

Title: Impact Assessment of the Horizontal Amendments to the Mutual Recognition of Professional Qualifications Directive (PQD) IA No: Lead department or agency: Department for Business, Innovation and Skills Other departments or agencies: Department of Health Department for Environment, Food and Rural Affairs Department for Communities and Local Government	Impact Assessment (IA)		
	Date: 01/07/2014		
	Stage: Consultation		
	Source of intervention: EU		
	Type of measure: Primary legislation		
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Summary: Intervention and Options			RPC Opinion: Awaiting Scrutiny

Cost of Preferred (or more likely) Option			
Total Net Present Value	Business Net Present Value	Net cost to business per year (EANCB on 2009 prices)	In scope of One-In, Two-Out? Measure qualifies as
£0.06m	£0m	£0m	No NA

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

Professions are regulated in order to correct for market failures such as asymmetries of information between professionals and consumers. One cost (government failure) generated by such regulation is a reduction in mobility between EU Member States as a result of different regulatory regimes. Intervention is necessary to have an efficient allocation of services in markets. EU legislation already facilitates the movement of professionals by providing a mechanism for the recognition of professional qualifications in other Member States. Amendments considered in this Impact Assessment are intended to further reduce the barriers to mobility from regulation and thus further reduce costs of government failure.

What are the policy objectives and the intended effects?

The European Commission's objective in amending the existing legislation is to further deregulate and simplify the recognition process to further facilitate the mobility of regulated professionals between Member States. The amendments reduce the burdens on professionals and provide them with greater access to other Member States labour markets. Professionals should directly benefit from the greater freedom to move between Member States. The amendments should also enable better matching of services with demand and choice, addressing labour market skills gaps and benefiting businesses. Greater mobility may also foster greater competition in the provision of services leading to innovation and better market outcomes for consumers and businesses in the form of lower prices and higher quality services.

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

As this is an EU directive it is a requirement that the UK transpose it into legislation. The changes affect existing regulations but are broadly deregulatory in nature. Consequently, alternatives to regulation have not been considered. The costs and benefits of the amendments are expected to be small for the UK.

Will the policy be reviewed? It will be reviewed. If applicable, set review date: Month/Year

Does implementation go beyond minimum EU requirements?			No		
Are any of these organisations in scope? If Micros not exempted set out reason in Evidence Base.	Micro No	< 20 No	Small No	Medium No	Large No
What is the CO ₂ equivalent change in greenhouse gas emissions? (Million tonnes CO ₂ equivalent)			Traded: NA	Non-traded: NA	

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 SELECT SIGNATORY: _____ Date: _____

Summary: Analysis & Evidence

Policy Option 1

Description: Costs and benefits of amended regulatory systems to facilitate EU free movement of professionals.

FULL ECONOMIC ASSESSMENT

Price Base Year 2011	PV Base Year 2014	Time Period Years 10	Net Benefit (Present Value (PV)) (£m)		
			Low: -£0.11m	High: £0.24m	Best Estimate: £0.06m

COSTS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Low	£0.1	£0.1	£0.1
High	£0.3	£0.2	£0.3
Best Estimate	£0.3	£0.2	£0.3

Description and scale of key monetised costs by 'main affected groups'

Costs will fall directly on **Competent Authorities** (the regulator of each profession). Transitional costs (NPV) that have been monetised are:

- **Providing administrative procedures online:** £78,451-£235,352
- Training in using the **online IMI system to exchange information:** £4,129-£41,290

These (and unquantified) costs may be passed onto professionals and businesses through higher application fees charged by Competent Authorities. Overall costs are likely to be small but there may be some smaller authorities that face greater difficulty coping with additional costs.

Other key non-monetised costs by 'main affected groups'

Unquantified costs will also fall primarily on Competent Authorities. These additional costs are also likely to be small:

- Ongoing costs for more complex cases as a result of **Partial Access** being granted to professions
- Transitional costs for IT system changes needed to **provide administrative procedures online**
- Ongoing costs for additional time taken to use the **online IMI system**

BENEFITS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Low	£0	£0.02	£0.2
High	£0	£0.04	£0.3
Best Estimate	£0	£0.04	£0.3

Description and scale of key monetised benefits by 'main affected groups'

Monetised benefits to **professionals** will be:

- Ongoing benefits (NPV) from time saved by more easily finding information online and using online applications: £169,731-£339,463

This does not reflect the key benefits of the amendments which are likely to be in the form of greater mobility of professionals within the EU.

Other key non-monetised benefits by 'main affected groups'

The key unmonetised benefit is from greater labour mobility. Greater mobility could be to the benefit of professionals, consumers and businesses. Evidence suggests impacts on mobility are likely to be limited.

Consumers and Businesses: As the UK is generally a net importer of professionals, there may be benefits of greater competition, more innovation and lower prices for services.

Professionals: May benefit from greater mobility through more varied professional experience. Professionals moving into the UK may also experience higher wages.

Competent Authorities: May benefit from administrative cost savings from the **European Professional Card** and **Common Training Frameworks**.

Key assumptions/sensitivities/risks	Discount rate (%)	3.5
All costs are expected to fall on Competent Authorities with no direct costs to business or professionals. The NPV could also change substantively for the final assessment given the limited quantification possible at this stage (particularly for benefits).		

BUSINESS ASSESSMENT (Option 1)

Direct impact on business (Equivalent Annual) £m: £0	In scope of OITO?	Measure qualifies as
Costs: £0	Benefits: £0	Net: £0
No	NA	

Evidence Base (for summary sheets)

Problem under consideration

A wide range of professions are regulated by Member States in the EU. The original Mutual Recognition of Professional Qualifications Directive (PQD) 2005 defined a regulated profession as:

‘a professional activity or group of professional activities, access to which, the pursuit of which, or one of the modes of pursuit of which is subject, directly or indirectly, by virtue of legislative, regulatory or administrative provisions to the possession of specific professional qualifications; in particular, the use of a professional title limited by legislative, regulatory or administrative provisions to holders of a given professional qualification shall constitute a mode of pursuit.’¹

In other words a regulated profession is one in which there are restrictions to pursuing the activities or subset of activities of the profession. Regulation can include restrictions on who can practice a profession (examples including doctors, nurses and architects) but can include other restrictions, such as the use of the ‘Chartered’ title in the UK.²

Regulation can vary considerably between Member States both in the professions regulated and in the particular requirements imposed by a Member State. Differences in regulatory regimes (and qualifications) between Member States can act to inhibit the free movement of professionals where a qualified professional in one Member States does not fulfil the particular regulations in another Member State. At its most extreme a situation could arise where a country only accepts qualifications completed in that country.

Rules on mutual recognition of qualifications have been adopted to ensure there is a mechanism for recognising a qualification and competence irrespective of their origin in the EU. The PQD (2005/36/EC) consolidated these reforms, coming into force in 2005. In effect the Directive reduces at least one of the costs of using occupational regulation (reductions in mobility of professionals).

Under the original PQD there are three routes possible that professionals can have their qualifications recognised in other Member States:

- **Automatic Recognition:** Under automatic recognition a Member State may only check whether a professional’s qualifications meet the EU-wide minimum training requirements specified in the Directive. Professions encompassed in this procedure include doctors, nurses, dentists, midwives, pharmacists, veterinary surgeons and architects. There are also procedures for professionals in the craft, commerce and industry sectors and for lawyers.
- **General system:** For most professions there is a general system of recognition that requires a decision on a case-by-case basis. A professional must demonstrate to a Competent Authority that they are fully qualified to perform their profession in their home country. Compensatory measures can be imposed where qualifications differ substantially or work experience falls short of the host country’s requirements. The professional can either choose a period of supervised practice or “adaptation period” or take an aptitude test. Professionals who practice a profession that falls under automatic recognition, but who do not meet the particular requirements for recognition (such as minimum training), are also considered under the general system.
- **Temporary Recognition:** Professionals working on a temporary or occasional basis do not have to apply for recognition of their qualifications unless the profession has public health or safety implications. Professionals must signal their intent to practice in a Member State and provide information on their establishment, insurance and professional competence in another Member State.

For the UK the majority of decisions are taken under the automatic recognition route with the most common applications being from professions such as doctors, nurses and dentists. Teachers are the most common form of applications under the general system. Annex 2 provides a more detailed breakdown.

¹ Article 3, Paragraph 1(a) of the original Directive: <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CONSLEG:2005L0036:20110324:EN:PDF>

² Annex 1 provides a fuller discussion of the UK regulatory system.

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While these recognition processes have helped facilitate the movement of professionals between Member States there have been issues with the speed and efficacy of the system of recognition. As one example at least 15% of SOLVIT cases (a problem solving network that citizens can use to resolve issues) involved professional qualification issues. There are also opportunities for more use of online systems to provide better information to applicants and more streamlined processes.

A range of amendments have been made to the Directive to improve the regulatory processes to further facilitate the movement of regulated professionals between Member States. Some of these amendments focus on a narrow range of professions (such as those covered under automatic recognition). These 'sectoral' amendments will be covered in separate consultations that will be run by the responsible departments.

This Impact Assessment solely covers changes that have a 'horizontal' impact covering a range of professions. Further details on the background of specific amendments is provided in Chapter 2.

Rationale for intervention

Occupational regulation exists in order to address asymmetries of information between service providers and consumers. A number of asymmetries can exist, such as a consumer not knowing what service they require or facing difficulty judging the quality of the service provider. Healthcare is one particularly important example of such asymmetries. Regulation can correct this information market failure in a number of ways. Typically these focus on ensuring a minimum level of competence for the professional and providing an enforcement mechanism against poor practice. See Annex 3 for more detail.

While important for correcting a market failure, the regulation can also impose costs on society. Within the context of the EU, as noted in the previous section, occupational regulation can indirectly hinder the free movement of professionals between Member States. The PQD is designed to overcome this issue by providing a mechanism for recognition of qualifications. There are nevertheless amendments that can be made to the Directive to further facilitate mobility between Member States. In effect, these amendments aim to further reduce the deadweight losses caused by regulation that was implemented to correct a market failure.

