

Chapter 1

Defining Regulatory management Systems

Derek Gill

*New Zealand Institute of Economic Research and
Victoria University of Wellington*

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Chapter I

Defining Regulatory Management Systems

Derek Gill^{#§}

New Zealand Institute of Economic Research and Victoria University of Wellington

Summary

The research question for the Economic Research Institute for ASEAN and East Asia (ERIA)–New Zealand Institute of Economic Research (NZIER) Regulatory Project is: ‘Which elements of Regulatory Management Systems (RMSs) generate the most value?’ The introduction to this note explores in more detail exactly what is meant by a *regulatory management system* and what the *elements* of an RMS are. We distinguish between the *formal* system (what is in place) and the *requisite* RMS (what is required for a high-performing regulatory system). In the diagram below, the requisite RMS is shown to include policy components (in dark blue at the centre), practices (in brown around the centre), institutions (at the bottom in grey), and the overall regulatory strategy at the top in light blue.

Every country has a unique regulatory system to make laws, regulations, and rules, and a set of procedures for reviewing them. Increasingly, countries are introducing regulatory management policies and strengthening their institutions to make their regulatory systems more effective. Regulatory management (‘regulating the regulation makers’) is a form of meta-regulation that includes both regulatory policymaking (‘regulating regulation developers’) and regulatory administration and enforcement (‘regulating the wielders of regulatory power’).

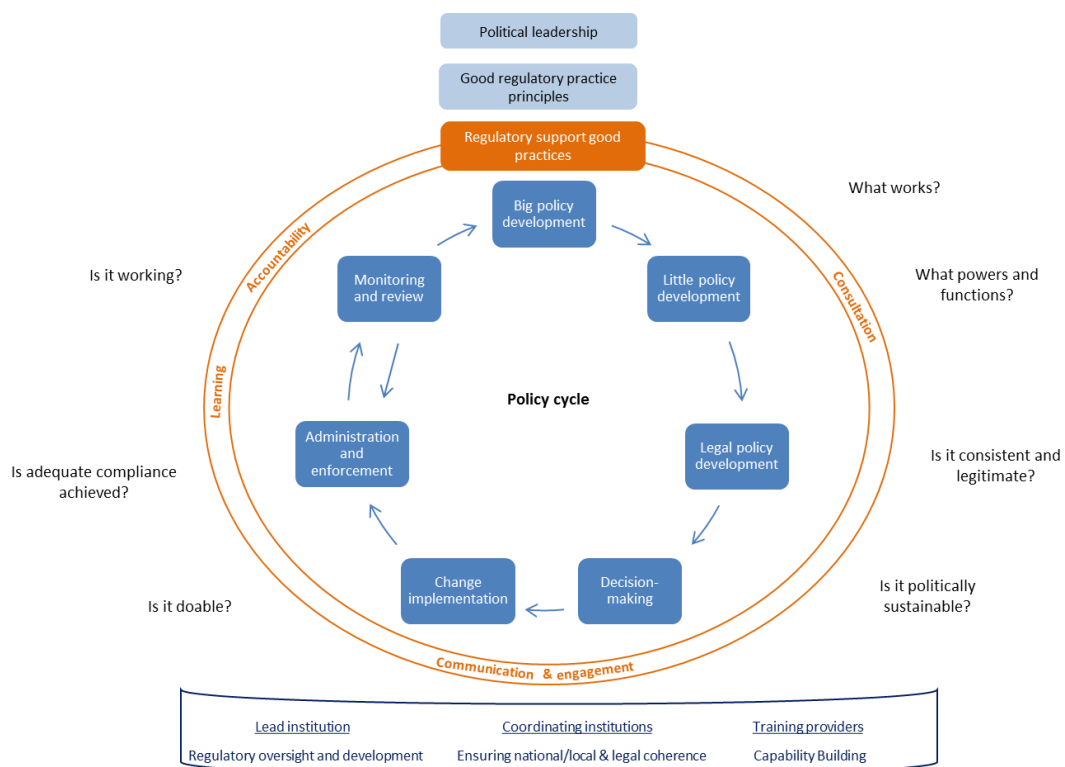
Lead author. Derek Gill Derek.Gill@NZIER.org.nz L13 215 Lambton Quay, PO Box 3479, Wellington, 6140 New Zealand.

