

Impact Assessment Guidance

What is an Impact Assessment?

1. Impact Assessment is both:
 - a continuous *process* to help the policy-maker fully think through and understand the consequences of possible and actual Government interventions in the public, private and third sectors; and
 - a *tool* to enable the Government to weigh and present the relevant evidence on the positive and negative effects of such interventions, including by reviewing the impact of policies after they have been implemented.
2. Impact Assessments are generally applicable to all Government interventions affecting the private sector, the third sector and public services, regardless of source: domestic or international. Their preparation and publication ensure that those with an interest understand and can challenge:
 - why the Government is proposing to intervene;
 - how and to what extent new policies may impact on them; and
 - the estimated costs and benefits of proposed and actual measures.

They also give affected parties an opportunity to identify potential unintended consequences.

3. As the Government aims to intervene only when necessary and since most policy objectives can be achieved through a range of options, the Government's aim is to identify proposals that best achieve its objectives while minimising costs and burdens.

What types of intervention require an Impact Assessment?

4. Any proposal that imposes or reduces costs on businesses or the third sector requires an Impact Assessment. Any proposal similarly affecting costs in the public sector also requires an Impact Assessment, unless the costs fall beneath a pre-agreed threshold (generally £5m). This means an Impact Assessment needs to be completed for all forms of intervention (including primary or secondary legislation as well as codes of practice or guidance) where the department or regulator considers that the effect will be to increase or decrease costs. This includes proposals which encourage self-regulation or opt-in regulation. More detailed guidance on arrangements for non-Whitehall departments is given in the Impact Assessment Toolkit.
5. Impact Assessments are also needed for proposals that are not regulatory in source but nevertheless impose costs on **public sector** or third-sector organisations that deliver public services. For example, changes to reporting requirements, revisions to criteria for releasing funding and the imposition of new targets could all have an impact on costs which should be assessed. However, a proportionate approach should be used. If the cost of the proposal is below £5 million and is not likely to attract high levels of political or

media interest, only a developmental/option stage Impact Assessment is necessary. See the Toolkit for more detail.

6. An Impact Assessment is required when proposals would not yield an overall net change in costs and benefits but some kind of redistribution (such as in cases where there is an exchange or 'transfer' of costs or benefits from one group to another), or when there is a change in administrative costs.
7. An Impact Assessment should be prepared when seeking collective agreement for UK negotiating positions on EU proposals, and also when submitting bids for primary legislation to the Legislative Programme Cabinet Committee.
8. Impact Assessments are **not** required: where policy changes will not lead to costs or savings for business, the public sector, third sector organisations, regulators or consumers; and for road closure orders. Nor are they required where changes to statutory fees or taxes are covered by a predetermined formula such as the rate of inflation, or in respect of other changes to taxes or tax rates where there are no associated administrative costs or savings.

When and how often should an Impact Assessment be prepared and published?