Amendments to the Directive are focused on utilising new technologies to facilitate recognition procedures and more generally to make the recognition process faster, simpler, more accessible and more transparent. New mechanisms have also been introduced that offer opportunities to some professions to adopt common training frameworks or to adopt a 'European Professional Card' to improve the application process. These changes do not reflect a radical change to the existing Directive but instead are anticipated to be relatively moderate reforms that further the objective of free movement of regulated professions.

The benefits of such improved mobility may include better addressing skills gaps in Member States' labour markets, benefiting businesses. Greater mobility may also foster greater competition in the provision of services leading to innovation and better market outcomes for consumers and businesses in the form of lower prices and higher quality services.

Description of options considered (including do nothing)

As EU legislation the amendments must be transposed by the UK government or risk an infraction from the European Commission. There are a number of amendments, each of which are outlined in further detail below along with estimates of costs and benefits.

The changes affect existing regulations but are broadly deregulatory in nature. Consequently, alternatives to regulation have not been considered.

Summary of costs and benefits

Affected groups

The main groups that are likely to be affected by the amended Directive include:

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- **Professionals** whom the Directive aims to make more mobile by reducing regulatory barriers.
- **Competent Authorities** who regulate professions. These can range substantially in size from large organisations such as the General Medical Council to bodies such as the British Association of Snowsport Instructors. At this stage the exact number of competent authorities is not known but is certainly in excess of 150.
- **Consumers and businesses** who consume the services of regulated professionals will be indirectly affected. They will be affected to the extent that greater mobility of professionals leads to changes in prices or quality/range of services provided that they consume.

Benefits and costs are summarised in turn in the proceeding sections. The full analysis for each amendment is presented in Chapter 2.

Benefits

The primary benefits, and overriding objective for the amendments, arise indirectly from reducing barriers to the mobility of regulated professionals. The UK is currently a net importer of professionals and it is likely this will remain true and may well be enhanced by the amendments (see Annex 1). For the UK higher mobility may mean a greater labour supply of many regulated professions. The critical indirect benefits of such mobility may include:

- Greater competition in the market for services of professionals and more innovation.
- Lower prices for consumers and businesses.
- Higher wages for professionals who migrate.
- Improvements in the average skill level of professionals practicing.

The overall flow of migration using the current PQD system is small for the UK. As context around 12,000 applications a year are received compared, for example, to total annual inward migration into the UK of 212,000 in the year ending September 2013.³ However, the migration is focused on a relatively small range of professionals and the impact in these markets can be substantial. For example, around 14% of architects in the UK are EU nationals (see Annex 1 for more detail). For some labour markets the free movement of professionals can and could be significant.

However, findings from external analysis commissioned for this impact assessment have suggested that for the UK there is little significant link between licensing as a form of regulation and the likelihood of migration from other EU Member States.⁴ In other words, regulation (both in 2005 before PQD came into effect and in 2010 after it came into effect) does not appear to be a substantive barrier to mobility of professionals into the UK.

One explanation for this result is that the existing PQD system (and preceding Directives) provides a sufficiently robust process that substantively removes the barriers on migration likely to be created by occupational regulation.

This result would suggest that the amendments alone to the Directive will be unlikely to have any further substantive effect on overall migration into the UK.

However, these results do not exclude the possibility that the reforms may have a substantive effect on other EU countries which may, for example, have more restrictive practices. This could benefit UK professionals seeking to move to other member states.

These initial results are also at a very broad level and do not rule out the possibility that there are links between occupational regulation in some professions and their mobility into the UK. It may be that there will be some profession specific labour market impacts from the amendments that we are unable to account for.

There may also be other more direct benefits from the amendments such as administrative savings for Competent Authorities in the UK as well as any time savings for professionals from a more efficient

³ ONS Migration Statistics Quarterly Report, February 2014: <http://www.ons.gov.uk/ons/rel/migration1/migration-statistics-quarterly-report/february-2014/msqr-february-2014.html>

⁴ Koumenta et al, 'Occupational Regulation in the EU and UK: Prevalence and Labour Market Impacts', 2014

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application process. These have been quantified where possible but given the relatively small cost of the existing system (see below) these savings are also expected to be small.

Costs

The main costs of the amendments are likely to be in the form of higher administrative costs for Competent Authorities. The two main sources of costs are likely to be from:

- More complex cases requiring decisions, such as the partial access amendment which will require Competent Authorities to determine on a case by case basis if applicants are sufficiently qualified to be recognised to perform a subset of regulated professional activities (as opposed to the entire set of regulated activities of a profession).
- One off transition costs such as changes to IT systems or transferring information to a single online point (the administrative procedures amendment).

If the average cost of processing applications rises there is the potential for pass-through to consumers and businesses via higher application fees.

While it has not been possible to estimate all additional costs at this stage, analysis suggests that the **existing system under the PQD has an annual administrative cost in the region of £2.8m**. The amendments taken together are not expected to radically alter the costs of the system and the figure for total costs suggests any additional costs will be small (in the range of hundreds of thousands as opposed to several millions).

To the extent that the amendments to the PQD do raise ongoing administrative costs they are likely to have a relatively small impact.

Balance of costs and benefits

The balance of evidence at this stage suggests that additional migration (and associated impacts) and the additional costs will both be small. However, it appears reasonable to expect, given the small change in costs, that the benefits of the amendments will on balance be greater than the marginal cost. While the amendments may not generate substantial additional migration at a macroeconomic level it is possible that the amendments could make a difference for individual labour markets. It would likely take only a small shift in ease of mobility in a few professions to outweigh the additional costs of the amendments.

Greater clarity on the balance of costs and benefits may be possible in the final Impact Assessment. Questions have also been posed throughout this Impact Assessment to solicit further information as part of the consultation on costs and benefits of particular amendments.

Net Present Value

As should be clear from the preceding discussion, the most significant impacts of these amendments have not been monetised. The NPV currently presented reflects only a small share of overall impacts and focuses in particular on the more readily quantified costs. Only a minor benefit relating to time savings has been quantified.

At this stage the quantified costs and benefits broadly cancel out, with benefits very slightly higher than costs. The best estimate NPV could however change significantly following the consultation given the limited quantification that has been possible at this stage (particularly for benefits).

Table 1 below provides a summary of the amendments and key impacts, costs and benefits. It provides a high level picture of whether the amendments will have a positive or negative effect and the potential magnitude. As should be clear from the table, impacts for the UK are expected to be small.

Table 2 provides a more detailed summary of each amendment, providing a picture of before and after and a summary of key impacts by affected group. Further detail on an amendment basis is provided in Chapter 2.

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Table 1: High level summary of direction and magnitude of key costs and benefits by amendment

Amendment	Changes in migration	Dynamic impacts of migration (GDP, wages, competition, innovation, skills gaps)	Changes in consumer safety	Changes in administrative complexity	One-off transition costs
1. European Professional Card	Positive – low/medium for affected professions	Positive – medium for affected professions	No impact	Positive – medium/high for affected professions	No impact
2. Partial Access	Positive – low	Positive – low	No impact	Negative – low	Negative – low
3. Temporary service provision	Positive – low	Positive – low	No impact	Negative –low	No impact
4. Compensation Measures	Positive -low	Positive -low	No impact	Negative - low	No impact
5. Common Training Frameworks	Positive – low/medium for affected professions	Positive – low/medium for affected professions	No impact	Positive – medium/high for affected professions	No impact
6. Access to information	Positive -low	Positive -low	No impact	Positive – low/medium	Negative - low
7. Exchange of Information		No impact	No impact	Positive -low	Negative - low
8. Alert mechanism	No impact	No impact	Positive – medium	No impact	No impact
9. Transparency initiative	Will depend on regulatory changes adopted				

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Table 2: Summary of key features of each amendment and direct costs and benefits by group affected

Amendment	Before	After	Main Affected UK Groups	Effect	Low scenario of cost/saving (NPV)	High estimate of cost/saving (NPV)
1. European Professional Card (EPC)	New amendment	Online certificate verifying qualifications. Will be adopted in consultation with stakeholders and only for those professions for professions meeting set criteria.	Competent Authorities	Ongoing saving to UK as overall administrative burden likely to shift to other Member States.	Illustratively quantified saving (in aggregate) at this stage*	
			Professionals	Ongoing benefit from a faster application process	Unquantified at this stage, will depend on the professions that adopt the card.	
2. Partial Access	New Amendment	Professionals can be granted partial access to the activities of a profession.	Competent Authorities	Ongoing cost from more complex cases	Unquantified cost at this stage but likely to affect small number of cases	
			Professionals	Ongoing benefit from greater mobility		
3. Temporary service provision	Temporary provision available	Small amendments clarifying documentation and scope of provision	Professionals	Ongoing benefit from clearer administrative procedures	Unquantified at this stage but likely to be a small benefit	
4. Compensation measures	More restrictive limitations on qualifications needed to apply for recognition.	Fewer restrictions on minimum level of qualifications. More transparency required in reason for compensation measures (to bridge any gaps in required competence).	Professionals	Ongoing benefit from greater scope to apply for recognition. Greater transparency may also make it clearer what is needed to practice a profession in another Member State.	Unquantified at this stage.	
			Competent Authority	Ongoing cost from applying more compensation measures.	Unquantified at this stage.	
9. Common Training Frameworks	Common frameworks apply for only some professions	Common training frameworks can be adopted by more professions.	Competent Authorities	Ongoing benefit from less complex cases.	Unquantified at this stage	
			Professionals	Ongoing benefit from more standardised requirements increasing ability to move.	Unquantified at this stage	
5. Access to	Information on	Information on	Competent	Transitional cost from IT	Unquantified cost at this stage – likely to be	

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information	application processes available on individual authorities websites. Online applications not necessarily mandatory.	application processes must be available on the Points of Single Contact. Professionals must be able to submit online applications.	Authorities	system adaptations to provide online applications	low as authorities have significant flexibility in meeting this requirement.	
				Transitional cost from placing information on Points of Single Contact	-£78,451	-£235,352
			Professionals	Ongoing benefit from time saved in finding online information and online applications	£169,731	£339,463
6. Exchange of Information	New amendment	Requires Competent Authorities to use the IMI online system to exchange information	Competent Authorities	Transitional cost from training to use the system	-£4,129	-£41,290
				Ongoing benefit from streamlined communications process	Unquantified benefit at this stage – likely to be small.	
7. Alert Mechanism	New amendment	Alert mechanism established for transmitting information on barred professionals between Member States' Competent Authorities.	Competent Authorities	Transitional cost from training to use the system	Accounted for in the Exchange of Information amendment.	
				Ongoing benefit for patient safety	Should reduce risk of barred professionals practicing. No quantification possible of benefits at this stage.	
8. Transparency initiative	New amendment	Mapping of all regulated professions in the EU and mutual evaluation by Member States of rationale for regulation.	Unknown at this stage	Unknown at this stage. The process may lead to changes in regulation.	Unquantified at this stage– may be a saving if regulation is reformed.	
Total Quantified				Transitional	-£82,580	-£276,642
				Ongoing	£169,731	£339,463

*Illustrative analysis of a potential methodology and scale of cost savings has been provided. At this stage these cannot be included in the benefit/costs of this consultation Impact Assessment as the professions that will adopt the card have not yet been finalised.

