EU SCM: Measurement and reduction of administrative burden

Brussels, February 26th 2008
High Level Group workshop

Objective of the workshop

§ Assure common understanding of Administrative Burden (AB) and Standard Cost Model (SCM)

§ Understand principles and mechanisms for AB reduction

§ Work together

Agenda

§ 10.00 Welcome – DG Entreprise

§ 10.20 General introduction – Standard Cost Model

§ 10.40 Administrative Cost – Information Obligations

§ 10.55 Administrative Cost - Measurement

§ 11.20 Administrative burden reduction – principles

§ 11.40 Administrative burden reduction – structural change

§ 12.20 General questions

§ 12.30 Close

General Introduction – Standard Cost Model

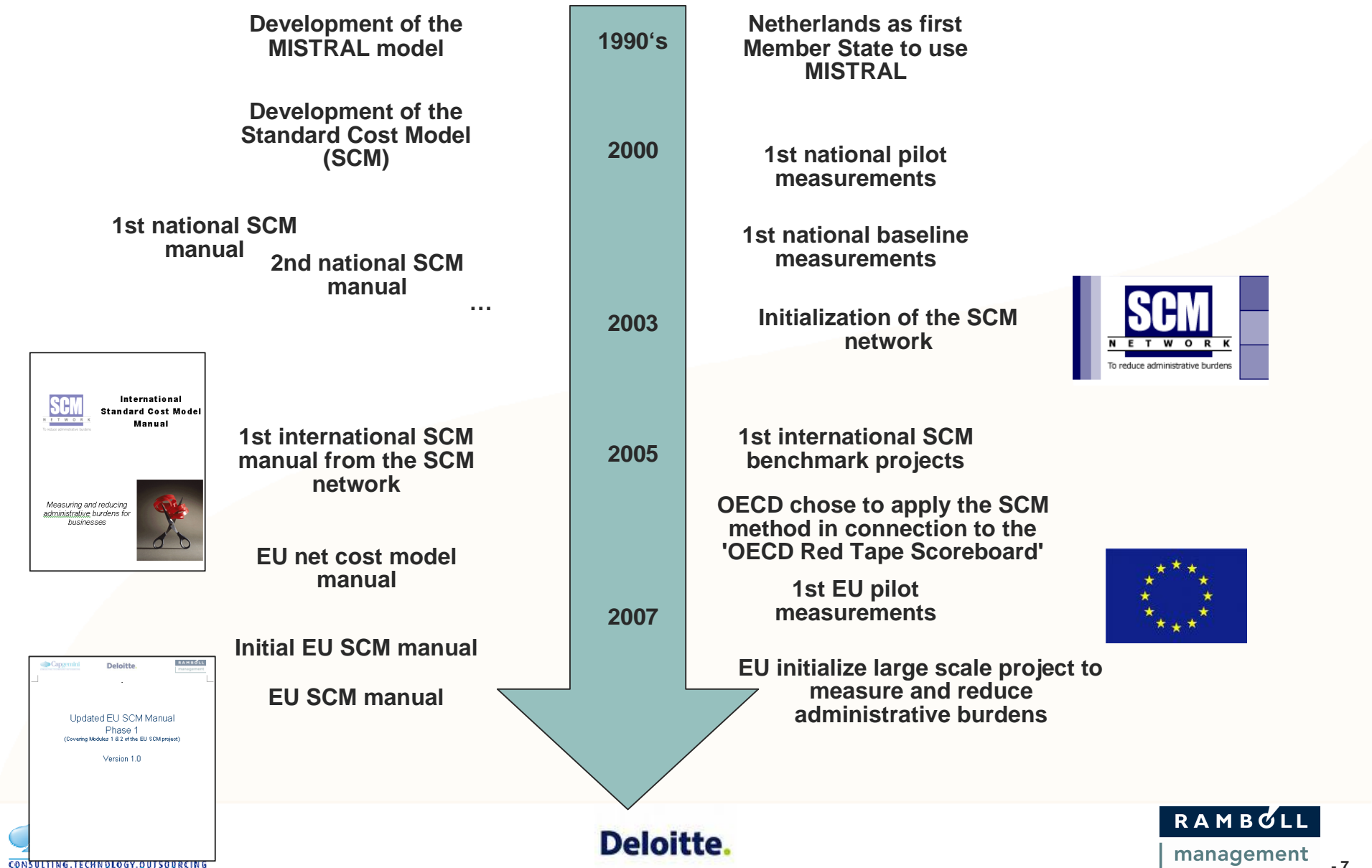# The Standard Cost Model (SCM) is today the most widely applied methodology for measuring administrative costs

§ The SCM has been developed to provide a simplified, consistent method for estimating the administrative costs imposed on business by legislation and the central government.

§ It takes a pragmatic approach to measurement and provides estimates that are consistent across policy areas.

§ The SCM methodology is an activity-based measurement of the businesses' administrative burdens that makes it possible to follow up on the development of the administrative burdens.

§ At the same time the results from the Standard Cost Model measurements are directly applicable in connection with the governments' rule simplification efforts, in that the results shows which specific regulations and in details which part of a rule that are especially burdensome for businesses.

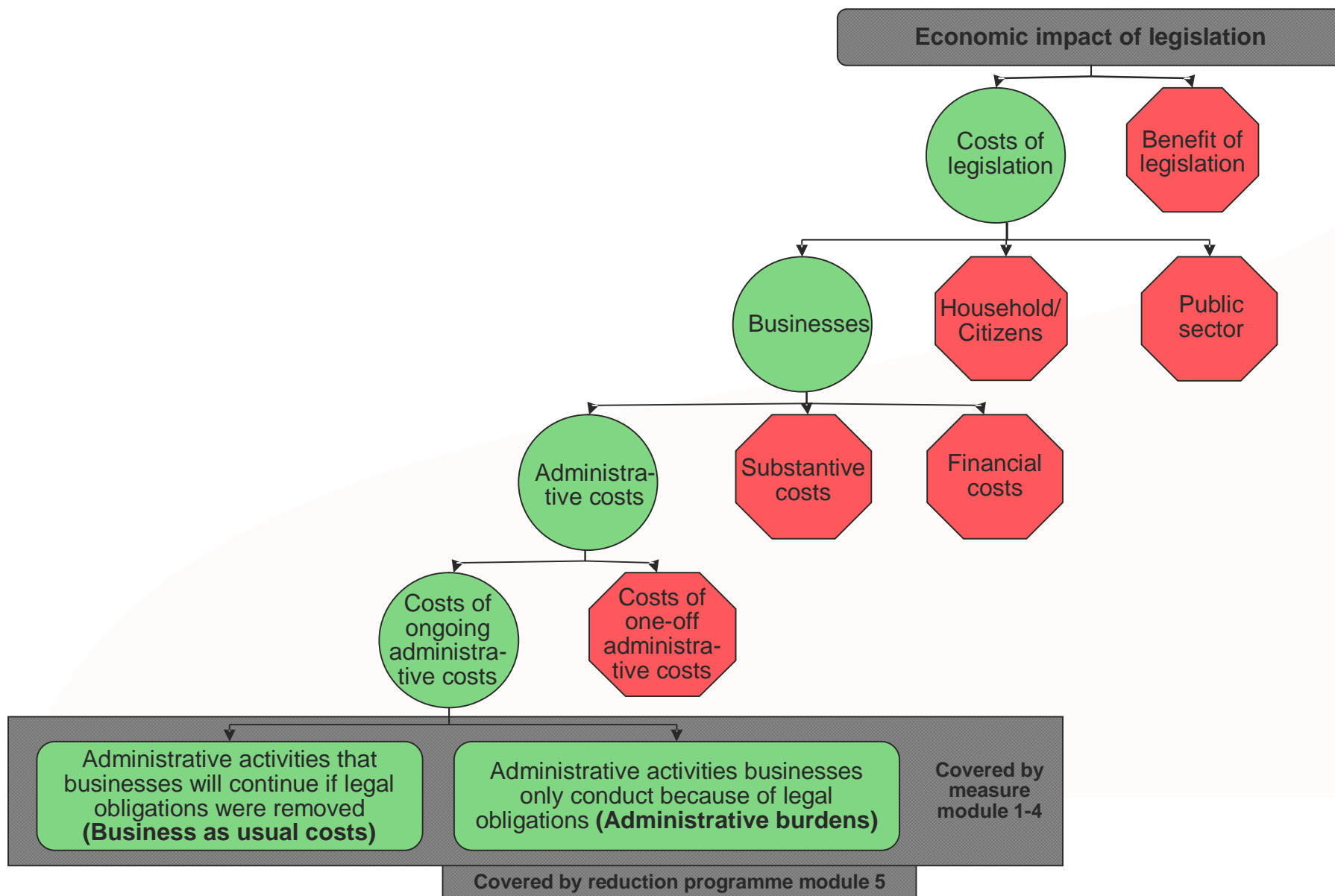# The Commission has chosen the SCM as the key methodology to reduce administrative burdens

