GUIDANCE NOTE

Impact assessment

Regulation should only be proposed where it can be expected to improve the welfare of Queenslanders.

What is an impact assessment?

One of the most important steps in an Impact Analysis Statement (IAS) is the assessment of a proposal's likely impacts. An impact assessment should consider the expected costs and benefits for each identified policy option.[1]

This assessment should provide a transparent and consistent comparison between the options to help identify the preferred option. It should consider all significant costs and benefits (economic, environmental and social) that each option is likely to impose on the community. However, consider the application of the proportionality principle—the depth of analysis should be commensurate with the size of the potential impacts.

Identify and assess the costs and benefits

Costs and benefits are terms used to describe the negative and positive effects of a proposal.

For each option, identify **all significant economic, social or environmental costs and benefits** and estimate their likely size and impact.

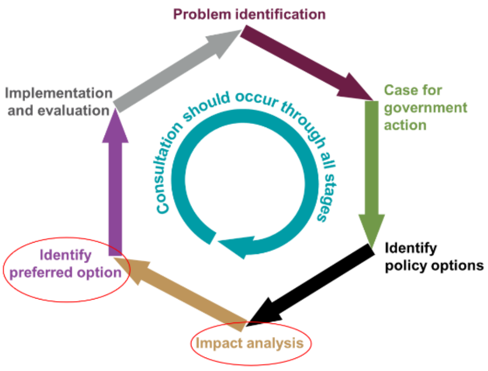
> *For instance, will an option affect prices, real wages, health outcomes or the quality of our natural environment? Will it affect businesses, consumers or communities? Will 100 or 10,000 businesses be affected?*

Tip: When identifying and assessing impacts, compare what may happen if the policy is implemented against what may happen under the 'do nothing', or status-quo scenario.

There are several methods to assess costs and benefits. The Queensland Government Better Regulation Policy recommends the use of cost–benefit analysis (CBA) for proposals with significant impacts.

Cost–Benefit Analysis

CBAs take a long-term view factoring in future benefits and risks that can be both unknown and difficult to quantify. This uncertainty is the very reason for conducting such an evaluation—so that likely benefits and costs can be identified, and the best possible policy option be identified for Queensland.



CBAs can be used to inform decision-making as they aim to provide decision-makers with the evidence base required to identify the most effective and efficient policy option. Good CBAs will estimate and compare the impacts (the total forecast costs to the community with the total forecast benefits) of several policy options in a consistent way.

CBAs are data intensive, requiring impacts to be valued in dollars (monetised). The rule of thumb to follow when assessing costs and benefits:

- impacts should be monetised wherever possible
- where monetisation is not possible, impacts should be quantified (i.e. lives saved, injuries/accidents avoided)
- where quantification is not possible, impacts should be qualitatively assessed with convincing justification and argument.

Regardless of the extent of monetisation of costs and benefits, all IASs should follow a cost–benefit framework.

Other techniques that may be used for regulatory impact assessment in certain situations include cost-effectiveness analysis and multi-criteria analysis.

It may also be necessary to supplement these analysis methods with distributional analysis if the impacts are likely to apply unevenly across the community.

The preferred option

The preferred, or recommended option should be the policy option that generates the greatest net benefit to the Queensland community (compared with the other options).

[1] Estimation of direct costs must be included in the IAS template using the direct costs calculator available at www.treasury.qld.gov.au/betterregulation