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Figure 1.1 suggests that an ideal high-performing or requisite regulatory system needs to have four components:

- the policy cycle,
- supporting practices,
- institutions, and
- regulatory strategy.¹

**Figure 1.1. Elements Required for a High-Performing System
Requisite Regulatory Management System**



Source: NZIER.

¹ As discussed in Annex A, there is no rigorous definition of a regulatory management system (RMS) that adequately distinguishes the RMS from the wider public management, public policy, and public law systems within which regulatory management takes place. The approach adopted in this chapter is similar to that in OECD (1995), which suggests that an RMS has four main components: (i) regulatory quality tools, e.g. regulatory impact analysis (RIA), administrative simplification, evaluation; (ii) regulatory processes, e.g. consultation, accessibility; (iii) regulatory institutions, e.g. an oversight body, coordination for international/national/local coherence; and (iv) regulatory policies, e.g. good practice regulatory principles.

An element can be a part of the policy cycle, a supporting practice such as consultation, an institution, or a part of the regulatory strategy.

The *policy cycle* for developing regulations includes:

- 'Big Policy' development,
- 'Little Policy' development,
- 'Legal Policy' development,
- decision-making support,
- change implementation,
- administration and enforcement, and
- monitoring and review.

These components of the classic regulatory policy cycle need to be augmented by *supporting practices*:

- consultation,
- communication and engagement,
- learning, and
- accountability.

To be sustained, policies and practices in turn require the support of *key institutions*:

- a coordinating body that has the capability and mandate to oversee and develop the regulatory system and report on its performance;
- other institutions that ensure the quality of the RMS, such as legal drafting and consistency with other domestic laws and international obligations; and
- training providers who build the capabilities required.

A *regulatory strategy* is an explicit whole-of-government policy for regulatory quality. Often this takes the form of government endorsement of a set of 'good practice' or 'best practice' regulatory principles that are sometimes linked to trade and competition policies.

Context

Different countries have different systems to make and review laws, regulations, and rules. These RMSs are embedded in a much broader set of national governance arrangements that have two main features:

- an enduring set of constitutional provisions, legislative rules, norms, and decision-making processes and practices; and
- an enduring set of institutions responsible for ensuring that the provisions, laws, rules, norms, and decision-making processes and practices are consistently applied.

It is important to note that these institutions and provisions occur in a variety of national contexts that include:

- political-economic factors, such as the political leadership and commitment to national regulatory policies and institutions;
- the overall public law framework, such as a freedom of information law, open government policies and practices; and
- complementary interfaces with competition policy, sectoral regulation strategies, and international trade and investment rules.

Because each country's context is unique, there is no 'best practice' in regulatory management. However, countries are increasingly introducing 'special measures' to strengthen their systems for making and reviewing regulations. These special measures apply to the development of new, or the review of existing, regulatory interventions but not to other policy interventions, such as taxes and spending measures. Thus, the formal RMS consists of a set of special measures that a country applies to the development or review of regulations.

To illustrate, all countries have a policy development system. In some countries, new regulatory interventions are subject to a regulatory impact analysis (RIA). RIA is a special tool that does not apply to other policy interventions, such as spending on subsidies or transfers.

Definition of Terms

For this chapter and throughout the ERIA/NZIER RMS project, consistent use of terminology is needed.

By *regulation* we mean a legal instrument to give effect to a government policy intervention. While the terms used for legal instruments vary by jurisdiction, legal instruments here include all primary laws, secondary regulations, or tertiary rules.

By *formal RMS* we mean the set of special measures that apply to the development of new, or the review of existing, regulations but do not apply to other policy interventions.

By *requisite RMS* we mean the full set of functionality needed in a high-performing system for the development of new, or the review of existing, regulations.

By an *element* of an RMS we mean a required function that can be part of the policy cycle, a supporting practice, such as consultation, a regulatory institution, or a regulatory strategy, as shown in **Figure 1.1** above. (This broadly corresponds to the Organisation for Economic Co-operation and Development [OECD] [1995] distinction between regulatory quality tools, regulatory processes, regulatory institutions, and regulatory policy.)