§ The strength of the SCM methodology is its ability to point out burdens reduction potentials in a cost efficient manner

§ The Standard Cost Model (SCM) methodology takes regulations that impose an administrative cost on business and breaks these down into manageable components that can measured

§ The SCM focuses on the administrative activities that must be undertaken in order to comply with regulation and not whether the objective of regulation is reasonable or not

§ The SCM presents reliably where the most costly areas of regulation are and which organisational units are the relatively large regulators in terms of the costs they impose

§ The SCM specifically does not aim at producing statistically valid results. Estimates of administrative costs obtained using the SCM are indicative. Small samples are used and, as such, it is not possible to say that the burden has a value of €X with confidence

The SCM is not static and is being adapted continuously

Development of the MISTRAL model

1990's — **Netherlands as first Member State to use MISTRAL**

Development of the Standard Cost Model (SCM)

2000 — **1st national pilot measurements**

1st national SCM manual

2nd national SCM manual

…

1st national baseline measurements

2003 — **Initialization of the SCM network**

International Standard Cost Model Manual

Measuring and reducing *administrative* burdens for businesses

1st international SCM manual from the SCM network

2005 — **1st international SCM benchmark projects**

EU net cost model manual

OECD chose to apply the SCM method in connection to the 'OECD Red Tape Scoreboard'

1st EU pilot measurements

2007

Initial EU SCM manual

EU SCM manual

EU initialize large scale project to measure and reduce administrative burdens

Updated EU SCM Manual
Phase 1
(Covering Modules 1 & 2 of the EU SCM project)

Version 1.0

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Relationship between economic impact of legislation and measurement of administrative costs

Economic impact of legislation

- Costs of legislation
- Benefit of legislation

From Costs of legislation:
- Businesses
- Household/ Citizens
- Public sector

From Businesses:
- Administra-tive costs
- Substantive costs
- Financial costs

From Administrative costs:
- Costs of ongoing administra-tive costs
- Costs of one-off administra-tive costs

Administrative activities that businesses will continue if legal obligations were removed **(Business as usual costs)**

Administrative activities businesses only conduct because of legal obligations **(Administrative burdens)**

Covered by measure module 1-4

Covered by reduction programme module 5

The theoretical costing model of SCM is based on simple maths

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┌──────────────────────────────────────────────────────────────────────┐
│                            Legislation                                 │
└──────────────────────────────────────────────────────────────────────┘
                                  │
                                  ▼
                ┌──────────────────────────────────┐
                │      Information obligation        │
                └──────────────────────────────────┘
                                  │
                                  ▼
                ┌──────────────────────────────────┐
                │             Segment               │
                └──────────────────────────────────┘
                                  │
                                  ▼
                ┌──────────────────────────────────┐
                │      Administrative activity       │
                └──────────────────────────────────┘
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| Time (H) | X | Tariff (T) | + | Acquisitions (A) & External Cost (E) | | Number of businesses (N) | X | Frequency (F) |

| Costs per activity (P) | | Yearly number of activities (Q) |

Administrative costs = P x Q
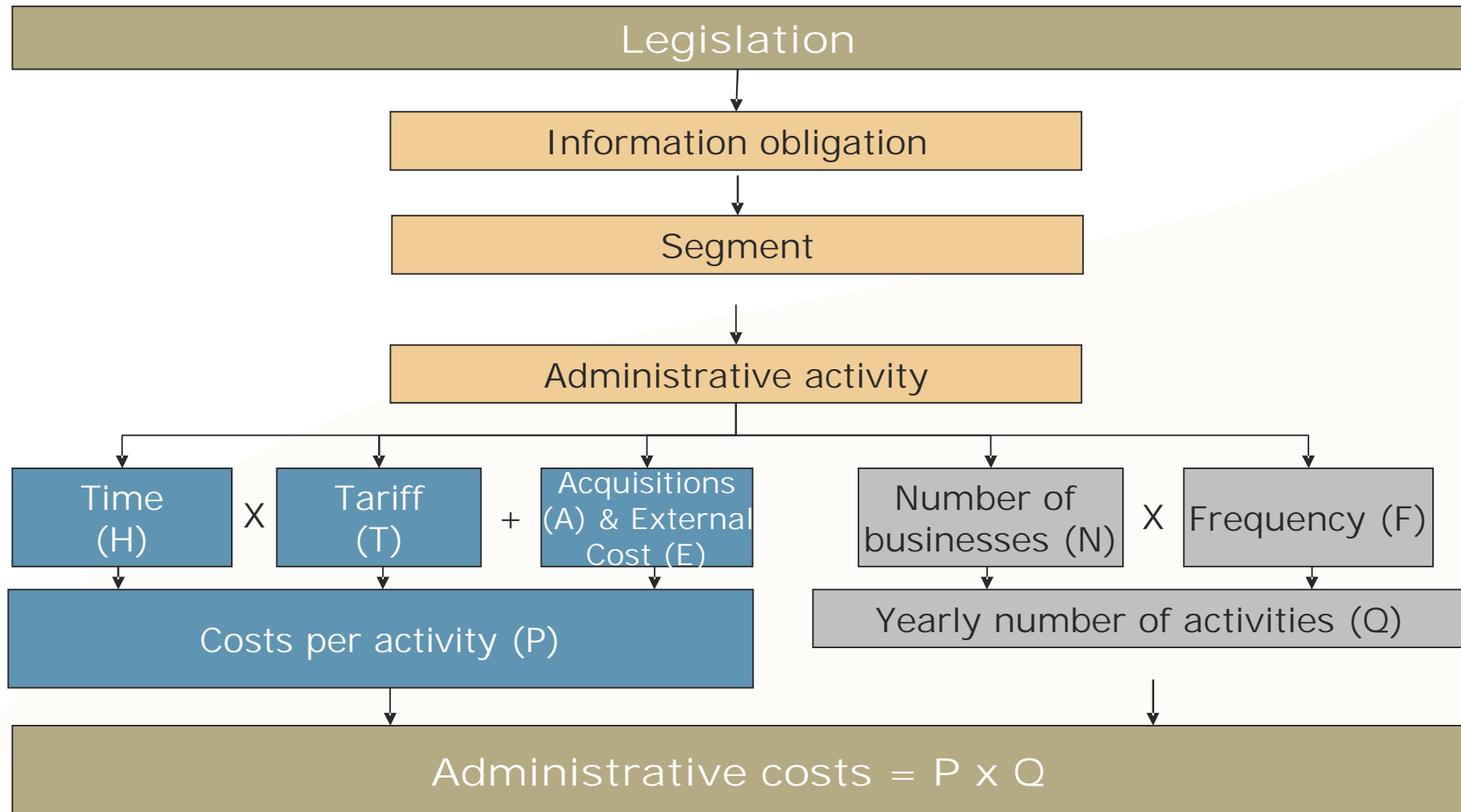
The scope of the current programme

