

Title: UK Internal Market Bill IA No: RPC Reference No: N/A Lead department or agency: BEIS Other departments or agencies: Cabinet Office	Impact Assessment (IA)			
	Date: 09/09/2020			
	Stage: Final			
	Source of intervention: Domestic			
	Type of measure: Primary legislation			
	Contact for enquiries: ukinternalmarketbillteam@beis.gov.uk			

Summary: Intervention and Options	RPC Opinion: Not applicable
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Cost of Preferred (or more likely) Option (in 2019 prices)

Total Net Present Social Value	Business Net Present Value	Net cost to business per year	Business Impact Target Status Qualifying provision
N/A	N/A	N/A	

What is the problem under consideration? Why is government action or intervention necessary?

Following the end of the transition period, the EU regulations constraining devolved competency will be removed allowing all four parts of the UK greater freedom when setting policy in devolved policy areas. However, without a substitute framework for the EU governance there is the risk of new regulatory barriers being erected that could bring significant disruption not just to the wider UK economy, but also to businesses in England, Scotland, Wales and Northern Ireland individually. This change means that we will need to act to enhance our existing architecture to strengthen our internal market, enshrining in law new mechanisms that ensure consumers and businesses can continue to trade freely across all parts of the UK.

What are the policy objectives of the action or intervention and the intended effects?

This bill seeks to mitigate against potential harmful effects caused by potential internal regulatory barriers that could arise in future. It places a legal requirement on administrations and competent authorities to mutually recognise certain types of regulatory requirements across the UK, and not to discriminate based on the origin of goods, services and professional qualifications. This will guarantee UK companies can trade unhindered in every part of the United Kingdom, respecting devolution – ensuring the continued prosperity of people and businesses across all four nations.

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

The primary policy option under consideration is to enshrine in law two fundamental principles to protect the flow of goods and services and people in our home market: the principle of mutual recognition, and the principle of non-discrimination. This option includes the delivery of UKIM functions (advice, monitoring and reporting) by the Office for the Internal Market (OIM) within the CMA.

This is considered against a ‘do nothing’ baseline whereby powers are transferred to the devolved administrations and UK Government following the end of the transition period, with no infrastructure in place to ensure businesses continue to be able to operate across borders in the face of potential internal regulatory barriers.

An alternative unilateral “strike down” power for Westminster was considered but considered at odds with devolution.

The Government considers that this is the best option to ensure businesses can continue to trade freely in the UK internal market, and to provide continued business certainty.

Will the policy be reviewed? It will be reviewed. If applicable, set review date: 5-year post implementation

Does implementation go beyond minimum EU requirements?	N/A			
Is this measure likely to impact on international trade and investment?	Yes			
Are any of these organisations in scope?	Micro Yes	Small Yes	Medium Yes	Large Yes
What is the CO ₂ equivalent change in greenhouse gas emissions? (Million tonnes CO ₂ equivalent)	Traded: N/A		Non-traded: N/A	

I have read the Impact Assessment and I am satisfied that, given the available evidence, it represents a reasonable view of the likely costs, benefits and impact of the leading options.

Signed by the responsible Minister:  Date: 08/09/20

Summary: Analysis & Evidence

Policy Option 1

Description: Mutual recognition and non-discrimination
FULL ECONOMIC ASSESSMENT

Price	PV Base	Time	Net Benefit (Present Value (PV)) (£m)
			Best Estimate: N/A

BENEFITS (£m)	Total Transition (Constant Price) Years		Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Best Estimate	N/A	1	N/A	N/A

Key non-monetised benefits by ‘main affected groups’

Benefits arise in the form of avoided costs to business compared to a counterfactual scenario of unmanaged, separate regulatory regimes. These benefits are realised once separate regulatory regimes emerge, as they allow businesses to avoid inefficiencies and additional changes to operations that they would have had to introduce in the counterfactual of no UKIM bill. These are non-monetised in light of their hypothetical nature, however, **the cost savings to businesses, consumers and the wider UK economy would be expected to significantly offset any costs imposed by this legislation, translating into a net benefit to the UK economy.**

There are additional benefits to businesses, consumers, and the wider economy from the mitigation of harmful UKIM impacts through the delivery of the UKIM functions delivered by the OIM. Efficiency benefits arise to the taxpayer from administrations being able to draw on a central repository of UKIM information and expertise when designing regulation and from having an “early warning” system to identify issues that arise over time.

Description and scale of key monetised benefits by ‘main affected groups’

This impact assessment does not include any monetised benefits as quantification would rely on inherently uncertain and hypothetical scenarios of separate regulatory regimes. Monetisation of the benefits would need to be based on predictions of specific future regulations and would therefore be highly unreliable.

However, a programme of both quantitative and qualitative analysis demonstrates that there would be costs to society if internal regulatory barriers were to emerge (with no UK internal market architecture) at the end of the transition period. This includes:

- Conceptual evidence of the different ways multiple regulatory regimes can lead to increased business costs
- Qualitative findings from engagement with businesses, based on hypothetical scenarios of separate regulatory regimes
- Quantitative analysis and modelling of the economic costs of internal regulatory barriers

COSTS (£m)	Total Transition (Constant Price) Years		Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Best Estimate	N/A	1	N/A	N/A
Key non-monetised costs by 'main affected groups'				
<p>This legislation does not directly impose any costs, changes, or constraints on UK businesses. Any processes that businesses would have to undertake to comply with mutual recognition would only occur in the event of separate regulatory regimes emerging, and therefore have not been monetised, although these are expected to be significantly outweighed by the economic benefits.</p> <p>In certain instances, where parts of the UK pursue separate policies, the scale of the intended public benefit of local measures might not be fully realised due to the more limited number of goods and services to which the policy applies, compared to the counterfactual of separate regulations without mutual recognition. This results from the fact that goods/services originating from elsewhere in the UK may, when placed on the local market, be complying with different regulations adopted elsewhere in the UK. This could mean that societal benefits that could otherwise have occurred, were it not for mutual recognition, would be foregone.</p>				
Description and scale of key monetised costs by 'main affected groups'				
<p>The main monetised cost of the policy is the resource expenditure associated with delivering the UKIM functions of advice, monitoring and a business interface, which are comprised of staff salaries and overheads. Additionally, there are capital costs associated with the data collection and analysis requirements for delivering the monitoring function. These are comprised of modelling procurement costs, survey costs and other qualitative research costs. Both resource and capital costs are borne by the Office for the Internal Market (within the CMA). Additionally, there are familiarisation costs for competent authorities to understand their responsibilities under the new regime. Further detail on these costs is set out in the main part of this document.</p>				
Key assumptions/sensitivities/risks				Discount rate (%): 3.5
<p>The analysis of costs in this Impact Assessment uses a time horizon of 10 years, and the standard discount rate for UK Government appraisal as set out in the HMT Green Book, which is set at 3.5% in real terms. Using the latest price data, this Impact Assessment adopts a price base year of 2019 and adjusts costs and benefits using the standard GDP deflator approach. HMG Green Book guidance indicates that costs and benefits in Government appraisal should be estimated in 'real' base year prices (i.e. the first year of the proposal). This means the effects of general inflation should be removed.</p>				

BUSINESS ASSESSMENT (Option 1)

Direct impact on business (Equivalent Annual) £m: N/A			Score for Business Impact Target (qualifying provisions only) £m:
Costs: N/A	Benefits: N/A	Net: N/A	

Evidence Base

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Introduction

In January 2020 the UK left the European Union. Following the end of the Transition Period this year, the way we regulate labour, capital, goods and services in the UK will no longer be decided by the EU. Instead, we in the UK will be able to regulate our trade in goods and services in a tailored manner, specifically designed to benefit our businesses, workers and consumers while maintaining our high regulatory standards.

New powers will transfer from the EU to the devolved administrations, enhancing their ability to regulate in accordance with the needs of their local populations, in areas such as agriculture and food standards, amongst others. This in turn, will provide a pivotal moment for the UK as a country to evolve its own bespoke regulatory system with certainty, which is so important for the UK's businesses, citizens and economy as we recover from the impact of Covid-19.

One of the features of the UK internal market (UKIM) is its deep integration, evidenced by significant flows of goods, services, people and capital between England, Scotland, Wales and Northern Ireland. As the EU regulatory constraints fall away, there is a risk of the emergence of new internal regulatory barriers that could bring disruption not just to the wider UK economy, but also to England, Scotland, Wales and Northern Ireland individually.

In this UK Internal Market bill, the government enshrines in primary legislation the principles of mutual recognition (MR) and non-discrimination (ND) to ensure that businesses can operate seamlessly throughout the UK, allowing them to avoid increased complexities and business costs arising from future internal regulatory barriers.

Additionally, this legislation gives new independent functions to the Competition and Markets Authority (CMA), established through a new Office for the Internal Market (OIM), intended to support the smooth operation of the UKIM MR/ND architecture, including monitoring, advice, and a business interface.

This regulatory impact assessment sets out a suite of evidence assessing the rationale for intervention and providing a cost-benefit analysis of mutual recognition and non-discrimination, as well as the delivery of the independent functions. This is split into three parts:

- **Part I – The rationale for the approach.** This sets out evidence demonstrating the high levels of integration in the UK internal market, and what is changing as a result of EU Exit that puts this level of integration at risk.
- **Part II – Mutual recognition and non-discrimination.** This gives an overview of the approach for each of goods, services and professional qualifications. It sets out the key areas of benefits, costs and risks of enshrining these principles in law, against a counterfactual of no intervention.
- **Part III – UKIM function cost summary.** This provides an overview of the benefits and costs (including monetised resourcing and expenditure costs) of the independent monitoring, advice and business interface functions.

- **Part IV – Wider Impacts.** This considers impacts on small and micro businesses, as well as impacts on international trade.

Additionally, this legislation reserves the area of subsidy control to the UK Government. More details on the approach can be found in Annex A to this document.

A power provisions to provide financial assistance in this bill will enable the UK Government to provide funding to organisations to spend across the UK in the areas of infrastructure, economic development, culture, sport and to support educational and training activities and exchanges, both within the UK and internationally. An assessment of impacts will need to be taken at the point when this power is used. Therefore, at this point, we cannot assess potential costs and benefits (monetised or otherwise). More details on this approach can be found in Annex B to this document.

In respect of Northern Ireland, this legislation builds on the Government's approach to the Northern Ireland Protocol and its commitments on Unfettered Access. As regulatory impacts were analysed for these elements as part of the EU Withdrawal Bill, we have not provided a full analysis of these elements of the policy. The rationale for this is set out in greater detail in Annex C.

