

RPC guidance note on 'implementation costs'

Background and purpose of this note

A review of RPC opinions issued approximately between December 2018 and May 2019 identified that one of the most common issues raised was around departments' estimation of the costs of 'implementation', in particular familiarisation. More specifically, issues were commonly raised around the cost of disseminating information throughout the business, IT system changes or possible training costs.¹

A review of existing material suggested that guidance in this area is limited. The RPC has, therefore, produced a short note that will help departments capture and assess these costs, whilst also providing additional transparency in how the RPC considers departments' assessment in this area.

This document is a guide and is not prescriptive. It does not add to the better regulation framework or RPC 'rules'. Departments do not have to report against each of the possible costs listed below in their IAs; it is up to departments to demonstrate in the way they see fit that their estimation of implementation costs is robust and fit for purpose.

General

Departments will wish to think through the types and scale of costs that a business would need to incur through reading, disseminating and making the necessary changes to become compliant with proposed regulation. This is generally best achieved through discussion/consultation with representatives from the type of businesses affected. The following provides an indication of the types of costs that might be incurred by businesses in implementing regulations.

(Internal) labour costs: familiarisation

Reading and understanding new/amended regulatory requirements and guidance:

- Realistic estimate of the number and grade of staff that will have to read and understand the regulation/requirements.
- For time estimates, use evidence (e.g. PIRs from analogous measures, stakeholder consultation etc).

¹ For example, the RPC opinion on the EU-Vietnam Free Trade Agreement (RPC ref 4328) noted "[familiarisation cost]... estimates are limited and do not include other costs associated with familiarisation including IT costs, customs declarations and the cost of disseminating the terms of the agreement across all affected businesses. The RPC believes that the approach taken by the Department is, in this case, proportionate, as the total transition costs are likely to be small relative to the overall scale of the measure. However, the RPC will expect to see more comprehensive analysis of one-off transition costs in future IAs". <https://www.gov.uk/government/publications/eu-vietnam-free-trade-agreement-euvtfa-rpc-opinion>

- As a check, and/or fallback, use reading speed ready-reckoners (see 'appraisal of guidance' document²).
- For unit costs, the default is to use ONS Annual Survey of Hours and Earnings (ASHE) data for relevant occupation and grade, with allowance for non-wage labour costs (see guide for calculation at annex). This assumes that, typically, there is no impact on overheads (e.g. building costs); if there are, an allowance for this might be necessary.

Dissemination: e.g. through preparation of summary information, cascading, staff briefing sessions, incorporation into training manuals etc. The IA should make it clear where, and how, allowance is made for this in its estimates; or provide separate estimates to cover dissemination, as appropriate.

Training: is familiarisation sufficient or will some staff also need to be trained/upskilled?

- Valuation is as per familiarisation but include both trainer and trainee time, any equipment, travel, accommodation costs etc.

Changes required to business processes, including getting agreement to the changes, communicating, testing and implementing them.

(Internal) other costs: company processes/system changes/new equipment

Information technology: will 'day-one' compliance require businesses to change their IT systems?

- Use evidence (e.g. PIRs from analogous measures or projects, stakeholder consultation etc).
- Assessment should take account of risk and/or, as appropriate, optimism bias.
- If cost is reduced by transition period/phasing of requirements, demonstrate the reasonableness of any resultant reduction in cost estimates.

Consider any other system changes, e.g. collection of information to demonstrate compliance, applications for newly-introduced licences, payroll, other necessary purchase of capital equipment etc.

Revisions to company documents, updating websites, company marketing and explaining changes to customers etc.

2

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/609201/business-impact-target-guidance-appraisal.pdf

Include any associated labour (see above) and external (see below) costs.

External costs

Are some businesses likely to obtain legal, accounting or other external advice to understand the regulation, provide training or support system changes?

- Is this necessary to meet the requirements of the regulations?
- Where it is not, this would not be a direct cost to business but IAs will need to demonstrate that taking legal advice is purely discretionary.
- Valued at realistic hourly/daily charge-out rate, referencing a relevant data source.
- For businesses able to meet regulatory requirements with in-house resource (e.g. legal), valued at the opportunity cost to the business, supported by appropriate data.

