

1 Scientific Commentary

2 **Better environmental regulation - contributions from risk-based decision-**
3 **making**

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15

16 **Abstract**

17 Internationally, pressure is being put on governments and regulators to develop more modern
18 forms of regulation that deliver more for less and in better ways. This review considers the
19 ways in which one large regulator, the Environment Agency for England and Wales, has
20 responded to such pressure by developing and implementing risk-based approaches to
21 regulation. After exploring the context for and key elements of risk-based environmental
22 regulation, we consider the evolving influence of such approaches. We discuss the impacts
23 of risk-based approaches against the UK Government's principles for better regulation and
24 against the key criteria for policy evaluation before considering some of the key challenges
25 that still need to be addressed in this area of regulatory activity. These relate to the need to i)

1 understand best practice and promote consistency in risk based regulation; ii) develop
2 reliable, responsive forms of risk assessment and monitoring; iii) build capacities for
3 responsive risk regulation; iv) evaluate the influence of different regulatory styles; and v)
4 better understand the potential role of the private sector.

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6 Keywords: risk, modern, better, regulation, policy, Environment Agency.

7

8 **1. Introduction**

9 Driven by concerns about public sector expenditure and private sector competitiveness,
10 many commentators have long been critical of the role that regulation plays in modern
11 economies. Gunningham and Grobasky (1999) encapsulate these criticisms suggesting that
12 regulations ‘are not effective in delivering their purported goals; or efficient in doing so at
13 least cost; nor do they perform well in terms of other criteria such as equity, administrative
14 viability or political acceptability’. Regulation has therefore been seen to perform badly
15 when measured against all of the key criteria for policy evaluation. However, command and
16 control regulation remains an important policy instrument, and broader forms of regulation
17 are emerging, centred, for example, around market-based or information-based instruments.
18 As a consequence, pressure is being put on governments and regulators to develop better (or
19 more modern) forms of regulation that deliver more for less and in better ways. Risk-based,
20 or more correctly, risk-informed regulation is one contributor to this debate (e.g. Rothstein et
21 al., 2006).

22 Internationally, there has been considerable emphasise placed on the need to develop
23 better regulation in recent years. The OECD for example first issued its influential
24 recommendations for regulatory reform in 1997; these subsequently evolved into the OECD
25 Guiding Principles for Regulatory Quality and Performance in 2005 (OECD, 2005). At a

1 European level, the EU initiated a drive towards better regulation in 2002, and has published
2 three strategic reviews of better regulation in the EU since 2006 (c.f. European Commission,
3 2009). The UK has been an active participant in these international and European debates and
4 domestically the UK government's Better Regulation Task Force has been an influential
5 voice within government since its creation in 1997¹. It has called for regulators to adhere to
6 its principles of better regulation by ensuring that regulations are targeted, proportionate,
7 consistent, transparent and accountable.

8 As a regulator that employs *ca.* 12,000 people and has an annual budget of over £1
9 billion, the Environment Agency has been developing its response to the better regulation
10 agenda for some years. It has done this most notably through the adoption of risk based
11 approaches to regulation in its broadest sense, that seek to focus scarce regulatory resources
12 on the highest risks and the worst performers, thereby, it is hoped, securing sustainable
13 environmental outcomes, delivering public sector efficiency gains and reducing business
14 burdens.

15 After examining recent experiences with risk-based regulation in the Environment
16 Agency, this commentary highlights some key gaps in the knowledge base and some of the
17 future challenges in the field. We conclude by considering the extent to which risk-based
18 approaches have enabled, or could in the near future allow the Environment Agency to
19 continue to improve the implementation of the principles of better regulation and the
20 performance (i.e. the efficacy, efficiency, equitability, administrative viability and political
21 acceptability) of environmental regulation.

22

23 **2. Risk based environmental regulation**

¹Its growing influence is reflected in the adoption of the Legislative and Regulatory Reform Act of 2006 and creation of the Department for Business, Enterprise and Regulatory Reform in 2007.