Total EU LAW	EU programme

We look at 13 domains

IOs to be measured	IO's

Measurement   **Estimate**

We measure via workshops and interviews part of the identified IOs and estimate the cost of the rest

6	4	27 Member States

We measure IOs in 6 out of 27 countries
We add data from 4 existing measurement countries

5	Total number of business

We interview a sample of the businesses

We extrapolate the results

€

Meaningful numbers for businesses and countries are small

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Administrative Cost – Information Obligations

Administrative costs have several faces and include 13 standard activities

§ Applications, e.g. building permits

§ Registration obligation, e.g. visitor register

§ Notifications to authorities, e.g. in the case of transportation of hazardous goods

§ Submission of reports, e.g. for statistical purposes

§ …

Standard activities
1.Familiarising with the information obligation
2. Training members and employees about the information obligations
3. Retrieving relevant information from existing data
4. Adjusting existing data
5. Producing new data
6. Designing information material
7. Filling in forms and tables, including record keeping
8. Holding meetings (internal as external with an auditor, lawyer and the like)
9. Inspecting and checking (including assistance to inspection by public authorities)
10. Copying (reproducing reports, producing labels or leaflets)
11. Submitting the information (sending it to the relevant authority, etc.)
12. Filing the information
13. Buying (IT) equipment and supplies (eg. labelling machine)
14. Other

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The basic unit of measurement of administrative costs is the information obligation

§ An IO is defined as the costs incurred by businesses meeting legal obligations to provide information on their action or production, either to public authorities or to private parties.

§ Information is to be construed in a broad sense, i.e. including costs of labeling (information to citizens), reporting, freight letters (information to other businesses), registration, monitoring and assessment needed to provide the information.

§ An IO does not necessarily mean that businesses have to send in the information to a public authority. It can also be information that businesses have to have available and forward/display upon request, such as workplace health and safety assessments

Authorities

Reporting

Business

Documentation

Reporting

Third parties
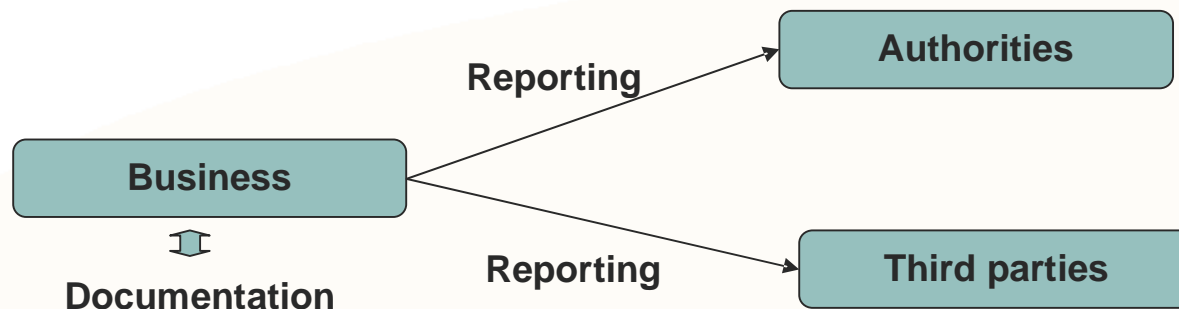
Mapping national IO's takes place in seven steps

1. Read the methodological manual and internalise the method

2. Read domain profile

3. When identifying National IO's familiarise yourself with the mapped EU IO's and minimum requirements

4. Look up relevant legislation

5. Pre-scan legislation to identify sections in the text where administrative costs are described

6. Mark the sections in the text that is dealing with the same theme

7. Start mapping with the decision tree in range

The categorisation of IO's serves as input for the measurement work

Purpose	Categorisation
Identification – relevant throughout project	IO Name
	IO Paragraph reference
Data collection	IO Description Juridical
Population finding	Target group description
Prioritisation, data collection and simplification work	IO Description Business process
	Frequency Description
Simplification work	IO Type
	Irritation factor
	EGovPotential
	Risk Approach

Three scenarios available when comparing EU IOs with national IOs

§ Outcome 1: Match between minimum requirements and national IOs (1:1 transposition)