Proportionality of evidence and analysis

This bill ensures that businesses' operations do not face future disruption and businesses enjoy market access to all parts of the UK. It places a legal requirement on administrations and competent authorities to mutually recognise regulations across the UK, and not to discriminate based on the origin of goods, services or professional qualifications

The extent and nature of the analysis included in this impact takes account of two significant factors:

- Firstly, to a significant extent, **this bill does not directly place changes or requirements on UK businesses.** Instead, it allows businesses to continue to operate as they currently do, even if separate regulatory regimes were to arise in the future. Any processes businesses might need to undertake in relation to mutual recognition would only occur at the point where separate regulatory regimes emerged.
- Secondly, the nature and extent of future separate regulatory regimes is unknown at this point, and therefore it is not possible to estimate the precise costs and benefits that mutual recognition would bring. In each instance, these costs and benefits would depend upon the specific regulations, the market structure, the level of intra-UK integration and the number of business which would opt to take advantage of mutual recognition.

Therefore, in the analysis presented, definitive predictions of future regulatory regimes, and the effect of mutual recognition and non-discrimination on them have not been made or quantified. Instead, we present a variety of qualitative and quantitative evidence around the general economic costs and benefits of separate regulatory

regimes, as well as some specific considerations of the approach to each of goods, services and professional qualifications.

BEIS modelling has estimated the effects on trade flows arising from hypothetical scenarios of divergence, for example in the retail and wholesale sector. The modelling shows that the cumulative effect of various regulatory barriers, ranging from low-level differences in areas such as food hygiene, product packaging and labelling provisions, to more overtly discriminatory measures favouring local suppliers, could lead to a tariff equivalent cost ranging between 2.3% and 8.6%. If such barriers were to arise between Scotland and the rest of the UK, Scotland's retail & wholesale sales to the rest of the UK could initially decrease by between 7% and 22%, or by £0.4 billion and £1.4 billion based on current annual trade volumes¹. Examples in other sectors and areas of regulation show similar levels of impact.

The only fully monetised elements of this legislation are the cost to set up and maintain the independent functions in the CMA (outlined in Part III of this impact assessment) and the familiarisation costs Competent Authorities would face implementing the mutual recognition and non-discrimination provisions of the Bill. These are small in comparison to the potential economic cost of unmitigated internal regulatory barriers and help to ensure that potential issues that might arise can be detected early.

The evidence shows that unmitigated regulatory differences would introduce significant costs and complexities into business operations. As such, it is strongly anticipated that **the positive long-term business impact of this legislation will significantly outweigh the costs**, even though a precise monetisation cannot be given.

The relative size of benefits and costs

As laid out in this document, given the increased likelihood of future separate regulatory regimes, the current levels of internal trade in the UK, and the increased costs for businesses, consumers and the wider economy that could arise from such regulatory differences, it is understood that the economic benefits, in terms of the cost-savings, would be significant.

It is expected that these cost-savings to the economy will far outweigh any additional monetary or funding costs imposed by this legislation, such as the cost of funding the UKIM functions in the CMA, familiarisation costs on Competent Authorities or foregone policy benefits.

In the case of separate goods regulations, there may be some light-touch compliance costs for businesses wanting to invoke the mutual recognition principle, such as providing information related to the location of production of their goods. However, these would likely be insignificant compared to the cost savings from not needing to simultaneously comply with multiple regulations. In any case, businesses are not

¹ We apply the estimated % reduction trade flows to 2018 data from Export Statistics Scotland, using value of Scottish Retail & Wholesale output to the rest of the UK. This decrease only captures the initial shock of regulatory difference to trade and excludes dynamic economic effects, such as trade diversion or reallocation across sectors. For more methodological detail, please refer to the analytical annex to the white paper on the UK internal market.

compelled to sell goods under the mutual recognition principle and would only do so if it made commercial sense for them.

The final cost of this legislation is the potentially reduced ability for different parts of the UK to achieve local policy benefits. While this legislation does not constrain the ability of different parts of the UK to introduce distinct policies, to the extent that those policies may be enforceable on a reduced number of businesses might make it harder to realise fully the benefits of those policies.

However, local policies will remain enforceable on local economic operators (e.g. businesses that produce locally). This means different levels of government will retain an ability to enforce those policies and allow for policy innovation across the UK.

Furthermore, these local benefits would in any case apply to a relatively smaller part of the UK. As outlined in the evidence base, regulatory differences could lead to costs permeating the wider UK economy and therefore have much wider impacts.

It is on these bases that we determine that the benefits of mutual recognition and non-discrimination outweigh the costs.

Part I - The rationale for the approach

In order to understand the rationale for intervention we cover two key areas of evidence:

- Background on the current operation of the UK internal market as evidenced by flows of goods, services, people and capital between the four parts of the UK
- What is changing as a result of EU Exit

Part I.1 - The current operation of the UK internal market

The complex linkages between the four parts of England, Scotland, Wales, and Northern Ireland are reflected in strong economic ties, spanning outputs as well as all factors of production. This section provides evidence that the parts of the UK are highly integrated in terms of the flow of goods and services, labour, knowledge, and capital (both physical and human).

In considering the operation of the UK Internal Market it is important to bear in mind the distribution of economic size between the constituent parts. The economy of England is significantly larger than any of the other parts of the UK and generates around 87% of total economic activity (ONS, 2019). The remainder is split between the other parts of the UK, with Scotland contributing 8%, Wales generating 3% and Northern Ireland being responsible for 2% of overall output².

Trade flows

Deep linkages are clearly present in the flow of goods and services. Export Statistics Scotland 2018 (Scottish Government, 2020) show that Scottish sales to the rest of the UK (rUK) are worth £51.2 billion, 1.5 times as large as its EU and rest of world (RoW) exports combined.

Furthermore, according to the recently published Trade Survey for Wales (Welsh Government, 2020): in 2018, Welsh exports to the rest of the UK are worth £30.1 billion, 61% of its total exports, and 2.6 times as large as its EU exports. Additionally, the data suggests that Welsh businesses purchase around £34.3 billion worth of goods and service inputs from the rest of the UK annually, greater than all purchases from within Wales and the rest of the world combined.

Similarly, according to the Northern Ireland Statistics and Research Agency's Broad Economy Sales and Exports Statistics 2018 (NISRA, 2020), external sales from Northern Ireland to Great Britain are worth around £10.6 billion, around 50% of total external (outside of NI) sales and exports, and around 1.6 times its total EU exports. Data for previous years indicates an even higher importance of sales to GB, with these exceeding exports to all the rest of the world combined³. The picture is similar for imports, with NI purchases of GB goods and services valued at around £13.4 billion, 63% of all purchases from outside NI, and 2.5 times as large as imports from the EU.

² This is of Gross Value Added, which is a measure of the increase in the value of the economy due to the production of goods and services. Calculated from provisional 2018 figures, total excludes economic activity that cannot be assigned to regions.

³ According to NISRA, in 2016, NI sales to GB exceeded international exports by 1.5x.

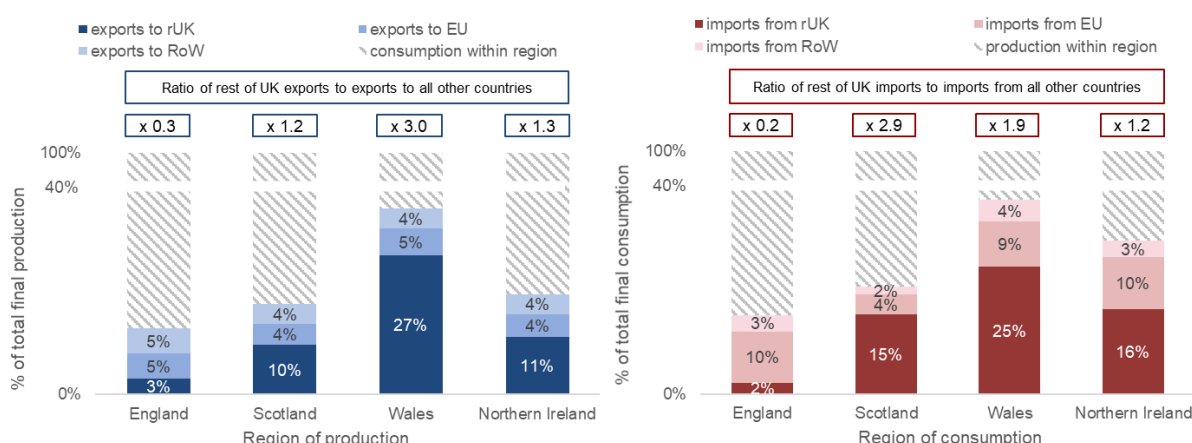
Figure 1 – External sales by trading partner (% value GBP) – source: Export Statistics Scotland (2018), Trade Survey for Wales: 2018, NISRA Broad Economy Sales and Exports Statistics (2018)

Country	Rest of UK exports	Rest of EU exports	Rest World exports	of	rUK : rEU	rUK : International
Scotland	60%	19%	21%		3.2x	1.5x
Wales	61%	24%	16%		2.6x	1.5x
Northern Ireland	49%	31%	21%		1.6x	0.9x

Equivalent official statistics do not exist for England and comprehensive data on production and consumption is limited more generally. Therefore, further sources of information are explored to supplement the statistical publications by Scotland, Wales and Northern Ireland. One particularly useful dataset is the EUREGIO dataset, published by the PBL Netherlands Environmental Assessment Agency (Thissen & al., 2018).⁴

For the most recent available year of 2010, this data also confirms a significant amount of trade between constituent parts of the UK. While for all parts of the UK, most goods and services are produced and consumed within each region, in Scotland, Wales and Northern Ireland trade in final goods and services with the UK exceeds trade with the EU. Intra-UK trade is especially significant in Scotland and Wales; Scotland imports about three times as much final goods and services (by value) from other parts of the UK as it does from all international trading partners combined. Similarly, Wales exports three times as much final goods and services to other parts of the UK as it exports internationally (Figure 2).

Figure 2 – UK market for **final** goods and services; proportion of final goods and services produced in each part of the UK split by region of consumption (LHS); proportion of final goods and services consumed in each part of the UK split by region of production (RHS). Data sourced from the EUREGIO dataset (2010).