1 Reflecting the broader international agenda on better regulation, risk-based environmental
2 regulation has been explicitly promoted in the UK for over ten years (Parliamentary Office of
3 Science and Technology, 1996; Halfacree, 1998). As well as being driven by the better
4 regulation debate above, it arose through an increased emphasis on better risk governance in
5 Government departments (Interdepartmental Liaison Group on Risk Assessment, 1998;
6 OXERA, 2000; Hampton, 2005; Strategy Unit, 2002) and agencies following events such as
7 the BSE (House of Commons, 2000) and foot and mouth crises, and the associated concerns
8 about poor public trust in Government decisions on risk (House of Lords, 2000; ESRC
9 Global Environmental Change Programme, 2000; Green Alliance, 2000; House of Lords,
10 2006). Given that it has evolved rapidly since its adoption, it is our view that there is
11 sufficient operational experience among regulators (Her Majesty's Inspectorate of Pollution,
12 1995; Environment Agency, 1997; European Commission, 1998; Department of
13 Environment, Transport and the Regions, 1999; Department of Environment, Transport and
14 the Regions, 2000) to reflect on the contributions that risk-based environmental decision
15 making (Department of the Environment, 1995; DETR and the Environment Agency, 2000)
16 can make towards modern or better environmental regulation.

17 The Environment Agency has wide-ranging regulatory responsibilities for flood risk
18 management and environmental protection. It adopts environmental risk assessment to
19 inform its decisions at both the strategic and operational levels. Strategically, the Agency
20 leads Government on the application of environmental risk assessment, with the government
21 Department for Environment, Food and Rural Affairs (Defra) setting the policy context and
22 direction (Defra, 2000). At the operational level, the Environment Agency requires
23 environmental risk assessments to inform its decision making and, by virtue of its generalised
24 powers, may request a risk assessment of any operation it considers may have a detrimental
25 impact on human health and the environment. Guidance on environmental risk assessment

1 and management is in place and implemented (Pollard, 2001; Pollard, 2002); several Agency-
2 administered regimes are noted as being risk-based (*e.g.*, contaminated land, waste
3 management, flood risk management, process industry regulation, river basin management);
4 and risk-informed regulatory processes are in place for targeting proportionate regulation,
5 securing efficiency gains and informing workforce (resource) planning.

6 Many of the risk-informed regulatory processes are based on the application of what is
7 known as ‘operator and pollution risk appraisal’ (OPRA) (Her Majesty’s Inspectorate of
8 Pollution, 1995; Environment Agency, 1997; Environment Agency, 1997). OPRA seeks to
9 assign a ranking to regulated sites according to their innate hazard and the capacity of the
10 operator to manage the likelihood of these hazards being realised – the operator’s
11 demonstrable performance in risk management. OPRA thus assumes that environmental risk
12 management is, by a large part, determined by the competency of an organisation to manage
13 the hazards associated with its’ operations. OPRA is designed to enable the Agency to focus
14 its attentions on the higher risks and worse performers, for example by informing the choices
15 that managers make over how often front line regulators should visit premises and what they
16 should look for. It may, in some circumstances, also help its officers to decide how much
17 discretion they should apply during visits and how to balance their regulatory effort between
18 issues (events occurring now) and risks (potential future issues). Initial work on OPRA
19 provided valuable insight into the role of risk-based regulation, the choice of regulatory styles
20 and tools, and the influence these can have on driving business behaviours.

21

22 **3. The influence of risk-based environmental regulation**

23 With respect to the development of risk-based regulation, regulated businesses have
24 welcomed approaches that are risk-based – these are seen to make sound business sense
25 (Confederation of British Industry, 1998; Confederation of British Industry, 1999). For good