In the rest of this note we focus on the individual components of the RMS (but at the whole-of-government level). For each component we explore the functionality required in a requisite system and the special measures that can be used to support that functionality.

We start in Part 1 with the regulatory policy cycle, which is summarised in **Table 1.1** (where the relevant 2012 OECD recommendation from Annex B is shown in brackets under 'Comment'). Part 2 explores supporting practices, Part 3 looks at regulatory institutions, and Part 4 at regulatory strategy. Annex A provides more background on the definition of an RMS, and Annex C provides further references.

Part 1. Regulatory Policy

Table 1.1. Regulatory Policy Cycle

RMS Element	Question	Function	RMS Special Measure	Comment (OECD Recommendation)
<i>Big Policy</i>	What works?	Intervention analysis	RIA	Increasing use of RIA (4)
<i>Little Policy</i>	What powers and functions?	Process and legal design	None	Country specific
<i>Legal Policy</i>	Consistency and legitimacy	Legal analysis	None	Country specific
<i>Decision-Making</i>	Political sustainability	Process, legal design and analysis	None	Country specific
<i>Change Implementation</i>	Is it doable?	Change management	None	Country specific
<i>Administration and Enforcement</i>	Is compliance achieved?	Capable credible regulator	Guidance	Country specific (789)
<i>Monitoring and Review</i>	Is it working?	Systematic review of stock	Stock Management tools	Little evaluation, reviews vary (5)

OECD = Organisation for Economic Co-operation and Development; RIA = Regulatory Impact Analysis; RMS = Regulatory Management System.

Source: NZIER.

'Big Policy' Development

The focus of 'big policy' development is to address the question of 'what works'. ('Big' policy can be distinguished from the 'little' or operational policy that is required to make the 'big policy' effective.) The key functionality required for 'big policy' development is intervention analysis. RIA is a common special measure used in a range of countries to undertake this intervention analysis. The capability needed is the ability to consider regulation against other policy interventions to assess the most effective means of achieving the policy objective.

Common questions raised in this phase include:

- Is the problem clearly defined and is intervention necessary?
- What are the alternatives to regulation?
- Is regulation the most effective form of intervention?
- How are cross-border issues addressed, e.g. compliance with the General Agreement on Tariffs and Trade (GATT), General Agreement

on Trade in Services (GATS), and free trade agreement (FTA) provisions on goods and trade in services?

- Do the benefits of regulation justify the costs?

'Little Policy' Development

'Little policy' (or operational policy) is focused on the powers, functions, and capabilities that are needed to make the 'big policy' effective. The key functionality is a mixture of skills including design, legal analysis, and organisational analysis. The development of primary law, secondary regulations, and tertiary rules often requires consideration of little policy (and legal policy) issues. No common tool or special measure is used across countries, but in some cases some of these issues are covered by RIA systems and their accompanying documentation.

Key questions addressed in this phase include:

- What functions are needed?
- What legal powers are required to deliver those functions?
- What institution should have those powers and deliver those functions?
- How to organise those functions, e.g. what is an appropriate allocation of functions and powers to the private sector and within the public sector and to which level (or levels) of government?
- Is statutory independence required for the decision makers or the institution making the decision?
- What checks and balances are required?
- How should any new organisations required be designed?
- Do the regulators have the mandates, capabilities, and resources required?
- How will the regime be funded?
- What accountability is required?
- When and how will the regulation be reviewed?

'Legal Policy' Development

'Legal policy' and 'little policy' are generally done in parallel, as one informs the other as the law or rule is developed. Legal policy is focused on ensuring the legitimacy of the powers and functions involved and their coherence with the rest of the legal framework. The key functionality here is legal analysis. Every country has its own institutional arrangements and there is no common special measure used across countries. Key questions addressed in this phase include:

- Is there a legal basis for the regulation?
- Is this regulation consistent with superior and subsidiary law (vertical consistency) and related legislation (horizontal consistency)?
- Is the regulation clear, consistent, comprehensible, and accessible to users?
- Is there duplication and are there inconsistencies in administrative requirements?
- Is the draft compliant with international obligations?
- Is the regulatory regime proportional to the nature of the problem?