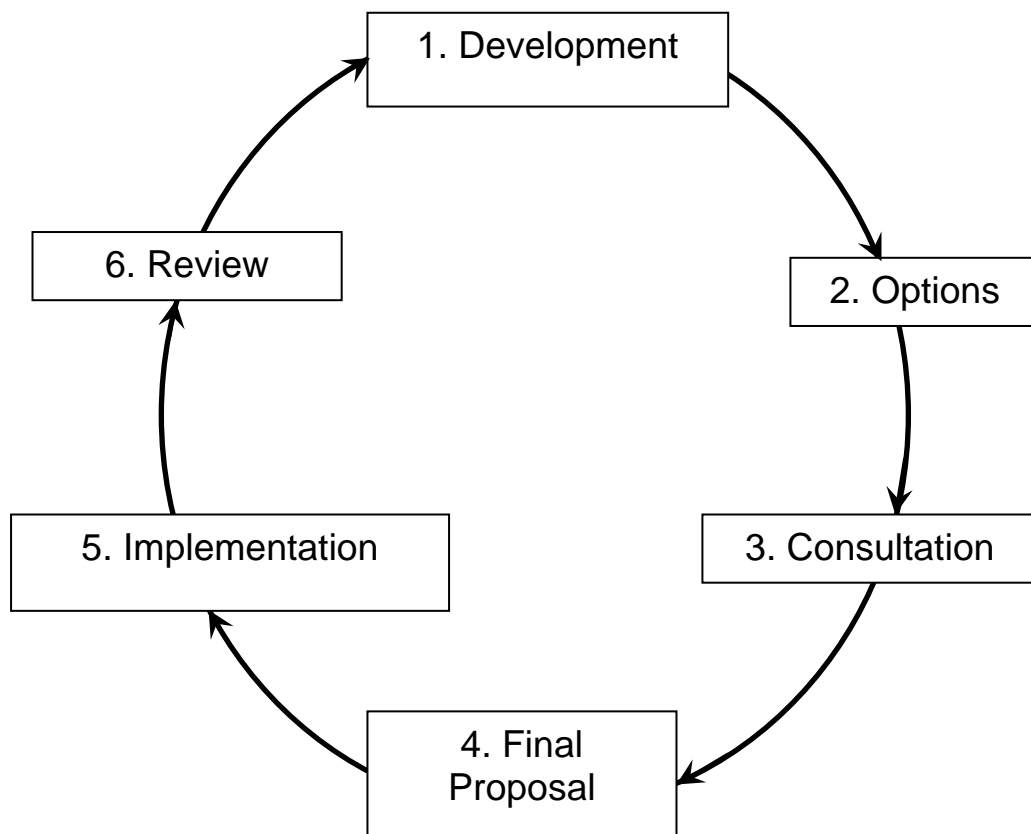
9. Impact Assessment is a continuous *process* to help the policy-maker fully think through and understand the consequences of possible and actual Government interventions: from the early stages of identifying a policy challenge, through the development of policy options, public consultation and final decision-making, and on to the review of implementation. When review leads to the identification of new policy challenges (perhaps arising from unintended consequences of the intervention itself), the process begins again.
10. Policy-makers should also think of the Impact Assessment Template and Guidance as a tool that guides them through this process. In the earliest stages of policy development, it is particularly important that policy-makers should use Impact Assessment to help them understand and define the policy challenge and to analyse the case for Government intervention.
11. There are certain points in this process in which an Impact Assessment must be published or republished. With certain exceptions, as set out in the Impact Assessment Toolkit, these are:
 - when a policy proposal is taken out to public consultation;
 - when a Government Bill, or Private Members Bill enjoying Government support, is introduced in either House of Parliament;
 - when a draft Statutory Instrument is laid in Parliament;
 - immediately prior to implementation of an Act or Statutory Instrument or other regulatory measure; and
 - review after the regulatory measure has been implemented.

12. Between these points, policy-makers have freedom to update and revise the Impact Assessment as they choose. But they are strongly encouraged to keep returning to the document, as knowledge and evidence increase.

13. The key points in the process are summarised in **Figure 1**.

- **Development stage:** definition of policy problem; gathering of evidence; rationale for Government intervention; identification of policy objectives.
- **Options stage:** identification of options; testing of options through pre-consultation.
- **Consultation stage:** refinement of options; **publication** for public consultation and comment.

Figure 1: possible stages for producing an Impact Assessment



- **Final Proposal stage:** focus on costs and benefits of preferred option (the 'proposal'); **publication** alongside Bills and Statutory Instruments.
- **Implementation stage:** revisions to reflect final contents of Act or Statutory Instrument or other regulatory measure; **publication**.

- **Review stage:** after the intervention or regulation has been implemented it should be reviewed to establish what are its actual costs and benefits and whether it is achieving its desired effects; **publication.**
14. For all new proposals bearing on business, guidance should be published 12 weeks before a regulation is implemented. With limited exceptions, new proposals bearing on business should be timed to commence on one of the following Common Commencement Dates: 6 April and 1 October. See guidance in the Toolkit.

What is the case for Government intervention?

15. At the earliest stages of developing responses to a policy issue, policy-makers should gather evidence to consider the case for Government intervention. The underlying rationale for Government intervention may, e.g., relate to instances of market failure – that is where the market has not and cannot itself deliver efficient outcomes for citizens, consumers and producers - or where there are clear Government distributional, equity or other social objectives that need to be met. See further information in the Toolkit.
16. Because Government intervention may not be the best way of addressing a policy problem or of realising policy objectives, alternatives to classic regulation (e.g. self-regulation; voluntary codes) need to be properly considered from the outset.
17. Government intervention can have unintended consequences, imposing costs and creating economic distortions. These possible effects should be explored when the case for intervention is being considered. Your departmental economists could provide advice on these.

