

## **COMPLIANCE COST REVIEW**

### **THE DENATURED ALCOHOL REGULATIONS 2005**

#### **1. Introduction**

##### **1.1 Background**

In line with Government commitments to reduce the compliance burdens that are placed on businesses, HM Revenue & Customs (HMRC) assesses the likely change in compliance costs whenever a policy is introduced or changed. The results of that analysis are published in a final Regulatory Impact Assessment (RIA) when the associated legislation is laid before Parliament. Where a consultation document is published during the analysis period, it is accompanied by a partial RIA.

This document summarises the outcome of a post-implementation review of the final RIA that was published in 2 June 2005 for the above-mentioned measure by HM Revenue & Customs. The measure was implemented with effect from 1 July 2005. A copy of the published final RIA is attached.

This review re-assesses the compliance cost analysis published in the original RIA and addresses two main questions:

- whether the estimates of compliance costs used in the RIA were correct, with hindsight; and
- whether the processes used to estimate compliance costs were appropriate and reasonable, given the circumstances at the time.

HMRC intend to use this review to improve the RIA process, and also to assist in future policy development and evaluation work in general. As such, the emphasis is on identifying learning points for future assessment of compliance costs. The review does not revisit the original policy decision.

#### **2. The published RIA**

##### **2.1 Description of the policy change**

Excise duty is not charged on spirits used for scientific purposes, so long as they have been contaminated (“denatured”) to make them undrinkable. The Denatured Alcohol Regulations 2005 modernised the requirements of the

denatured alcohol regime, removing an existing Extra Statutory Concession (ESC) and easing the compliance burden on the trade.

It aimed to do this by replacing the Methylated Spirits Regulations 1987, thereby removing some out of date controls, giving HMRC the flexibility to approve alternative forms of denatured alcohol, and bringing the UK into line with the treatment of denatured alcohol with that employed by other Member States.

## **2.2 Anticipated compliance costs or savings**

The RIA (section 5) estimated that approximately 10,000 businesses would be affected by this measure, but that they would be unlikely to incur any additional compliance costs. Section 7 of the RIA also stated that there were not thought to be any other costs associated with this measure.

## **3. Conduct of the review**

Each compliance cost review is conducted individually, and the review process is adapted to suit the particular circumstances applying in each case. The emphasis is on making sure that the review itself - and any burden of consultation - are sufficient to meet the objectives of the review, but proportionate to the likely benefits.

In this case, the review was led by an HMRC project team supported by consultants. The staff in the review team were completely independent of those involved with the original policy change.

Due to the small nature of the change the consultants did not carry out any in depth interviews with the trade but instead consulted two trade bodies and a large multi national company. Coupled with the consultants' own knowledge and expertise, this has allowed the research to identify the major issues and any associated learning points.

The external research was complemented by an internal review of HMRC paperwork and electronic files.

## **4. Were the original estimates of compliance costs accurate?**

This section addresses two main aspects – the nature of the change in compliance costs (i.e. what did people have to do differently) and the monetary impact of that change (what did it cost or save them).

<b>Question</b>	<b>Comments</b>
Were the specific types of cost and	It was thought in the RIA that there would be

benefit identified in the RIA (e.g. reading legislation, filling in forms, updating IT systems, saving time etc.) incurred?	benefits to businesses as there would be less “red tape” and more flexibility on HMRC’s part to approve alternative formulations of denatured alcohol. Compliance costs were also considered and it was estimated that approximately 10,000 businesses would be affected. Costs and benefits were not quantified. In the case of costs it was stated that the businesses identified would be unlikely to incur any additional compliance costs. The external research did not identify any costs or savings as a result of this measure.
Were costs/savings incurred at the expected time?	N/A
Were costs/savings incurred by the expected people?	N/A
Were any other costs/savings, not identified in the RIA, incurred ?	None have been identified by the consultants.
If the type of costs/savings varied from the original estimates, why was that?	None identified
Could such variances have been foreseen at the time?	N/A
What is the assessment now of the total value of costs and savings?	There have been minor administrative costs incurred in updating some approvals with new formulations allowed under the new regulations, but nothing that is material.
If different from the original RIA, what has caused the discrepancies?	There were no differences from the original RIA
With hindsight, were the compliance cost estimates accurate?	Yes

## 5. Was the process used to estimate compliance costs reasonable?

Irrespective of whether the analysis turned out to be correct, the review has considered whether the original analysis was completed in a reasonable way.

Question	Comments
Who worked on the original RIA?	All the appropriate staff were involved.
Was an adequate audit trail maintained?	Yes
Was Cabinet Office and/or internal HMRC guidance on RIAs followed correctly?	Yes

How much effort was devoted to compliance cost estimation, and was that effort proportionate in the context of the policy measure?	A trade consultation was carried out and because this identified negligible compliance costs and the measure was very minor, this was judged sufficient by the consultants.
Were the right people (both internal and external) consulted, and were their views reflected appropriately?	Yes. A summary of responses to the trade consultation exercise has been published on the HMRC website.
Did those who were consulted when the RIA was written express views on the reasonableness of the process?	There are no negative indications.
Have those who have been consulted now as part of this compliance cost review expressed views on the reasonableness of the process?	No views expressed
Were compliance costs estimated for all options mentioned in the RIA?	Although some of regulations being repealed did carry compliance costs they had not been enforced for some time. Therefore giving businesses certainty rather than reducing costs was more applicable in this case.
Were compliance costs estimated separately for key groups (such as small businesses, large businesses, self-employed)?	As this is a specialised sector the only sector deemed to be affected was producers, distributors or users of denatured alcohol.
Was an appropriate analytical approach used, with economists or other analysts consulted appropriately?	Not applicable
Was there sufficient time to produce a robust assessment of compliance costs?	No problems identified
Were any assumptions reasonable, given the circumstances at the time?	Not applicable
Were any estimates of compliance costs caveated appropriately?	No caveats included as no compliance costs were identified in the RIA.
Were any risks correctly identified, addressed and explained?	Risks were covered in the options section of the RIA
Were any disagreements identified and reflected appropriately (e.g. if the figures were disputed by businesses, or if more than one set of figures was available)?	Not applicable
Would HMRC do anything differently if the exercise were	This was an accurate RIA. There are no learning points.

repeated, and hence could the RIA process have been improved?	
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## **6. Learning points arising from the review**

No learning points identified.

## **7. The way forward**

Comments are invited on any aspect of this report or the wider compliance cost review programme.

The learning points are being fed into the policy development process directly if particular to one RIA or policy area. More generic recommendations are being collated across the review programme overall, and will be used to create an action plan for HMRC to take forward to improve the RIA process and development.

## **8. Contact points for further information**

For issues relating to Alcohol policy specifically

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**ANNEX : THE PUBLISHED REGULATORY IMPACT ASSESSMENT**

[RIA: The Denatured Alcohol Regulations 2005](#)