Rationale and evidence that justify the level of analysis used in the IA (proportionality approach);

The amendments to the PQD are moderate changes. The costs and benefits, as outlined above and in more detail in proceeding sections, are in turn expected to be moderate. At this stage limited quantification of costs has been possible but a number of administrative costs have been estimated. Questions in the consultation have been posed to gather more data on potential costs but again these are not expected to be substantial and so do not warrant substantial additional analysis or research at this stage.

However, there may be some distributional effects where very small Competent Authorities may have significant burdens placed upon them relative to their size. Such costs may arise where a small authority has to deal with a small increase in the number of complex cases but lacks the scale to easily deal with such increases in caseload. There are a large number of Competent Authorities and so questions in this Impact Assessment and accompanying consultation are designed to elicit further information on how many authorities may face problems and the extent to which they may be affected.

No benefits from migration have been monetised. It is highly challenging to estimate the impact of regulation on migration and the indirect effects on the wider economy (such as GDP or wage effects). Little research has been done on these questions for the UK.

However, as this is a key benefit of the amendments research has been commissioned to specifically examine these questions. Initial analysis from this research suggests that there is likely to be limited additional effect on mobility for the UK from further reductions in regulation. Further analysis is underway examining more specific impacts in particular labour markets. The analysis will be incorporated in the final Impact Assessment and may be able to provide a clearer estimate of the magnitude of benefits.

Risks and assumptions

A number of assumptions have been made in the analysis. The most crucial assumption throughout on the quantification of costs is that costs that arise from a higher number of applications are not included. These are indirect costs that are a result of voluntary action by individuals. Such costs are also likely to be covered by the administration fees charged by the majority of Competent Authorities for any application. These costs are also likely to tend to fall on professionals who are based outside the UK at the time of the application and as such any UK specific impact would be minimal.

The administrative costs that are accounted for are where an amendment leads to:

- An increase in the complexity of the cases handled by Competent Authorities. In such cases this could raise the average cost for a Competent Authority of processing applications.
- One-off transition costs that must be incurred, such as changes to IT systems or training.
- Ongoing additional administrative duties and costs, such as using the Alert mechanism.

These are costs that will directly and unavoidably fall on Competent Authorities as a result of the amended Directive. As they may also affect that average cost of processing applications it is possible that Competent Authorities pass these costs on to professionals or businesses by increasing application fees.

There are a number of specific assumptions made for each cost calculation. These are outlined in more detail in the respective section for each amendment in Annex 2.

Monitoring and Evaluation

The European Commission operates a database that aggregates recognition decisions under the PQD for each Competent Authority in every Member State. It will be possible to conduct analysis following the transposition of the Directive to determine if there have been any notable changes in the patterns of applications for recognition into the UK for each profession. This analysis will likely be low cost and proportionate to the potential costs and benefits of the amendments to the UK.

The evaluation is most likely to pick up effects where there have been substantive changes (such as the introduction of the European Professional Card or Common Training Frameworks). Once the professions to adopt these amendments have been determined and a suitable time period has elapsed analysis of some of their impacts should be possible within the next several years.

Given the likely small costs and benefits of the amendments to the UK it is not expected that more resource intensive monitoring and evaluation would be appropriate.

Structure of the Impact Assessment

The remainder of the Impact Assessment is structured as follows:

- **Chapter 1: Outline of costs and benefits:** A summary framework of the types of costs and benefits likely to arise from the amendments and an assessment of the existing systems administrative costs
- **Chapter 2: Analysis of the costs and benefits for each amendment:** Detailed analysis of all monetised costs and benefits as well as qualitative analysis of unmonetised impacts.
- **Annex 1: Background:** Outline of the regulatory system in the UK and existing migration levels of regulated professionals to and from the UK
- **Annex 2: Estimated administrative costs of existing recognition system:** More detailed analysis of the current costs to the UK of administering the recognition system under the PQD.
- **Annex 3: Literature on the economic impacts of regulating professions:** A short summary of existing literature on the rationale of occupational regulation and empirical work on the associated costs and benefits.

Chapter 1: Outline of costs and benefits

This Chapter outlines the potential types of costs and benefits for the amendments to the PQD. Given the limitations of quantifying costs for some amendments an estimate of the current systems overall administrative costs is also provided to illustrate the magnitude of costs that may be generated by the amendments.

Chapter 2 provides detailed analysis for each of the amendments to the Directive following the framework set out below.

The potential costs and benefits of the amendments to the PQD

Annex 3 provides an overview of the rationale for occupational regulation and the main associated costs and benefits. The empirical literature is also briefly surveyed. With this literature in mind for amendments to the Directive the primary costs and benefits considered in this Impact Assessment are:

- The potential **administrative costs or savings** of operating the recognition system. This is broken down where possible into one off transition costs and ongoing costs or savings. Only costs that are generated from either one-off transition requirements (such as IT system changes) or from the increased complexity of decisions are considered in this assessment. Where an amendment increases migration and may in turn increase the number of decisions that Competent Authorities process, the costs generated are not included. These costs reflect the independent actions of the individual involved, not a direct cost of the legislative changes, and are as such outside the scope of the Impact Assessment. A brief summary of the estimated cost of system under the original Directive is provided in the next section.
- The **impact of higher levels of migration of regulated professionals**. As Annex 3 details this can affect the labour market (such as changing wages) and may also affect outcomes such as quality of service provided and the prices paid by consumers and businesses. At this stage only qualitative assessments can be made of such effects. Further analysis is currently being conducted to estimate the impact of regulation on migration as well as associated variables such as wage rates. This more detailed quantitative analysis will be incorporated into the final impact assessment.
- Other impacts that may arise include **impacts on consumer protection levels** for professional services. This is particularly important for health professions where there may be patient safety issues.

Most amendments to the Directive do not alter existing occupational regulation. There are, however, two amendments that have the potential to change the occupational regulation framework in each Member State.

The first is a transparency exercise launched by the European Commission. This exercise will map all existing occupational regulation in each Member State and allow for mutual scrutiny of existing regulations. As part of this process Member States will need to provide justification for the proportionality of their regulation. It is possible that changes to occupational regulation in some Member States may result from this process. The impact of such changes could be broader than those discussed above, depending on the regulatory reforms adopted (for example if the scope of a professional activity regulated were to change).

A second amendment relates to providing standardised tests and frameworks for specific professions. Where these are agreed they may change the UK's requirements for entering a profession.

Both of these amendments, and their potential additional impact in terms of the level and type of regulation, are also discussed in their respective sections in Chapter 2. At this stage, however, the professions and regulations that may be affected are not known and limited detailed analysis is possible.

The administrative costs of the existing regulatory regime

For some amendments limited quantification of their additional administrative costs is currently possible. However, two estimates have been produced of the administrative costs of the existing regulatory system under the original PQD. These estimates provide an overall sense of magnitude of the cost of the

existing system. As the amendments to the Directive are moderate reforms it is not anticipated that they would substantially alter existing costs. As such, the overall cost of the amended Directive is likely to be some additional proportion of the existing cost of the system.

The first assessment was produced by the European Commission in its Impact Assessment for the amended Directive.¹ The European Commission provided an estimate of total administrative costs for each Member State based on an online database that the Commission operates. The database provides information on the annual number of recognition decisions recorded in each Member State by profession. The number of recognition decisions is combined with estimates of gross wages and assumptions on the time taken to make each decision to provide an estimated total administrative cost for each Member State.²

These estimates suggest that the current system cost the UK around £1.5m per annum on average for 2007-2009. Using the same methodology for 2010-12 suggests an average cost of £1.7m.³ The analysis assumes that it takes on average four hours for a Competent Authority to make a decision for professions that fall under the automatic recognition system and eight hours for all other professions. Gross wages are assumed to be £28 for the UK. These figures are then multiplied by the average number of decisions recorded in each category in the European Commission’s database.

Table 3: Estimated administrative costs for the current regulatory system using European Commission methodology

Year	Automatic recognition decisions (a)	General system decisions (b)	Automatic recognition time taken (c)=(a)*4	General system time taken (d)=(b)*8	Total costs (e)=((c)+(d))*28
2007-2009 ⁴	4,467	4,569	17,868	36,554	£1,544,540
2010-12 ⁵	7,302	3,940	31,523	29,208	£1,723,563

An alternative approach produced for this Impact Assessment is to examine the fees charged by Competent Authorities for professionals to register, using this as a proxy for administrative cost. In practice it is possible that such fees do not exactly reflect costs, if, for example, the fees are used to cross-subsidise other activities of the Competent Authority. In other cases a Competent Authority may not charge the full administrative cost as a fee (for example, secondary school teachers in the UK). It is nevertheless likely that the fees provide a reasonable approximation of the average cost of each recognition decision.

These fees are also matched against the recognition decisions recorded by the Commission and some data from Competent Authorities to produce an estimated cost of, on average, at least £2.8m per annum.

The main caveat to this estimate is that it relies on the European Commission’s database on the number of recognition decisions made by each Member State. This database in turn relies on Competent Authorities reporting their decisions to the Commission. While it appears the database captures a substantial proportion of decisions, including key professions such as doctors, nurses and teachers which are likely to account for a significant majority of all decisions, it may omit others. Annex 2 provides full detail on how this has been calculated.