§ Outcome 2: Additional administrative costs have been identified
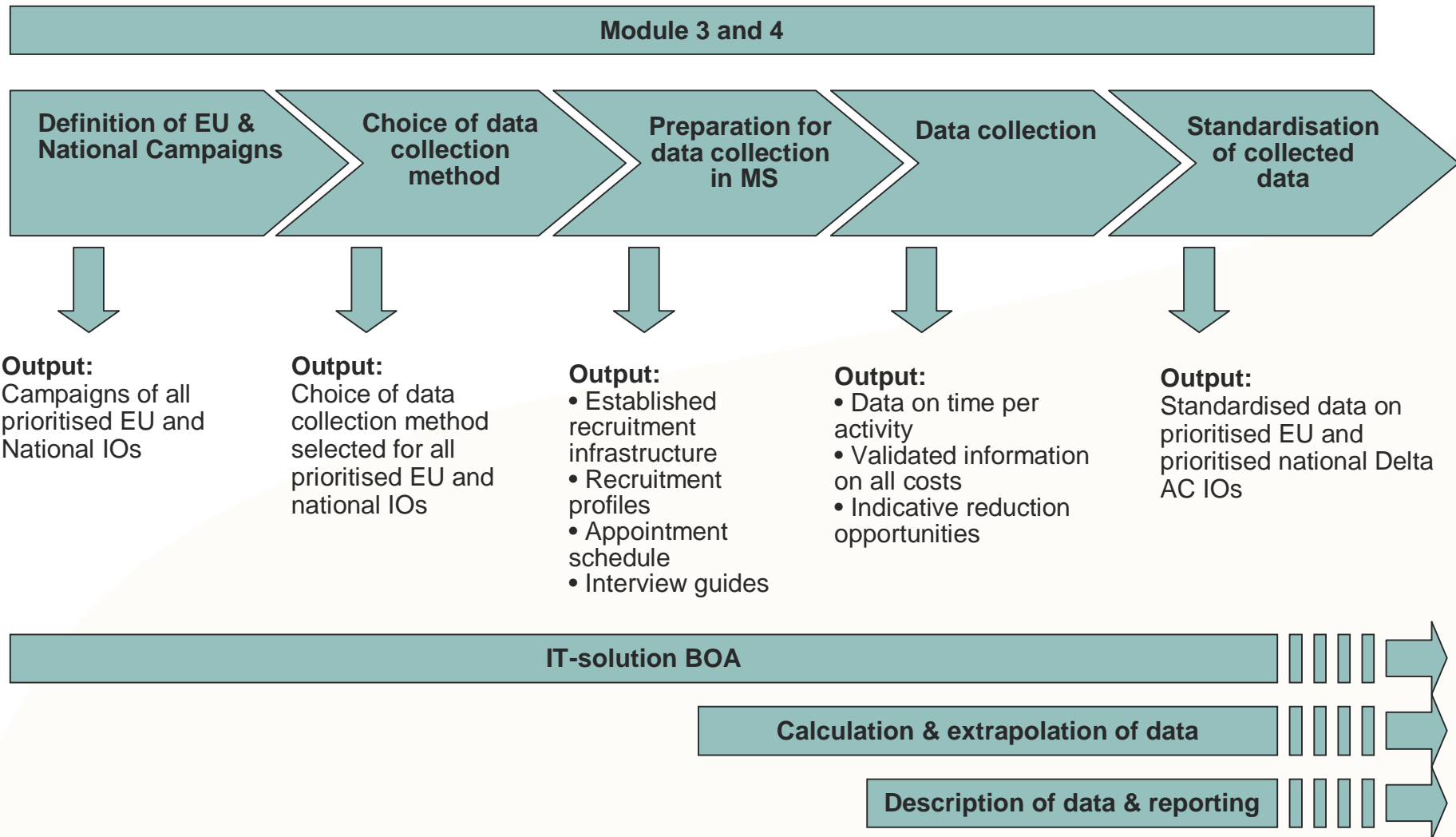
§ Outcome 3: Fewer administrative costs have been identified

§ Transposition list of EU – national legislation were very incomplete

§ Communication and collaboration with SPOCs has sometimes been very difficult

§ Methodology development took place during the process

§ The selected pilot area is probably the most complex domain (company law)

> Both DG Enterprise and the consortium worked hard
> and we are still on schedule
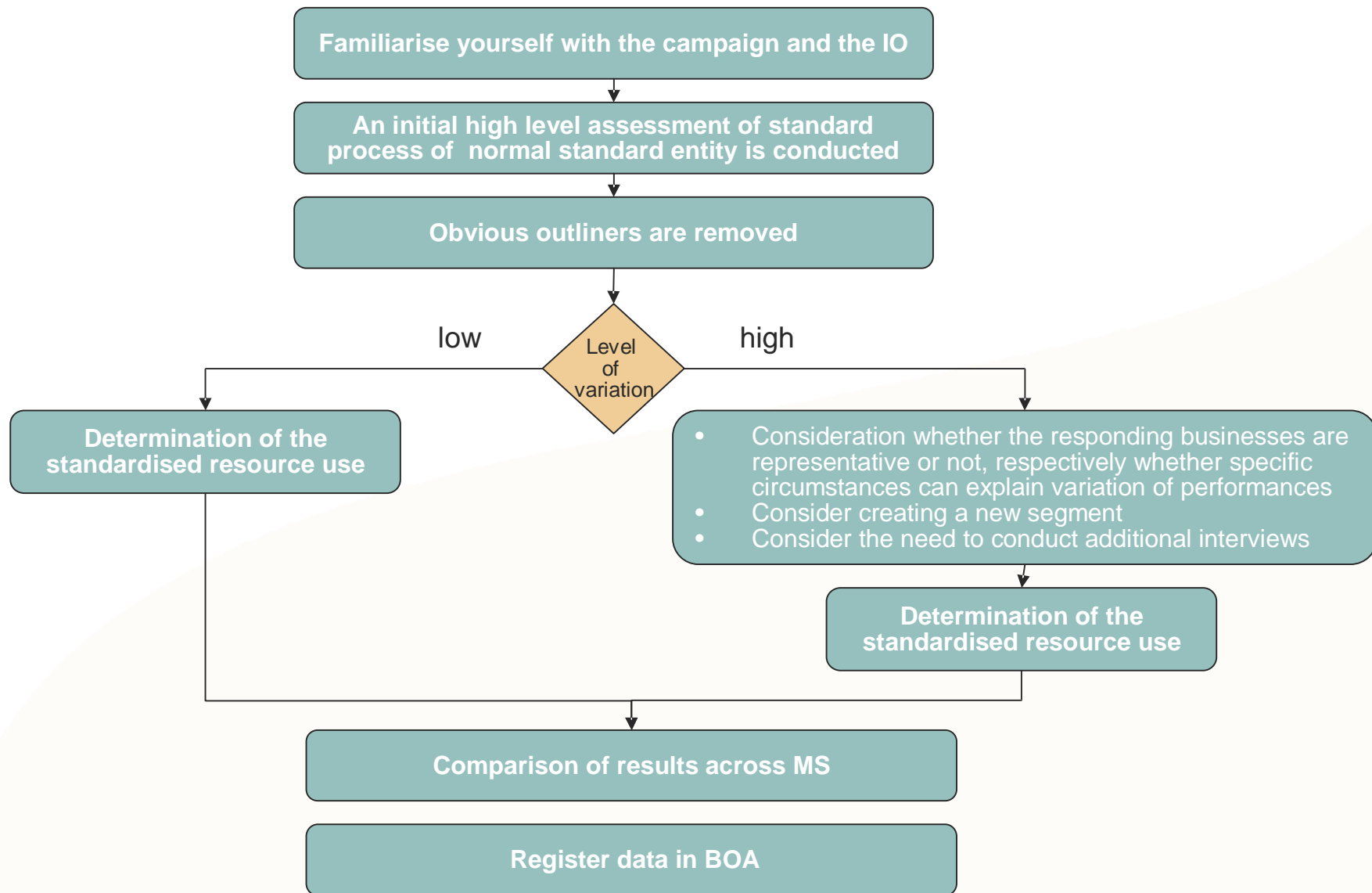
Administrative Cost - Measurement

Measurement of the IOs is based on 5 tasks

Module 3 and 4

Definition of EU & National Campaigns	Choice of data collection method	Preparation for data collection in MS	Data collection	Standardisation of collected data

Output:
Campaigns of all prioritised EU and National IOs

Output:
Choice of data collection method selected for all prioritised EU and national IOs

Output:
• Established recruitment infrastructure
• Recruitment profiles
• Appointment schedule
• Interview guides

Output:
• Data on time per activity
• Validated information on all costs
• Indicative reduction opportunities

Output:
Standardised data on prioritised EU and prioritised national Delta AC IOs

