

A Short Guide to

Regulation



About this guide and contacts

This Short Guide summarises what **regulation** is for, how much it costs, recent and planned changes and what to look out for across its main business areas and services.



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Key facts



90

Number of regulators operating in the UK.



49%

Percentage of surveyed businesses who in 2016 agreed that the level of regulation in the UK is an obstacle to business success, down from 62% in 2009.



£10 for every £1

Estimated direct financial benefit to consumers from the work of the Competition and Markets Authority relative to its running costs.



£4 billion

Annual expenditure of regulators operating in the UK.



34

Number of European regulatory agencies whose frameworks affect the UK.



£10 billion

Government's target for the reduction in regulatory costs to business over the period 2015–2020, from an estimated total of around £100 billion each year.



£154 billion

Annual household expenditure on the regulated water, energy, telecoms, television and financial services sectors.

Scope of this guide

Regulation is used to protect and benefit people, businesses and the environment and to support economic growth. There are more than 90 regulatory bodies in the UK, with total expenditure in excess of £4 billion a year. They cover a wide range of areas, from education, healthcare and charities to transport, communications and the media, utilities and the environment.

This guide provides an overview of the regulatory landscape, setting out what regulation is for, what is regulated, and how it is done. It also explores some current and future challenges, and provides an overview of nine key regulators.

Five of the nine regulators we focus on are independent economic regulators, which promote competitive forces in industries which would otherwise be natural monopolies due to high network or infrastructure costs. Their specific roles and responsibilities are varied – ranging from protecting consumers and promoting the effective functioning of markets to wider responsibilities around the environment and safety. The Office of Communications (Ofcom), the Civil Aviation Authority (CAA), the Office of Rail and Road (ORR), the Water Services Regulation Authority (Ofwat) and the Office of Gas and Electricity Markets (Ofgem) all have powers to apply aspects of competition law in their regulated sectors, among other duties and powers. These competition powers are concurrent with the Competition and Markets Authority (CMA), which is not an economic regulator but has overall responsibility for the UK’s competition regime.

The Financial Conduct Authority (FCA) is not an economic regulator, but its operational objectives to protect consumers, protect the integrity of the UK financial system and promote effective competition – where it also has concurrent powers with the CMA – have similarities to the economic regulators. The Health and Safety Executive (HSE) and Food Standards Agency (FSA), meanwhile, are safety regulators that set and enforce quality standards of related businesses and products.

Regulators included in the guide

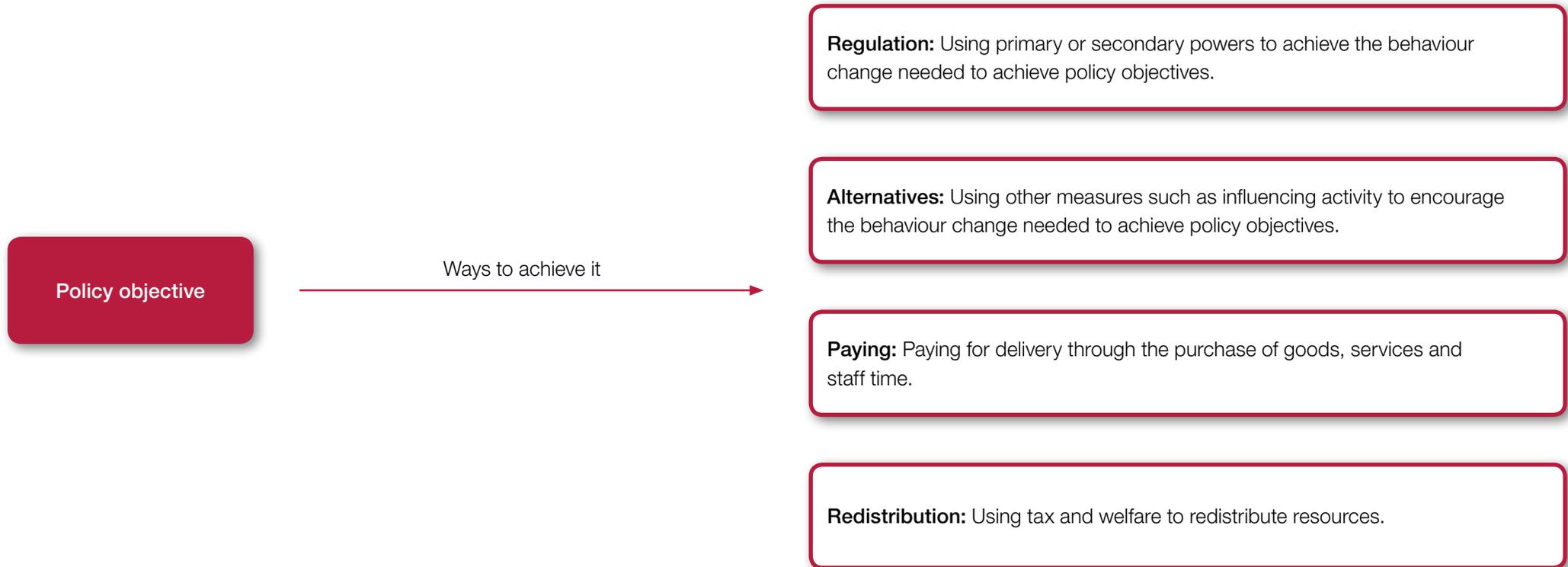


What are the objectives of regulation?

Regulation is used to protect and benefit people, businesses and the environment and to support economic growth. Regulation is one of the primary ways in which government can achieve its policy objectives. It is distinct from direct government provision of services because it relies on using incentives to drive behaviour change in individuals and organisations outside of government’s direct oversight.

Regulation is primarily used to address market failures. The characteristics of some markets mean that, left to their own devices, they risk failing to produce behaviour or results in accordance with public interest (for example, clean air) or policy objectives.

Ways of achieving policy objectives



What are the objectives of regulation? *continued*

Regulation exists to correct these types of deficiency, and is used to achieve a wide range of social, environmental and economic goals in the UK. Good regulation can also enable innovation, for example by prompting necessary legislative change or improving consumer confidence in a sector. Where regulation fails, the need for subsequent intervention can lead to significant liabilities for the taxpayer, as occurred in the bail-out of the UK financial sector in 2008.

Some examples of the objectives of regulation

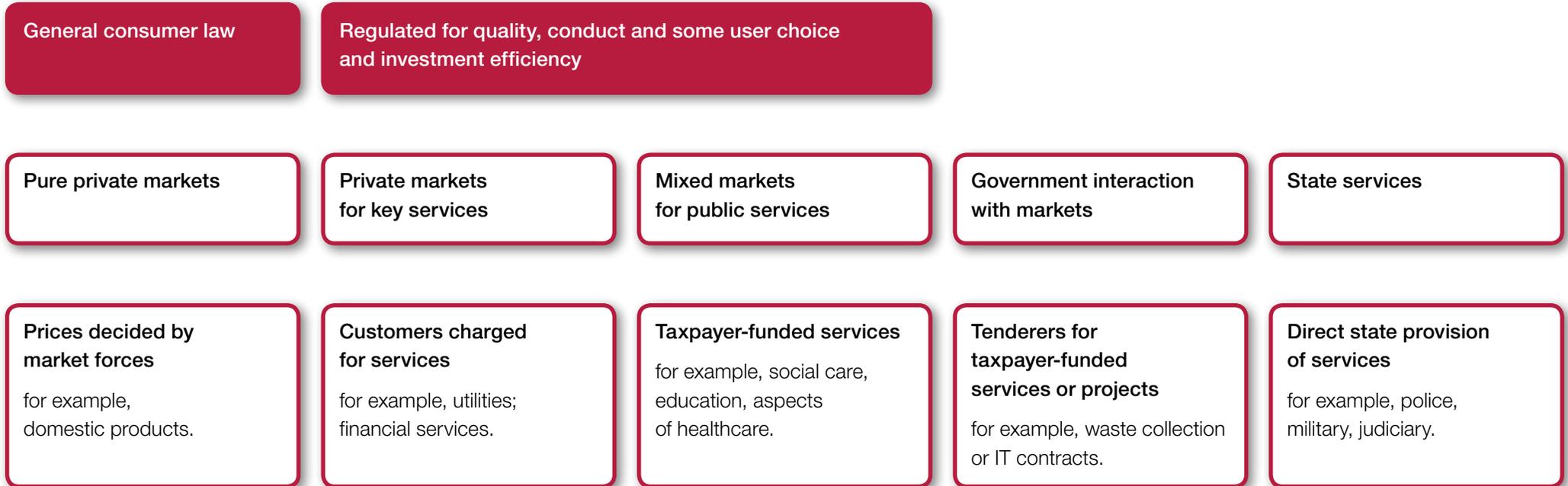


What is regulated and how is it done?