Are any Competent Authorities aware of recognition decisions they have made not being recorded on the European Commission’s database? If so, could they provide information on how many decisions they have taken for each year 2010-12?

¹ <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:52011SC1558:EN:NOT>
² The database can be found at: http://ec.europa.eu/internal_market/qualifications/regprof/index.cfm?action=homepage. Note that the database relies on competent authorities informing the Commission of all recognition decisions that have been taken. The database is as such likely to represent an incomplete picture of recognition decisions. See Annex 2 for further discussion of the database.
³ All pound sterling figures in this section (including in Table 3) are converted from Euros using Eurostat’s conversion rate for 2012 of 0.81087.
⁴ European Commission’s estimate
⁵ Estimate applying European Commission’s methodology.

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These omissions are likely to raise the overall estimated administrative cost of the system, but the analysis is likely to capture the majority of decisions and associated costs. It provides a good indication of the overall magnitude of the administrative costs generated by the current recognition system.

The analysis suggests that any additional cost implications are likely to be some proportion of the roughly £2.8m cost of the existing system.

Chapter 2: Analysis of the costs and benefits of each amendment

This chapter provides detailed analysis of the costs and benefits for each of the horizontal amendments to the PQD. For each amendment background detailed is provided on the purpose of the amendment and any relevant detail on the workings of the original Directive. In terms of the costs and benefits discussed these are broken down, as outlined in Chapter 1, into additional impacts on:

- **Administrative costs** – the costs faced by Competent Authorities in administering applications under the PQD system.
- **Migration** – the effect on the movement of professionals between Member States and in principle the economic implications for factors such as the wages of professionals or prices for consumers.
- **Consumer protection** – for the services provided by regulated professionals. Some amendments may improve the protection of consumers from poor service while others may pose risks that will need to be addressed through consultation or by the European Commission in its own consultation of stakeholders.

Questions are noted throughout this section where additional information is being sought from the relevant stakeholders to supplement the analysis presented. These questions are also included within the consultation document.

In many of the amendments an important distinction is between home and host authorities and Member States:

- **The Home Member State** is the country in which a professional obtained their qualification. The home Competent Authority is the authority responsible for regulating the profession in the home member state.
- **The Host Member State** is the country which a professional is applying to for recognition of their qualifications. The host Competent Authority is the authority responsible for making a decision on each professional's application.

1. The European Professional Card

Background

The European Professional Card (EPC) will be an electronic certificate. A professional will be able to apply to obtain a certificate that verifies their qualifications from their home Member State's Competent Authority. When a professional wishes to move to another Member State the Competent Authority in the Home Member States will be required to use the online Internal Market Information system (IMI) run by the European Commission to exchange the certificate and associated documentation with the host Competent Authority. In effect this represents a shift in responsibility from the current system whereby the host Member State's Competent Authority is the one responsible for checking and verifying a professional's qualifications.

The introduction of the card is intended to allow for a more streamlined process of recognition.

The introduction of a card for a particular profession will require further implementing acts to be adopted by the European Commission. Criteria have been set forth in the amended Directive as to which professions could qualify for the card. These are where:

- There is significant mobility or potential for significant mobility in the profession concerned;
- There is sufficient interest expressed by the relevant stakeholders;
- The profession or the education and training geared to the pursuit of the profession is regulated in a significant number of Member States.⁶

At this stage the professions that may ultimately adopt the card are not known. The European Commission has however run a call for expressions of interest for the card.⁷ This produced a list of

⁶ Article 4a Paragraph 6 of the amended directive

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interested professions that may meet these criteria. These professions have been narrowed down further and include:

- Nurses
- Pharmacists
- Physiotherapists
- Mountain Guides
- Real estate agents

The European Commission is intending to undertake a thorough assessment of each with stakeholder engagement through focus groups. This list also does not preclude other professions being considered by the European Commission at a later date.

Impact

At this stage limited analysis of costs and benefits is possible due to uncertainty over which professions will ultimately adopt the card.

Administrative costs: Administrative burdens will shift to some extent between host and home Member States Competent Authorities. Rather than the host authority it will be the home authority that will be required to verify the qualifications of professionals seeking to migrate to other Member States. For each Competent Authority:

- Costs may increase for any professionals for whom the authority is the home authority.
- Costs may decrease for each professional for whom the authority is the host authority.

The net cost or saving for any Competent Authority will in part depend on the flow of applications to and from the Member State. The UK, as outlined in the background section of Annex 1, is substantively a net receiver of recognition decisions. This would suggest that the shift in administrative burdens to home Member States may on average reflect a net fall in the UK's administrative burden.

The overall savings or costs will be contingent not only on the net flow of professionals but factors such as:

- The level of mutual trust between Competent Authorities and in the EPC. Without trust there is a risk that host authorities will recheck documents sent by a home authority. Such duplication could reduce or eliminate any administrative savings.
- The current administrative procedures in each Competent Authority. Where home Competent Authorities already regularly issue certificates for their professionals the additional requirements (and costs) of the EPC may be smaller.
- How well the EPC operates in practice. Issues with implementation (such as delays in receiving documents or issues using IMI) may at least initially reduce any savings.

A study carried out by the Netherlands and Poland in conjunction with the European Commission examined the potential cost implications for doctors in these two countries. The analysis found that savings for the host Authority could be in the region of 25-83%. The analysis from Poland did not suggest any increase in costs from the EPC as similar work is already undertaken (issuing certificates) by home authorities. The Netherlands projected a cost increase for their role as home authority, though the overall increase in cost was small relative to the savings per application as a host authority.

The table below provides an illustration of the potential magnitude of cost savings of the EPC for UK Competent Authorities for the professions currently under consultation. Net savings, as noted, are driven by the fact that more applicants apply to UK Competent Authorities compared to UK qualified professionals seeking recognition in other Member States. For this reason there are likely to be some professions where costs rise, particularly where the profession is not regulated in the UK and consequently there are no applications to the UK. This is true of real estate agents and mountain guides.

⁷ http://ec.europa.eu/internal_market/qualifications/docs/policy_developments/131206_results-call-for-interest_en.pdf

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A number of assumptions are made for this analysis:

- The fees charged by an authority reflect the full administrative cost of processing an application. The analysis for the Netherlands suggests that the actual cost may be much higher.
- Under the EPC the additional cost of processing applications as a home authority is equivalent to the full fee charged for applications. In practice the additional cost of the EPC may be lower as a home authority may already carry out some functions that will be required under the new system (such as issuing professionals with certificates).
- Two scenarios are modelled for cost savings: 25% and 50%. These are within the ranges of savings estimated in the studies for the Netherlands and Poland, but given there is such a range between authorities of the same profession it is very likely that any actual savings would vary considerably between authorities of different professions.

These savings are provided for illustrative purposes. As the professions to adopt the card are not finalised they have not been included in the overall cost benefit analysis of this Impact Assessment. The specific cost changes will also depend on the profession and the existing administrative practices of the respective authority. Further analysis, in conjunction with more detailed information from Competent Authorities, may be possible for the final Impact Assessment if it becomes clearer which professions will adopt the card.

Table 4: Illustrative potential ongoing cost savings for UK Competent Authorities from the EPC

Profession	Fee charged for application ⁸ (a)	Average number of applicants to the UK 2010-12 ⁹ (b)	Average number of applicants from the UK 2010-12 (c)	Additional Costs (d)=(c)*(a)	Scenario 1: 25% cost saving (e)=0.25* ((a)*(b))+ (d)	Scenario 2: 50% cost saving (f)= 0.5* ((a)*(b))+ (d)
Nurse	£110	2,968	48	-£5,280	£76,578	£158,437
Pharmacist	£207	461 ¹⁰	151	-£31,326	-£7,469	£16,388
Physiotherapist	£195	257	60	-£11,700	£845	£13,390
Mountain Guides	£250 ¹¹	0	74	-£18,500	-£18,500	-£18,500
Real estate agent	£250 ²⁷	0	2	-£500	-£500	-£500
Total Savings	-	-	-	-£67,306	£69,954	£188,214

Do Competent Authorities expect the EPC to deliver any cost savings from the transfer of responsibility for checking qualifications to home Member States? Please provide any detail possible on the expected cost implications of the EPC for your authority.

Migration: Professionals and businesses should benefit from a more streamlined and efficient process. The more streamlined process may in principle encourage more applications and also potentially reduce the time taken to migrate.

Consumer protection: Some UK Competent Authorities have raised a number of initial concerns in relation to the introduction of the EPC. These include the transfer of scrutiny to home Member States, removing the ability of UK Competent Authorities to ensure applicants meet UK standards. There is also concern that some Competent Authorities in other Member States may not have the capacity to scrutinise the volume of applicants they would receive under the EPC. These and other issues will be

⁸ These fees are those publicly available on each Competent Authorities website.

⁹ Figures in columns b and c are drawn from the European Commission's database. See Annex 2 for more information.

¹⁰ Data is missing from 2011. This figure is the average of 2010 and 2012.

¹¹ As real estate agents and mountain guides are not licensed in the UK there is no existing registration fee. The fee used is calculated as an average of fees charged by the professions surveyed in Annex 3.

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profession-specific and will need to be addressed through the European Commission's consultation process.

Table 5: Summary of impacts on stakeholders from the European Professional Card amendment

	Professionals	Consumers	Businesses	Competent Authorities
Administrative Costs	o	o	o	+/-
Migration	+	+	+	o
Consumer protection	-/o	-/o	-/o	o

Key: Positive (+), Negative (-), Neutral (o)

2. Partial Access

Background

The amended Directive includes, for the first time, partial access to professions. Partial access will allow a professional qualified in their home Member State to practice a subset of a regulated professional's activities in another Member State. For example, a qualified hydraulics engineer who moves to a Member State where engineers are also qualified to work in other fields may be able to gain access to the activities relating to their qualifications. They would be able to do this without having to gain qualifications or recognition in the broader profession. The amendment requires Competent Authorities to grant partial access to a profession on a case-by-case basis. This brings legislation into line with 2006 case law of the Court of Justice of the European Union.¹²

The amended Directive specifies that the following conditions must all be fulfilled for partial access to be granted:

- the professional is fully qualified to exercise in the home Member State the professional activity for which partial access is sought in the host Member State;
- differences between the professional activity legally exercised in the home Member State and the regulated profession in the host Member State as such are so large that the application of compensation measures [an aptitude test or experience needed to bridge gaps in competence] would amount to requiring the applicant to complete the full programme of education and training required in the host Member State to have access to the full regulated profession in the host Member State;
- the professional activity can objectively be separated from other activities falling under the regulated profession in the host Member State. For the purpose of [this point] the competent authority of the host Member State shall take into account whether the professional activity can be pursued autonomously in the home Member State.