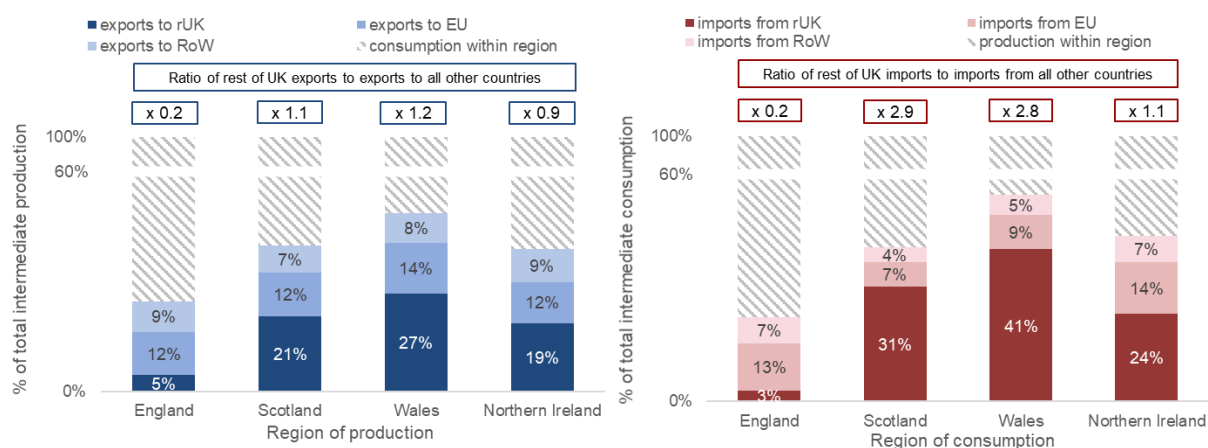


⁴ For more detail please consult the analytical annex to the UK internal market White Paper (pg. 67)

Services trade is particularly significant within the UK Internal Market. According to the EUREGIO dataset, services trade with the UK forms a significant proportion of each of the devolved administrations' overall production and consumption. For example, almost a third of all services consumed in Wales were from the rest of the UK. Furthermore, the data show that each part of the UK trades more in services with the rest of the UK than with the rest of the world. Official statistics from Scotland, Wales and Northern Ireland corroborate this finding. For example, in 2018, Scotland exported 2.4 times as much in services to other parts of the UK as to the rest of the world, while the same figure for Wales was over 5 times, and Northern Ireland imported almost 3 times as much in services from GB compared to the rest of the world.

The UK Internal Market is equally important for supporting intra-UK supply chains. The reliance on other parts of the UK for the production and consumption of intermediate goods and services is even higher than for final goods and services. In Wales and Scotland, almost three times as many intermediate inputs used by businesses come from other constituent parts of the UK as from all international markets combined.

Figure 3 - UK market for **intermediate** goods and services; proportion of intermediate goods and services produced in each part of the UK split by region of consumption (LHS); proportion of intermediate goods and services consumed in each part of the UK split by region of production (RHS). Data sourced from the EUREGIO dataset (2010).



Mobility of people & Human Capital

The UK Internal Market is not only characterised by large flows of goods and services, but a high degree of integration in terms of other factors of production.

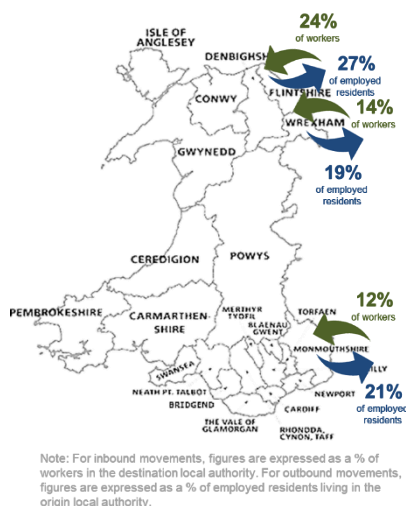


Figure 4 - Cross-region commuting between England and Welsh local authorities

For example, we see significant movement of people (labour) on both a temporary and more permanent basis. Census data (ONS, 2011)^[OBJ] In total, in 2011, over 170,000 workers commuted from one part of the UK to another.

A similar picture emerges for more permanent migration. Data from the Labour Force Survey (ONS, Social Survey Division, 2017) indicates that around 1.4 million individuals live in a different part of the UK than they were born. This implies that nearly 7% of all public sector employees and more than 5% of private sector employees were born in a different part of the UK than they work now. Higher Education Student Statistics (HESA, 2019) show that around 130,000 students in total per year move to a different part of the UK to attend university. Over a quarter of Welsh and Northern Irish students studying in the UK study outside of their home region. 13% of all students in Scottish higher education institutions come from the rest of the UK.

Our tourism industry provides a similarly compelling example - in 2019, Great Britain's residents took a total of 122.8m overnight trips to destinations in England, Scotland, or Wales. This amounted to 371.8m nights and £24.7bn was spent during these trips⁵. Similarly, close to 10m passengers took rail journeys between Scotland and the rest of the UK in 2018/19⁶.

Knowledge and capital

The UK Internal Market also plays an important role in facilitating the exchange of knowledge across the UK. Patent data shows that across-constituent-part collaboration is equally if not more important than international collaborations (slight variation in year on year time series data by the OECD). This holds true for all devolved administrations as well as England. We also see that science research collaborations across the UK seem more impactful than research collaboration between any of the parts of the UK and international partners, as measured by publishing and analytics company Elsevier through a field-weighted citation index (Elsevier, 2016). Such collaboration has proved significant in the fight against COVID-19 as one of the largest research projects is a joint project between researchers at Imperial College London, the University of Liverpool, and the University of Edinburgh (UK Research and Innovation, 2020).

Finally, we observe indications of significant capital flows between the parts of the UK. While the data on capital movement is less comprehensive than for other factors, we nevertheless see that firms owned by a party from another part of the UK contribute

⁵ VisitBritain, Great Britain Domestic Overnight Trips Summary – All Trip Purposes, 2019, <https://www.visitbritain.org/great-britain-tourism-survey-latest-monthly-overnight-data>

⁶ Office of Rail and Road, regional rail journeys Scotland: https://dataportal.orr.gov.uk/statistics/usage/regional-rail-usage/regional_rail_journeys-scotland-table-157

to 17% of employment in Scotland (Scottish Government, 2019) and 11% in Northern Ireland (NISRA, 2019). The data from Scotland further suggests that they contribute to 19% of revenues earned.

Part I.2 - What is changing as a result of EU Exit?

Following the end of the Transition Period this year, the way we regulate labour, capital, goods and services in the UK will no longer be decided by the EU.

At the end of this year, new powers will transfer from the EU to the UK Government and devolved administrations, enhancing different levels of Government's ability to regulate in accordance with the needs of their local populations, in areas such as agriculture and food regulation, amongst others.

However, there is a risk of new internal barriers emerging as a result of separate regulatory regimes. These could bring significant disruption not just to the wider UK economy, but also to England, Scotland, Wales and Northern Ireland individually. Because of their high degree of integration, internal regulatory barriers could cost Scotland and Wales 4 times and 5 times more, in terms of GDP lost, compared to the aggregate impact on the UK as a whole.

Without an up-to-date, coherent market structure, economic barriers could block or inhibit trade in goods across the UK, and services could be significantly and detrimentally impacted.

The following part sets out in more detail the potential economic risks to businesses from the emergence of multiple regulatory regimes in the UK, and how mutual recognition and non-discrimination would alleviate these impacts.

Part II – Mutual recognition and non-discrimination

In this bill, the government is enshrining the principles of mutual recognition and non-discrimination in primary legislation.

Mutual recognition will ensure that goods and services need only comply with one set of rules and regulations when they are sold in the UK, so that businesses can avoid having to comply with additional or conflicting rules that would increase the complexity and costs of doing business across the UK.

The principle of Mutual Recognition will ensure that Devolved Administrations have the ability to adapt regulation to their different realities whilst minimising new barriers to the UK's internal market.

The non-discrimination principle will ensure that regulations and competent authorities enforcing those regulations do not unnecessarily or disproportionately discriminate against individuals, businesses, goods or services based on their origin within the UK.

The following sections set out the implications that these principles have for goods, services and professional qualifications.

Goods

Mutual recognition will ensure that producers of goods are legally able to sell their products across the whole of the UK while only meeting local regulatory requirements. It will achieve this by requiring that goods need only comply with the regulations of the part of the UK in which they are produced or, if produced internationally, the part into which they are first imported.

Non-discrimination of goods means that regulation which has the effect of causing a disadvantage to incoming goods will not be enforceable. For direct discrimination, this rule can be disapplied where there is a public health emergency. For indirect discrimination, it can be disapplied where the regulation is reasonably considered a necessary means of achieving one or more of a limited number of policy objectives.

This legislation brings regulations that have the effect of restricting or prohibiting the sale of goods in scope of those requirements into scope of mutual recognition. This includes, but is not limited to, requirements related to the nature of those goods, such as their production, composition, dimensions, quality, performance, safety or age. They also include requirements relating to the way goods are presented, including their packaging, marking, labelling or date stamping.

Other types of requirements, such as those relating to the 'manner of sale' of goods which do not have effect in practice of prohibiting sale, are not in scope of mutual recognition but are in scope of non-discrimination. These regulations include, but are not limited to, contractual aspects of the sale of goods, or requirements on the circumstances in which goods may or may not be sold, or the persons to whom goods may or may not be sold. Non-discrimination also covers certain other requirements, to

the extent that they do not constitute requirements that need to be complied with to lawfully sell a good. This includes requirements on the transportation, storage, handling or display of goods and requirements relating to the inspection, assessment, certification or approval of goods.

In respect of Northern Ireland, the approach taken for goods moving Great Britain to Northern Ireland is to follow the provisions in the Northern Ireland Protocol. However, the Bill will provide for unfettered access through the application of mutual recognition and non-discrimination to qualifying Northern Ireland goods, ensuring these qualifying goods can be recognised for sale on the UK market without additional requirements.

Services

For services, mutual recognition will mean that where a service provider is authorised to carry out a service activity in one part of the UK, they will be able to carry out that activity in the rest of the UK without further authorisation, bringing the associated economic benefits.

Competent authorities may derogate from mutual recognition, though only in the event of public health emergencies. This may occur either at authorisation scheme level or at an individual authorisation level (the provider's authorisation is not recognised). If a service provider disagrees that a derogation is legitimate, then it can challenge the derogation in the courts.

The principle of non-discrimination will mean that any regulatory requirements on service providers must not be discriminatory on the basis of their place of business or residence, either directly or indirectly. There is a derogation allowing regulators to disapply the direct discrimination rules in the event of a public health emergency. There is a wider list of "legitimate aims" which allow a regulator to derogate from the indirect discrimination rules to the extent needed to meet those objectives.

In addition to the derogations explained above, a schedule to the Bill will set out services which are outside of the scope of the mutual recognition rules, or non-discrimination rules, or both.

Legal services will be outside of the scope of the mutual recognition rules in order to protect the different parts of the UK's historically independent legal services.

Professional Qualifications

For professional qualifications, there will be a presumption of automatic recognition for anyone who is legally able to practice their profession in one part of the UK who seeks to work in that profession in another part of the UK. This will not bypass any administrative measures required to register or practice those professions, such as fees or Continuous Professional Development. This will minimise new barriers to individuals practising across the UK and will therefore allow businesses and public

services to hire skilled professionals from across the UK such as teachers and accountants, if new or further divergence occurred in these areas.

Competent authorities may derogate from automatic recognition. Where it is determined that two professional qualifications from different parts of the UK cannot be considered equivalent, given substantial differences in the level of training and qualification required, the Bill will enable legislation to disapply the principle of automatic recognition for the profession in question. Administrations will then be able to provide for a pathway which allows differences in the requirements to be considered and a decision to be taken as to whether, and on what basis, a person should be allowed access to the profession in another part of the country.