Decision-Making Support

Support is required for decision-makers in the executive and the legislature to handle the complexity of considering, developing, and amending laws. The key technical capabilities required are a combination of the little policy, financial, and economic analysis, and the legal policy skills discussed above. These technical capabilities are necessary but not sufficient conditions for high value-added decision-maker support. They provide a 'bottom line' which, if not achieved, risks undermining the credibility of the analysis provided. But on their own, technical skills are not enough. These skills need to be augmented by 'top line' values (such as risk sensitivity, proactive, whole-of-government views that are 'differentiating factors that create consummate value' (Behm et al., 2000, p.172). Every country has its own unique institutional arrangements, and no common special measures are used across countries.

Change Implementation

Change implementation is focused on 'what' is required for each function and 'how' to implement the change once decision makers have made firm decisions. The key functionality required is the ability to design and execute change. Every country has developed its own unique ways of working, but change management

planning is a common technique. Ideally, a change implementation plan is developed as a guide.

Administration and Enforcement

Administration and enforcement are focused on ensuring compliance with the regime by citizens and businesses. (Note this function includes the review of individual cases for fairness in administrative procedures.) Being an effective regulator is a real craft that requires a combination of capability, leadership, and credibility. Every country has its own institutional arrangements, and no common special measures are used across countries.

Key questions addressed in this phase include:

- What specific capabilities and what resources are required to support them?
- What is the regulatory compliance strategy that is required?
- What are the regulatory risks and the risk management strategies required?
- What procedures exist to review the procedural fairness and legality of regulatory decision-making?
- How should independence in decision-making be protected?
- How should regulators be made accountable?
- What information is required to support monitoring and review?

Monitoring and Review

Monitoring and review are focused on assessing whether a regulation is working as intended. Ideally, it is based on a monitoring and review plan, required as part of the RIA. Information generated can be used to fine-tune the implementation of the regulations and provide early warning of any big or little policy issues that need to be addressed. The key functionality required is the ability to gather information so the operation of the regulation can be reviewed.

Review describes a deliberative examination with a view to taking action. Reviews can occur at two levels: Reviews can be focused on the overall regime and its effectiveness, drawing upon evaluations where these are available. Reviews can

also occur at the level of an individual case or transaction as a means of providing an assessment of procedure and fairness of process, but this latter type of review is not the concern of this chapter.

In contrast with an everyday term such as review, 'evaluation' is a more formal term with a more precise meaning and a well-defined body of practitioners, supported by professional associations and journals. In this literature it is conventional to distinguish between ex ante impact evaluations and ex post evaluations. The latter take two main forms: a formative evaluation that provides information on improving a process, and a summative evaluation that provides information on short-term impact or long-term effectiveness (see HM Treasury Magenta book for further references on evaluation). The distinction in types of ex post evaluations is an important one. Formative evaluations focus on 'are we doing things right?' whereas summative evaluations focus on 'are we doing the right things?'

Ex post evaluation of regulation is a near-universal weakness across OECD countries. According to the OECD (2015, p.234), 'few countries assess whether underlying policy goals have been achieved, whether any unintended consequences have occurred, and whether there is a more efficient solution'. Key big policy questions addressed in this phase include:

- Is the regulation still necessary? Is there a convincing problem that the regulation seeks to address?
- Is the regulation effective in achieving its objectives?
- Is the regulation efficient by achieving the objective at lower cost than other feasible alternative options?

If the regime is necessary, efficient, and effective, there are a range of little policy and legal questions to be addressed about whether the operation of the regime could be enhanced by clarifying certain legal provisions, strengthening checks and balances, reallocating functions, improving the design, strengthening the capability of the regulator, etc.