Partial access may also be rejected by a Competent Authority if justified by reasons of overriding general interest, so long as rejection does not go beyond what is necessary to obtain that objective. The provision also does not apply to those professionals who are eligible for automatic recognition (a substantial proportion of all UK applications). This is likely to substantially reduce the potential pool of professionals that currently apply for recognition who may be eligible.

As partial access was established under ECJ case law it is already in principle possible for a professional to apply. Initial discussions with Competent Authorities suggest that the provision is very rarely used and not widely known. However, if there is increased awareness of partial access as a result of the amendment it is possible that the number applying could increase in the coming years.

¹² Case C-330/03: <http://curia.europa.eu/juris/document/document.jsf?docid=57969&doclang=en>. Case C-575/11 in 2013 also established that partial access can apply to health professions: <http://curia.europa.eu/juris/document/document.jsf?text=&docid=138853&pageIndex=0&doclang=en&mode=lst&dir=&occ=first&part=1&cid=230321>

Impact

As noted above, current indications are that partial access is not widely used. As it applies only to professionals that do not qualify for automatic recognition a substantial proportion of existing applicants would not be eligible. This would suggest a limited overall impact but that does not rule out future, unpredictable, increases in applications.

Administrative costs: The case-by-case requirements of granting partial access may increase the complexity and time spent by Competent Authorities determining whether an applicant is eligible. Initial responses from some Competent Authorities suggest that partial access may also necessitate changes in the format of their registers to distinguish professionals who are only qualified in a specific area from those qualified for all activities of the profession. This may in turn incur additional IT costs to adapt their registers.

Are Competent Authorities able to provide any estimate of the cost of addressing an individual partial access case as well as any costs associated with changes (such as IT systems) to their registers to accommodate partial access?

Migration: Partial access should in principle reduce the barriers to professionals who have qualifications that differ substantially in scope from the host member state. Such professionals are likely to benefit from greater mobility. Consumers and businesses may also benefit from a greater supply of professionals in the form of lower prices. As the amendment does not apply to professionals who qualify for automatic recognition (which currently make up a substantial proportion of all UK applications) the actual application of the provision, and associated benefits, may be relatively small.

Consumer Protection: Competent Authorities have highlighted that partial access may at the very least make it more complex for consumers and businesses to understand what activities a professional is qualified to perform. There may also be a risk of some professionals practicing some activities outside those which they have been granted access to and challenges for Competent Authorities enforcing such restrictions. The provisions in the Directive to refuse partial access for reasons of overriding general interest may help to ensure that any health-based risks to consumers or businesses are mitigated.

Table 6: Summary of impacts on stakeholders from Partial Access amendment

	Professionals	Consumers	Businesses	Competent Authorities
Administrative Costs	o	o	o	-
Migration	+	+	+	o
Consumer protection	-/o	-/o	-/o	-/o

Key: Positive (+), Negative (-), Neutral (o)

3. Temporary service provision

Background

Under the PQD professionals are able to work on a temporary basis in other Member States. The existing Directive allows professionals to do this without, in principle, a prior check on qualifications. Member States can only collect information on the status of temporary professionals in an annual declaration. Professionals need to inform the Competent Authority of their intent to provide the service along with information such as their establishment, insurance and professional competence.

A number of small amendments have been made including the requirement that recognising a qualification on a temporary basis entitles the professional to exercise the activity over the whole of the territory (i.e. the UK) and additional ability for Authorities to request information. The amended Directive also clarifies document requirements and procedural steps.

The amended Directive also reduces the requirements for temporary service provision for professionals who come from a Member State which does not regulate the profession. Under the original Directive

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professionals needed two years of professional experience to be eligible for recognition. The amended Directive has reduced this to one year's experience.

Impact

Administrative costs: There are unlikely to be substantive cost implications to the amendments. Some costs may be generated from cases where multiple Competent Authorities operate across the UK and would likely need to coordinate recognition decisions to apply across the UK. This is only likely to affect a small number of professions such as social workers and child minders. The number of cases is as such likely to be very small.

Do any Competent Authorities anticipating additional costs incurred from the temporary service provision amendments?

Migration: For professionals who wish to move around the UK (and the profession is regulated by multiple Authorities) the changes should make this more straightforward. Tacit consent should also ensure that there are no undue delays in their ability to practice a profession.

Mobility will also be easier between member states where one regulates a profession and the other does not. There are over 800 professions regulated in the EU and fewer than 200 in the UK. This amendment may as such be beneficial to a wide range of UK professionals seeking to migrate within the EU. There are also undoubtedly professions that the UK regulates that are not regulated in other Member States. These professions will benefit from reduced barriers to migration to the UK.

Consumer protection: There are unlikely to be any substantive effects on the level of consumer protection.

Table 7: Summary of impacts on stakeholders from Temporary services amendment

	Professionals	Consumers	Businesses	Competent Authorities
Administrative Costs	o	o	o	-/o
Migration	+	+	+	o
Consumer protection	o	o	o	o

Key: Positive (+), Negative (-), Neutral (o)

4. Compensation Measures

Background

The original Directive specified five different levels of qualifications. Under the Directive Competent Authorities were able to reject applications that fell more than one level below the qualification required in the host Member State. In the amended Directive this provision has been removed and a Competent Authority can only reject an application in cases where the applicants' qualifications fall under category 'a'¹³ (the lowest level specified - generally qualifications at a secondary or primary level or not covered in other categories) and the Member State's requirements are in category 'e'¹⁴ (the highest level of qualification specified - post-secondary for at least 4 years with any necessary training).

In all other cases the Competent Authority must recognise the applicant's qualifications but can impose compensation measures to bridge any gaps (aptitude tests and/or requirements for additional experience). In cases where the applicant's qualification is in category 'a' and the requirement is category 'd' (post-secondary qualifications of 3-4 years with any necessary additional training) the Competent Authority can also impose an adaptation period and test.

¹³ Category a is defined in the Directive as an attestation of competence issued by the competent authority for either (i) a training course not covered in other categories of the legislation or or a specific examination without prior training, or full-time pursuit of the profession in a Member State for three consecutive years or for an equivalent duration on a part-time basis during the previous 10 years; or (ii) general primary or secondary knowledge, attesting that the holder has acquired general knowledge.

¹⁴ Completion of a post-secondary course of at least four years duration or equivalent part time in an institution of higher education or equivalent, as well as any professional training required in education to the post-secondary course.

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The amended Directive also requires that Competent Authorities justify their decision to impose a compensation measure on an applicant. This is intended to improve the transparency of the process for applicants.

Impact

The amendment may expand the pool of individuals who are eligible under the PQD recognition system. It may as such be reasonable to expect an increase in the number of applications and mean more compensation decisions are required by Competent Authorities for applicants who are more than one level below the required qualification.

Administrative costs: There may be some administrative costs for Competent Authorities to determine the appropriate compensation measure for each case. There may also be further costs for operating compensation measures such as aptitude tests.

Does applying a compensation measure raise the administrative costs of processing an application?

Migration: As noted, expanding the eligible pool may mean more applicants and more professionals ultimately able to migrate. At this stage there is little evidence of which professions may be most affected by these changes. Professionals more generally will also benefit, to the extent this does not already occur, from a more transparent process on the reasoning for any decision. This may in turn make it easier for a professional to ultimately meet any additional requirements, further reducing barriers to migration.

Consumers and benefits may also see some benefit to the extent that higher migration leads to lower prices and other positive market outcomes.

Consumer protection: As applicants would ultimately still need to demonstrate the required level of competence of a host Member State there should be no impact on the consumer protection.

Table 8: Summary of impacts on stakeholders from Compensation Measures amendment

	Professionals	Consumers	Businesses	Competent Authorities
Administrative Costs	o	o	o	-/o
Migration	+	+	+	o
Consumer protection	o	o	o	o

Key: Positive (+), Negative (-), Neutral (o)

5. Common Training Principles

Background

The amended Directive allows the European Commission to adopt delegated acts to establish common training frameworks and tests. The intention of the framework and tests is to allow professionals who follow the framework or pass the test to be eligible to pursue the profession in any Member State. Qualifications gained under the framework would be automatically recognised by other participating Member States. The frameworks would be based on a common set of knowledge, skills and competences necessary to pursue a profession.

The professions that will adopt the common frameworks and tests are to be determined in consultation by the Commission during implementation. The workings of the framework and tests will be subject to agreement between Member States and the Commission. Common training tests, if agreed with all participating Member States, will replace any existing tests. The provision does not cover non-EU professionals.

Impact

As the professions that may adopt the common frameworks and tests are not known it is only possible at this time to outline potential impacts in general terms.

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Administrative costs: In principle the amendment may offer Competent Authorities cost saving opportunities. If the framework and tests are effectively implemented it would in effect harmonise qualifications across the EU. This could in turn make it easier for Competent Authorities to process applications, reducing administrative costs.

Do Competent Authorities expect common frameworks and tests to reduce administrative costs in processing PQD applications?

Migration: By harmonising qualifications this should remove or significantly diminish the incidence of professionals requiring compensation measures to practice in another Member State. This could substantially ease migration for any such affected professional. In practice many of the most mobile professions at current are covered in the automatic recognition system which already establishes common training requirements. As such, the number of professionals ultimately affected by these frameworks may be relatively small.

Consumer protection: There are potential risks to the introduction of common frameworks and tests. It is possible that the level or type of tests is not suitable or adequate for the UK. This could create risks to the level of consumer protection, or for health-related professions, to the safety of patients. This could be to the detriment of consumers and businesses. These are issues that will need to be addressed during the European Commission's consultation.