Baseline

Our preferred option is considered against a baseline ‘do nothing’ option. This is because despite our best endeavours, Common Frameworks have not been agreed across the UK. After the end of the Transition Period (TP), powers are transferred to the devolved administrations, with UK Government acting on behalf of England in devolved areas. It is difficult to establish with any certainty the extent to which the devolved administrations or UKG will exercise those powers in the future, creating future internal regulatory barriers.

Given the inherent uncertainty regarding future differences in the regulatory landscape between administrations, any baseline against which to assess the impacts of our preferred option will be hypothetical. In a ‘do nothing’ scenario, we assume that no regulatory infrastructure (aside from existing EU Exit provisions on the Northern Ireland Protocol, the Withdrawal Agreement Bill and any legislative common frameworks) is established to manage these differences and ensure businesses continue to be able to operate across borders (as is the case under the status quo).

It is against this hypothetical baseline, that the costs and benefits of our preferred option are discussed. These costs and benefits necessarily remain non-monetised because of the unknown nature and extent of the future differences in regulations.

The remainder of this section explores the costs and benefits associated with the preferred option, relative to this baseline.

- Part II.1 introduces the benefits, which are the avoided costs compared to the baseline scenario of hypothetical separate regulatory regimes emerging.
- Part II.2 discusses the costs, which are the foregone benefits associated with the reduced ability to pursue targeted local social policy objectives compared to the baseline. It also explores specific costs and risks associated with the enforcement of each of goods, services and professional qualifications.

Part II.1 Benefits of mutual recognition and non-discrimination

The principal and overarching benefit of mutual recognition and non-discrimination lies in their ability to:

- allow businesses to avoid increased complexities and costs that they could otherwise face in instances where separate regulatory regimes emerged in different parts of the UK
- maintain business certainty that they will be able to operate seamlessly throughout the UK

This section presents a suite of evidence to show that, in the case of the emergence of multiple regulatory regimes in different parts of the UK, businesses would face additional costs and complexities. **Therefore, the benefits of mutual recognition and non-discrimination can be understood as the avoidance of these costs.**

The evidence presented includes:

- Conceptual evidence of the different ways multiple regulatory regimes can lead to increased business costs
- Qualitative findings from engagement with businesses (also included in many of the case studies used to illustrate the conceptual findings)
- Quantitative analysis and modelling of the economic costs of selected hypothetical examples of separate regulatory regimes

Direct benefits: avoided costs and business certainty

Differences in regulation could introduce direct costs for businesses and consumers with activities across parts of the UK (such as producing, buying, or selling). There are also indirect costs borne by businesses via sector linkages and integrated intra-UK supply chains. Such differences in regulation can have the equivalent effect of a tax or a tariff on products or services imported from other parts of the UK, or block access entirely.

This section sets out the following benefits, demonstrating the compounding effect of differences across supply chains and across multiple regulatory areas over time:

- i. Avoided direct costs of regulatory differences
- ii. Avoided direct cumulative costs
- iii. Avoided indirect costs within and across sectors

Avoided direct costs of regulatory differences

The precise benefits in the form of avoided costs to business are difficult to anticipate as they would be triggered by the introduction of future regulatory differences.

The OECD has published extensive material on the topic of (international) regulatory cooperation and identifies three types of direct costs facing businesses as a result of regulatory differences:

- specification costs (e.g. modifying products, running separate production lines, or creating different varieties to service different markets). These represent the largest costs driver associated with regulatory differences.
- familiarisation costs (e.g. to understand the different regulatory requirements)
- conformity costs (e.g. to prove that a product is fit for sale in the other market)



Food Labelling: Illustrating trade costs

At the end of the Transition Period, powers related to both food labelling and nutritional health claims will return to UKG (acting for England), Scottish Government, Welsh Government, and the Northern Ireland Executive. Using these powers, one administration could introduce a more stringent labelling regime, mandating a new front-of-pack nutritional labelling requirement. The additional requirements for the consumer information provided on labels could apply to all food and drink products sold on to the market of that administration (including both packed processed food and non-prepacked food prepared in store).

Food manufacturers producing or selling across multiple UK constituent parts could incur:

- **Information and Conformity Assessment (Fixed Costs)**

Additional investment to design all labels to the higher standard and calculate Nutri-scores in order to maintain access to the more stringent market. They would then incur various forms of specification costs like R&D, marketing and familiarisation costs, as well as costs of demonstrating compliance of their labels to regulators.

- **Specification Costs – printing product labels. Variable costs influence the price**

The estimated cost to relabel per unique product type is between **£4,000 - £7,000** depending on the regulatory requirement, good and firm size. A medium-large firm is estimated to have a few hundred unique products requiring new labels (Campden BRI, 2010). This could impact businesses' access to that part of the UK's market, product competitiveness, and compliance costs for businesses – which could in turn get passed on to consumers.

Our qualitative engagement with business also identified specification costs as an issue.

'This [different food labelling regimes] would make it not viable to run separate labelling schemes. So, for example in Scotland we have 65-70 stores. To do specific print runs for Scottish requirements – we could do this for products only sold within Scotland, but then you can't export that product south of the border.'

Major UK based retailer

A change in food labelling has a range of 'hidden' specification costs; past industry experience indicates that it takes industry time to adjust.

'I think from a cost point of view, to get the traffic light system that is currently used standardised, took years and years of effort and energy and in the end the individual retailers drove that through, and retailers are generally working across the UK so wouldn't want different nutritional labelling standards across the UK. It's not just the cost of producing two designs of packaging – also, extra safety checks, audits every time, more labour too.'

English agricultural producer

Avoided cumulative costs: multiple regulations (over time) in a sector

It is also important to consider the accumulation of direct costs over time and across policy areas, in a sector.



Case Study: Food Manufacturing Supply Chain:

Building on the case study on Food Labelling above (see case study box above), Figure 5 illustrates (via a hypothetical example) other areas of regulatory difference which could affect the food manufacturing sector. In this example, as well as adapting to differences in food labelling, the food manufacturer needs to comply with different food hygiene and plastic recycling regimes across the UK.

Business told us that different regulatory requirements could disrupt integrated supply chains, especially those of perishable agricultural produce.

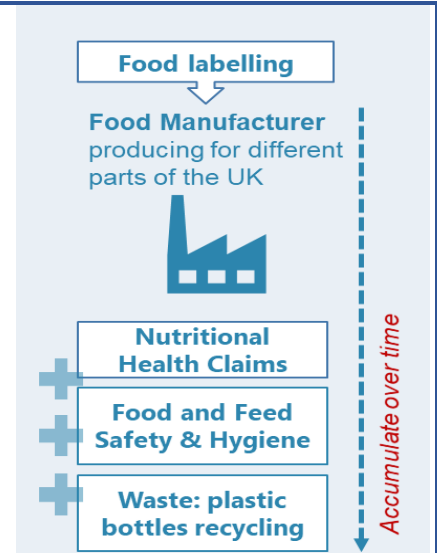


Figure 5 Illustration of direct cumulative costs for food manufacturers

Therefore, the cumulative costs businesses face in a sector could influence their response to new regulatory differences and affect their decisions to produce, trade and invest UK-wide. Direct costs also accumulate over time and if left unmanaged, could add significant costs to businesses with activities across UK geographies.

Indirect benefits: avoiding accumulation of costs within and across sectors

Avoided indirect costs within sectors

These impacts are usually transmitted via price changes (or more directly supply and demand changes), quality changes or changes in the availability of goods/services in the home and domestic markets. For example, it is conceivable that businesses not directly engaged in intra-UK trade (i.e. not buying from or selling to entities in other parts of the UK) could still be affected via indirect channels such as increases in the price of their inputs further upstream or changes in the competition landscape.

Avoided indirect costs across sectors

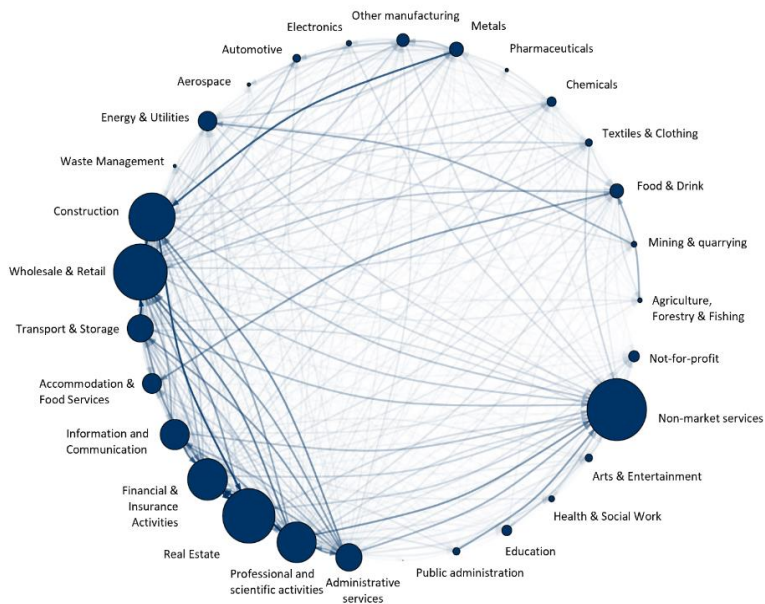


Figure 5 – UK supply-chain cross-sectoral inputs and outputs

In Part I of this impact assessment, we demonstrated the close economic linkages underpinning the UK Internal Market. This further represents the UK Internal Market as a network of sector supply chains, drawing on UK input-output data (ONS, 2019).

Therefore, the effects of internal regulatory barriers can reach farther than directly affected businesses. Suppliers, intermediate and final customers could face additional costs via their supply chain and sectoral linkages to directly affected businesses.

Qualitative research – scenario-based business engagement

To better understand what the impact of regulatory difference would be on the operation of businesses across the UK, we undertook extensive qualitative research.⁷

We developed a series of hypothetical scenarios of potential differences in regulation between the four parts of the UK that we presented to businesses to understand how their operations may be affected.⁸

The engagement involved 40 companies of varying size and covered a wide range of sectors (for example, agriculture, food and drink, transport and logistics and advanced manufacturing) to broaden our understanding of intra-UK supply chains.

Overwhelmingly businesses recognised and reflected on the commercial benefits of operating within an integrated market with as little regulatory differences as possible. Businesses generally felt that any regulatory difference would result in the loss of efficiencies and undesirable additional costs, with implications for consumer choice if supply chain viability is reduced and consumer confidence if there is a lack of clarity about differences in standards across the UK.

'It is possible that it might only be viable to run say, 4 products for Scotland which would be a disservice to Scottish consumers.'