1 operators, these initiatives are likely to result in investments that would be made anyway on
2 the grounds of responsible corporate governance, and are thus supportable in scientific and
3 business terms. The Agency's current operator performance assessment seeks to rank the
4 maturity of an operator's environmental performance by reference to key attributes. Many
5 regulated sectors (e.g. United Kingdom Offshore Operators Association, 1999) have risk-
6 based approaches in place to guide operations, reduce business exposure and lessen business
7 interruption losses. 'Best-in-class' organisations are better at managing risks wisely, learning
8 from failure, and they exhibit resilience (robustness to shock) and agility (adaptive
9 management and forward-looking) in response to an evolving business climate. Specifically,
10 they balance business risk and opportunity in a mature fashion that ensures exposures are
11 minimised and strategic competitive advantage is secured. Organisations competent in risk
12 management recognise this maturity of capability is not secured solely through having risk
13 frameworks, risk assessment manuals, audit trails, risk champions and risk registers in place.
14 They assess their risk maturity (MacGillivray, 2008; IACCM, 2003) because it: (i) helps
15 formalise their appetite for risk; (ii) makes more explicit the role of the group risk manager;
16 (iii) provides opportunity for evaluating the implementation of risk management on the
17 ground – that is, a reality check against high-level, corporate statements on risk; and (iv) it
18 builds sustained corporate value. The risk management benchmarking tools now applied
19 within high reliability sectors have value in the context of self-regulation for high performing
20 sectors.

21 Securing evidence (Pollard, 2008) for the environmental outcomes mediated by modern
22 regulation infers that causal links are established between regulatory style and environmental
23 improvements (National Audit Office and Better Regulation Executive, 2007). Among the
24 issues and observations raised by the Hampton implementation review of the Environment
25 Agency's progress (Better Regulation Executive and National Audit Office, 2008) are that:

- 1 (i) the Environment Agency has made encouraging progress in implementing the
2 Hampton principles;
- 3 (ii) better regulation is certainly in the language of the organisation, but not yet embedded
4 throughout its culture;
- 5 (iii) there appears to be scope for OPRA to be used more effectively to incentivise
6 compliance and inform risk-based interventions;
- 7 (iv) the Agency is currently unable to demonstrate a causal link between day-to-day
8 regulatory activities and outcomes;
- 9 (v) it is not clear whether it is prioritising its resources on those sectors, emissions or
10 activities which are most damaging to the environment” (para 95);
- 11 (vi) the quality and impact of inspections seems to depend on the competence and
12 confidence of individual inspectors – some inexperienced staff appear to lack the
13 confidence to exercise balanced risk-based judgements;

14 Establishing causality in this sense (iv, above) is not easily achieved given the confounding
15 factors influencing environmental change and the multiple actors with this common interest.
16 Weighted lines of evidence may support (or otherwise) the relationship between regulatory
17 style and outcome (McPherson, 2008). Weight-of-evidence approaches (Krimsky, 2005)
18 may use influence diagrams, evidential support logic, and Bayesian belief nets (Pourret,
19 2008; Schum, 1994) as visual aids to support the presentation of cause and effect. There is an
20 established literature for weight of evidence assessments, developed in the fields of public
21 health medicine (Hrudey, 2003), forensic science and radioactive waste management, with
22 some applications to environmental risk and a history of using Bayesian methods, for
23 example in the regulation of water utilities (O’Hagan, 2007). Individual environmental risk
24 assessments frequently make use of data, concepts and assumptions for which a range of
25 evidence of varying quality exists. In using assumptions to support risk assessments, risk

1 analysts frequently need to select between competing theories (e.g., low dose extrapolation),
2 between a range of individual baseline studies (e.g., arsenic in drinking water) or from a
3 palette of future environmental scenarios (e.g., climate change). Such analyses involve
4 evaluating both complementary and potentially conflicting lines of reasoning, the direction
5 and weight of which must be assessed in support of a specific qualitative or quantitative line
6 of argument. Assembling such evidence within a framework of precaution, whilst also
7 guided by requirements for proportionate levels of intervention, has long been a requirement
8 of the safety cases prepared for radioactive waste disposal. Equally the approach has
9 application to the management of exposures from engineering nanomaterials.