IT-solution BOA

Calculation & extrapolation of data

Description of data & reporting

Pro's and con's of the different data collection approaches

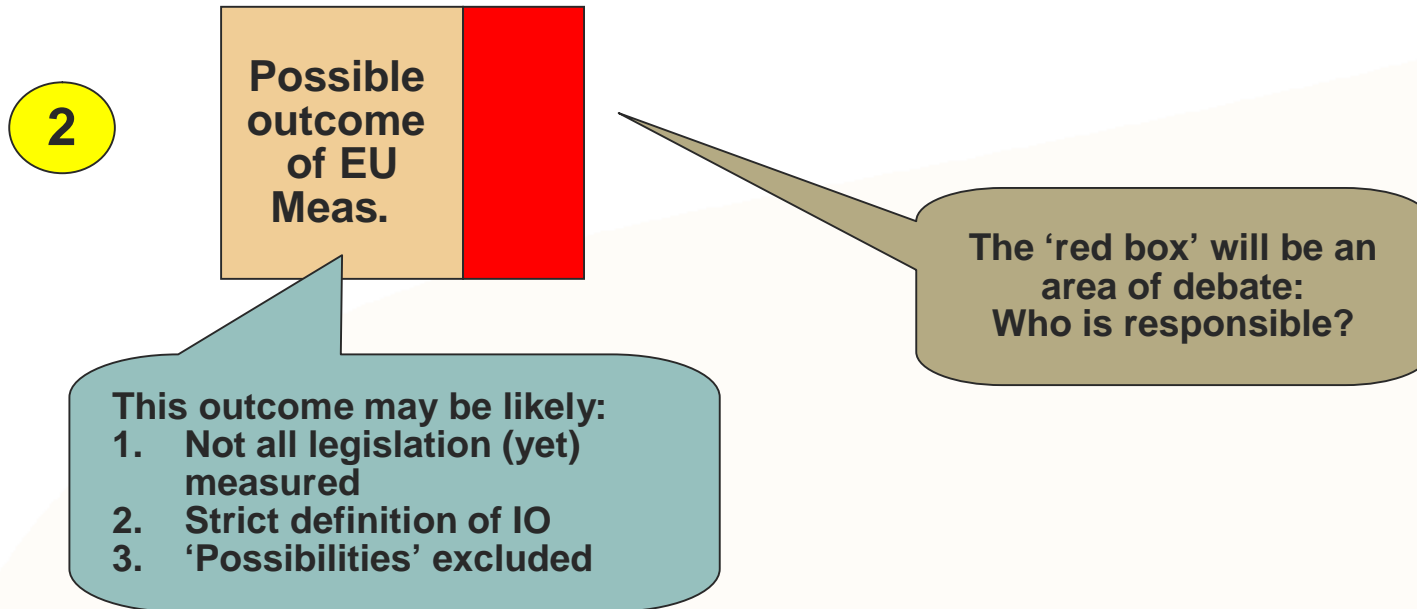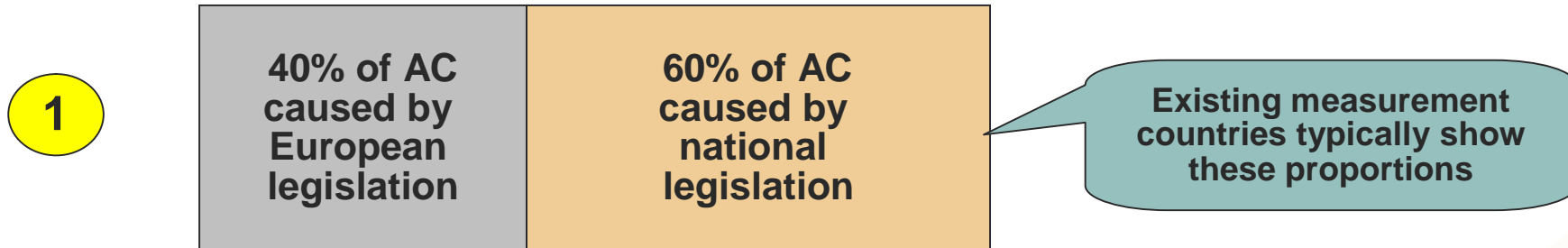| Type of data collection approach	Pro's	Con's
Work shops	§ Good way to cover complex IOs § High likelihood of gathering useful simplification suggestions § No standardisation to follow § Direct contact between interviewers and the interviewed persons § The interviewer can verify the plausibility of the responses on site § Situations can be simulated if necessary	§ Requires many resources from interviewed business § Requires many resources for planning
Telephone interviews	§ Good way to cover less complex IOs or rarely occurring IOs § Cost efficient § Requires few resources from interviewed business	§ Requires follow up standardisation
F2F interviews	§ Good way to cover complex IOs § Direct contact between interviewers and the interviewed persons § Good way to get information that is more detailed on the normal efficient business process	§ Expensive way of collecting data § Requires follow up standardisation

Standardising of the results leads to quantification of the AC per IO

Familiarise yourself with the campaign and the IO

An initial high level assessment of standard process of normal standard entity is conducted

Obvious outliners are removed

low — Level of variation — high

Determination of the standardised resource use

- Consideration whether the responding businesses are representative or not, respectively whether specific circumstances can explain variation of performances
- Consider creating a new segment
- Consider the need to conduct additional interviews

Determination of the standardised resource use

Comparison of results across MS

Register data in BOA

Example of real data

	Employee time min. total			Administrative activities (%)												
	Acquisition in €	External cost in €	Time in total	Familiarising with the information obligation	Training members and employees about the IO	Retrieving relevant information from existing data	Adjusting existing data	Producing new data	Designing information material	Filling forms and tables	Holding meetings	Inspecting and checking	Copying	Submitting the information	Filing the information	Other
Transfer of payment entitlements in the period of 22 April to 31 May 2006 and amendment to the single application			120													
Payment entitlements - type of transfer			10	20		10		20		10	25	10	2	1	2	
Basic data of transferor			2			10				85			2	1	2	
Payment entitlements subject of transfer			105	20		10		20		10	25	10	2	1	2	
Basic data of transferee			2			30				65			2	1	2	
Date and signature			1							95			2	1	2	
Transfer of payment entitlements in the period of 22 April to 31 May 2006 and amendment to the single application			120													
Payment entitlements - type of transfer			10	20		10		20		10	25	10	2	1	2	
Date and signature of transferor			1							95			2	1	2	
Basic data of transferee			2			30				65			2	1	2	
Date and signature of transferee			1							95			2	1	2	
Payment entitlements - subject of transfer			104	20		10		20		10	25	10	2	1	2	
Basic data of transferor			2			10				85			2	1	2	

The final result may lead to an undesired focus on the 'red box'

1

40% of AC caused by European legislation	60% of AC caused by national legislation

Existing measurement countries typically show these proportions

2

Possible outcome of EU Meas.

The 'red box' will be an area of debate: Who is responsible?