Regulation covers a range of sectors, from private markets such as energy or banking, to taxpayer-funded public and mixed markets such as social care or higher education.

Market-based mechanisms have become more prevalent in the delivery of taxpayer-funded services in recent years. This means that user choice, effective competition and regulatory frameworks have become increasingly important. For regulators and government, the nature of the market helps determine the approach to regulation.

Regulation in different types of market

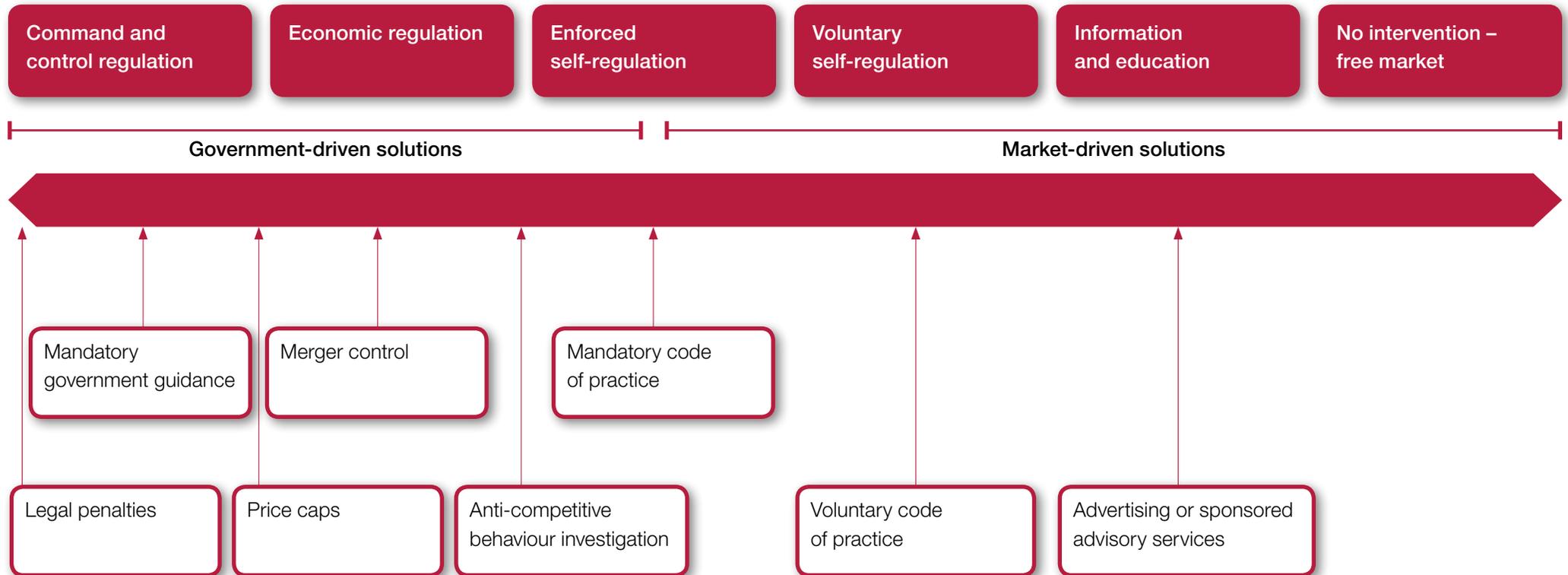


What is regulated and how is it done? *continued*

Regulation can take various forms, ranging from prescriptive government-led intervention to market-led incentives and codes of practice

Government guidance in recent years has encouraged departments to consider alternatives to prescriptive regulation. It has indicated that regulation should be used only where outcomes cannot be achieved by alternative, self-regulatory or non-regulatory approaches, or where regulation gives a clearly superior cost-benefit ratio to alternatives. The NAO's June 2014 briefing, [Using alternatives to regulation to achieve policy objectives](#), found that policy-makers favoured using regulation to demonstrate they were taking decisive action, and had poor knowledge of alternatives.

Different approaches to regulation



The role of competition

In a well-functioning market, the behaviour of customers and competition can be more effective at driving quality and efficiency than using regulation. In switching provider to one who offers the best service in terms of quality and price, customers can incentivise companies to catch up with the leaders or else lose their market share and fail.

However, competition will not always be effective or sustainable without regulatory intervention. There are a number of factors that are particularly crucial to effectively functioning competition.

Key drivers of effective competition

- 1**
The nature of the product
 - Easy to understand
 - Quality is easy to discern
 - Many options or substitutes that are easy to compare
 - Frequently bought so that customers can learn from experience
- 2**
Market power
 - Many providers, none with significant market power
 - No significant barriers to market entry and exit
 - Companies which do not act in anti-competitive ways
- 3**
Consumer empowerment
 - Customers who are able to make choices freely
 - Reliable sources of information about price and quality

The role of competition *continued*

Where the characteristics of a market lead to poorly functioning competition, and hence poor outcomes for customers, a regulator's interventions will usually depend on the nature of the market and how amenable it is to competitive forces.

For example, where competition may be impractical and inefficient, such as energy and water distribution which require significant infrastructure, regulators set price controls for the regional monopoly companies. By contrast, where competition can work effectively and efficiently, such as retail banking, regulators may take a more supervisory approach, working with companies to ensure that the market is working to the benefit of consumers or service users.

The Competition and Markets Authority (CMA) has overall responsibility for the UK's competition regime.

Approaches to regulation are affected by the level of competition

Increasing competition and market power

Price controls

Price caps
Revenue caps

For example, water supply, energy distribution.

Pricing rules

Tariffs
Access pricing rules

For example, NHS services, postal services.

Supervision

Monitoring
Engagement with firms and consumers

For example, gas and electricity retail sectors.

The cost of regulation

Regulatory budgets

There are around 90 regulatory bodies in the UK. Between them, these regulators had a total expenditure of more than £4 billion in 2015-16. This expenditure covers all regulatory activities as well as general running costs.