10 Alongside tools to integrate evidence, effective environmental decision making needs to
11 face up squarely to key value tradeoffs. Value trade-offs are ubiquitous in regulation.
12 Examples include the tradeoffs between efficacy, efficiency and equity, or public good and
13 private profit, or in cases where regulatees face choices between visible and reassuring
14 remediation strategies versus invisible but possibly more effective ones (monitored natural
15 attenuation for contaminated groundwaters). For these decisions, the Environment Agency
16 has been a sponsor of systematic multicriteria (or multiattribute) decision analysis (MCDA;
17 Belton, 2002; Dodgson, 2000) which provide a framework within which value trade-offs can
18 be made explicit. Agency guidance on best practicable option appraisal for radioactive waste
19 disposal at nuclear sites (Environment Agency and Scottish Environment Protection Agency,
20 2004; Egan, 2002), for example, recommends nuclear operators undertake a participatory
21 multicriteria appraisal exercise as part of the choice of disposal technology. The rationale
22 offered is that this not only ensures the regulatee takes into account the views of local
23 stakeholders in the technology choice, but that it also provides a framework for discussion
24 between regulator and regulatee. This is in line with experience in other countries, where
25 multicriteria approaches have been used in heavily regulated environments as a device to

1 make explicit and balance competing demands from a range of stakeholders, for example by
2 energy companies BC Gas and BC Hydro in Canada (Keeney and McDaniels 1992; Hobbs
3 and Horn 1997; Keeney and McDaniels 1999). However, there are a range of different
4 philosophies of how MCDA (broadly conceived) should be applied, particularly for
5 environmental applications (Renn, 1993; Gregory, 1992) and the question of what works best
6 in a regulatory setting seems to be an open one.

7 Finally, as to the application of different regulatory styles, the adoption of a risk-based
8 approach has enabled the Agency to engage with firms in a more responsive way that targets
9 scarce regulatory resources on the higher risks and the worse performers. Although it could
10 be argued that regulators have been using their discretionary powers to do this for many
11 years, OPRA has given the Agency a more robust way of generating evidence on risk that can
12 be used to support the adoption of different styles in a relatively clear, consistent and
13 transparent way. When coupled with a similarly clear and transparent enforcement policy,
14 this has enabled the Agency to adopt a sanctions-based regulatory style for the higher risks
15 and worse performers (something called for by central government through the Hampton and
16 Macrory Reports (Hampton, 2005; Macrory, 2006), and a more cooperative compliance-
17 based approach for the lower risk and better performers (Gouldson, 2004). In theory (Ayres,
18 1994), such an approach can deliver more targeted and proportionate forms of regulation in a
19 more consistent, transparent and accountable way, thereby satisfying the Government's
20 principles for better regulation. It can also deliver efficiency gains for regulators, who are
21 able to focus their resources more effectively, and for the more compliant operators who may
22 be regulated less intensively. As long as the basis for risk-based decision making is
23 communicated effectively, it could also enhance stakeholder trust in, and therefore the
24 political acceptability of, environmental regulation.

1 This interactive aspect of regulation – the fact that one is dealing with a relatively small
2 number of informed regulatees who have objectives of their own, and will respond to their
3 perceptions of regulator behaviour - is one of the critical aspects of regulatory decision
4 making. Understanding this complex relationship requires drawing on a range of insights
5 from a number of academic disciplines. In public administration, for example, the idea of
6 ‘relational distance’ has been helpful: the argument has been made, where inspectors are
7 drawn from a different background from inspectees, that they are more likely to take a tough
8 sanctions-based approach, and where they are drawn from a similar background, they are
9 more likely to take a gentler compliance-based approach (Hood, 1999; Bevan, 2006). Formal
10 approaches to examining this interaction, particularly in the area of monitoring and
11 enforcement, have attracted attention from environmental economists in the UK and
12 internationally, particularly in the US (see the extensive collection of readings in Russell
13 2003). Despite the volume of work on this issue, and attempts by such analysts in countries
14 such as Germany (Avenhaus 1994) and Denmark (Hansen, Krarup and Russell 2006) to
15 develop usable tools based around available practice and data, we are not aware of similar
16 tools having been passed into routine operational use in day-to-day management in the UK.

17

18 **4. Challenges with risk-based regulation**

19 There is, therefore, an accumulation of experience in the design and application of risk
20 based regulation in the Environment Agency and an ongoing programme of policy-oriented
21 research that supports the Agency’s initiatives in this field (Table 1). Although the outcomes
22 of risk-based approaches have yet to be subjected to rigorous evaluation, there is a general
23 belief that risk based approaches do lead to better regulatory outcomes.