⁷ For more detail on our approach to this research, see the analytical annex to the UKIM White Paper: p88-89

⁸ These scenarios were not indicative of policy intent by either the UK Government or the devolved administrations

'Multiple schemes would add complexity for consumers and additional complexity and costs across the whole supply chain and it would be a terrible idea not to seek a consistent approach across the UK'

Businesses also reflected that even uncertainty surrounding internal regulatory barriers could impact business operations.

In many sectors, businesses have to make long term investment and operation decisions, which would likely need to change in the case of internal regulatory barriers.

Stakeholders highlighted that the increased complexity caused by separate regulatory regimes could also introduce additional risks of non-compliance and fraud, with businesses having to navigate different layers or production and distribution, resulting in fines or severe reputational damage.

'So, divergence in this area will upset all the progress made on building consumer confidence. It will undermine all the progress achieved in the last 20 years.'
Agricultural producer

All these effects have the potential to impact global trade activities, with businesses highlighting that increased costs and fragmented supply chains would reduce the competitiveness of UK businesses on the international market, and that differences in regulation could reduce international confidence in the reputation of the 'Made in the UK' trademark. A strong UK brand influences consumer confidence in product quality both domestically and abroad and can help improve the volume of UK exports. Research has shown that a 'made in Britain' label has a positive effect on overseas demand⁹, and that customers will, in general, pay a premium for British-branded goods above English, Scottish or Welsh goods (notwithstanding the benefits of national branding)¹⁰.

'Customers will be looking for the consistency of products across the UK. If the UK system is aligned it will help us develop on the global stage (...). If the home market is aligned it will give us more resources to develop internationally.'
Major UK drinks manufacturer

'A bigger issue is that if we have to export less for any reason it will deter inward investment which will have a detrimental effect on the future of UK based operations. Decisions could be made on re-locating production to other countries.'
Major UK based food and drink manufacturer

⁹ See "the Value of made in Britain", Barclays report, commissioned by the Centre for Economics and Business Research, 2014 <https://cebr.com/reports/value-of-made-in-britain/>

¹⁰ See report by Attest on "How British brands are perceived in the UK and USA" <https://www.askattest.com/blog/news-and-trends/british-brands-perception>

Real-world impacts of cumulative regulatory differences

In this section, we supplement the conceptual findings above with more quantitative analysis in order to understand the magnitude of the impact on specific sectors and the economy as a whole. Using a combination of the OECD’s STRI methodology and gravity modelling, we model different degrees of internal regulatory barriers between any pair of UK constituent parts via a tariff-equivalent cost¹¹.

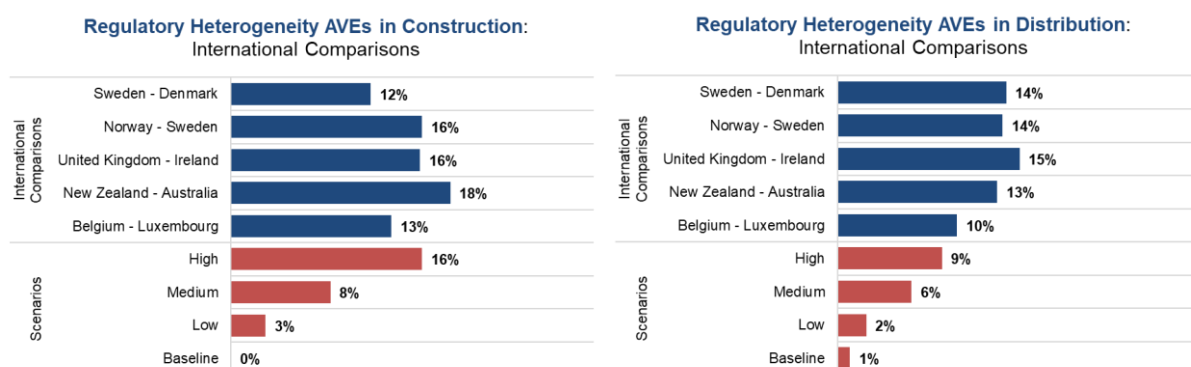
Our ‘Low’ scenario represents the tariff-equivalent cost of regulatory difference across a limited set of policy areas (one or two). In the ‘Medium’ scenario, we attempt to capture the effects of uncoordinated policymaking over time – i.e. pursuing the same policy objective but through different means. Looking through the sectoral lens, our ‘Medium’ scenarios illustrates **direct cumulative costs** on a business in a specific services sector outlined in the section on Direct Costs. In our ‘High’ scenario we build in the impact of discriminatory measures which favour local suppliers vis-à-vis suppliers from the rest of the UK.

We conducted two case studies of hypothetical scenarios of separate regulatory regimes, one in the Distribution (Retail & Wholesale) sector and the other in the Construction sector. For both sectors, low levels of regulatory barriers between a pair of UK constituent parts could create the equivalent of a tariff of between 2-3%, reducing internal UK trade by 7-8% in those sectors. Over time and if left unmanaged, regulatory differences in areas of devolved decision-making could accumulate a cost equivalent to a tariff of between 6-8%.

How do these costs compare to international benchmarks?

The tariff equivalent impact of regulatory heterogeneity in our ‘High’ scenario is similar, and in some instances higher, than what is seen internationally. This is a significant increase, compared to the current baseline of limited heterogeneity (resulting in a 0-1% tariff equivalent cost to businesses).

Figure 6 – International comparisons with scenarios of tariff equivalent costs for both construction and distribution



¹¹ More detail on this approach can be found in the UKIM White Paper analytical annex, p83-85.

Gravity analysis

BEIS modelling using a general equilibrium gravity model¹² shows that there are few UK Internal Market trade costs between the four parts of the UK and no significant 'border effect'. The model finds that trade between parts of the UK is 24% lower than trade within those parts once distance and other factors have been accounted for. The equivalent measure for another decentralised country, Germany, shows that inter-state trade is 65% lower than within states. This raises the question what the economic cost would be if the UK Internal Market trade costs increased, for example to the level of Germany.¹³

The model was further used to simulate the impact of increasing trade costs, for example to the German level. If UK constituent part 'border effects' increased to German levels, the impact would be much larger in Scotland, Wales and NI than for the UK as a whole: Analysis shows that UK GDP could be reduced by 0.34%, while the reduction in Scottish would be 1.18%, 1.61% in Wales and 0.70% in Northern Ireland. This reflects the current importance of intra-UK trade relative to international trade in these geographies. Applying these percentages to the most recent GDP figures for 2018 (ONS, 2019), this implies a loss in GDP of £7.3 billion for the UK as whole with a loss of £3.9 billion for England and £1.9 billion and £1.2 billion for Scotland and Wales respectively. If barriers exceeding those found in Germany were introduced the GDP loss could be greater.

The overall negative effects on GDP are driven by a significant reduction in trade between constituent parts. This reduction is only partially offset by increases in international and within-constituent part trade. England sees a much smaller reduction in GDP due to a fall in its trade with the devolved administrations, which would predominantly be offset by an increase in within-England trade.

This aggregate effect shows the impact of an overall increase in trade costs on GDP. While these are significant and economically large impacts, this is not a prediction of the future of the UK. Firstly, devolution in Germany is fundamentally different to that of the UK and as the result the states have different policy levers at their disposal. In addition, trade costs can be affected by many factors outside of policy makers control. As a result, these figures should not be taken as any indication of the likely GDP impact of separate regulatory regimes emerging after the end of the transition period.

An enquiry by the Canadian Standing Senate Committee on Banking Trade and Commerce estimated that internal trade barriers reduce Canada's gross domestic product by between C\$50 billion and C\$130 billion (around 7% of GDP) (Standing Senate Committee on Banking, Trade and Commerce, 2016), the equivalent of between £28.5 billion and £74.1 billion¹⁴. It should be noted though that Canada was

¹² For further information, see the analytical annex to the UK internal market White Paper, p90

¹³ The usage of intra-German trade costs is purely illustrative and does not indicate a prediction for the UK market

¹⁴ Using an exchange rate of 1 GBP = 1.7541 CAD as reported by the Bank of England on 1st September 2020

facing a high degree of internal market fragmentation, with significant regulatory differences between provinces.

Competition

Mutual recognition could also decrease the market entry costs arising as a result of multiple regulatory regimes. For example, if businesses need to incur one-off market entry costs, they may choose to withdraw from one or more markets in the UK, with the indirect effect of limiting the number or range of suppliers in the home/domestic market. Therefore, mutual recognition could be pro-competitive, with increased competition resulting in consumer benefits through increased variety, lower prices, or increased quality.

Part II.2 – Costs of mutual recognition and non-discrimination

Opportunity costs - reduced ability to pursue local policy and achieve associated benefits

As the scope for devolved decision-making increases after Exit, UK administrations will be free to regulate differently to tailor policies to local circumstances and local policy preferences. Mutual recognition allows for policy difference and tailoring.

In certain circumstances, the scale of the intended public policy benefit of local measures might not be fully realised due to the more limited number of goods and services to which the policy applies (i.e. those produced locally, not those sold locally). This results from the fact that goods/services sold in the local market may be complying with different regulations adopted elsewhere in the UK. This could carry an additional cost to society, equal to the benefits foregone if the regulation had been applied to all goods and services in the local market.

There are various policy and economic benefits that arise from local decision-making.

The first concept that comes through strongly from the literature – especially in the context of the principle of subsidiarity - is the ability to tailor policy making to specific socio-economic contexts. Such tailoring leads to a more efficient allocation of limited public resources, in line with local needs. The literature also identifies ‘productive’ efficiencies, associated with better knowledge of the structural strengths and weaknesses of local economies, and local comparative advantage.

The OECD review of the theory of internal regulatory barriers – and cooperation – emphasises the importance of local benefits and the strength of local preference vis-a-vis the trade costs resulting from regulatory differences. For example, if trade costs are small but domestic preferences for a certain type of regulation are strong, separate regulations may be the optimal solution whereas regulatory cooperation to ensure coherence may more effective when social preferences are weak (OECD, 2017).

Familiarisation and implementation costs for competent and enforcement authorities

There will be familiarisation costs for competent authorities and enforcement agencies to understand their obligations under the new regime. This will require time for officials to read and understand the implications of the legislation, as well as dissemination of materials to other employees.

Based on median salaries and anticipating a time requirement of two hours for an assumed headcount of: one senior civil servant, two Grade 6s, two Grade 7 legal and policy leads, a Grade 7 local enforcement manager and two HEO local authorisation officers, familiarisation costs would be anticipated to cost around £500 for any one competent authority (details set out in the table below). In cases where these provisions will be similar to existing provision (e.g. for services, or where there has

previously been mutual recognition of goods/professional qualifications with the EU), familiarisation may be less costly.