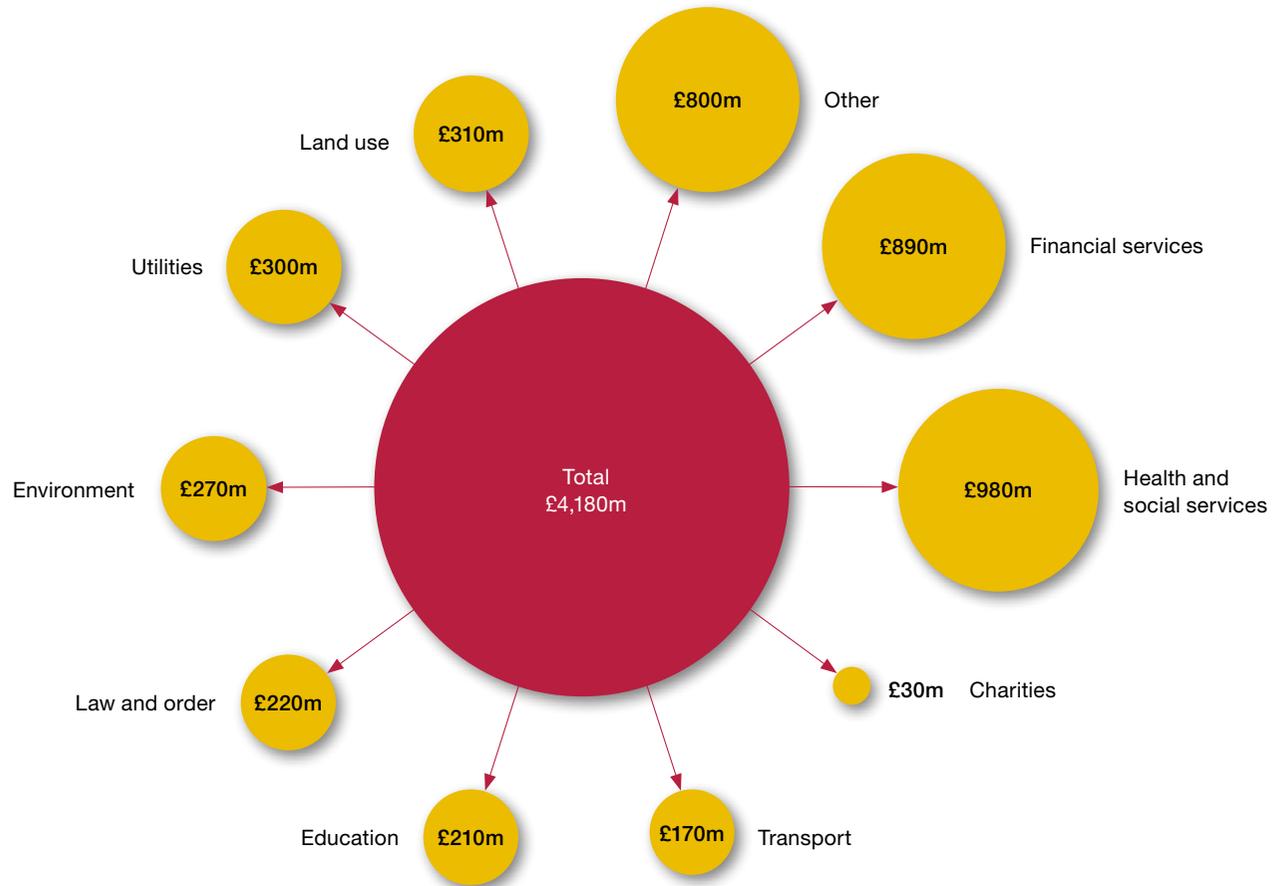
Regulators come in various different forms and sizes, depending on their scope and remit. The largest, the Financial Conduct Authority, had expenditure of £543 million in 2015-16, while the smallest regulators spend around £100,000.

Wider costs of regulation

The full cost of regulation is far higher than the total operating costs of all regulators. This is because compliance brings additional costs to businesses, for example extra resources needed to perform activities such as the monitoring and recording of compliance. In 2005, the Better Regulation Task Force estimated the cost to the UK economy of regulation to be around £100 billion each year.

It is important to note that any consideration of the costs of regulation need to be weighed alongside its benefits. These benefits can be both to wider society (such as improved environmental and safety standards) and to businesses themselves (through increased consumer confidence).

UK regulators' expenditure by sector, 2015-16



Notes

- 1 Each category includes multiple regulators.
- 2 The 'other' category includes regulated areas such as food safety, competition, and information and data standards and security.

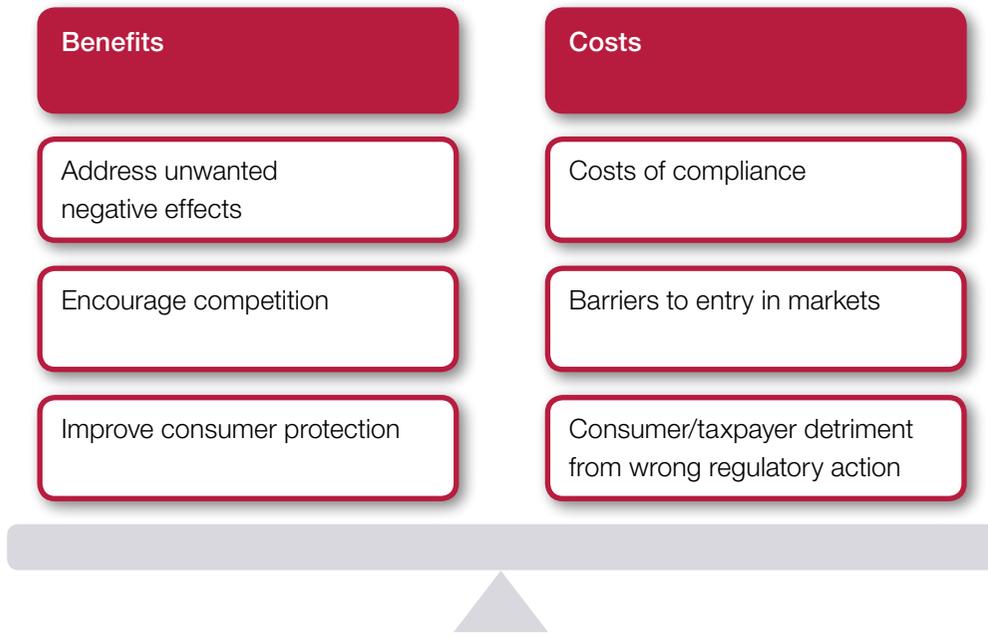
Source: NAO analysis of regulators' financial statements

Better regulation

Delivering good value for money consists of maximising the benefits of regulation while minimising compliance costs and unintended consequences. However, not all the benefits of regulation are easily quantifiable.

Good, proportionate regulation protects consumers and empowers them to drive competition and innovation from suppliers. Too little regulation can lead to poor services, financial harm, injury and even death. But over-regulating, or badly designed or implemented regulations, can stifle competition and growth through imposing excessive costs on regulated entities. Successive governments have employed policies of better regulation or regulatory reform to seek to avoid this.

Examples of the benefits and costs of regulation



Government has made an effort in recent years to reduce the costs of regulation, but does not always understand the full impacts of regulatory changes.

Between 2010 and 2015 the government introduced several initiatives that aimed to reduce regulatory burdens on business. These included, for example:

- **The Red Tape Challenge:** This sought to reduce the overall burden of regulation by taking a crowd-sourcing approach to identifying areas of potentially excessive regulation; and
- **‘One-In, One-Out’ and ‘One-In, Two-Out’:** In this approach, for each £1 of costs introduced by new regulation, £1 (and later £2) of regulatory costs had to be removed from other changes.

Following the 2015 election, the government set a target to cut £10 billion of regulatory costs between 2015 and 2020. Our 2016 report, [The Business Impact Target – cutting the cost of regulation](#), found that the Better Regulation Executive (now part of the Department for Business, Energy & Industrial Strategy) had made some progress in raising the profile, across government, of regulatory costs imposed on businesses.

The [2016 Business Perceptions Survey](#) also found that 49% of surveyed businesses agreed that the level of regulation in the UK is an obstacle to business success, down from 62% in 2009.

But our report on the Business Impact Target found that limitations in approach mean the scope of the target is open to manipulation and may not reflect a realistic view of regulatory costs. We also concluded that departments do not do enough to appraise the wider impacts of their decisions.