24 When considered against the UK government’s principles for better regulation, risk based
25 approaches are seen as the main way of moving beyond a ‘one size fits all’ approach, and as

1 delivering more targeted forms of intervention. Drawing on the evidence base provided by
2 new forms of risk assessment, risk based approaches are also seen to provide more
3 proportionate forms of intervention. However, it is not yet explicitly clear that risk based
4 approaches are applied by reference to the same set of overarching principles across different
5 domains (*i.e.* the regulation of the different risks associated with climate change, flooding,
6 radioactive waste, toxic pollution etc.), at different levels (*i.e.* senior managers taking
7 strategic decisions, front-line managers taking operational decisions, front-line regulators
8 taking 'street level' decisions) or in different sectoral (*i.e.* commercial, industrial,
9 agricultural) or geographical areas of Agency operation. Furthermore, while schemes such as
10 OPRA make the basis for regulatory decisions more transparent and accountable to
11 regulatees, it is not yet clear that risk-based approaches have made regulatory activities more
12 transparent and accountable to the public, despite Agency efforts to develop new forms of
13 engagement and communication (Irving *et al.*, 2007).

14 When considered against the standard criteria for policy evaluation, it is assumed that risk
15 based approaches lead to more efficient regulation, both for the public sector as scarce
16 regulatory resources can be applied in a more targeted way and for the private sector as
17 business burdens for the better performing firms and sites are reduced through lighter touch
18 regulation. It is also hoped that it leads to more effective regulation as it increases the
19 incentives for compliance through the prospect of lighter touch regulation, and the dis-
20 incentives for non-compliance through the prospect of more intensive regulation and the
21 imposition of higher sanctions. Because of these assumed incentives, risk based approaches
22 are popular with politicians and businesses, but there has been some concern amongst broader
23 stakeholder groups that better regulation actually means less regulation and that the
24 distributional impacts of risk based approaches are not yet clear.

1 A fuller and more rigorous evaluation of the extent to which risk based approaches secure
2 positive outcomes as measured against the criteria mentioned above would test these
3 assumptions and strengthen the evidence base that underpins this aspect of Agency
4 operations. It would provide critically important feedback to enable institutional learning
5 within the Agency. By providing clear measures of performance, it could also enhance the
6 transparency and accountability of, and therefore potentially build trust in, risk based
7 approaches to regulation. Research to this effect is now underway within the Agency.

8 Related to the requirement for fuller and more rigorous evaluations of outcomes, there are
9 a number of other more specific challenges facing the Environment Agency:

10 i) *Understanding best practice and promoting consistency in risk based regulation*

11 The Environment Agency is not alone in adopting risk-based approaches. Private sector
12 organizations engaged in activities such as insurance, auditing and certification, technology
13 supply and business development clearly have significant levels of expertise and experience.
14 Regulators in other countries and in other domains also have relevant insights that could
15 inform the development of a best practice model of risk regulation, perhaps most notably
16 from the Health and Safety Executive. Potentially, both public and private sector bodies in
17 the UK have data sets that could be combined to develop a more integrated risk regulation
18 framework. The Environment Agency could benefit from reviewing other models of risk
19 management and risk based regulation in such private and public organisations. Finally, there
20 is a diversity of experience within the Agency that could be evaluated to develop a best
21 practice model of risk-based regulation that could be applied more consistently across the
22 Agency. Initiatives in all of these areas would help to convince the Agency's key
23 constituencies and stakeholders that it understood and was consistently applying best practice
24 in risk based regulation. A valuable initiative is the ongoing Agency research into

1 monitoring the effectiveness of risk-based decisions, and collation of Agency projects where
2 risk-based decision-making has been at the heart of the decision process.