What approval is necessary before an Impact Assessment can be published?

18. The Minister responsible for the policy is required to sign-off public Impact Assessments. At the **Consultation stage** of an Impact Assessment, the responsible Minister would sign a declaration that on the basis of the available evidence, the Impact Assessment represents a reasonable view of the likely costs, benefits and impact of the leading options.
19. At the **Final Proposal/Implementation stages** of the Impact Assessment, the responsible Minister would sign a declaration that indicated that they had read the Impact Assessment and were satisfied that
- it represented a fair and reasonable view of the expected costs, benefits and impact of the policy; and
 - the benefits justify the costs.
20. Departments must facilitate these declarations by involving their economists from the earliest stages of policy development and by operating sound procedures for advising Ministers. For example, robust departmental processes might include internal sign-off mechanisms; peer group review by economists at an early stage in the policy development process; where appropriate use of external panels of key stakeholders or professional experts to review the evidence; or a requirement that chief economists are consulted on all submissions to Ministers that address policy matters that would normally also require an Impact Assessment. The Toolkit provides further guidance on these mechanisms.

21. To increase transparency, the Government is setting up a new area on the internet where summaries of all published Impact Assessments will be available, together with links to Impact Assessments on departmental websites.

What are the components of the Impact Assessment document?

22. Impact Assessment documents have three compulsory components, with any additional annexes:
- A **Summary: Intervention & Options page** which captures key information about the problem identified and the policy options considered;
 - A **Summary: Analysis & Evidence page** which captures key data and information on each of the policy options considered, including on benefits, costs, and effects.
 - An **Evidence Base** in which the data and calculations supporting the summary pages are set out. The Evidence Base should cover all of the policy options under consideration.
 - **Annexes** that provide details of any Specific Impact Tests that have been undertaken.

What should be included on the Summary: Intervention & Options page?

23. You will need a single cover page at each stage of the Impact Assessment. However, the information contained in this page might vary at different stages. For example, there might not be a preferred option at the Development or Options stages. The Summary: Intervention & Options page should include (see the example provided in the Toolkit):
- The name of your department, and a title for the policy option or proposal to which the Impact Assessment relates (e.g. self-regulation scheme for dairy farmers).
 - The stage of policy development – e.g. Development; Options; Consultation; Final Proposal; Implementation; or Post Implementation Review.
 - The version number of the Impact Assessment and the date on which it has been prepared.
 - Key related publications which might make it easier for the reader to understand the policy although the aim should be for the Impact Assessment to be read as a standalone document.
 - A weblink where the document can be accessed and a contact name and telephone number for queries.
 - Short summaries (around eighty words) that explain
 - The problem under consideration and the rationale for Government intervention.
 - The policy objectives and the intended effects of the policy.
 - What policy options have been considered and the justification for the preferred option.
 - The date at which a review would be undertaken to establish the actual costs and benefits of the policy and to see whether it has achieved/is achieving the desired effects. It is often a good idea to review a policy change after three years but this will depend on the policy.
 - Depending on the stage that the Impact Assessment has reached, the

declaration from the responsible Minister referred to at paragraphs 18 and 19 above.

What should be covered on the Summary: Analysis & Evidence page?

24. Evidence-gathering must start at the very beginning of the policy-making process. You will need to complete a Summary: Analysis & Evidence page for each policy option that has been identified and taken forward – from development to the final proposal. By the time the final proposal is made, the policy options may have been narrowed considerably. At the Implementation stage, there should be only a single Summary: Analysis & Evidence page. The Implementation stage will provide the baseline for undertaking the Post Implementation Review.
25. For each option taken to consultation and beyond, each Summary: Analysis & Evidence page must include a **brief description of the policy option**, to serve as a title.