Table 16: Summary of impacts on stakeholders from the European Professional Card amendment

	Professionals	Consumers	Businesses	Competent Authorities
Administrative Costs	o	o	o	+
Migration	+/-	+/-	+/-	o
Consumer protection	o/-	o/-	o/-	o/-

Key: Positive (+), Negative (-), Neutral (o)

6. Access to information

Background

The amended Directive requires Member States to make available on the Points of Single Contact (PSC) information about the recognition procedures for professions. The information made available should include a list of Competent Authorities and the documentary requirements for recognition. The amendment also requires Competent Authorities to make the recognition process available via online applications. Any existing national contact points will, as assistance centres, become responsible for providing advice and assistance for individual cases. Points of Single Contact were established under the Services Directive and are already in operation.¹⁵

Impact

Administrative costs: The European Commission has estimated that as the Points of Single Contact are already established the time taken to transfer and update any information required for each profession should take in the region of 2-6 days. There may be around 190 professions in the UK that will need information added to the PSC. The table below shows two gross hourly wage estimates, first based on an average gross wage cost of £13.50 from ASHE¹⁶ and second a £28 gross wage cost, in line with the European Commission's wage estimate in its Impact Assessment.

The overall one-off cost may be in the range of £35,000-£229,000. It is assumed for consistency with the European Commission's estimates that the scenarios with a £28 gross wage estimate form a central

¹⁵ Points of Single Contact were established in the EU Services Directive. They were established as e-government portals for entrepreneurs in the services sector. The PSCs currently provide information on the rules and regulations applicable to services and allow for entrepreneurs to complete administrative procedures online.

¹⁶ This is based on the mean gross hourly wage for administrative occupations in the Annual Survey of Household Earnings (ASHE) for 2013. It includes a 17.8% non-wage cost.

scenario for a potential administrative cost of £78,000-£235,000. These costs are assumed to split evenly between 2014 and 2015.

Table 9: Discounted Potential one-off costs for transferring information to the Point of Single Contact

Gross hourly wage	2 days to transfer information*	6 days to transfer information*
£13.50	£37,825	£113,473
£28	£78,451	£235,352

*Assumes a working day of 7.5 hours.

Are Competent Authorities able to provide any information about the expected costs and time taken to make available information through the Points of Single Contact?

The second component of administrative costs is any one-off changes to IT systems necessary to provide an online application process for professionals. The amended Directive gives the choice of using systems established by Competent Authorities or using the Points of Single Contact. Many Competent Authorities in the UK already offer their own online application system and will not need to make any changes. For other authorities they have the option of using the Points of Single Contact or establishing their own system. While establishing a full online application system could entail substantive costs, the amended Directive only requires that the procedures be completed electronically. This will give competent authorities flexibility to adopt very simple processes (such as e-mailing application forms and documentation) or more complex online systems. The additional cost of this component is as such expected to be very small.

Do any Competent Authorities expect substantive costs to arise from providing electronic application processes? Could you specify expected costs?

Migration: Better information and easier online application processes may encourage more professionals to apply for recognition and migrate. At this stage there is no data on what the scale of this effect may be.

Do Competent Authorities who have switched to online application systems have any information on the impact this may have had on number of applications?

There may also be a benefit to those professionals who seek out information and apply in terms of time saved. Time savings may occur due to information being more easily found and more clearly presented. Time may also be saved through online application processes. The only data source available to estimate such benefits is the number of past applicants to and from the UK.

In terms of attributing such benefits it has been assumed that the benefits accruing to any Member State are from those professionals that have a qualification from that Member State. This would mean, for example, that benefits to the UK would be derived from professionals with UK qualifications seeking recognition in another Member State and saving time. Benefits to professionals applying to the UK would be attributed to the Member State that the professional gained their qualification in.

Implicit in this assumption is that the professional is resident in the country in which they obtained their qualification. In practice this may not be the case. For instance, a professional may migrate to the UK before applying for recognition or they may reside in a Member State other than the one in which they obtained their qualification. However, it is likely that this assumption would reasonably hold for a substantial proportion of all cases.

Using this assumption it is possible to model scenarios of time savings based on the use of Points of Single Contact and online applications. Table 10 summarises this analysis.

Further assumptions in this analysis include:

- The value of time saved is equivalent to the average gross wage of the professional searching.¹⁷ For example, a UK qualified doctor is assumed to save £34 of gross wages per hour of time saved. This

¹⁷ ASHE median gross wage data is used on an occupational basis. Of the 8,168 applications that were made by UK qualified professionals over 2010-12, 7,109 are covered by specific data from ASHE. For the remaining applications the wage rate has been assumed as an average of the other professions.

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is matched against the European Commission's database of the number of UK-qualified applicants for each profession.

- An average of the number of UK professionals' applications over 2010-12 is used.
- Additionality of the amendment diminishes over time. Many Competent Authorities in the UK already offer online applications and provide easily accessible information. In such circumstances the additional benefit of the amendment is likely to be small. It may be reasonable to expect that over time authorities across the EU would also move toward online processes, diminishing the additionality of the amendment. To capture this idea two different time periods are modelled (5 years and 10 years), reflecting different assumptions of how long the amendment generates additional gains.
- A 10 year period is assumed to be a central estimate. Benefits are assumed to only begin once transposition is complete (2016). In the 10 year appraisal, following 5 years of full benefits these are assumed to halve to reflect diminishing additionality.
- Uncertainty over how much time professionals currently take and Competent Authorities already providing some of the services the amended Directive requires are both reflected in conservative time saving scenarios (half an hour or 1 hour of time saved per professional).
- The analysis does not capture professionals who search for information but do not make an application.

Table 10: Discounted Time and cost saving scenarios from the Points of Single Contact and online applications

Time Horizon (beginning in 2015)	Scenario 1: Half an hour time saved	Scenario 2: 1 hour saved
5 years appraisal	£83,506	£167,012
10 years appraisal	£169,731	£339,463

Consumer protection: No effects are envisaged on the level of consumer protection.

Table 11: Summary of impacts on stakeholders from Administrative procedures placed online amendment

	Professionals	Consumers	Businesses	Competent Authorities
Administrative Costs	o	o	o	+/-
Migration	+	+	+	o
Consumer Protection	o	o	o	o

Key: Positive (+), Negative (-), Neutral (o)

7. Exchange of Information

Background

The amended Directive requires Competent Authorities to use the IMI to exchange information with Authorities in other Member States. This is intended to streamline and simplify communication between Authorities. Uses of IMI could include exchanging information around the nature and detail of a particular qualification.

Impact

Administrative costs: Competent Authorities will incur a cost to train users in the use of the IMI system. IMI training is provided by the European Commission and is done online. It is a relatively short process (up to one hour). The number of individuals who would need to be trained is likely to vary between

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Competent Authorities and is not known at this stage. The table below provides an illustrative estimation of the magnitude of potential costs for affected Competent Authorities.

The exact number of Competent Authorities is not available but at least 150 are known. To compensate for any smaller Authorities that have been omitted 175 Authorities are assumed to be affected. It is assumed that Scenario 1 and Scenario 3 with a gross wage of £28 form the central estimation of potential costs.

Table 12: Discounted Costs to training staff to use the IMI system for the Alert Mechanism

Gross hourly wage	Scenario 1: 1 member of staff	Scenario 2: 5 members of staff	Scenario 3: 10 members of staff
£13.50	£1,991	£9,954	£19,908
£28	£4,129	£20,645	£41,290

While there will be transition costs it is expected that Competent Authorities will be able to make administrative savings. Streamlined communication between Competent Authorities should reduce any time taken to identify the correct Authority and the correct point of contact. There is no information at this stage to quantify these savings.

Are affected Competent Authorities able to provide more information on how many additional staff may need to use IMI for the alert mechanism and the potential cost implications of using the system?

Migration: No substantive impacts are expected, though to the extent that Competent Authorities are more easily able to obtain information the time taken to make a decision may be reduced.

Consumer protection: No substantive impacts are expected.

Table 13: Summary of impacts on stakeholders from Alert mechanism amendment

	Professionals	Consumers	Businesses	Competent Authorities
Administrative Costs	o	o	o	-
Migration	o	o	o	o
Consumer protection	+	+	+	+

Key: Positive (+), Negative (-), Neutral (o)

8. Alert Mechanism

Background

An alert mechanism will be established for use with any regulated profession with patient safety implications and professions involved in the education of minors. The amendment requires a Competent Authority to notify Competent Authorities in all other Member States of professionals that have been prohibited from exercising their professional activity (even if only temporarily) or who have used false documents. The Alert Mechanism will use the existing online Internal Market Information system (IMI) that is operated by the European Commission.

Impact

Administrative costs: Only a small number of authorities will be affected by the changes (around a dozen). Some affected Competent Authorities have noted that the use of the IMI system may necessitate a wider number of individuals in their organisation using the system. The additional costs for this have been included in the exchange of information amendment summarised in the preceding section.

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Migration: No substantive impacts are expected.

Consumer protection: The amendment is intended to ensure that Competent Authorities are fully informed of any professional who have been prohibited from practicing their profession. The intention is to improve the consumer protection by ensuring those not eligible to practice are unable to do so. Consumers and businesses who use such services should benefit from a smaller risk of poor provision of service. Competent authorities may also benefit from a more effective mechanism that allows professional competence to be more easily enforced. Better enforcement may also benefit professionals through reductions in any negative perceptions of the profession that may arise from some professionals' poor service provision.

Table 14: Summary of impacts on stakeholders from Alert mechanism amendment

	Professionals	Consumers	Businesses	Competent Authorities
Administrative Costs	o	o	o	-
Migration	o	o	o	o
Consumer protection	+	+	+	+

Key: Positive (+), Negative (-), Neutral (o)

9. Transparency Initiative

Background

A mechanism has been introduced into the Directive that is intended to improve transparency around regulations in Member States and the rationale for regulation. The first step in the process is for Member States to provide a list of professions regulated and the activities that are reserved for those professions. Member States will in turn need to articulate the rationale for the regulations.

This will be followed by the European Commission facilitating a mutual evaluation exercise where Member States will be able to scrutinise others regulations. This is similar to a mutual evaluation exercise conducted for the Services Directive.

