission. The correct societal comparison appeared to be between the saving from resources no longer having to be spent on roadworthiness testing against any increased safety risk. Since the former impact was larger than the latter, the policy should have a positive NPV and this was reflected in the final IA.

Distributional implications

However, even where the impact is not included in the NPV it will still be important to describe impacts, particularly where they have significant distributional effects. Deregulatory measures can involve significant losses to businesses providing goods and services meeting the original regulatory requirements. For example, removing regulatory requirements on businesses to place advertisements could affect the viability of local newspapers and the closure of these papers could have significant negative impacts on the local community. These impacts should be set out and discussed in the IA.

Other measures could have wider societal impacts which, whether direct or indirect, should be factored into the NPV. These could include road safety risks associated with reduced regulatory requirements for testing, as indicated in the case studies above.