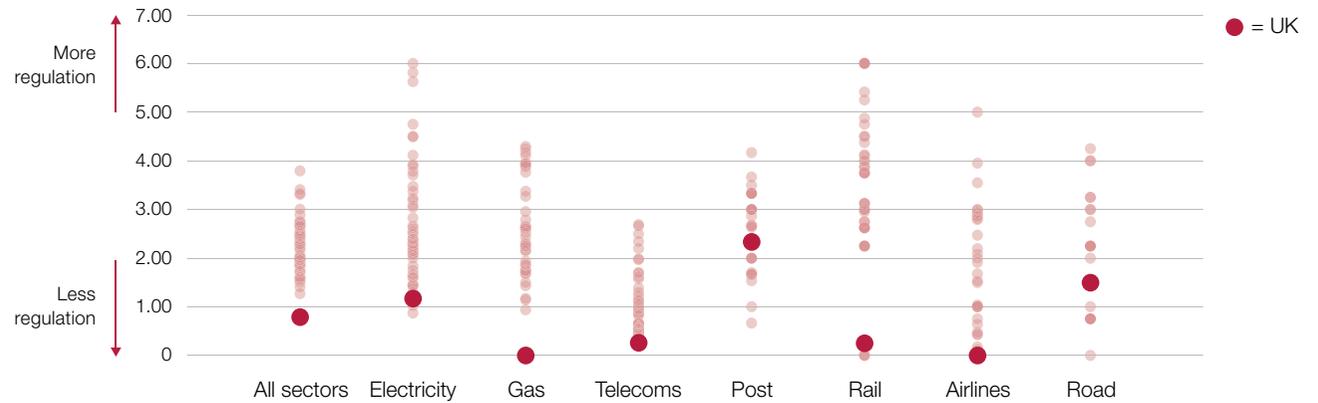
International comparisons

The Organisation for Economic Co-operation and Development (OECD) has assessed the extent of regulation among its 47 member states. This shows that in most regards the UK has relatively low levels of regulation compared with other member states.

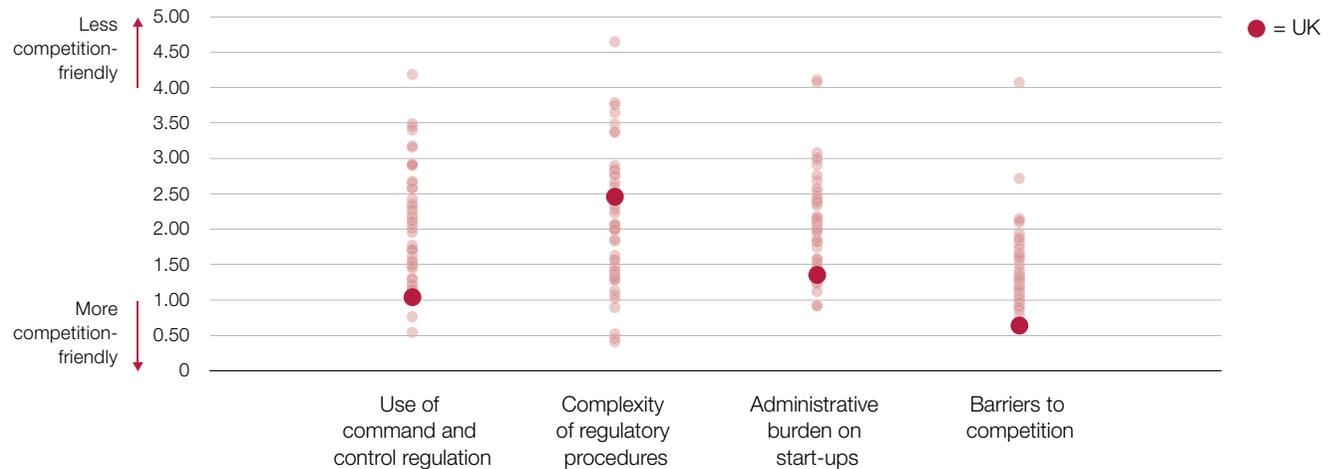
In particular, according to the OECD's metrics, in 2013, the UK had the most deregulated network sectors of all 47 member nations which were assessed, when considering criteria such as barriers to entry, the level of public ownership, vertical integration and market structure.

In product markets, the OECD's assessment suggests that the UK has relatively low barriers to competition compared with most other member states, and less use of prescriptive 'command and control' regulation. However, UK regulations are comparatively complex relative to other nations.

Network regulation – the UK compared with other OECD countries



Product market regulation – the UK compared with other OECD nations



Source: NAO summary of OECD indicators

Accountability to Parliament

All regulators are typically accountable to Parliament, either directly or through their sponsor minister. The form which this accountability takes is dependent on their administrative status. Most regulators are directly accountable through their own Accounting Officer, who must personally “be able to assure parliament and the public of high standards of probity in the management of public funds” ([Managing Public Money](#)). Executive agencies are accountable through the department of which they are a part.

Government intends many regulators to be highly independent. Most economic regulators such as Ofgem and Ofcom, for example, are statutorily independent bodies. Government plays an influential role in setting the legal and policy framework in which regulators set rules and intervene in markets. In most cases, government has a role in making appointments to regulators’ boards, and sometimes issues guidance which signals government’s priorities and view of how legislation should be interpreted.

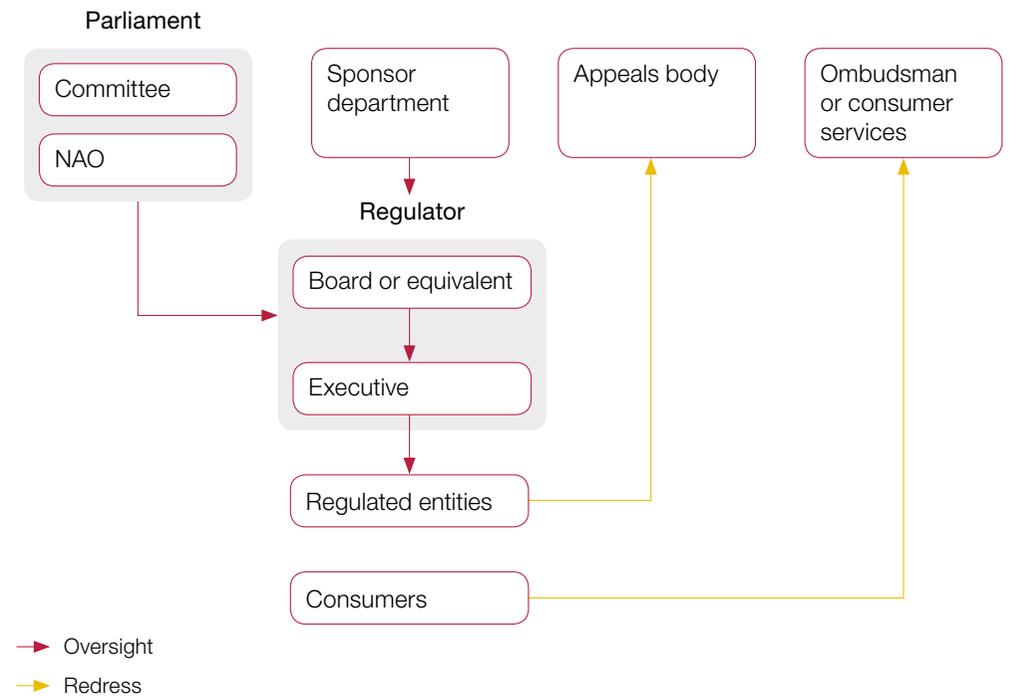
Typical accountability arrangements by administrative status

Administrative status	Distinct legal identity	Accountable to Parliament via minister	Directly accountable to Parliament	Board appointed by government
Executive agency (eg Medicines and Healthcare Products Regulatory Agency)	X	✓	X	✓
Non-ministerial department (eg Ofwat)	✓	✓	✓	✓
Other public body, including non-departmental (eg Health and Safety Executive)	✓	X	✓	✓
Independent body (eg General Medical Council)	✓	X	✓	X

Regulators are not generally the final arbiter in all interventions. In most sectors, there are avenues for companies to appeal regulatory decisions, and for customers to directly seek redress for poor service, such as through ombudsman services or consumer advocacy bodies.

The Comptroller and Auditor General is empowered by the 1983 National Audit Act to carry out investigations into the economy, efficiency and effectiveness with which regulators have used their resources in discharging their functions.

Representative accountability arrangements for a non-ministerial department



Exiting the European Union – 1

Possible implications for UK regulation

European law underpins significant elements of many of the UK's regulatory frameworks. This page outlines the possible implications of the UK exiting the European Union on regulation.



Transposing EU regulations into UK law

Many regulations are enshrined in European, rather than UK, law. These regulations are often (though not always) more rules-based than the principles-based approach that many UK regulators are increasingly adopting.

There are **34** EU regulatory organisations whose frameworks affect the UK. There is no authoritative assessment of what proportion of UK laws and regulations are directly affected by the EU.