Impact

The outcome of this exercise is at this time unclear, though it is possible that some professions currently regulated in the UK could see changes to the regulations governing their operation. This could take the form of deregulation (for example moving from a system of licensing to certification, accreditation or a move to complete deregulation) or could involve other changes such as to the scope of activities that are regulated or changes to the competence requirements of a profession.

Changes to regulation could have wide ranging effects on all stakeholders.

It may be possible for the final Impact Assessment to provide more detailed analysis of potential impacts if some of the outcomes of the process are better understood.

Table 15: Summary of impacts on stakeholders from the Transparency amendment

	Professionals	Consumers	Businesses	Competent Authorities
Administrative Costs	Will depend on the professions affected and the regulatory reform adopted.			
Migration				
Consumer protection				

Key: Positive (+), Negative (-), Neutral (o)

Annex 1: Background

This background Annex covers:

- The existing regulatory regime for professionals in the UK
- The current picture of migration into the UK for regulated professionals

The UK regulatory system for professionals

The UK currently **licenses** around 130 professions. The vast majority of these professions have restrictions on entering the profession based on demonstrating a particular level of competence. It is illegal for an individual to practice any of these professions without a license.

The UK also operates a system that allows some professions to use the ‘Chartered’ title. The awarding of such titles to a professional is a form of **accreditation**. The title is generally awarded by a professional body that is empowered to do so by a royal charter. There are a wide range of professions that have access to the title such as Chartered Accountants, Chartered Surveyors and Chartered Waste Managers. Crucially, the use of the title, and accreditation more generally, does not prohibit an individual without accreditation or the title from practising the profession.

Certification also exists, which like licensing is granted when particular competencies are met or demonstrated, but unlike licensing is not required to practice a profession. Unlike accreditation it does not grant the use of a title.

A typology of occupational regulation in the UK is shown in Table 17 below. The restrictiveness of regulation tends to vary between types of regulation, along with their potential impact on the labour market. Economic literature suggests that licensing, as the most restrictive practice, is likely to have the largest impact on the labour market and wider economy.

It is possible in some circumstances for certification or accreditation to have a substantial impact where such measures act as a strong signal in the market (such as of quality). In such cases certification or accreditation may be a de facto requirement for successfully practising the profession.

The focus of analysis in this Impact Assessment and for the external research that has been commissioned is on those professions that are licensed. This is both because the restriction is most likely to have measurable impacts on the economy and because licensed professions almost wholly account for the use of PQD’s mechanisms to gain recognition of a qualification to work in the UK.

Table 17: Typology of Occupational Regulation

		Requirement to demonstrate a minimum degree of competence?	
		No	Yes
Any legal regulation by the government (directly or through an appointed agency)?	No	<p>Unregulated</p> <p>The occupation may be subject to conventions, whereby employers will typically cite minimum entry criteria, but these are not co-ordinated, nor do they have any legal basis.</p> <p><i>UK example:</i> retail assistant</p>	<p>Non-governmental accreditation schemes</p> <p>Practitioners may apply to be accredited as competent by an accrediting body, which is usually a professional body or industry association. May permit the accredited person to use a specific title or acronym but confers no legal protection of title, nor any legal protection of function.</p> <p><i>UK example:</i> membership of Institute of Certified Locksmiths</p>

	Yes, but confers no rights to practice	Empty cell	<p>Certification schemes</p> <p>There is no legal restriction as to who may carry out the tasks covered by the occupation, but practitioners may apply to be certified as competent by the state (or an appointed agent). This certification may sometimes (but not always) confer legal protection of title.</p> <p><i>UK example:</i> certification by the Architects' Registration Board</p>
	Yes, and confers rights to practice	<p>Registration schemes</p> <p>Requires registration of personal details. May also make stipulations in areas other than competence (e.g. finance)</p> <p><i>UK example:</i> registration of estate agents</p>	<p>Licensing schemes</p> <p>Only those who can demonstrate the specified level of competence may obtain a licence permitting them to undertake the tasks covered by the regulation.</p> <p><i>UK example:</i> licensing of taxi drivers by local authorities</p>

Source: Forth et al. (2012)

Migration of regulated professionals in the UK¹⁸

Under the current PQD system **the UK is the largest destination for recognition applications of any Member State**. In 2012 the UK took more than 11,500 recognition decisions, 29% of all recognition decisions recorded by the European Commission. Norway was the second largest with 20% of decisions.

In turn, in 2011 and 2012 there were at least 3,153 and 2,333 UK-qualified professionals who sought recognition in another European Economic Area (EEA) country, around 5.5% of all recognition decisions. At an aggregate level the UK is as such likely to be a net importer of regulated professionals from other EEA countries.¹⁹

The UK is as such likely to currently experience some of the most significant beneficial effects from such professional migration including addressing skills gaps, lowering prices for consumers and potentially providing greater competition and innovation in the provision of services that the professionals offer.

There are a number of possible explanations for the UK as the top destination for applications. One possible reason could include the UK's relative position, along with other EU 15 members, as a destination that tends to pay relatively high wages compared to most of the Member States that acceded in 2004 and 2007.²⁰ Such wage differentials may be one important element of migration decisions. A further explanation for the UK as the top destination under PQD may also be because of the UK's relatively flexible and open labour market, which could in turn present smaller barriers to the free movement of professionals.²¹

¹⁸ Most data in this section is from the European Commission's database on regulated professions. This records decisions taken by Member States and the recorded outcome (positive, negative or neutral) for each calendar year. The database relies on Competent Authorities in each Member State notifying the Commission of decisions taken and there are notable omissions (such as Architects). As such, while offering the most comprehensive coverage of recognition decisions available the data is incomplete. Where possible the data presented has been supplemented with additional information from individual Competent Authorities. The database can be found at: http://ec.europa.eu/internal_market/qualifications/regprof/index.cfm?action=homepage

¹⁹ Note that the database only records applications for recognition and the outcome of decisions. Whether professionals then choose to move to another Member State following a successful decision is not captured by the data. It would nevertheless appear likely that the UK is a net importer by a substantial margin.

²⁰ For example, the median equivalised net income in the UK in 2012 was €19,007. While less than many other major European economies such as France (€20,603) or Sweden (€24,636) it is still substantially above countries such as Hungary (€4,735) or Slovakia (€6,927). Source: Eurostat, Statistics on Income and Living Conditions (SILC)

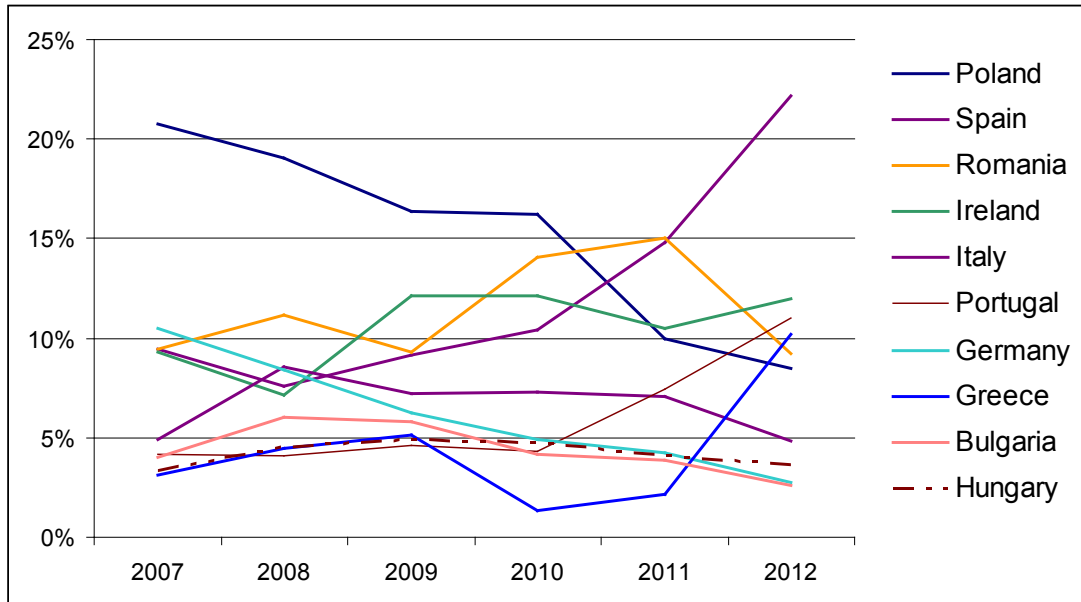
²¹ For example, The World Economic Forum's Competitiveness Index 2013-14 ranks the UK's labour market efficiency as 5th in the world while its capacity to attract talent is ranked as 4th. Source: http://www3.weforum.org/docs/WEF_GlobalCompetitivenessReport_2013-14.pdf

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Over the period 2007-12 the EU countries where applicants to the UK gained their qualification were diverse.²² Since the recession there has been a notable increase in the proportion of individuals who gained their qualification in Spain and a decline from applicants with qualifications from Poland. This may suggest that the financial crisis and its varying effects on countries has been an important driver of migration.

Nevertheless, over the period 2007-12 more than 44% of applicants gained their qualification in a country that has acceded to the EU since 2004.²³

Figure 1: Proportion of UK recognition decisions by country of qualification, 2007-12



In terms of the professions that apply for recognition in the UK, Table 18 shows those with more than 100 decisions recorded on average between 2010 and 2012. It shows that the key professions applying for recognition under PQD include doctors, nurses and secondary school teachers. These three professions alone account for nearly 70% of decisions recorded.²⁴

Overall the professions in Table 18 account for more than 90% of recorded decisions with a long-tail of professions recording only a handful of decisions each year. This reflects a more general trend seen across the EU with a small number of professions (mostly under the automatic system, and teachers) accounting for the vast majority of decisions.

Table 18: Recognition Decisions in the UK by Profession

Profession	Annual average number of recognition decisions 2010-12	Recognition System
Doctor of Medicine	3,164	Automatic Recognition
Nurse	2,968	Automatic Recognition
Secondary School Teacher	2,283	General System

²² The data is recorded on the basis of where a qualification was gained. This may mean an individual is migrating from a country that is not the one they attained their qualification in. It is assumed that in practice most professionals attain their qualification in the country that they migrate from.