Stock Management

Stock management reviews whether regulations are working as intended. The key functionality required is the ability to review groups of regulations systematically

to ensure they are effectively meeting their objectives. (It differs from monitoring in that the focus is generally on regimes, i.e. groups, rather than individual, regulations). By regulatory effectiveness we mean two things. First, have regulations been implemented and administered properly? Second, effectiveness also asks how well does regulation contribute to achieving impacts, such as altering the behaviour of citizens and businesses, which in turn influences both intended and unintended goals of the regulation?²

The Australian Productivity Commission, in its survey of Australian state and federal regulatory practices, suggests three types of reviews of regulatory regimes:

- Stock management – RIA, red-tape reduction, regulatory budgets, in/outs;
- Ad hoc – stocktaking, principle-based, benchmarking, in-depth reviews; and
- Programmed reviews – ‘sun-setting’, embedded in statute, post-implementation reviews.³

Thus, there are a wide range of ‘regulatory stock management’ tools that different countries have adopted, including the standard cost model, regulatory guillotine, red-tape reduction targets, ‘one-in, two-out’, or ‘one-in one-out’, regulatory budget, and the use of review clauses or sunset provisions. These review tools vary in their breadth (i.e. how wide the coverage is) and depth (i.e. the focus on administrative costs or wider distortions) and frequency (regularly programmed or ad hoc).

Key questions in the review phase include:

- What are the objectives of the regulatory regime?
- Has the regulatory proposal achieved the objectives for solving or mitigating the issue?
- Who were the target audiences (i.e. regulated individuals and organisations) of the proposed regulation?

² See <http://www.tbs-sct.gc.ca/rtrap-parfa/pmep-pmre/pmep-pmretb-eng.asp> for the Canadian advice regarding monitoring/review/evaluation

³ Australian Productivity Commission (2011), p.32.

- Who were the intended beneficiaries of the proposed regulation (e.g. the general public, specific groups within the public)?
- What behavioural changes in the target audience were intended to be achieved (e.g. awareness, understanding, capacity, compliance)?

Part 2. Supporting Practices

The discussion to date has focused on the components of the classic policy cycle. However, there is an increasing emphasis in the public policy literature on the role of citizens and businesses in achieving policy outcomes. Increasingly, policy development is less government-centred, as it seeks to draw on actors and institutions outside the formal policy system. This is particularly important for regulatory policy, as regulatory outcomes are co-produced in the interactions between the regulators and the regulatees. Contemporary policy development includes good supporting practices, such as:

- consultation,
- communication and engagement,
- learning, and
- accountability.

Consultation

Consultation can be undertaken for a number of purposes:

- to improve the overall legitimacy and consent to the proposed regime by those who are regulated,
- to improve the detailed design and operation of the regime by highlighting pressure points in administration and enforcement, and
- to control the bureaucracy.

As a result, consultation can occur at multiple stages in the RMS, for example:

- when addressing the big policy question of what works,
- when considering the little policy questions as to how the regulatory regime should operate,
- in the legal phase on how exactly the policy should be enacted in law,

- in the design of the change implementation stage, and
- in monitoring and review to see whether the regime is working.

Communication and Engagement

As regulatory effectiveness depends upon the behaviour of those regulated, open communication and active engagement with citizens and businesses are crucial. This suggests a need to emphasise 'interactive, participatory and process styles' rather than the harder 'rational and argumentative styles' (Mayer et al., 2004) of regulation development and enforcement.

Learning

Learning is used in this chapter in the everyday sense of the act or process of gaining knowledge. All regulatory changes have the nature of an experiment, as it is usually uncertain how the patterns of actual behaviour will evolve over time. Thus, it is important to have the ability to learn both about whether the regulatory regime is necessary, efficient, and effective, but also to learn about how to implement and enforce the regime more effectively to improve compliance. Learning arises from a range of sources of formal processes such as monitoring, reviews, audit, and evaluation, as well as more informal feedback and learning by doing.

Accountability and Transparency

Regulatory agencies use public resources and apply the coercive power of the state to their citizens and businesses. It is important, therefore, that regulatory agencies are publicly accountable for the use of those resources and the exercise of those powers.

Transparency is important to promote accountability as well as engagement. As a result, most developed countries have moved towards an online, readily searchable database of all laws and rules open to all those involved.