3 *ii) Developing reliable, responsive forms of risk assessment and monitoring*

4 Clearly risk-based approaches rely on risk assessments and on-going monitoring. Some
5 measures of risk are routinely assessed and monitored in formalised processes that provide a
6 transparent and defensible basis for risk-based decision making. However, other more
7 subjective or experiential measures of risk are harder to measure in a formal way, and there
8 are ill-defined issues about how different stakeholders might meaningfully participate, and
9 how different forms of risk perception or tolerance should be taken into account. Equally
10 unclear is the extent to which risk data is time and context specific, and whether existing
11 forms of monitoring are sensitive enough to detect subtle but ultimately extremely important
12 changes in risk management capacities or cultures in regulated firms. By developing new
13 risk assessment and monitoring techniques that respond to these challenges, the Agency may
14 be able to enhance the efficacy, efficiency and equitability of risk based approaches. A
15 critical step forward has been the Agency's work on strategic risk assessment (Pollard, 2004)
16 and its attempts to better characterize environmental harm through comparative risk
17 assessment (Environment Agency, 2005). This ongoing risk policy research is likely to
18 continue to inform the Agency's strategy and form the basis for assessments of efficacy and
19 efficiency.

20 *iii) Building capacities for responsive risk regulation*

21 As well as requiring appropriate forms of monitoring, the Agency needs to build on its
22 existing capacities for risk based decision making. Given the nature of the available
23 evidence, the significance of uncertainty and ignorance and the range of sometimes
24 competing risk perceptions, stronger and possibly more open, inclusive and accountable
25 frameworks for multi-criteria or multi-attribute decision making are needed. One of the key

1 challenges here is to resolve the tensions between the need for rapid, responsive and evidence
2 based forms of decision making and calls for more open, inclusive and deliberative forms of
3 decision making. Trade-offs between the speed or efficiency, the quality or efficacy and the
4 fairness or equitability of risk based decision making need to be better understood and
5 addressed. Finally, the Agency will be challenged more and more to ensure that it has
6 resources that can be rapidly redeployed, and the agility to switch between regulatory styles
7 in response to changing levels of risk. By building its capacities to act in these ways, the
8 Agency would be able to respond to the competing pressures that it commonly encounters in
9 a well informed and balanced way.

10 iv) *Evaluating the influence of different regulatory styles*

11 While a limited body of research has considered the influence of national styles of regulation
12 (Vogel, 1986; Gouldson, 2004) there has been little or no research on the influence that
13 different regulatory styles can have when applied in combination. It is normally expected
14 that a risk-based approach that regulates lower risks and better performers less intensively
15 and that enables scarce resources to be redirected towards the higher risks and worse
16 performers will, in aggregate, lead to more effective outcomes (i.e. lower overall levels of
17 risk/better overall levels of environmental performance). However, it may be that the
18 opposite is true; intensive scrutiny from regulators maybe the main driver of compliance in
19 better performing firms, so lighter touch regulation may, over time, lead to lower levels of
20 compliance amongst that category of firm; whilst intensive regulatory scrutiny may under
21 some circumstances prevent the worse performing firms from developing the capacities and
22 cultures needed to manage risks and improve performance. More research is needed on the
23 extent to which different styles (and combinations of style) can build capacities, strengthen
24 cultures and change behaviour in different types of regulated operator. This would enable

1 more targeted and tailored approaches to regulation to emerge that both improve
2 environmental outcomes and reduce business burdens.

3 *v) Understanding the role of the private sector*

4 Increasingly, it is acknowledged that regulatory agencies do not have all of the powers,
5 resources and information needed to regulate risks effectively. Indeed, some have suggested
6 that we are witnessing a shift from state-centred regulation where powers are concentrated in
7 regulatory bodies such as the Environment Agency to de-centred forms of governance, where
8 powers are dispersed in broader networks of public, private and civic actors (Black, 2001;
9 Gouldson, 2007). However, the range of roles that private actors such as insurers,
10 consultants, trade associations, business development agencies and regulated firms can play
11 in achieving public interest goals has yet to be fully investigated. A key issue is whether, and
12 under what conditions, the Agency might transfer some of its responsibilities to the private
13 sector. An obvious example relates to the role of private regulations such as environmental
14 management systems standards, where the Agency has considered giving ISO14001 certified
15 sites a lighter touch. However, research has questioned the extent to which ISO14001
16 guarantees improvements in environmental performance (Dahlström, 2003), and there are
17 major concerns about the accountability of private sector organisations and about their
18 capacity to regulate firms they have a commercial relationship with. Even where these can be
19 addressed, there remain concerns about transaction costs and risk as it is not clear that basing
20 aspects of the regulatory process on complex relationships between regulators and a
21 potentially wide range of private actors would be any cheaper or more reliable than
22 continuing to rely on the Agency to deliver risk based approaches. Being clear on this would
23 enable the Agency to better understand when and under what conditions it may be
24 appropriate to delegate some of its powers to private actors.