²³ Including Poland, Cyprus, Malta, Czech Republic, Slovakia, Slovenia, Lithuania, Latvia, Hungary and Estonia in 2004 and Romania and Bulgaria in 2007.

²⁴ This figure includes Architects (not captured in the Commission's database) as well as compensating for likely data omissions for some professions (where individual years report zero decisions taken (see footnote 32).

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Dental Practitioner	735 ²⁵	Automatic Recognition
Veterinary Surgeon	576 ²⁶	Automatic Recognition
Pharmacist	461 ²⁷	Automatic Recognition
Architect	423 ²⁸	Automatic Recognition
Social worker	301	General System
Physiotherapist	257	General System
Midwife	180	Automatic Recognition
Lawyer/Barrister/Solicitor	119	General System

For many regulated professions it appears likely that EU migration has had a minimal impact. For others it is clear that EU migration has almost certainly substantively affected the composition of the labour force. Table 19 below is drawn from the UK's Labour Force Survey. It shows the proportion of the labour force in each profession who are from the EU (as categorised by nationality). The results are filtered by whether the individual is in the UK for employment purposes. The table illustrates that the significance of EU migration can vary substantially between different professions. At one extreme half of dental practitioners are EU nationals. At the other extreme are professions such as primary teaching where less than 3% of the labour force are EU nationals.

Substantial impacts from EU mobility are likely to be found in those professions where EU nationals make up a substantive proportion of the labour force. These results suggest that even if the overall impact of mobility is small (in terms of overall migration levels for the UK) there may be substantive impacts in individual labour markets.

Table 19 – Proportion of EU migrants in selected professions²⁹

Occupation (SOC 2000)	EU migration as Percentage of total UK Employment
Dental Practitioners (2215)	50%
Architects (2431)	14%
Medical Practitioners (2211)	12%
Security Guards (9241)	9%
Nurses (3211)	8.9%
Motor mechanics, auto engineers (5231)	7.7%
Care Workers (6115)	4.5%
Nursing Auxiliaries (6111)	4.2%
Secondary Education Teaching Professionals (2314)	2.9%
Primary and Nursery Education Teaching Professionals (2315)	1.9%
Senior Care Workers (6115)	1.4%

²⁵ Data appears to be missing for 2010 and so this has been calculated as a two year average in 2011-12.

²⁶ Data appears to be missing for 2010 and 2011 and so this reflects decisions taken in 2012.

²⁷ Data appears to be missing for 2011 and so this has been calculated as a two year average for 2010 and 2012.

²⁸ No data for Architects is available on the European Commission's database. This figure has been provided by the Architect's Registration Board and is an average of 2011-13.

²⁹ Estimates from the Labour Force Survey three year average (2010-13).

Annex 2: Estimated Administrative costs of existing recognition system

The table below provides detail of the cost estimate of the existing PQD regulatory system in the UK. It primarily draws upon publically available information from Competent Authorities on the application fees they charge, combined with publicly available data from the European Commission on the number of decisions made, averaged over the three years 2010-12.³⁰ Only those professions with more than 100 decisions on average taken are included.

The table covers over 90% of known decisions made within this period (12,461 on average in the period). To the extent that decisions are not recorded by the European Commission (possibly because Competent Authorities have not notified of their decisions) there will be gaps. However, it is likely that the majority of decisions are covered by this analysis, with substantial clustering of applications focused in a few professions such as doctors, nurses, teachers and dental practitioners.

The analysis assumes that the fees charged broadly reflect the actual cost of processing applications. In practice it is possible that some Competent Authorities cross-subsidise other activities they perform with revenue from application fees. Other authorities may not charge the full cost. These issues aside, this analysis should be a reasonable estimate of the overall cost of the current system.

Competent Authority	Profession	Application Fees	Annual average number of decisions 2010-12 ³¹	Total Cost
General Medical Council	Doctor	£390	3,164	£1,233,960
Nursing and Midwifery Council	Nurse	£110	2,968	£326,480
National College for Teaching and Leadership	Secondary School Teacher	£130 ³²	2,283	£296,790
General Dental Council	Dental Practitioner	£576	735	£423,360
Royal College of Veterinary Surgeons	Veterinary Surgeon	£150	576	£86,400
General Pharmaceutical Council	Pharmacist	£207	461	£95,427
Architects Registration Board	Architects	£140	423 ³³	£50,960
Health and Care Professions Council	Social Worker	£420	301	£126,420
The Chartered Society of Physiotherapists	Physiotherapist	£195	257	£50,115
Nursing and Midwifery Council	Midwife	£110	180	£19,800
Engineering Council	Engineer	£233.50	94	£21,949
Health and Care Professions Council	Occupational Therapist	£420	66	£27,720
General Dental Council	Dental hygienist	£120	58	£6,960
Health and Care Professions Council	Psychologist	£420	55	£23,100
Total			11,562	£2,789,441

³⁰ The vast majority of decisions are accounted for by Doctors, Nurses and teachers. There is a long-tail of professions that account for a very small number of decisions that are not included in this analysis.

³¹ For three professions there have been no decisions recorded for particular years (such as no Veterinary Surgeons recorded in 2010 and 2011). It has been assumed that this is a data omission and an average taken over two or a single year selected to compensate.

³² The National College for Teaching and Leadership does not charge applicants for Qualified Teacher Status but has provided an estimate of administrative costs of around £110-£130.

³³ No data is available on Architects in the European Commission's database. This figure is drawn from information provided by the Architects Registration Board.

Annex 3: Literature on the economic impact of occupational regulation

This annex provides a brief overview of the academic literature on the impact of occupational regulation. It briefly outlines the theoretical arguments for and against regulation followed by a selection of the empirical evidence.

A significant proportion of the academic literature draws its evidence from the United States, in part owing to the fact that regulation of professionals is often done at a state level. This provides a large potential sample of cases to examine, as well as providing useful counterfactuals (such as where one state changes regulations and others do not).

There is a more limited academic literature on the impact of regulating professions. As such, while much of the literature provides important indications of the impact of regulated professions, there is little specific analysis that can be applied directly to the labour markets of the UK or the EU.

BIS has commissioned an external research project to examine the impact of occupational regulation on migration and wages in the UK. The final stage Impact Assessment will incorporate this analysis.

Theory of Occupational Regulation

Occupational regulation can solve problems of asymmetric information between a customer and a supplier. Differences in information can exist whereby:

- The consumer does not have sufficient information to select the appropriate service.
- The consumer lacks the knowledge to judge the quality of the service. This could be before purchase, after purchase or both.

These issues can arise in a range of markets, particularly where choosing a service requires specialist knowledge or skills. These issues are exacerbated where the costs of making an incorrect decisions are significant and where consumers do not have many opportunities to learn (such as highly infrequent purchases). In these situations there is a risk of poorly performing or unscrupulous professionals causing significant detriment to consumers.

One particularly important example that exhibits these characteristics is in the provision of healthcare services. There will generally be a substantial difference in knowledge between patient and practitioner and the costs of the incorrect or poor treatment can be substantial.

In addition to **consumer protection**, regulation can be justified on the grounds of (CSES, 2012):

- **Public Good:** where the quality of a service is important not only for the consumer but for wider society. Services that have externalities (for example, curing contagious diseases) may have a public good rationale for high quality service.
- **Health and safety:** where a service may have important effects on the health and safety of professionals or other workers.

Occupational regulation can provide mechanisms to mitigate these market failures. Regulation can:

- Require professionals to meet certain minimum standards of training and/or experience;
- Regulate the fees charged by professionals;
- Provide enforcement mechanisms to ensure inadequate standards of provision are removed.

Through these and other mechanisms regulation can raise the overall standards of provision in a market, increase the availability and quality of information, improve customer trust and help to safeguard

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consumers against the risks of poor provision of services. At the same time regulation can impose costs on consumers and businesses. Such costs can arise in the form of:

- Restrictions on practicing a profession can act to reduce the supply of professionals (Pagliero, 2011), increase wages and raise costs for consumers and businesses of the service (Kleiner, 2006 and Kleiner, 2013)
- Restrictions on the quality of service may remove services that some consumers or businesses would actively wish to purchase, with full knowledge of its quality, in the absence of regulation. This can force them to consumer an alternative quality of service or even forgo the service entirely (Friedman, 1962)
- Restrictions on the supply of one profession can displace individuals into unregulated professions, raising supply and reducing wages in those professions (Koumenta and Humphris, 2011)
- Within the context of the EU, as regulation can vary across Member States it can act to restrict the movement of professionals between Member States in cases where regulation differs substantially and/or recognition of a professional's qualification is difficult. This may in turn act to exacerbate any costs in terms of reduced competition, higher wages of professionals and potential reductions in innovation.

Empirical evidence

As noted, one of the potential effects of regulation is the impact it can have on the wages of professionals (and hence indirectly the costs to consumers and businesses). There is significant support within the literature supporting the theory or occupational regulation raising wages:

- Kleiner and Krueger (2011) find that licensing is associated with around 18% higher wages, a similar effect to that of unions. Their study finds that the effect is greater where regulation is done at state or federal level rather than local. Requirements such as education levels are positively associated with wages. The study also found that certification has a much smaller effect.
- Pagliero (2011) examines bar exams in the US and finds that increased difficulty is associated with higher initial wages (a 1.7% increase in difficulty associated with a 1% increase in wages) but no evidence of an increase in quality.
- In the UK Humphris, Kleiner and Koumenta's (2011) utilised the Labour Force Survey and found a 13% higher hourly wage associated with licensing.

Effects on the supply of labour have also been examined:

- Kleiner (2006) found evidence that licensing in the United States restricts the supply of labour. States which did not license a professional saw 20% faster growth compared to states that licensed the same profession. This effect is likely to be a key to contribution to higher wages.

Evidence on the impact of regulation on the quality of service is more limited:

- Kleiner (2013) finds minimal impact on consumer wellbeing and worker health and safety from regulation. The book examines a range of different professions including electricians, plumbers, interior designers and pre-school teachers. It finds, for example, little evidence that licensing affects death rates, injury rates or the severity of injuries for plumbers and electricians.
- Gosper and Lewis (2011) show that regulation led to an increase in the stock and flow of qualifications in the elderly care, adult and childcare sectors. An increase in qualifications does not in itself, however, mean an increase in quality.

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