This outcome may be likely:
1. Not all legislation (yet) measured
2. Strict definition of IO
3. 'Possibilities' excluded

Focus on reduction opportunities rather than the 'red box' must be ensured

Administrative burden reduction – model and IO level

SCM data provides a great potential for simplification

§ Total burden measured
- In the Netherlands alone all the paperwork companies have to do for government costs them € 16.4 billion a year
- In Denmark the total amount of administrative burdens amount to approximately € 4.5 billion a year
- The costs in United Kingdom amount to € 29.7 billion a year

§ Reduction targets in the Member States
- Several countries has set a target of reducing the administrative burdens by 25%
- Some countries operate sector or Ministry specific simplification targets and the goals are set year by year
- Some countries await results of ongoing measurements before targets are set

Reduction target for this project is to have actions in place by 2012 to reduce the administrative burdens of existing regulation by 25 %

Example on regulatory viewpoint:
Commission principles for selection of administrative burden reductions

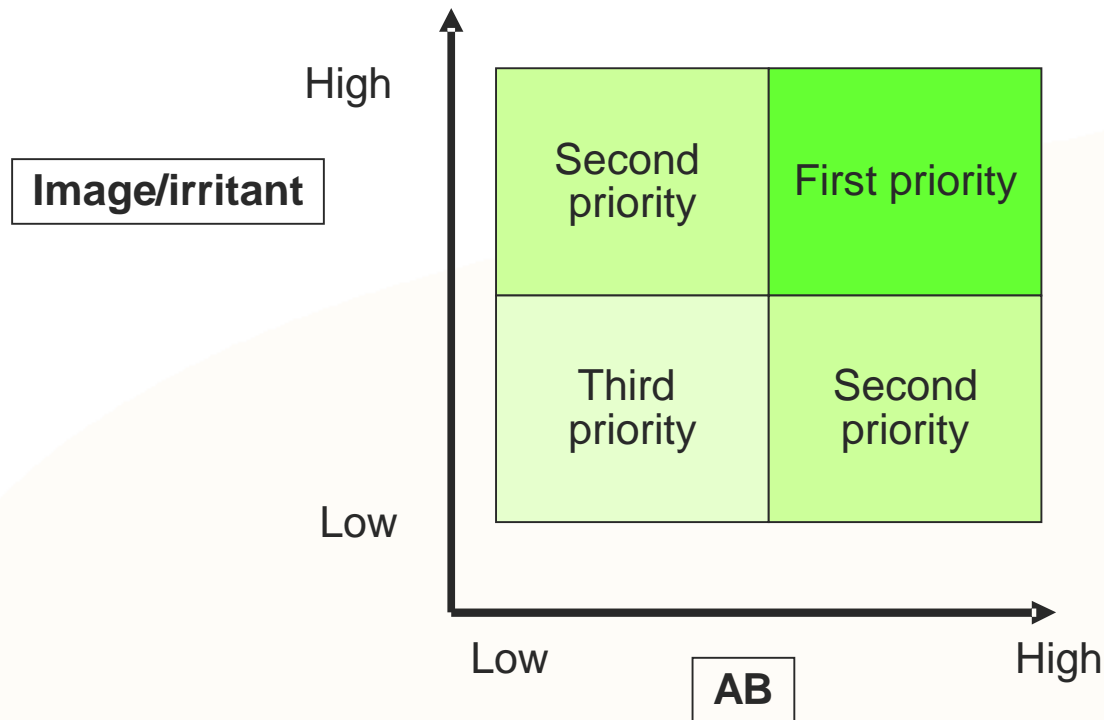*From the Action Plan dd. 24.01.2007:*

§ Reduce the frequency of reporting requirements to the minimum levels necessary to meet the underlying objectives

§ Review whether the same information obligation is not requested several times

§ Require electronic and web-based reporting where paper based information gathering is presently required,

§ Introduce thresholds for information requirements, excluding small and medium sized companies wherever possible, or rely on sampling

§ Consider substituting information requirements on all businesses in a sector by a risk based approach

§ Reduce or eliminate IOs related to legislative requirements that have been dropped or modified since the information requirement was adopted
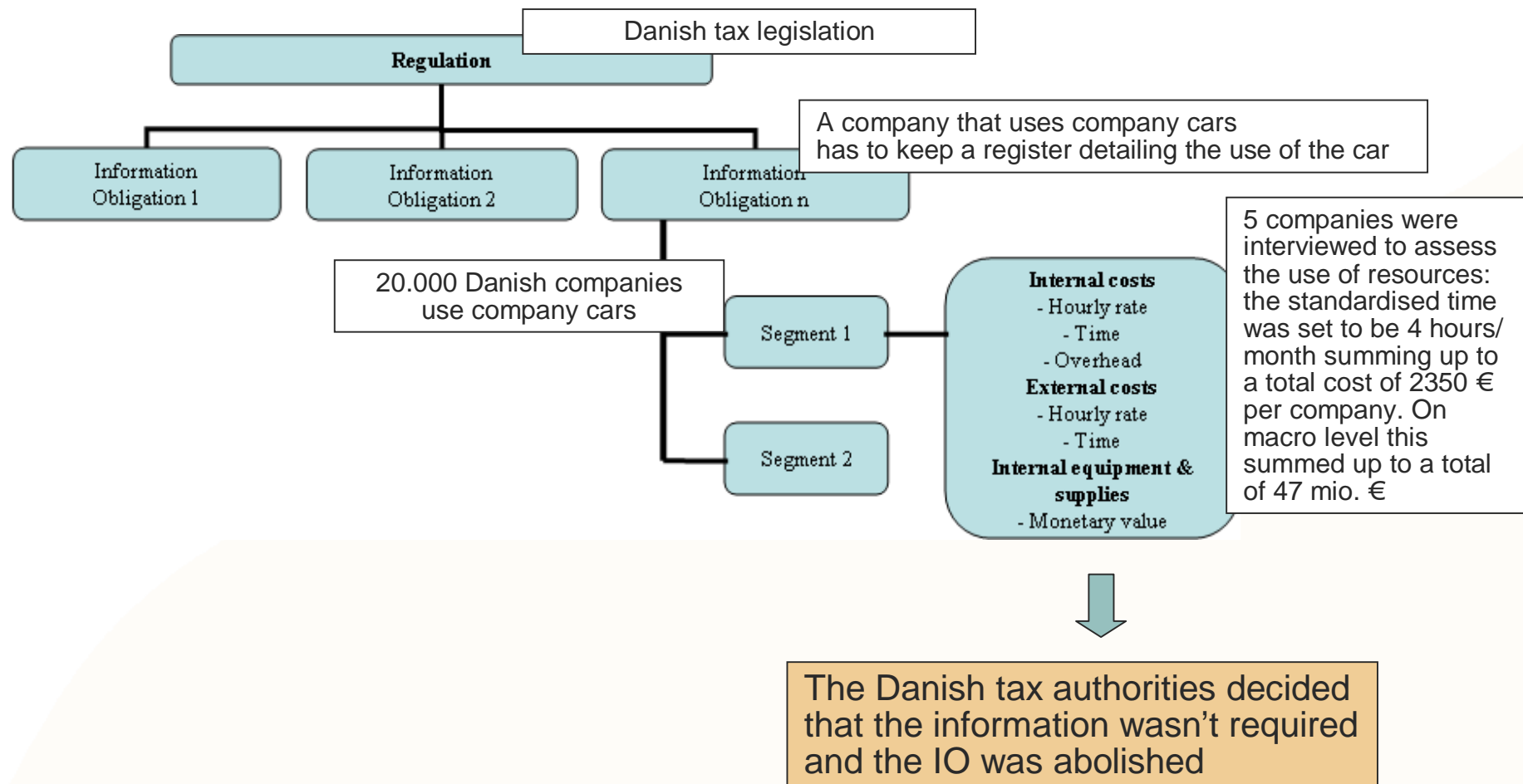
AB reduction focuses on Impact – Image – and Implementability