Table 1 - Competent Authority familiarisation costs – assumed headcount, salary and time requirement

Grade	Number	Median Annual Salary¹⁵	Equivalent Hourly Rate	Hours per employee	Total
HEO	2	£38,040	£21.33	2	£78.78
G7	3	£62,472	£35.04	2	£194.07
G6	2	£77,916	£43.70	2	£161.37
SCS	1	£99,528	£55.83	2	£103.06
Total					£537.28

It has not been possible to identify the total number of goods, services and MRPQ competent authorities (CA) that would be affected¹⁶. A conservative estimate that there are around 300 affected CAs, would lead to a total familiarisation cost of £154,839¹⁷. This is a high level and very uncertain figure, but the number of CAs would have to be orders of magnitude higher to have any material difference on costs.

Additionally, where separate regulatory regimes do emerge in future, relevant competent authorities will need to keep track of these so they know when products meeting different requirements will be on the market, and how to identify them. This would likely require some upskilling and could introduce new processes to identify or verify the origin of those products. These costs have not been monetised, as they would only occur at the point where separate regulations emerged.

¹⁵ 2019 Civil Service median salaries by grade, uplift by 20% to include employer's National Insurance and pension contributions, allowances, overtime and performance payments

¹⁶ There are ~120 generic professions listed as regulated in the UK on the European Commission's regulated professions database. One could use this as an estimate of the number of professional qualifications competent authorities however this would assume one regulator per generic profession and also includes some chartered professions which are not provided for in the Bill. Source: The European Commission, 2020, European Commission's Regulated Professions Database (accessed 1 September 2020).

¹⁷ 2019 prices, discounted to 2021

Implementation of mutual recognition of goods

If separate regulatory regimes were to emerge in the future, businesses whose products are affected by those regulations may need to hold additional information on the UK nations in which production steps occurred and production last interacted with the local regulatory regime, if they chose to make use of mutual recognition. This would result in some small, additional familiarisation and information costs for business.

Additionally, where a business utilises the mutual recognition principle to sell goods in a part of the UK whose regulations it does not comply with, it may be required to provide some documentation to support the claim that they were produced in another part of the UK. This may only be needed at the point of challenge from the enforcement authorities. It is not expected to be onerous for business and will as far as possible utilise existing documentation. Providing proof that a good was first imported into a part of the UK would come from information on existing customs declarations, and therefore would not impose substantial new processes. In all cases, businesses would take a commercial decision and pursue the most economically efficient option for them, so only incur any compliance costs if this were a commercially sensible route for them.

Any of these costs would only be borne in the event of multiple regulatory regimes arising and businesses choosing to make use of the market access principles. In this case it will be for the relevant policy makers to consider the regulatory impacts on businesses, including any steps businesses would need to undertake to ensure their goods could be recognised in all markets where they sell.

As any instance of multiple regulations is currently hypothetical, there is uncertainty in the number of such instances that would arise, what the business impacts of that regulation would be, and how many businesses would benefit from the mutual recognition principle. Therefore, impacts are not possible to monetise in advance.

However, compared to the costs that businesses would face in such an event without mutual recognition, these additional costs are likely to be relatively much smaller.

Implementation of mutual recognition of services

To the extent that businesses can use authorisation in one part of the UK as authorisation in all parts of the UK, there are very few costs or risks imposed on business as part of mutual recognition of services.

Mutual recognition could make enforcing local regulations more difficult, as businesses can choose to license in other parts of the UK and provide services from there under different licensing requirements. This could therefore affect local accountability and increase competitive challenges for service providers as well as providing competitive benefits and helping to ensure that the UK market is not fragmented.

The system allows competent authorities to derogate from the principle of mutual recognition, but only in the event of a public health emergency. While derogations will

remove the benefits of mutual recognition from the affected services area, this would likely be proportionate to mitigate against the public health risks.

Implementation of mutual recognition of professional qualifications

Under the provisions, administrations may choose to derogate and establish a pathway for the recognition of qualifications for specific professions. It is not possible to know the extent to which administrations will wish to derogate based on future changes and/or new provisions on training, qualifications and professional experience required for access to a profession. Should they choose to do so this may impose costs on regulators, individuals and potentially businesses relative to a situation of mutual recognition.

The task of making the rules for the pathway scheme will be delegated to the regulator, which will need to assess the equivalency in qualification standards in determining the pathway scheme rules. Once these have been determined there will be an additional labour cost in managing and monitoring any compensatory requirements that may arise on applicants such as assessments and/or a period of supervised work.

Relative to mutual recognition, individuals and businesses would incur a cost in familiarising themselves with the rules for the pathway scheme should they wish to access a profession that requires compensatory measures. Additionally, they will incur any costs imposed through required compensatory measures such as assessments and/or periods of supervised work. In the extreme, should differences in qualifications be so substantial that an assessment measure would not apply, applicants may need to requalify.

It is not possible to assess the extent of these potential impacts as it is based on: 1) whether regulators make changes to or introduce new qualification and training requirements in the future; 2) the extent to which these changes create significant differences in qualification standards across the territories; 3) whether administrations choose to derogate these professions; and 4) whether they would have set-up pathways in any event.

In the event that administrations do not derogate for professions in which substantial differences in qualification standards across the territories do develop, there is a risk that individuals “shop around” for registration in the jurisdiction with the lowest barriers to entry in order to gain recognition in another jurisdiction, making it harder to enforce local regulations.

Implementation costs – Mutual recognition and non-discrimination

For each area of goods, services and professional qualifications non-discrimination will mean that businesses could challenge policies and competent authorities which discriminate against them based on origin. This could require substantial resources.

In the first instance, stakeholders could raise complaints on UK Internal Market matters with the Office for the Internal Market (OIM) within the CMA, who will be responsible for delivering the independent monitoring, reporting and advice functions. The OIM will be able to gather market intelligence on matters pertaining to the UK Internal Market on an ongoing basis through a two-way channel of communication. This engagement will be undertaken independently by the OIM with relevant stakeholders. The costs of delivering this information gathering function will be borne by the CMA.

Separate to the OIM's monitoring, reporting and advisory functions, distinct intergovernmental arrangements will be developed to resolve potential disagreements and disputes to regulation. Any dispute resolution mechanisms will be based on existing arrangements and are not anticipated to require additional resource. However, these processes do not replace a potential court challenge; businesses and individuals might choose to enforce their rights in court if a UKIM matter remains unresolved, potentially incurring substantial legal costs, time and effort.

These instances would only occur in the event of directly or indirectly discriminatory measures, and in any case, it would be an economic decision for individuals and businesses to choose whether and how to challenge such measures.

Part III – UKIM Functions

This section sets out the costs and benefits associated with the delivery of UKIM functions through the OIM. These functions are intended to support the smooth operation of the UKIM MR/ND architecture:

- **Advice:** providing independent, expert ex-ante advice to administrations on the UKIM impacts of proposed regulation, to aid informed decision making and amended regulatory design that mitigates these impacts.
- **Monitoring:** the continued assessment of the UKIM impacts of the existing regulatory landscape, at a macro level as well as targeted to specific sectors and regions.
- **Intelligence gathering:** allowing information gathering from businesses, consumers and public bodies on UKIM impacts to support the monitoring and advice functions.

First, the additional resource and capital expenditure required to deliver these functions is presented (monetised), after which the benefits of the delivery of these functions are discussed qualitatively.

Part III.1 - UKIM Function Cost Summary

This section sets out indicative costings for the delivery of UKIM functions through the OIM, separated into resource and capital spending components. Table 2 presents the expected costs over a 10-year appraisal period, with the subsequent sections unpacking the detail behind each component of this expenditure.

These are initial high-level estimates that rely on strong assumptions, and additional work will be needed to identify the exact resourcing requirements and data collection specifications. Figures have been rounded to avoid spurious accuracy.

Table 2: Resource and capital cost components (2019 prices, discounted to 2021)

Component	2021/22	2022/23	...	2030/31
Resource expenditure				
Salaries & overheads	£2,300,000	£3,800,000	...	£2,400,000
Panel member salaries	£130,000	£120,000		£80,000
Capital expenditure				
Intra-UK Modelling	£100,000	£0	...	£0
Input-output trade data	£960,000	£910,000	...	£580,000
Business data	£360,000	£340,000	...	£220,000
NTM goods research	£190,000	£0	...	£0
Ad hoc engagement	£140,000	£140,000	...	£90,000
Online interface	£580,000	£50,000	...	£30,000
Total	£4,760,000	£5,360,000	...	£3,400,000

Resource spending

This section sets out the expected resource expenditure associated with delivering the UKIM functions through the OIM. Given the novelty of these functions, there is considerable uncertainty around the levels of staffing required.

It is assumed that the required resource set out below, will be required from the inception of the OIM, to begin the initial process of upskilling, establishing the evidence base, and dealing with any preliminary requests.

Staff salaries and overheads

The delivery of the UKIM functions include both discretionary and mandatory activities. It is not possible to predict with any level of certainty a quantum for the expected caseload for each of the discretionary activities. Resource estimates for these activities therefore rely on high level and uncertain assumptions around the expected volume of cases.

It is assumed that the following activities might be required for the delivery of the functions set out at the start of Part III:

- Annual reviews on the health of the UKIM (mandatory)
- Periodic systemic monitoring at least every five years¹⁸ (mandatory)
- Sectoral and regional monitoring and reporting (discretionary)
- Proactive macro-level monitoring and reporting (discretionary)
- Providing advice and reporting to national authorities on the potential economic effects of a proposed regulatory provision (discretionary)
- Providing reporting to national authorities on internal market impacts of a regulation that has already been implemented/enacted (discretionary)
- Establishment and management of an online interface (discretionary);
- Ongoing intelligence-gathering from businesses, consumers, and professionals (mandatory)

Based on high level assumptions around the expected volume and resource requirement for each of these activities a required headcount of 46 FTEs is assumed. Further details on the breakdown of these roles can be found in table 3.

In addition to the resource requirements for activities relating to specific UKIM functions, there are wider administrative resource requirements necessary for the operation of the OIM. It is currently estimated that 9 FTE will be required to provide administrative support to the OIM.

Based on the assumed headcount discussed above, table 3 sets out the assumed salaries and overheads, and the resulting total annual staffing expenditure. Salary costs for the OIM reflect the specialist skills and need for Economist, Legal and other professional involvement.

¹⁸ This includes how the mutual recognition and non-discrimination principles are applied in the context of the market access guarantee and changes in the value and direction of intra-UK trade flows.

Table 3: grade headcount and nominal salaries

Grade	FTE	Salary ¹⁹	IT ²⁰	SSCL ²¹	General ²²	Total
EO	1	£31,068	£1,399	£1,446	£6,181	£40,094
HEO	16	£38,040	£1,399	£1,446	£6,181	£753,056
SEO	3	£47,088	£1,399	£1,446	£6,181	£168,342
G7	14	£62,472	£1,399	£1,446	£6,181	£1,000,972
G6	14	£77,916	£1,399	£1,446	£6,181	£1,217,188
SCS	9	£99,528	£1,399	£1,446	£6,181	£976,986
Total annual staff expenditure (including overheads)						£4,156,638

Panel salaries

It is currently envisaged that a UKIM Panel will be formed to be formally accountable for the undertaking of the OIM's functions. It is assumed that the panel would be comprised of five members (including chair) with an expected total annual remuneration of around £130,000.