Leaving the single market or customs union is likely to require significant amounts of European law to be transposed into UK law to avoid a substantial regulatory gap. This process is likely to require both primary and secondary legislation in every sector affected. It may also require new regulatory regimes to trade with the rest of the world where the UK is no longer covered by EU agreements.

The European Court of Justice (ECJ) is currently the ultimate arbiter for decisions on EU law, and therefore many aspects of regulation in the UK. Where existing regulatory frameworks specify that European courts have unlimited jurisdiction over certain matters – for instance, the Euratom treaty covering civil nuclear activities – the government's current stated position that UK courts should have ultimate authority will necessitate the formation of new regulatory frameworks.



Organisational change and responsibilities

UK regulators may have to take on additional responsibilities that at the moment belong to European agencies. For example, the Competition and Markets Authority may have to oversee large mergers, which are currently reviewed by the European Commission. With additional responsibilities taken on by UK regulators, there may be a need to increase the workforce in these organisations, streamline processes, or focus activities only on highest-priority areas.

There may be a loss of income for certain regulators. For example, the Medicines and Healthcare Products Regulatory Agency earns income from conducting scientific assessments for the European Medicines Agency. Whether this revenue remains available will depend on the nature of the future partnership between the UK and the EU, and whether this includes EU funding being available to UK regulators.



Implications of changes to regulated sectors

The structure of some regulated industries, particularly those that are closely linked into the EU such as energy, financial services and aviation, may need to adapt as the UK's relationship with the EU changes. This will depend on the future arrangements that are negotiated with the EU. Regulators will need to adapt accordingly to these sector changes.

Some regulated sectors are reliant on access to skilled workers from the EU, for example for engineering skills in network and infrastructure industries, or creative talent in broadcasting. Uncertainty over the short- to medium-term may make it difficult to attract skilled workers from overseas.

Exiting the European Union – 2

Examples of relationship with the EU by regulators and their sectors



Financial Conduct Authority

European financial supervision consists of the European Systemic Risk Board, and three European Supervisory Authorities. These aim to monitor risk and promote transparency by ensuring consistent reporting of financial health. The FCA collaborates closely with EU regulatory institutions and sits on many of their committees.

The UK banking sector is highly involved in EU markets. Of £110 billion total revenue in 2016, £25 billion was from clients and products linked to the EU. UK firms can sell financial products to EU customers by virtue of 'passporting' arrangements.



Ofgem

Britain trades directly in the EU single energy market through gas and electrical interconnectors.

The UK works with EU energy regulators, and participates in multiple European treaties and frameworks, including the Third Energy Package (which aims to liberalise energy markets and so increase competition). Ofgem is a member of the Agency for the Cooperation of European Regulators and the Council of the European Energy Regulators.



Ofcom

The UK regulatory framework is substantially derived from the EU's Regulatory Framework for Electronic Communications, which guarantees certain consumer rights and encourages competition.

As a designated National Regulatory Authority, Ofcom has duties to support the development of the EU internal market for communications with the European Commission and the Body of European Regulators for Communications.

Exiting the European Union 2 *continued*

Examples of relationship with the EU by regulators and their sectors



Civil Aviation Authority

The EU's single aviation market involves 35 pieces of shared legislation, a common regulator (the European Aviation Safety Agency), and a common court to apply shared rules including non-discrimination against air carriers. The market has a role in developing solutions to cross-border consumer and public risk.

The CAA plays an active role in EU aviation matters, and airlines licensed by the CAA act as 'community carriers' in the aviation market. EU foreign ownership rules also require airlines to be controlled and majority-owned by EU nationals.



Food Standards Agency

The FSA operates within a framework of directly applicable EU food law. A number of key regulatory functions in relation to food and animal feed are exercised at EU level, particularly risk assessment through the European Food Safety Authority, and many risk management decisions through EU Commission working groups.

Systems for sharing rapid alerts in relation to potential hazards to consumers, and for identifying and tracking food imports from non-EU countries, are managed by the European Commission.



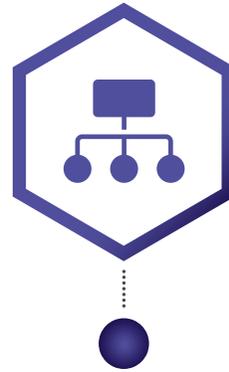
Competition and Markets Authority

The CMA exists to promote competition both within and outside the UK. It enforces competition and consumer law, much of which are heavily enshrined in EU laws and directives.

The CMA is an active member of various European agencies, including the European Competition Network. It needs to work directly with European authorities, for example in large-scale mergers of firms that operate across the EU.

Current and future challenges

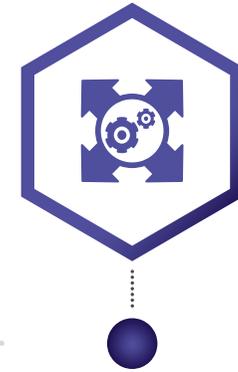
Regulators will face significant challenges in the next few years. The key common challenges relate to three broad themes:



Complex regulatory frameworks and objectives



Responding to significant and fast-paced change



Significant operational demands

Complex regulatory frameworks and objectives

Alongside primary duties from their own statutes, many regulators must give heed to other regulations, such as EU directives or more general UK legislation, that do not always align conveniently.

For example, EU regulation can be (though is not always) more rules-based than the outcome-focused, principles-based approach that many UK regulators are increasingly adopting. The Financial Conduct Authority, Food Standards Agency (FSA), Health and Safety Executive and Civil Aviation Authority are among several regulators who dedicate resources to policy at an EU level, to reduce risk of conflicts with UK approaches and support the development of European standards and regulations.

To achieve their outcomes, some regulators rely on extended delivery chains and depend on organisations that may have different priorities.

For example, enforcing competition law is reliant on liaison between a number of sector-specific regulators and the Competition and Markets Authority (CMA). The NAO's 2016 review of the [UK competition regime](#) found that the CMA had taken steps to encourage better coordination across the system. However, there were still disincentives to using competition powers, and the system had failed to produce a substantial flow of enforcement decisions.

The FSA similarly works with local authorities to regulate the food and feed industries; funding pressures on authorities could reduce resources available for this.

Where regulators are operating in the same space, businesses expect these activities to be joined-up, to reduce the burden of regulation.

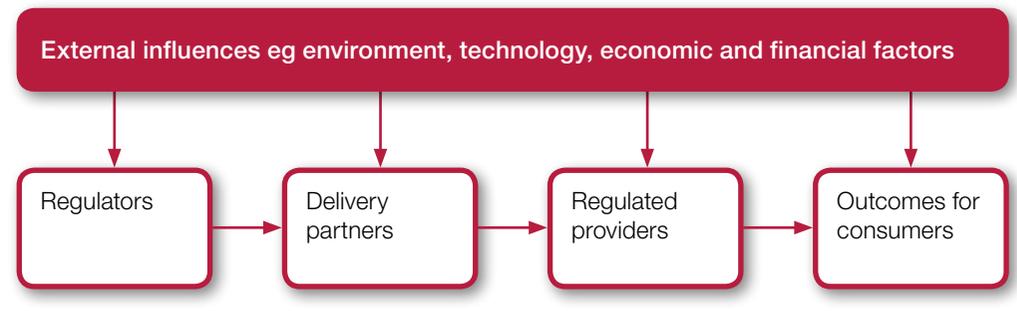
Regulators need to balance the sometimes competing needs of many different stakeholders, including businesses and different groups of consumers.

Regulators need to engage with consumers and consumer groups to enable regulation to be designed to meet their needs. Regulators such as Ofgem and Ofwat have, for example, given customers a bigger role in determining the metrics against which companies are assessed.

However, different consumers have different needs, and balancing these needs can be a complex task. Our 2017 report on [Vulnerable consumers in regulated industries](#) found that decisions taken to benefit consumers in general can sometimes have negative consequences for those in vulnerable circumstances. We recommended greater coordination between regulators and government.