Part 3. Institutions

Policies and practices do not exist in isolation; they need to be sustained by institutions. **Figure 1.1** highlighted three sorts of institutions: lead institutions, coordinating institutions, and training providers.

The lead institution is a coordinating body that has the capability and mandate to oversee and develop the regulatory system and report on its performance. The OECD (2012) lists the roles of the 'standing oversight body' as including

- improving regulatory policy,
- quality control of regulatory assessments,
- coordinating ex post assessment,
- providing training and guidance on regulatory assessment and improving regulatory performance, and
- improving the application of regulatory policy.

In decentralised systems, it is important that the lead institution also assumes a role in developing the regulatory management capability of subnational governments to ensure consistency.

Other institutions undertake specialised roles to ensure the quality of regulation, such as an institution that specialises in legal drafting to ensure consistency between statutes and between primary laws, secondary regulations, and any tertiary rules.

A key requirement for regulatory coherence is that an institution takes responsibility for ensuring consistency between national and subnational regulations, and between national laws and international obligations. Training providers are also required to build the capabilities required.

Part 4. Strategy

Institutions need a mandate as well as capability. Regulatory reviews of OECD countries have highlighted the need for political commitment to regulatory reform and for this to be reflected in an explicit whole-of-government strategy or

policy for regulatory quality. A regulatory quality strategy needs political commitment at the highest levels of government, as well as a singularity of purpose to focus on improving regulations.

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Annex A: Defining the Regulatory Management System

Each country has its own unique system to make and review laws, regulations, and rules. This regulatory management system (RMS) is in turn embedded in a wider public management system, which itself operates within the overall constitutional arrangements. Defining just what constitutes an RMS and how it is distinguished from the wider systems is a tricky challenge. There is no rigorous definition of an RMS that adequately distinguishes it from the wider public management, public policy, and public law systems within which regulatory management takes place. Gill (2011), in reviewing regulatory management in New Zealand, observed:

We looked in vain in the literature for a coherent definition of the regulatory management system. Jonathan Ayto from the NZ Treasury in email correspondence (dated 5 April 2011) on an early draft of this chapter usefully provided the following definition – regulatory management ‘could be described as a set of rules and constraints (formal and informal) that structure the processes of proposing, developing, implementing, administering, enforcing, and evaluating the performance of primary law, secondary regulation and tertiary rules. That ‘structuring’ will include the allocation of powers, functions and duties of the different participants. It will include both centrally determined and generic rules and processes, and decentralised and tailored rules and processes (Gill, 2007, p.178).

For the purposes of this project, we defined the term ‘formal regulatory management system’ as a set of special measures that a country applies to the development or review of regulations. By special measures we mean how the formal government system is augmented with features that apply specifically to primary laws, secondary regulations, and tertiary rules. Specifically, it aims to bring the focus onto the special measures and bespoke features of an RMS that do not apply to the general business of government.

According to the 1995 OECD guidelines on ‘good’ regulatory management, a regulatory management framework has four core components:

- Regulatory policies – a systematic government-wide approach to the use of regulatory instruments
- Regulatory tools – administrative simplification, sunset provisions, public consultation requirements, regulatory review and evaluation, compliance with enforcement guidelines, alternatives to traditional regulation, and regulatory impact assessments (RIAs)
- Regulatory institutions – with responsibility for centralised regulatory oversight in the executive and the legislature
- Regulatory procedures – administrative procedures controls, due process requirement, rules on giving notice and communication, training, etc.

Annex B: OECD (2012) – Summary of Recommendations of the Council of Regulatory Policy and Governance

1. Commit to an explicit whole-of-government policy for regulatory quality.
2. Develop regulations through open communication, transparency, consultation, and engagement.
3. Empower institutions for regulatory oversight.
4. Integrate regulatory impact assessment early into the policy process.
5. Review the regulatory stock systematically.
6. Publish reports on the performance of the regulatory policy programme.
7. Develop a consistent policy on the role and functions of regulatory agencies.
8. Establish effective case review processes.
9. Apply risk-based techniques to regulation.
10. Promote regulatory coherence between supra national, national, and subnational levels.
11. Foster regulatory management capacity at subnational government.
12. Pursue international regulatory cooperation.