Capital spending (Monitoring)

This section sets out the assumed capital expenditure associated with delivering the monitoring function, which is comprised primarily of data collection costs.

Table 4 sets out the components of this expenditure, with the following sub-sections unpacking the assumptions that have informed these estimates.

Table 4: nominal capital expenditure

Component	Annual cost
Intra-UK Trade Modelling	£100,000
Input-Output trade data	£1,000,000
Regionalised business data	£380,000
NTM baseline research work for goods	£200,000
Ad hoc business engagement	£150,000
Online interface	£600,000
Total	£2,430,000

Intra-UK CGE/PE modelling

Intra-UK trade modelling capability might be required by the body in order to analyse relative changes to the regulatory landscape between administrations. This could take the form of either a Computable General Equilibrium (CGE) or a Partial Equilibrium (PE) model. The need for a new model is due to existing models being only multi-sectoral, however for the purposes of assessing intra-UK trade, a model that is both multi-sectoral and multi-regional is required. Initial assumptions are that cost of

¹⁹ 2019 Civil Service median salaries by grade, uplift by 20% to include employer's National Insurance and pension contributions, allowances, overtime and performance payments

²⁰ Environmental governance body estimate: Includes network user licences, laptops, mobiles, email service help desk

²¹ Environmental governance body estimate: Includes contract charges, Oracle licences, bank charges, payroll

²² Environmental governance body estimate: Human resources, DDTs, procurement, finances, estates

procuring such a model (or regional extensions to existing HMG or Devolved Administrations' models) could be in the region of £100,000, as a one-off cost. It is assumed that the underlying data inputs into this model could be updated in-house on an annual basis, so no further costs would be necessary for this component.

Input-Output trade data

Existing intra-UK trade data is incomplete, with several administrations producing their own input-output tables for intra-UK trade. A unified survey of goods and services production and consumption across all UK nations would be necessary first step in order to produce whole-UK input-output trade data and conduct subsequent analysis using the CGE/PE model mentioned above: existing IO tables use different methodologies and have different samples, and are therefore not entirely comparable (see ESCoE discussion paper)²³. Providing an exact estimate for the cost of this survey relies on a number of assumptions around scope, sample size and medium of survey. As a comparator, the Longitudinal Small Business Survey uses a representative sample of 11,000 businesses across each UK nation, sector and business size, at a cost in the region of £500,000. For the purposes of an intra-UK trade survey, there may be a requirement for a higher level of granularity and thus a higher sample size, resulting in a higher cost. We are therefore assuming that this could be in the region of £1m per year.

Regionalising key business-level data

This survey would allow the OIM to understand and collect evidence at a greater level of granularity and at a level below existing data and the IO tables, at the business-level, and to gauge market structure and behaviour across regional markets. This includes business engagement with a representative sample of businesses on cross-border trade and locations of production. The exact specification and method of collecting this data will have a significant impact on the cost associated with it, but initial assumptions suggests a reasonable range of estimates could be £150,000 - £600,000 for each year (giving an indicative midpoint of ~£380,000).

Non-tariff measure baseline research work for goods

BEIS previously commissioned research to identify instances of separate regulatory regimes, to quantify the trade effects of NTMs between the four nations of the UK, and to compare the level of intra-UK NTMs for services trade only. Hence, we expect a similar project that instead focuses on goods would be required. Due to the substantial difference in methodology needed to research intra-UK goods trade, we expect a project cost in the region of £200,000 as a one-off cost. As with the CGE/PE model and the services NTMs project, it is assumed that the underlying data inputs into this model could be updated in-house, so no further costs would be necessary for this component.

Ad hoc business engagement

There may be a need for more specific business engagement and data collection on an irregular, ad-hoc basis to further evidence or examine particular effects on the UKIM. This could include surveys of a representative sample of businesses in a region,

²³ More detail can be found here: <https://www.escoe.ac.uk/uk-interregional-trade-estimation/>

sector, or supply chain. Additionally, such an approach may be useful for informing the 5-yearly reviews of the wider functioning of the MR/ND system. Due to the wide range of potential needs and designs of these ad-hoc surveys and different survey methods, it is difficult to provide a definitive price estimate, although we estimate a ballpark central figure of around £150,000 per survey²⁴. It has not been possible to identify how many of these targeted reviews the body might expect to deliver annually.

Online interface

There may be the need for the development of an online interface to facilitate business interface function. It has been estimated that the IT system will cost approximately £600,000 to develop and procure - although this will depend on precise system requirements. In addition to this one-off cost, it is expected that there will be on-going maintenance costs in the region of £50,000 per year.

²⁴ This figure assumes a web-based survey with follow up workshops.

Part III.2 – UKIM Function Benefits

Imposing a system of mutual recognition with non-discrimination principles in the UK, without a visible and independent body to deliver the UKIM functions (advice, monitoring and reporting, and a business interface) would likely result in the following negative consequences:

- Significant gaps in data and information may mean that regulations could lead to damaging unintended UKIM consequences.
- No facility exists to build institutional expertise regarding UKIM impacts.
- Any issues in the functioning of the system would have to be resolved wholly by intergovernmental mechanisms (which would be less palatable to DAs).
- The system will not be responsive to developments in technology or in the market more generally.
- Issues and areas of concern would likely be only picked up later, if no proactive monitoring was put in place.

As detailed in previous sections, the inherent uncertainty associated with quantifying benefits that depend on hypothetical regulatory scenarios means that the benefits of delivering UKIM functions are presented qualitatively, against a 'do-nothing' baseline.

Improved regulatory design (mitigating harmful UKIM impacts):

The independent expert advice (ex-ante) and monitoring (ex post) functions provide policy makers with the information they need to ensure that regulation is unlikely to have unintended and potentially economically damaging UKIM consequences. The information that is highlighted through these functions can be drawn upon by administrations to inform decision-making, amend regulation at design stage (based on advice) or following implementation (due to monitoring findings) to ensure that businesses in specific regions/sectors are not being disadvantaged by the regulatory landscape.

Efficiency gain from creating a central repository of information and expertise:

Having a central entity that can advise administrations and provide data and analysis to inform the consideration and estimation of UKIM impacts can generate significant efficiency savings compared to a scenario where administrations are expected to generate analysis individually.

The development of a central repository of information and expertise will ensure the most robust and consistent practice when it comes to the estimation of UKIM impacts.

Increased stakeholder confidence through visibility:

Allocating responsibility for UKIM functions to a visible and independent body means that concerns/issues with the functioning of the MR/ND system can be considered outside of governmental mechanisms.

Administrations, businesses, and consumer groups would be able to seek clarity on the operation of this system and raise concerns around specific decisions taken within it, to an independent body with a suitable remit and mandate to review these issues.

Part IV – Wider impacts

Small and Micro Business Assessment

There are no direct costs to business as a result of this bill, with the only direct monetised cost being borne by the CMA for the delivery of the UKIM functions.

Stakeholder engagement set out in part II has suggested that the costs of internal regulatory barriers would be experienced to a greater degree by small and micro businesses, as their ability to operate across multiple regulatory regimes would be diminished relative to a larger firm (who may be better able to absorb costs).

Therefore, the benefits of this bill of avoiding regulatory costs will be experienced to a greater degree by small and micro businesses who operate across borders within the UK.

Due to a lack of historical need, there is a shortage of data on businesses trading between different parts of the UK. It has therefore not been possible to identify the volume of such businesses who operate across borders, nor the extent to which they benefit because of the hypothetical nature of the future regulatory regimes.

International Trade Impacts

There are no direct impacts to business international trade as a result of this bill. However, there are important relationships between the well-functioning of the UK internal market and international trade.

Firstly, market access to the whole UK is important for the implementation of future international trade deals (as other internal markets such as Canada have experienced). On a separate, but related point, existing literature points to the positive effect of domestic productivity on business propensity to export (Goodwin & Pierola, 2015). Mutual recognition and non-discrimination allow firms to take advantage of economies of scale and comparative advantage, while operating in a fair but competitive environment and therefore maintain their productivity.

In the same way, coherent regulation in the UK internal market supports the ongoing attractiveness of the UK for foreign direct investment; the UK is already recognised as a top destination for international investment with the UK's total inward FDI stock at approximately £1.6 trillion in 2019, greater than that of France and Germany combined. This view was echoed during the Government's engagement with stakeholders. An organisation representing the energy sector asserted that businesses like regulatory simplicity and stability and that companies invest in the UK because it is a highly stable market.

Annex A: Subsidy control

Introduction

As stated in the introduction, following the UK's exit from the European Union (EU) the EU's State Aid rules will no longer apply to the UK (except in the narrow set of circumstances set out in the NI Command Paper). The UK will, therefore, be free to decide its own future, sovereign subsidy control regime.

The legislation introduced in this Bill reserves the area of subsidy control to the UK Government.

This Bill does not, in itself, determine:

- the makeup of any future domestic subsidy control regime;
- what subsidies will be provided to business in the future; or
- any requirements that the funding authorities will have to account for when providing subsidies.

This Bill will not, therefore, have any direct impact for businesses or government. For this reason, an Impact Assessment at this point was not deemed necessary. When proposals for any future domestic subsidy control regime are put forward a separate assessment will be produced.

Devolved administrations will remain responsible for their own spending decisions on subsidies (how much, to whom and for what) within the architecture of any future subsidy control mechanism; this mirrors their current position, under EU State Aid rules.

Rationale for intervention

Reserving subsidy control is necessary to guarantee that a single, unified subsidy control regime could be designed and centrally legislated for in the future. The rationale for this reservation is driven by the need to mitigate two key risks:

- the economic risk to business of not taking a unified approach across the UK; and,
- the risk of subsidy races.

The benefits of this reservation are best understood as the mitigation of these risks.

[The economic risk to business of not taking a unified approach](#)

Just as the emergence of multiple regulatory regimes in the UK presents potential economic risks to businesses, so might the presence of multiple subsidy control regimes, each with its own different set of rules on subsidy provision. If we do not take a UK-wide, coherent approach to subsidy control it will:

- undermine fair and open competition in the UK internal market;
- discourage investment in the UK; and

- introduce uncertainty and additional costs to supply chains and ultimately the consumer.

Without a unified subsidy control mechanism, the potential unequal offers of support available to firms located in different geographies might alter the conditions of fair and open competition between intra-UK markets, increasing the risk of more distortive subsidies.

This is evidenced by the behaviours of federal agencies in the US where no unified subsidy control system exists and cross-state competition leads local states to engage in costly races to shift activities from neighbouring state to themselves (subsidized relocation). For example, the states of Kansas and Missouri spent a combined \$217 million to lure companies (such as Applebee) from one state to the other. The shuffling of jobs between the two states resulted in a net gain of only 414 jobs to Kansas at an estimated price of \$340,000 per job (Cohn, 2016).