Consumer expectations can also be shaped by public opinion and social media. This can help regulators to identify issues. However, regulators often need to balance the current views and needs of different communities with the longer-term view that is needed for effective regulation.

Extended delivery chains



Responding to significant and fast-paced change

The scale of regulatory change is likely to increase as the UK exits the EU, requiring changes to regulatory models.

Many markets including food, aviation, energy and financial services are subject to significant legislation from the EU. Changes to the EU relationship will affect the scope and operating models of many regulators, who may need to take on roles currently performed by EU institutions. Pages 16 to 18 cover the potential implications of EU exit in more detail.

Many regulators are adapting their approach, either to enhance their impact or to simply become more efficient.

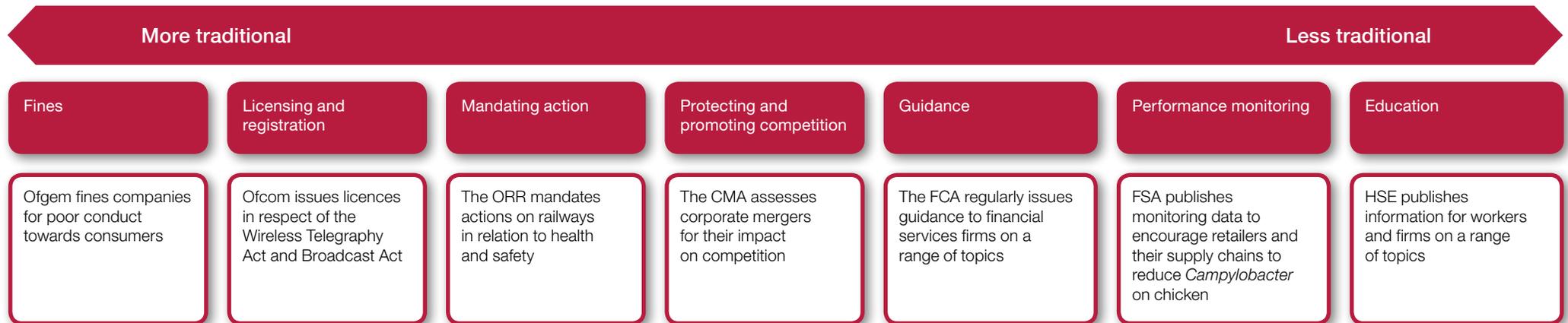
For example, in early 2017 the Financial Conduct Authority (FCA) concluded a [major consultation](#) with stakeholders on how to operationalise its statutory objectives. A number of regulators have undergone, are undergoing or are planning transformation programmes, in an effort to reduce costs.

The industries regulated by many of these bodies are constantly evolving to include new technologies, products or distribution channels. Regulators' strategies and regulatory models need to change in response.

In addition to the changes in regulated industries there are likely to be external pressures, such as environmental trends (for example, climate change) and technologies that may benefit consumers (such as new digital platforms to access services), all of which affect regulators' approaches in different ways.

Regulators need to be flexible in selecting the right tools and channels for the changing landscape, while managing the associated risks. For example, Ofgem recently concluded that strictly mandating how energy suppliers use Priority Service Registers for vulnerable consumers made it difficult to adapt as circumstances and technologies change. It therefore reformed these Registers in 2017 to focus on outcomes and give suppliers more flexibility.

Examples of different regulatory tools



Significant operational demands

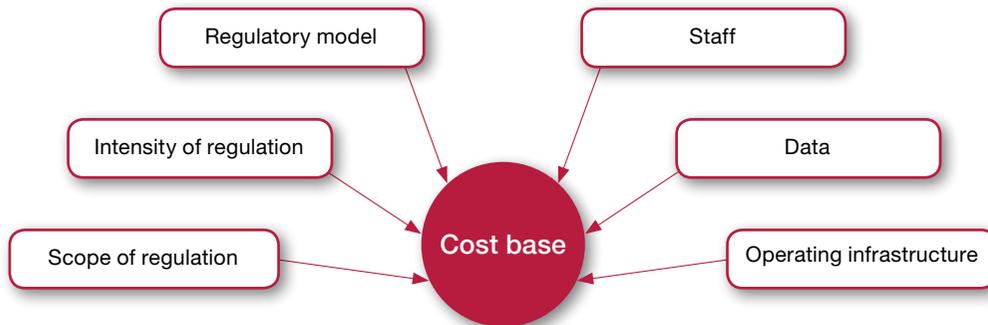
Pressure to reduce costs while responding to significant change may place constraints on regulators' discretionary activities.

Regulators face the challenge of reducing costs by changing cost drivers, including their own approach. Regulators therefore face the challenge of maintaining the effectiveness of their core activities and responding to significant change (Page 21) while allowing capacity for lower-priority (and sometimes discretionary) activity that is still valuable. Some regulators have also expressed concern over the difficulty in attracting and retaining staff with the right skills and experience. Loss of key staff could compromise ability to deliver objectives, undermine industry confidence and may have negative effects on morale.

Data and intelligence play an increasing role in identifying threats and regulatory interventions, but new approaches may require changes in IT and process. These can be complex, potentially costly and prone to issues in execution.

Efficient use of data has the potential to reduce the regulatory burden on firms and deliver more efficient regulatory models. Technological improvements may also present opportunities for changes to be made quicker and more reliably.

Key drivers of cost



NAO reports have highlighted the need for improvements in linking outcomes with measures of performance, and costs with activities.

Regulators find it difficult to report meaningfully on their performance, due to difficulties in measuring outcomes and uncertainty about the extent of their influence on those outcomes which can be heavily affected by external factors.

However, regulators need good performance measurement to enhance accountability and demonstrate that they are providing effective value for money. The NAO's 2016 guidance on Performance measurement by regulators set out key principles that should underpin a suitable framework. It also set out some examples of specific areas of good practice, including by the Financial Conduct Authority and Health and Safety Executive.

Performance measurement logic model



Overview of key regulators



Water Services Regulation Authority



Office of Gas and Energy Markets



Office of Communications



Civil Aviation Authority



Office of Rail and Road



Competition and Markets Authority



Financial Conduct Authority



Health and Safety Executive



Food Standards Agency

Water Services Regulation Authority (Ofwat)

Non-ministerial department

About

The Water Services Regulation Authority (Ofwat) is the statutory economic regulator of the water and sewerage industry in England and Wales. It has primary statutory duties to protect the interests of consumers, ensure that water companies and licensees carry out their statutory functions, ensure that efficiently run companies can finance their functions, and secure the resilience of water supply and wastewater systems in order to meet future demand. Unlike some economic regulators, Ofwat has no safety or environmental role as these are covered by other bodies such as the Drinking Water Inspectorate.

One of the most important tools for discharging Ofwat’s duties is the five-yearly price review process, in which Ofwat agrees performance commitments and outcomes with companies, and the allowed profile of bill increases. The next price review is due in 2019.

UK household spending in the water sector was around £10 billion in 2016.

Background

The water sector has been fully privatised since 1989. It now predominantly consists of 17 independently run water companies, which operate as regional monopolies in respect of the wholesale services they supply to customers.

In recent years, Ofwat has articulated a vision for its role to support the water sector to build trust and confidence with customers and wider society. Ofwat has a principles-based approach to regulating. It aims to help and encourage the sector to step up and assure that it is delivering good outcomes and building strong relationships. Where companies fall short, Ofwat will intervene, targeting areas where customer protection is most needed.

From April 2017, 1.2 million non-household customers in England and Wales have had the freedom to choose who their water retailer is, and the UK government is considering the evidence base to understand the case for extending competition to household customers in England in the future.

Ofwat’s activities are funded through an annual fee, which is recovered from regulated companies.

Resources: (2016-17 Annual report and accounts)



Expenditure:
£22.1 million



Headcount:
161 full-time equivalents on average

Office of Gas and Energy Markets (Ofgem)

Non-ministerial department

About

The Office of Gas and Electricity Markets (Ofgem) regulates the gas and electricity markets. Its main objective is to protect the interests of current and future customers in these markets, where these are assumed to include reduction of greenhouse gases and security of supply. It does this through the supervision and development of markets, regulation and the delivery of government schemes.