25

1 **Conclusions**

2 Risk based approaches are being widely employed within the better regulation agenda
3 (OECD, 2006). They can be used to shape regulatory interventions and prioritise preventative
4 controls (Department for Communities and Local Government, 2007), hopefully generating
5 better (and in particular more effective and efficient) outcomes. Within this paper, we have
6 reviewed existing experiences with risk-based approaches, but we have also highlighted some
7 of the challenges that need to be addressed if risk-based approaches are to contribute fully to
8 the realisation of modern or better regulation.

9 We adopt preventative risk management because we seek to avoid the unwarranted
10 incidents that could lead to environmental harm. Though advocates of the benefits of risk-
11 based regulation, we sound in closing a note of caution on what we perceive to be a creeping
12 economic rationalism within regulation. When designed well, piloted and implemented with
13 feedback, risk-based regulation can provide a sound basis for distinguishing greater risks
14 from lesser ones, and for investing resources in risk management proportionate to the risks
15 posed. However, it is important to acknowledge that these regulatory processes may also
16 *incur* risk, unless the consequences of resource trade-offs are fully understood and, for certain
17 consequences, guarded against. In other words, whilst risk-based approaches promise better
18 regulation, if they prioritise efficiency over efficacy they also risk contributing to regulatory
19 failure with potentially significant impacts on human health and the environment. We
20 therefore suggest that risk-based approaches should be explored, but in a precautionary way
21 where reductions in the efficacy or reliability of regulation are not risked in the pursuit of
22 efficiency gains.

23

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1 Table 1 Recent Agency-funded research on risk-based regulation

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Research question	Addressed by	Report number	Date
How should we manage conflicts in expert opinion on risk?	Understanding risk cultures. Supporting consistency in environmental risk assessment. CEH workshop report.	E2-064	2002
What opportunities exist to align risk-based regulation with corporate initiatives on business risk management?	Dames and Moore review of current initiatives in corporate risk management	E2-056	2002
How should we compare environmental risks of strategic importance?	Reviews and methodology for strategic and comparative risk assessment. National Centre for Risk Analysis and Options Appraisal-Galson Sciences case studies. Review of comparative risk assessment tools	E2-041 SC050030	2002 2007
How is operator environmental performance and environmental risk are recognised in the regulatory	Article 10 of the revised Eco-management and Audit Scheme regulation requires member states to take steps to ensure that the work of EMAS verifiers and the regulators is not duplicated. This report indicates what work has been undertaken in other member states in this regard.	P6-005	2002
How sound are the Agency's environmental / business risk criteria in order to ensure its practicality, robustness and credibility	Tenaco Limited report.	E2-055	2003
Does societal concern lead policy makers to develop more stringent risk management objectives and standards?	Report of a one-day workshop	SC030032	2004
How do the characteristics, functions and approaches to influencing used by special interest groups impact of the Agency's work?	University of Surrey. Study aims to assist staff, particularly at the local level, to engage effectively with them as a part of their regular activities and around contentious issues	SC020067	2004
How should we involve stakeholders in risk assessment-risk management decisions?	National Centre for Risk Analysis and Options Appraisal - University of Birmingham study	SC000009	2004
What do internal Agency staff understand by risk-based regulation?	Environmental Policy, Risk and Forecasting internal questionnaire	Internal audience only	2007
Does risk-based compliance assessment support the principles of modern regulation?	RMC study and case study report	SC040042	2007
What futures might the Agency utilise to evaluate its own business risks against?	A set of four (updateable and risk-based) scenarios (for the 2050s) for the Environment Agency to improve the robustness of its future planning by providing a credible, consistent tool to aid decision making processes that will be supported by a set of robust indicators.	SC050002	2007
Can we secure better, more effective risk-based decision-making?	Cranfield University and Environmental Policy study. Methodology developed for assessing flagship risk-based decisions in Agency in response to Hampton Implementation Review.	SC070055	ongoing

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