Public sector costs

As above, and especially where costs are recovered from businesses, to include any regulator set-up costs and benchmarking against any relevant past cases. Cost of putting in place a compliance and enforcement regime.

Distributional and wider impacts

Address any disproportionate/differential impacts on small and micro businesses (e.g. using distinction between fixed and variable costs) and companies with different business models.

Calculating non-wage labour cost uplifts

Note: A version of this note was originally produced in July 2018 and has been updated using the latest (2018) eurostat data, published in April 2019. Departments/regulators will need to check, say, from April 2020, for the latest (2019) eurostat data.

Labour costs consist mainly of wage and salaries but also non-wage labour costs, such as employers' National Insurance contributions. These costs need to be included to ensure that the full cost to the employer of an employee's time is accounted for. The details of a standard calculation for a non-wage labour cost uplift are outlined below. **Departments and regulators should ensure that the latest eurostat data are used (these are updated annually).**

In 2017 the Cross-Whitehall Group Regulator Appraisal Group sub-group produced a report called 'Appraisal of guidance'.³ This was a document aimed at helping regulators to complete their business impact target (BIT) assessments on the impact of guidance changes. This document included guidance on non-wage labour cost uplifts. Page 8 stated: "*Price consists of a tariff and time. For activities carried out internally, the tariff comprises wage costs and non-wage costs (e.g. national insurance and pensions contributions). For activities carried out by an external provider, the tariff is comprised of the hourly external rate. Time is the amount of time required to complete the activity. The ONS Annual Survey of Hours and Earnings (ASHE) can be used for obtaining median hourly wage rates, and EUROSTAT can be used to estimate non-wage costs (the 2016 uplift factor based on EUROSTAT wage data is 20.2%).*" The report included a link to the Eurostat page with 2016 data on non-wage labour costs.

RPC scrutiny of regulator BIT assessments covering the period 2017-18 revealed some confusion over how to calculate non-wage labour cost adjustments. BRE and the RPC felt it would be worthwhile to have more up-to-date guidance, which was produced in July 2018.

The following assumes that there is no impact on overheads (e.g. building costs) since most regulatory changes typically involve relatively small amounts of staff time. However, where it is judged that overheads are also likely to be affected, the impact of this should be additionally captured.

How to calculate non-wage labour cost uplifts

The two links below are to 2018 *Eurostat* figures; the first is to a news release. This includes a table reporting that non-wage costs in the UK are 18.0 per cent of overall hourly labour costs. The second is to a '*eurostat statistics explained: hourly labour*

3

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/609201/business-impact-target-guidance-appraisal.pdf

costs' document. This provides links to a spreadsheet which gives UK hourly total labour costs (€27.4) and non-wage labour costs (€4.9).

<https://ec.europa.eu/eurostat/documents/2995521/9720156/3-11042019-BP-EN/3240675b-5513-41a4-8b28-3f5e24c55b70>

https://ec.europa.eu/eurostat/statistics-explained/index.php/Hourly_labour_costs

Taking the 18.0 per cent figure, a non-wage labour cost uplift can be calculated as follows:

If non-wage costs are 18.0 per cent of total labour costs, it follows that wage costs are 82.0 per cent total labour costs (1-0.18).

In BIT assessments, regulators (and indeed departments with impact assessments) normally have only wage costs from ASHE. Therefore, to calculate the overall hourly labour cost one needs to add non-wage labour costs. To do this, multiply the wage cost by (1+ (non-wage cost/wage cost)). For 2018, this is:

wage cost * (1+(0.18/0.82))

or

wage cost * (1+0.22)

i.e. the uplift is 22.0 per cent. In other words, hourly wage costs would be scaled up by this amount (i.e. multiplied by 1.22) to arrive at overall hourly labour costs.

Alternatively, regulators could contact BEIS labour markets who calculate the uplift and could provide it directly. (This might result in a slightly different but more precise figure – see footnote⁴).

⁴ BEIS labour markets have calculated a more precise adjustment of 21.78% for 2018. This involves using the actual data from the eurostat spreadsheet: total hourly labour costs (€27.4); non-wage labour costs (€4.9) and wages & salaries (€22.5).