Ofgem works with several bodies to achieve its statutory duties and support delivery of government's energy priorities. It operates within a framework of domestic and EU legislation, and interacts frequently with devolved administrations.

UK household spending in the energy sector was around £31 billion in 2016.

Background

Ofgem's statutory duties have been changed several times over the years, notably: to strengthen the regulator's emphasis on sustainability; to clarify that its principal objective is to protect the interests of existing and future consumers; and to embed the requirements of the EU energy Third Package, to facilitate the single market in energy.

Ofgem's work programme is guided by its 2014 strategy, setting out five outcomes it aims to deliver for consumers: lower bills than would otherwise have been the case; reduced environmental damage; improved reliability and safety; better quality of service; and benefits for society as a whole. In 2013, Ofgem was also the first regulator to publish a consumer vulnerability strategy, setting its expectations from industry and regulatory approach.

In 2016, the Competition and Markets Authority concluded its two-year energy market investigation, suggesting various remedies aimed at improving the functioning of the market. Implementing and monitoring these remedies will form an important part of Ofgem's work in the coming years.

Ofgem recovers its costs primarily from the companies it regulates. Under the terms of HM Treasury's 2015 Spending Review, its budget will be 8.4% lower in cash terms in 2019-20 than it was in 2015-16.

Resources: (2016-17 Annual report and accounts)



Expenditure:
£86.6 million



Headcount:
971 full-time equivalents on average

Office of Communications (Ofcom)

Statutory corporation

About

The Office of Communications (Ofcom) is responsible for regulating a wide range of electronic communications services including TV and radio sectors, fixed-line telecoms, mobiles and postal services plus the airwaves over which wireless devices operate.

Ofcom's duties are to: promote competition to ensure good consumer outcomes in the industries it regulates; secure optimal use of the electro-magnetic spectrum to benefit UK citizens and consumers; ensure that a wide range of TV and radio services of high quality and wide appeal are available throughout the UK, and that people are protected from harmful or offensive material and from having their privacy invaded.

UK household spending on communications and television services was around £36 billion in 2016.

Background

Ofcom operates within sectors with rapid technological change, for example, television services increasingly being provided through the internet and changes in mobile technology (4G, 5G) creating new demands on spectrum.

Ofcom engages with the legislative programme of the EU and operates within an EU and UK framework. It also has a duty to take account in its decisions of the needs of those who live in different parts of the UK.

On 3 April 2017, Ofcom's newly gained powers as the external regulator of the BBC came into force. Its new remit encompasses content standards, competition issues and an ongoing assessment of the broadcaster's performance against its objectives.

Ofcom is currently funded by fees from industry for regulating broadcasting and communications networks, and grant-in-aid from the government. The Digital Economy Act 2017 sets out measures to make Ofcom funded solely by industry fees and charges. The regulator has committed to achieving real-terms reductions in its expenditure up to 2020.

Resources: (2016-17 Annual report and accounts)



Expenditure:
£138.9 million



Headcount:
828 full-time equivalents on average

Civil Aviation Authority (CAA)

Public corporation

About

The [Civil Aviation Authority \(CAA\)](#) oversees and directly or indirectly regulates all aspects of civil aviation in the UK.

The CAA's aim is to ensure choice, safety, value for money and fair treatment for consumers, while driving improvements in airlines and airports' environmental performance. It economically regulates some airports and some aspects of air traffic control, and runs the ATOL holiday financial protection scheme. It enhances aviation safety performance by pursuing targeted and continuous improvements in systems, culture, processes and capability.

The UK aviation industry (excluding the aerospace industry) contributed £41.2 billion to GDP in 2014.

Background

The CAA operates within a framework of aviation regulation and policy which is largely harmonised across the world to ensure consistent levels of safety and consumer protection. Worldwide safety regulations are set by the International Civil Aviation Organisation and within Europe by the European Aviation Safety Agency. Responsibility for the regulation of aviation security passed from the Department for Transport to the CAA in 2014.

The CAA's strategy for the period 2016–2021 sets out strategic priorities which will guide the work programme of the regulator over this period: risk-based regulation, consumer empowerment, infrastructure optimisation, service excellence and technological innovation. Important strategic issues which will have to be considered include how to support the delivery of new airport capacity, and how to deal with new demands for airspace from the growth in airline traffic and drone ownership.

The CAA is funded by charges from the firms it regulates or provides services to. The National Audit Office has no audit remit regarding the CAA.

Resources: (2016-17 Annual report and accounts)



Expenditure:
£130.9 million



Headcount:
927 full-time equivalents on average

Office of Rail and Road (ORR)

Non-ministerial department

About

The Office of Rail and Road (ORR) is the independent safety and economic regulator for Britain's railways in Great Britain, and monitor of the strategic road network in England.

It sets delivery targets for Network Rail and High Speed 1 (HS1), deciding funding for these bodies based on a regulatory assessment of how much their outputs should cost if efficiently delivered. It also holds Highways England to account for its performance and efficiency targets.

ORR regulates access to the network for train operators, and is also the competition and consumer authority, responsible for protecting customers' interests and ensuring fair treatment. As monitor of Network Rail and Highways England it is responsible for monitoring how these companies manage their delivery of improvement schemes and the upkeep of their assets.

Background

Rail regulation operates within EU and domestic frameworks, and the ORR has significant engagement at EU level. The ORR may be required to take on further work depending on the decisions which are made in respect of High Speed 2.

In 2014, the Office for National Statistics reclassified Network Rail as a public body. This has meant that it is now subject to a fixed borrowing limit. This change affects the ORR's economic regulation role, and will influence its 2018 review of the body's funding and required outputs.

The Infrastructure Act 2015 changed the status of the Highways Agency from an executive agency to a government-owned company. The ORR is responsible for monitoring the performance of this new company as it implements a £15 billion investment programme in the strategic road network.

The ORR is funded for its rail role by levies on the rail industry, while its highways function is funded by the Department for Transport.

Resources: (2016-17 Annual report and accounts)



Expenditure:
£31.0 million



Headcount:
303 full-time equivalents on average

Competition and Markets Authority (CMA)

Non-ministerial department

About

The [Competition and Markets Authority \(CMA\)](#) is the UK's primary competition authority. Its aim is to make markets work well for consumers, businesses and the economy.

The CMA has responsibility for carrying out investigations into mergers and acquisitions, and can block them if it deems them likely to substantially lessen competition. It also monitors markets and regulated industries, as well as enforcing consumer and competition law. It fulfils an important role in considering regulatory appeals regarding price control decisions, where it has powers to set prices it deems more in keeping with the regulator's statutory duties.

Background

The CMA was formed on 1 April 2014 from a merger of the Competition Commission and Office of Fair Trading. It assumed many of the functions of these predecessor bodies. It operates in a framework of significant EU and UK legislation and case law.

The CMA's strategic priorities continue to be informed by its 2014 [Strategic Assessment](#) of risks to consumers and well-functioning markets. Some key risks it identifies are: barriers to consumer decision-making, restrictive practice in online distribution of goods, and bid-rigging in public procurement. Work to address these risks will need to be balanced by the CMA's obligation to carry out non-discretionary work such as merger control and regulatory appeals.

The CMA estimates that the direct financial benefit to consumers from its work between 2013 and 2016 was £686.8 million per annum, giving a return of more than £10 for every £1 of its running costs.

The authority's operational budget will be fixed in cash terms until 2019-20 under the terms of HM Treasury's 2015 Spending Review.

Resources: (2016-17 Annual report and accounts)



Expenditure:

£138.2 million



Headcount:

589 full-time equivalents on average

Financial Conduct Authority (FCA)

Company limited by guarantee

About

The [Financial Conduct Authority \(FCA\)](#) is the regulator of financial markets in the UK. Its strategic objective is to ensure that the markets function well. It also has three operational objectives which are: to secure an appropriate degree of protection for consumers, to protect and enhance the integrity of the UK financial system, and to promote competition in the interests of consumers.