Costs and benefits

26. Cost and benefit information is presented in separate sections of the Summary: Analysis & Evidence page. However, a common procedure is applied to the presentation of both costs and benefits.
27. For the annual and total cost and benefit calculations included in the summary, the following common principles apply.
 - All costs and benefits accrued over and above the ‘status quo’ or ‘do minimum’ option are the focus of the analysis.
 - **The summary must take account of the full range of costs and benefits: economic, social and environmental; these should be monetised as far as possible.**
 - Spurious accuracy in the presentation of the cost and benefit figures should be avoided with ranges used where appropriate.
28. Costs falling on other Government departments (such as the costs of the judicial system, and of legal aid) should also be included.
29. **Description and scale of key monetised costs and benefits accrued by the main groups** affected by the proposal or other impacts (such as particular environmental impacts) should be clearly stated. Generally, these should usually only cover the first round effects of the policy. However, further impacts may need to be considered in some circumstances – see examples in Treasury’s Green Book guidance on appraisal and evaluation.
30. Annual cost and benefit figures should be presented in constant prices i.e. at today’s general price level, so that comparisons can be easily made. It is recognised that in some cases annualisation of costs and benefits may be more appropriate and the presentation of these figures should be discussed with your department’s Better Regulation Unit.
 - **‘One off’ costs and benefits** occur when organisations or individuals undergo transition to adapt to the new regulation or intervention. The

total one-off cost or benefit should be divided by the numbers of years over which these costs and benefits take place. Both the average annual 'one off' costs and benefits and the years over which transition occurs must be specified on the summary page.

- **Average annual costs and benefits (excluding 'one off')** represent the average ongoing costs and benefits incurred over the time period under analysis.
31. The **total costs and benefits** in present value (PV) terms associated with the proposal should be calculated in accordance to Treasury guidance about recommended discount rates (see the Green Book: appraisal and evaluation in central Government).
 32. **Other key non-monetised costs and benefits by main affected groups** should be quantified or qualified on the summary page in cases where monetisation is not feasible. For example, this could include specifying major environmental impacts where appropriate.
 33. Any **key assumptions, sensitivities or risks** underpinning the cost and benefit calculations that affect the conclusions drawn from the analysis should be highlighted on the summary page.
 34. Cost benefit analysis provides the basis on which to assess whether an option's benefits meets or exceeds its associated costs. It also allows alternative options to be compared in a meaningful way.
 - The **price base year** (i.e. the year from which the prices used in the analysis are expressed) and the **time period** over which the analysis takes place should be stated.
 - The range of the Net Present Value must be stated. This could be either positive or negative depending on whether total benefits exceed or are less than total costs. The range produced will be indicative of the level of certainty around the figures in the analysis.
 - The best estimate of the Net Present Value must also be stated.

Other questions

35. A number of other questions on the Summary: Analysis & Evidence page need to be answered:
36. The **geographic coverage** of the policy option (ie whether the policy applies to England, to England and Wales, or to the United Kingdom).
37. **On what date will the policy be implemented?** In line with the rules on Common Commencement Dates, and subject to particular exceptions, legislation bearing on business can only commence on 6th April or 1st October each year. However, for all options considered (including non-regulatory options), the date of implementation of the proposal should be clearly stated on the summary page.
38. **Enforcement.** You should indicate:

- **Which organisation(s) will enforce the policy?**
 - **What is the total annual cost of enforcement of this proposal for these organisations?** Use constant prices for this calculation.
 - **Does enforcement comply with Hampton principles?** For the Hampton principles, see the Toolkit.
39. **Will implementation go beyond minimum EU requirements?** If your proposal goes beyond the minimum requirements of the EU Directive that it implements, you will need to make the case for this in the Evidence Base. See the Toolkit for the rules on over-implementation. If the proposal does not relate to an EU Directive, write "N/A".
40. **What is the value of the proposed offsetting measure per year?** Quantify the value of the offsetting measure you are proposing. Departments should actively look for opportunities to simplify or remove existing requirements when they want to introduce new regulation. You will need to complete Impact Assessments for these and the Evidence Base should explain where they can be accessed.
41. **What is the value of changes in greenhouse gas emissions?** The Government's Energy White Paper (February 2003) set out a requirement to make a carbon Impact Assessment an integral part of assessing environmental impacts. However, if it appears that your policy does not affect an activity or sector that may have a significant impact on emissions of greenhouse gases, you do not need to conduct a full carbon Impact Assessment. See the Toolkit for further information.
42. **Will the proposal have a significant impact on competition?** Identify whether the policy option will make it more difficult for new or existing businesses to enter the market, or whether it will decrease competitive pressures in the market. Consult the OFT's guidance on Competition Assessment to help you consider the effect of different policy options on competition. See the Toolkit. If the policy involves a subsidy then please consult the OFT guidance on how to measure the competition affects of subsidies (see the Toolkit for more information on 'Identifying the markets affected').
43. Impacts on businesses and the third sector should be considered. For **different sized organisations** you need to state the estimated annual cost per organisation (excluding one-off) of the option or proposal under consideration for each of micro, small, medium and large organizations. To reduce the disproportionate regulatory burden faced by micro and small business, careful consideration must also be given to exemption of these categories. Consult the DTI's guidance on the Small Firms Impact Test to help you consider the definitions of organisation size and the calculation of costs to organisations and see the Toolkit for more information on impacts on small business.
44. **Impact on Admin Burdens Baseline** In 2005, government departments and other bodies undertook a measurement exercise to estimate the size of the administrative costs placed on business and the third sector as a result of its legislation. In 2006, each organization agreed a target for the reduction of the administrative burden. The Summary: Analysis & Evidence page seeks information on

- additions to the administrative burden placed on business arising from new regulation;
- decreases to the administrative burden arising from simplification of regulation or deregulation; and
- the net impact of these changes.

Costs should be indicated in 2005 prices to be compatible with the administrative burdens baseline. See the Toolkit for further information on how administrative burdens relate to other parts of the Impact Assessment Template.

What should be covered in the Evidence Base?

45. The Evidence Base should include a mixture of narrative, analysis and research that support the answers given on the summary pages. It is particularly important that the Evidence Base should show how the headline costs and benefits have been generated, by clear and transparent disaggregation of figures. The balance of economic, social and environmental costs and benefits should emerge clearly from this disaggregation. This information must stand up to external scrutiny – i.e. it should be accessible to the lay reader, and external parties with an interest must be able to contest the data. It should also be consistent with the Treasury's Green Book guidance on appraisal and evaluation.
46. There is significant discretion for departments and regulators as to how to set out the Evidence Base. However, a maximum length of 30 pages is recommended, in order to aid the lay reader and external parties with an interest. At stages when a number of options (each with its own Summary: Analysis & Evidence page) are being considered, there should be a single Evidence Base addressing clearly all of the options.
47. The Evidence Base should address any risks or uncertainties associated with the policy options or proposal under consideration.

Specific Impact Tests: what should be covered?

48. The Government has developed a range of tests to ensure that policy development is joined up and that individual policy proposals take account of the Government's priority objectives. Some of the tests are designed to help policy-makers monetise costs and benefits, whether economic, environmental or social. Other tests enable policy-makers to identify non-monetised costs and benefits, or, e.g., to identify the differential impacts of policy proposals (e.g. in terms of race, gender or disability).
49. The Specific Impact Tests – Checklist in the Toolkit sets out a range of tests and assessments developed by Government departments and underpinned by departmental guidance. Many tests have initial screening mechanisms that enable policy-makers to determine quickly whether further assessment is necessary or desirable. Policy-makers are encouraged to consult the available departmental guidance at the early stages of policy-making.
50. Where the use of specific Impact Assessments contributes to the monetisation of environmental, economic and social costs and benefits the results should be set out in the main Evidence Base and included in the Summary: Analysis & Evidence page. Where the tests yield information about

non-monetary costs and benefits, the results, when relevant to an overall understanding of policy options, may be annexed to the Impact Assessment.

51. Race, Disability and and Gender Impact Assessments are a statutory requirement for all relevant policies. These assessments should be rigorous and robust examinations of the policy's potential impact upon each of the equality strands. Assessments should be published at the same time as the policy is published. In the case of proposed legislation this means publication at the White Paper stage. Departments must annex the results to the Impact Assessment.

What further guidance and help are available?

52. If you cannot find the information you need in the Guidance and Toolkit or in the further resources to which the Toolkit refers, you should talk to your departmental Better Regulation Unit. You can also seek advice from the Better Regulation Executive –contact details are available at the Toolkit.