An ununified subsidy control system may also have negative knock on implications for consumers. Competition is good for consumers as it leads to lower prices, increased choice, and improvements in the quality of goods and services.

Similarly, were the power to design subsidy regimes devolved, businesses may lack confidence that subsidy decisions would be made consistently throughout the UK. Diverging and separately evolving support criteria might generate uncertainty, resulting in a reluctance to invest in expanding UK business activities.

Finally, a single, UK-wide regime would allow businesses to avoid increased complexities and costs that they could otherwise face in instances where separate subsidy regimes emerged in different parts of the UK. These costs might include the duplication of familiarisation or compliance costs for businesses across the potential separate regimes. These costs might be passed along the supply chain and ultimately to consumers, resulting in higher prices.

[The risk of subsidy races](#)

Domestic subsidy races have the potential to lead to an inefficient, sub optimal allocation of resources (land, labour and capital) among regions and cause greater subsidies to be provided for minimum additional economic value for the whole country. This creates a case for the UK to adopt a consistent subsidy control regime to mitigate the risk of alternative subsidy providers from entering into welfare diminishing subsidy races.

The following sections provide details of academic findings and international evidence that support this case and highlights the potential distributional drivers for UK subsidy races.

[The potential drivers for UK subsidy races](#)

As noted in Part I.1 - The current operation of the UK internal market, there is variation in economic factors and material differences in size across the constituent parts of the UK. The economy of England is significantly larger than any of the other parts of the

UK and generates around 87% of total economic activity (ONS, 2019). The remainder is split between the other parts of the UK, with Scotland contributing 8%, Wales generating 3% and Northern Ireland being responsible for 2% of overall output.²⁵

Table 3: Country / Regional economic outlook (summary comparison)

		UK	England	Wales	Scotland	N. Ireland
GVA for all industries ²⁶	2018, £ million	1,892,681	1,643,271	65,089	142,121	42,201
<i>By region</i>	% of UK total	-	87%	3%	8%	2%
<i>Manufacturing</i>	% of regional total	10%	10%	17%	10%	15%
<i>Services sector</i>	% of regional total	80%	81%	71%	77%	73%
Business enterprise research and development (BERD) ²⁷	2018, £ millions	25,048	22,738	430	1,356	524
<i>By region</i>	% of UK total	-	91%	2%	5%	2%
<i>On manufacturing</i>	% of regional total	65%	66%	76%	50%	58%
<i>On services</i>	% of regional total	32%	31%	22%	45%	40%
Industries - employment						
Jobs in manufacturing sector ²⁸	Jan – Mar 2020, % of all jobs	7.6%	7.4%	10.3%	6.9%	10.3%
Jobs in services sector ²⁹	Jan – Mar 2020, % of all jobs	83.8%	84.3%	78.8%	82.8%	78.0%
Employment in public sector ³⁰	Jan – Mar 2020, % of all jobs	16.6%	15.8%	21.0%	21.3%	25.2%

*Figures may not sum due to rounding

Table 3 shows the wide deviations across the UK in terms of employment rates and reliance on manufacturing and service sectors. In regions with a sector specialisation and a less diversified economy, there is the risk that these imbalances might create greater incentives for certain areas to attract investment over others. While subsidy races would be restrained by the available funding of these areas, were subsidy powers devolved, regional funding authorities might leverage these to offer larger subsidies in an attempt to outbid rival offers and secure business investment and employment in their respective areas.

Without the reservation and a subsequent unified domestic subsidy control regime there could be a higher risk that regional funding authorities could engage in subsidy races driven by underlying variations in economic factors and policy positions.

²⁵ This is of Gross Value Added, which is a measure of the increase in the value of the economy due to the production of goods and services. Calculated from provisional 2018 figures, total excludes economic activity that cannot be assigned to regions. ONS Regional gross value added (balanced) by industry: all NUTS level regions. [Dec 2019](#), Table 1c. Calculated using 2018 provisional values.

²⁶ Ibid

²⁷ ONS Annual research and development spending and employment by UK businesses, including data by industry type, civil and defence. [Nov 2019](#), Table 17. Calculated using 2018 values.

²⁸ ONS Labour market statistics. [June 2020](#), Table JOBS05. Workforce Jobs is the sum of employee jobs, self-employment jobs, HM forces personnel and Government supported trainees. For March 2020 the employee jobs data relate to the March 2020 period before reported cases of the coronavirus (COVID-19) in the UK. Self-employment jobs relate to the period February-April 2020 which includes self-employment jobs before and after COVID-19 measures were implemented.

²⁹ Ibid

³⁰ ONS Public sector employment. [June 2020](#), Table 6. Figures use Labour Force Survey (LFS) - All in employment aged 16 and over by region of workplace as a denominator.

Summary of literature review

Research finds that attempts to attract investment and encourage firm relocation across regional borders are often welfare decreasing due to 'subsidy-shopping motives' created by subsidy races (Holemans & Sleuwaegen, 1988). This means that the overall benefit to wider country is diminished due to firm-level subsidy shopping.

It is estimated that between 75% and 98% of subsidised companies in the US would have chosen to locate in the subsidised location even without the subsidy. The literature shows that there is also the risk of high potential deadweight costs for providing subsidies (Rondinelli & Burpitt, 2000).

A survey of 501 European companies, finds that skills and local infrastructure matter more than subsidies in business location decisions (Cushman & Wakefield, 2011). There is also additional recent evidence to this effect as Amazon rejected higher incentive packages offered by Cleveland and Ohio (\$3.5bn), Newark and New Jersey (\$7bn), Maryland (\$8.5bn), and Dallas–Fort Worth Airport (\$23bn, 99-year deal) to initially select New York (\$3bn) and Virginia (\$1.05 bn), (Mitchell, Farren, Horpedahl, & Gonzalez, 2019). This suggests that other factors such as labour implications, business logistics, and access to region-specific resources are more important. Amazon highlighted in its official announcement that “attracting top talent was the leading driver” in its decision of where to locate its headquarters (Day One Staff, 2018).

In addition, substantial resources are often allocated to subsidy related tasks that could be utilised in other economically beneficial ways. For example, subsidy shopping may encourage a greater proportion of the firm's resources to be allocated to facilitating such subsidies and the associated public relations rather than being utilised for their primary business aims. Some firms may even spend more on these activities than the benefit obtained from the subsidies themselves (overdissipation). Further to this, the resources of the funding authorities need to be taken into account for facilitating and developing subsidy bids, resources that could be used for other purposes (especially if the bid is not successful at encouraging the investment).

Conclusion

In conclusion, given that the rules relating to subsidising business are an issue on which a uniform approach is key to our ability to remain a competitive economy and preventing subsidy races, the Government's view is that this should be reserved (or excepted, in Northern Ireland). It is important to enable the Government to legislate for a single, unified subsidy control regime, should it decide to do so, in the future.

Annex B: Power to provide financial assistance

Rationale for intervention

Currently, unelected EU bodies spend billions of pounds of our money on our behalf. This will rightly change as we leave the Transition Period.

We will take a new spending power to make sure that we can invest our money nationwide to invest in our COVID recovery and other domestic priorities including any direct replacements to EU programmes.

This power will give the UK Government the ability to spend in these areas across Scotland, Wales and Northern Ireland and will be able to fund projects delivered by external partners across these territories.

The objective of the new power is to enable the UK Government to provide funding to organisations to spend in the areas of infrastructure, economic development, culture, sport and to support educational and training activities and exchanges both within the UK and internationally. This power would enable the UK Government to fund projects, including any replacements for current EU programmes through external organisations, at a strategic UK-wide level on UK priorities to meet our commitment to level up the whole country.

Policy objectives and intended effects

The UK Government (UKG) has a responsibility to people, businesses and communities across the whole of the UK and needs to be able to fund a strategic, smart and swift recovery from COVID-19, delivering economic growth and levelling up the whole United Kingdom.

Recent events have demonstrated the strength of the Union and the unique abilities of the UK Government to support Scotland, Wales and Northern Ireland. The Furlough Scheme, Business Interruption Loan Scheme and Bounce Back Loans provided by HM Treasury have been crucial parts of a shared UK economic recovery. These schemes could only have been executed on that level by the UK Government and demonstrate the value of UK-wide investment.

Alongside creating a regulatory environment in which businesses can thrive, the UK Government is taking a power in the Bill to strengthen UKG's ability to invest in our businesses, communities – a shared future for the UK economy. Through this power to provide financial assistance, UKG will invest in infrastructure, skills and support businesses to recover all over the UK - to protect and drive the UK economy and level up the entire country. UKG will also invest to support educational and training activities and exchanges, as well as culture and sport. This means that the Government can promote the UK's shared values, as the country recovers together from the greatest challenge in a generation.

This power will allow one off items of expenditure or creation of funding pots intended to fulfil the purposes as outlined within the Act.

Spending implications

The legislation will not specify any direct quantum of funding which will be allocated through this power. The Barnett formula will continue to apply as set out in the Statement of Funding Policy. This power grants the flexibility for the UK Government to give funding to the activities specified, with money which will be allocated through the normal budget and spending review processes. The funding will be subject to the usual spending controls, such as business cases, to ensure options appraisal and value for money considerations are fully evaluated.

How will the powers be operationalised?

Decisions on whether and how to use this power will be taken separately.

Key considerations

An assessment of impacts will need to be taken at the point when the power is used. Therefore, at this point, we cannot assess potential quantified and unquantified costs and benefits. This is a power that will not have any regulatory impact on business as it is not designed to introduce any regulation for business. As financial assistance powers, they sit outside the Better Regulation Framework. Analysis of equality and environmental impacts will need to be completed when decisions are taken on how the powers are used.

This power will be used in line with a future UKG subsidy regime.

This Bill creates new areas in which the UK Government can invest, in addition to the Devolved Administrations, throughout Scotland, Wales and Northern Ireland, increasing the flexibility the Government has to support the whole UK. All policy areas which are devolved will stay devolved. This will provide significant economic, social and cultural benefits across the whole UK. Funding will be designed to benefit businesses, individuals and wider society in these areas by seeking to deliver enabling increased employment, productivity, trade and other economic benefits which will be appraised when the powers are used.

Annex C: Unfettered access

This Bill contains broad provisions which will deliver unfettered access for NI businesses to the rest of the UK market, in line with the UK Government's commitment in the New Decade, New Approach deal to restore the Northern Ireland Executive.

No formal assessment the impacts of these provisions has been carried out because Unfettered Access has already been provided for in legislation through the European Union (Withdrawal Agreement) Act 2020, amended powers of the European Union (Withdrawal) Act 2018.

Additionally, unfettered access means no new customs or regulatory checks and controls on goods from Northern Ireland moving to the rest of the UK market - trade will continue to take place as it does now. The provisions within this Bill enshrining unfettered access will therefore not introduce new burdens on NI businesses.

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