The FCA regulates approximately 56,000 firms for conduct. Given the size of the sector, the FCA adopts an approach based on identification of harm and prioritising where it can deliver maximum public value. The FCA is wholly funded by fees from the firms it regulates.

UK household spending on financial services was around £77 billion in 2016.

Background

The Financial Conduct Authority was created by the Financial Services Act 2012, replacing the Financial Services Authority in 2013. The FCA is the conduct regulator for all financial services firms. Responsibility for regulating consumer credit also transferred from the Office of Fair Trading to the FCA in 2014, bringing financial services conduct regulation all under one regulator.

The FCA is also the prudential regulator for more than 18,000 firms, aiming to mitigate the impacts of company failure on customers, counterparties and market stability. The Prudential Regulation Authority, also introduced by the Financial Services Act and part of the Bank of England, is the prudential regulator for larger financial services firms.

The FCA in 2017 concluded a major stakeholder consultation on how it ought to operationalise its core objectives in future. The results of this consultation led to the publication of the document [Our Mission](#). This will guide how the FCA interprets its objectives; identifies, develops and prioritises its forward work programme; and will provide more transparency over how it makes decisions.

The FCA works with a wide range of UK and European public bodies. Much of the UK's financial regulation derives from EU regulation and the sector is likely to be significantly affected by EU exit. The FCA is supporting the UK government in preparing to leave the EU.

Resources: (2016-17 Annual report and accounts)



Expenditure:

£509.6 million



Headcount:

3,363 full-time equivalents on average

Health and Safety Executive (HSE)

Non-departmental public body

About

The Health and Safety Executive (HSE) is the regulator for work-related health and safety in Great Britain. Its mission is to prevent injury, death and ill-health to those at work and those affected by work activities, by protecting people and reducing risks.

The HSE encourages and supports businesses to understand how to comply with the law, and works with industry and other stakeholders to influence approaches to safety and health in Great Britain's workplaces. It targets intervention activity where risks are greatest or health and safety management is poorest, and uses a range of interventions including inspections, investigations and prosecutions where there is a breach of the law.

Injuries and new cases of ill-health resulting largely from current working conditions cost society annually an estimated £14 billion.

Background

The HSE, formed in 1975 by the Health and Safety at Work etc Act 1974, operates a well-established health and safety framework. It uses a goal-setting approach to regulation, with a focus on encouraging business to understand and apply appropriate risk control in a proportionate and effective way.

The HSE's work programme is set out in its strategy Helping Great Britain Work Well and in its sector plans, which set priorities for tackling workplace accidents and ill-health.

The HSE works with a wide range of government departments and agencies, nationally and internationally, to formulate policy and extend its influence. It uses its research capabilities to inform improvements to its performance and that of the health and safety system as a whole.

The HSE recoups approximately 40% of its operating costs from dutyholders, through cost recovery for certain regulatory activities. The remaining funding is provided by the Department for Work & Pensions (DWP), its sponsoring department. DWP's funding for HSE will fall by 21% in real terms between 2016-17 and 2019-20.

Resources: (2016-17 Annual report and accounts)



Expenditure:
£224.1 million



Headcount:
2,549 full-time equivalents on average

Food Standards Agency (FSA)

Non-ministerial department

About

The [Food Standards Agency \(FSA\)](#) is the UK regulator responsible for protecting public health and consumers' interests in relation to food. The FSA is responsible for regulating the safety of food and animal feed. The FSA approves, and directly enforces controls in, meat and dairy premises (in England and Wales only). The FSA's remit no longer covers Scotland, since this role was devolved to Food Standards Scotland in 2015.

It also enforces wine standards and animal welfare in slaughterhouses, and publishes food hygiene ratings issued by local authorities to food shops and restaurants. The size of the industry it regulates is large – the agri-food sector alone contributed £108 billion to the UK economy in 2015.

Background

The FSA was created in 2000 and subsequently merged with the Meat Hygiene Service in 2010. Much of its inspection and enforcement regime is dependent upon delivery partners, particularly local authorities. It also operates within an international framework, as the majority of food law derives from EU legislation. It works closely with European bodies, such as the European Food Safety Authority (EFSA).

The FSA's forward work programme is informed by its strategic plan for 2015–2020, which focuses on three consumer rights developed in consultation with consumers – to be protected from unacceptable levels of risk, to make choices knowing the facts, and to the best food future possible.

The FSA is funded by the UK Parliament and regional assemblies, requiring it to meet the policy needs of the devolved administrations as well as the UK government. It derives significant income from its inspection activities, which it partially recovers via charges to the businesses concerned. This income is offset against its revenue requirement.

Resources: (2016-17 Annual report and accounts)



Expenditure:
£131.5 million



Headcount:
1,526 full-time equivalents on average

Appendices



Links to relevant organisations' websites



National Audit Office reports on regulation 2011–2017

Appendix One: Links to relevant organisations' websites

	Organisation	Website
Regulators referenced in this Short Guide	Ofwat	www.ofwat.gov.uk/
	Ofgem	www.ofgem.gov.uk/
	Ofcom	www.ofcom.org.uk/
	Civil Aviation Authority (CAA)	www.caa.co.uk/home/
	Office of Rail and Road (ORR)	www.orr.gov.uk/
	Competition and Markets Authority (CMA)	www.gov.uk/government/organisations/competition-and-markets-authority
	Financial Conduct Authority (FCA)	www.fca.org.uk/
	Health and Safety Executive (HSE)	www.hse.gov.uk/
	Food Standards Agency (FSA)	www.food.gov.uk/
	Medicines and Healthcare Products Regulatory Agency (MHRA)	www.gov.uk/government/organisations/medicines-and-healthcare-products-regulatory-agency
	General Medical Council (GMC)	www.gmc-uk.org/
Other government organisations	Better Regulation Executive (BRE)	www.gov.uk/government/groups/better-regulation-executive
	Regulatory Delivery	www.gov.uk/government/organisations/regulatory-delivery
	Regulatory Policy Committee	www.gov.uk/government/organisations/regulatory-policy-committee

Appendix Two: National Audit Office reports on regulation 2011–2017

Report title	Published
Report on the funding and governance of Broken Rainbow	April 2017
Vulnerable consumers in regulated industries	March 2017
Protecting consumers from scams, unfair trading and unsafe goods	December 2016
Performance measurement by regulators: good practice guide	November 2016
Market Analytic Toolkit: for assessing public service markets	November 2016
The Business Impact Target – cutting the cost of regulation	June 2016
Financial services mis-selling: regulation and redress	February 2016
The UK competition regime	February 2016
The economic regulation of the water sector	October 2015
Care Quality Commission: Capacity and capability to regulate the quality and safety of health and adult social care	July 2015
Public service markets: Putting things right when they go wrong	June 2015
Financial services: regulation, redress and advice overview 2014	February 2015
Follow-up on the Charity Commission	January 2015
Using alternatives to regulation to achieve policy objectives	June 2014
Business Perceptions Survey 2014	May 2014
Update on consumer protection landscape reforms	April 2014
Regulating financial services	March 2014
Ofcom: 4G radio spectrum auction: lessons learned	March 2014

Appendix Two: National Audit Office reports on regulation 2011–2017 *continued*

Report title	Published
Deciding prices in public services markets: principles for value for money	December 2013
Money Advice Service: Helping consumers to manage their money	December 2013
The regulatory effectiveness of the Charity Commission	December 2013
The Cup Trust	December 2013
Efficiency Review: Food Standards Agency – the delivery of meat hygiene official controls	July 2013
Office of Fair Trading: regulating consumer credit	December 2012
Overview of Ofgem 2011-12	November 2012
Submission of evidence: Controls on regulation	September 2012
NAO briefing: Regulating charities: a landscape review	July 2012
Regulating defined contribution pension schemes	July 2012
Business Perceptions Survey 2012	June 2012
Delivering public services through markets: principles for achieving value for money	June 2012
NAO Briefing: Performance of Ofgem	February 2012
Financial Ombudsman Service: Efficient handling of financial services complaints	January 2012
Protecting consumers – the system for enforcing consumer law	June 2011
Regulating Network Rail's efficiency	April 2011