The three main criteria to select AB reduction proposals are

§ Impact (size of AB reduction)

§ Image (the irritant factor)

§ Implementability

Image/irritant

Second priority	First priority
Third priority	Second priority

High

Low

Low ⬤ High

AB

A specific example from start to finish

Danish tax legislation

Regulation

A company that uses company cars
has to keep a register detailing the use of the car

Information Obligation 1

Information Obligation 2

Information Obligation n

20.000 Danish companies use company cars

Segment 1

Segment 2

Internal costs
- Hourly rate
- Time
- Overhead

External costs
- Hourly rate
- Time

Internal equipment & supplies
- Monetary value

5 companies were interviewed to assess the use of resources: the standardised time was set to be 4 hours/month summing up to a total cost of 2350 € per company. On macro level this summed up to a total of 47 mio. €

The Danish tax authorities decided that the information wasn't required and the IO was abolished
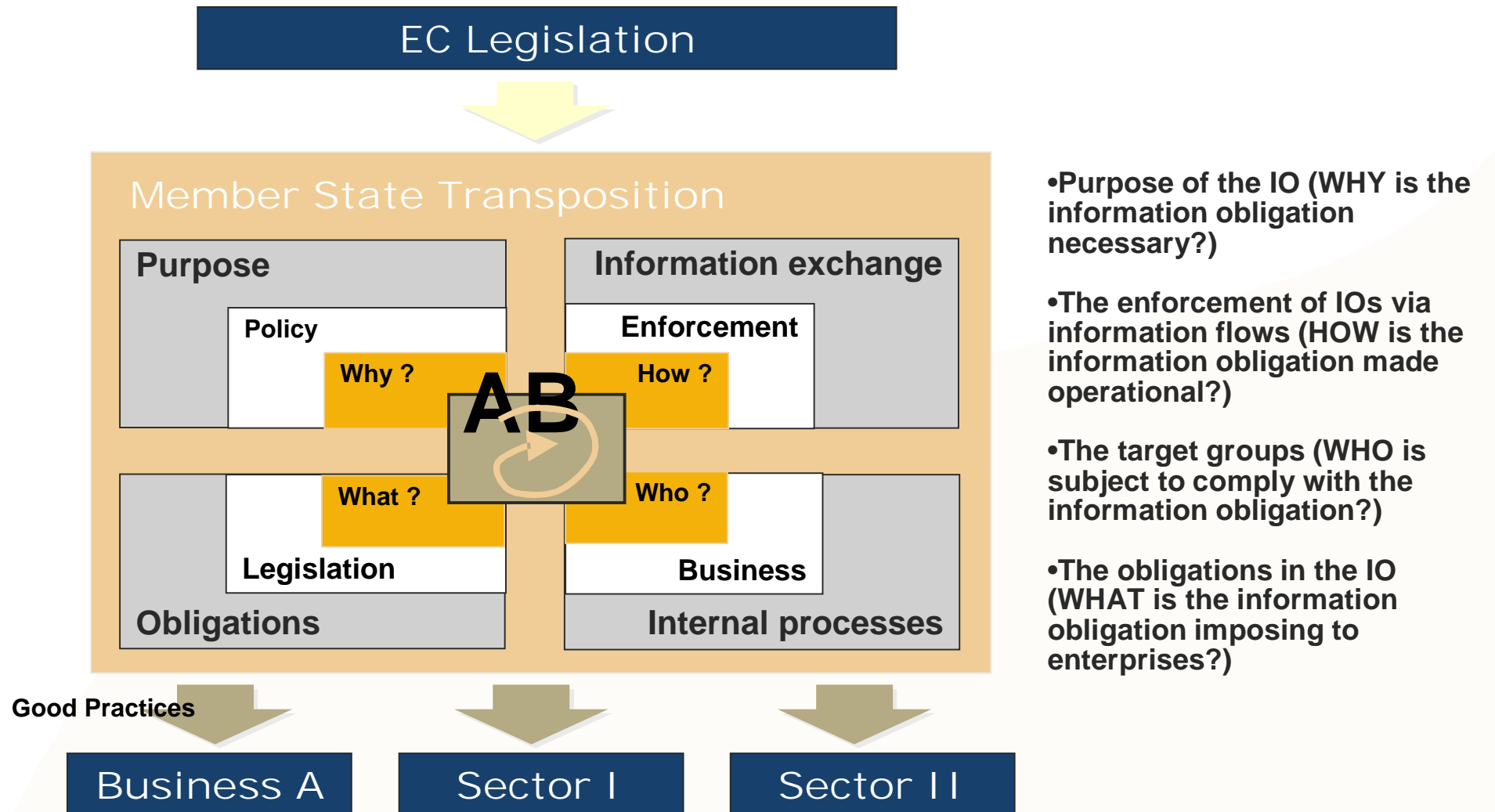
SCM allows to develop concrete simplification measures at the IO level

Where and when	Theme	Initiative	Simplification potential
Denmark (2006)	Company regulation	Exempt small businesses from the obligation to have their financial report examined by an accountant **Limit the population**	€ 140 million
Netherlands (2007)	Company regulation	The public announcement of shareholder meetings for certain companies is no longer mandatory **Skip the IO**	€ 93 million
Denmark (2002)	Taxation	Abolition of the demand for businesses to give documentation when driving company-cars (trip diary) **Skip the IO**	€ 47 million
Netherlands (2004)	Taxation	The frequency of the number of returns has been reduced. Small companies may file VAT returns once every quarter or annually instead of monthly returns **Change the frequency**	€ 388 million
France (2006)	Transport	When applying for a specific road transport authorisation the company now only have to contact one authority on-line, compared to previous where several departments had to be contacted individually **Change the process**	€ 25 million

Administrative burden reduction – structural change

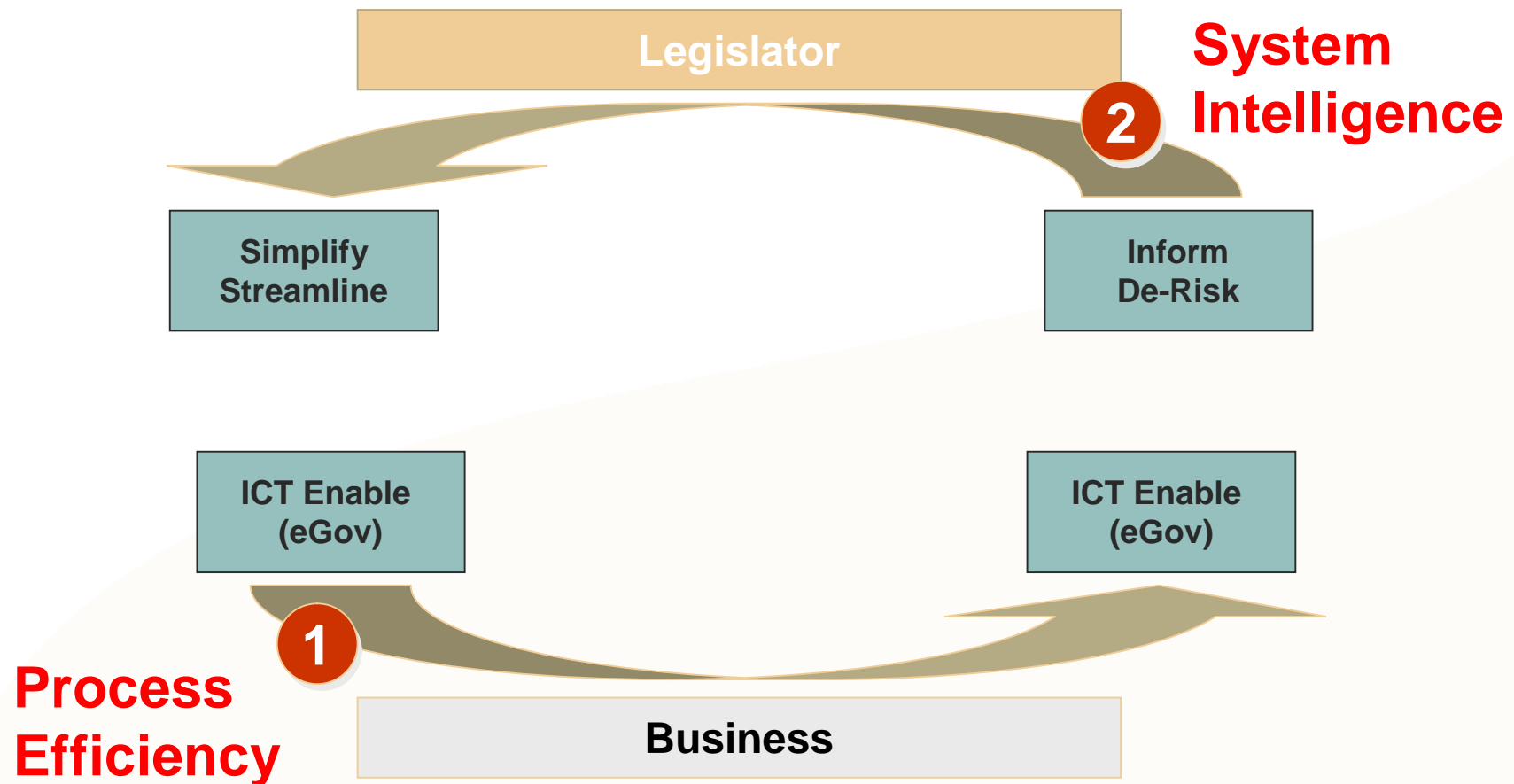# Structural AB reduction focuses on a combination of factors

EC Legislation

Member State Transposition

Purpose

Information exchange

Policy

Enforcement

Why ?

How ?

AB

What ?

Who ?

Legislation

Business

Obligations

Internal processes

Good Practices

Business A

Sector I

Sector II

- Purpose of the IO (WHY is the information obligation necessary?)

- The enforcement of IOs via information flows (HOW is the information obligation made operational?)

- The target groups (WHO is subject to comply with the information obligation?)

- The obligations in the IO (WHAT is the information obligation imposing to enterprises?)

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A more structured approach to AB reduction requires collaboration and value chain thinking

European Commission

Member States

COMMON OBJECTIVE:

The reduction of administrative burdens for enterprises on a short term, mid-term and long-term basis

Businesses

Ministries
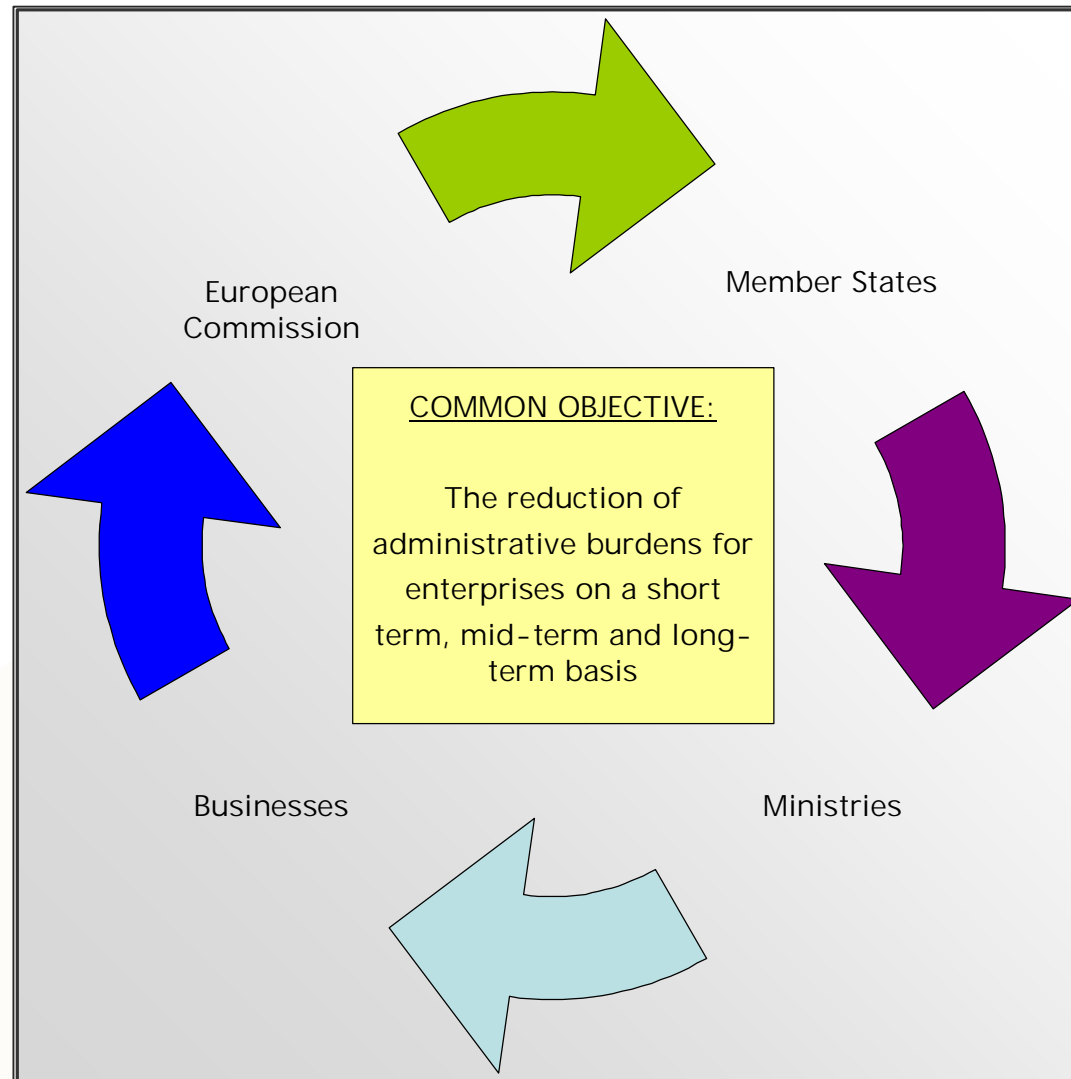
eGovernment may play a key role in structural AB reduction

Questions & Answers