

Evaluating administrative burdens through SCM: some indications from the Italian experience^{*}

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Abstract

This paper gives account of some indication arisen during the course of the realization of the pilot project for measurement of administrative burdens through Standard Cost Model (SCM) in Italy in which the authors have been involved. The Pilot has been implemented during 2006 and has been followed by a more complete measurement exercise, which is ongoing at the Department for Public Administration of the Prime Minister Office in Italy. Roughly at the same time the SCM has been applied in a large number of European countries and the EU Commission has launched an initiative for measurement on large scale. Most measurements have been coupled with the political commitment to cut 25% of measured burdens.

We discuss briefly some methodological problems of the method, its weaknesses and strengths against more complete forms of evaluation of the adequacy of regulation. Practical implementation problems are then discussed in the context of an international comparison of its application in different national contexts.

Our main conclusion is that the SCM is a potentially useful tool. Its great strength which lies mainly in its pragmatic approach and the possibility of commitment on a quantitative target likely to deliver more result in terms of simplification, may be at the same time a source of weakness. Focussing on a narrow definition of burden and limiting the data collection to few business units, it may deliver some misleading results if implemented mechanically. Also some basic concepts of the model need a more rigorous definition to be coherently applied in different countries.

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1. Introduction.

Better regulation is one the pillars of the Lisbon Strategy. However as some commentators have noted (for ex. Radaelli, 2007a), there has been some misunderstanding about the real meaning of better regulation. While taken literally better regulation pointed to an improvement in the quality of rules based mainly on economic analysis (with RIA) and rule making (regulatory management and processes), the term has been also used to mean lighter regulation. This view is implicitly embedded for example in many of the cross country indicators that are provided by various international institutions.² The first decade of this century has seen a growing interest in this second meaning of better regulation, possibly due to increasing scepticism on the possibility of delivering perfect regulation. Worries about the burdens of regulation, as sources of inefficiencies in the economic system, have become more important particularly in Europe. Accordingly a growing interest surrounded initiatives to evaluate and cut those burdens when possible. A considerable amount work has been carried out at the OECD to date (OECD, 2003, 2006 and 2007). Some coordination at the EU level emerged spontaneously in this area around the dutch Standard Cost Model. Initially developed in the Netherlands, the SCM has also been extensively applied in Denmark and UK among other countries. At present, the SCM is the most widely applied methodology for measuring administrative costs (OECD, 2004). In 2003, a network of countries was formed to consistently apply the Standard Cost Model³. The initiative has been stepped up by the EU Commission with its version of the SCM, the Net Administrative Cost Model, with the aim of establishing a common methodology to be used in the Union to deliver comparable results.⁴ At the root of this initiatives is a focus on some relatively new notions of the burden to be measured that is instrumental to the possibility of cutting it afterward. Administrative cost are “... *the costs incurred by enterprises, the voluntary sector, public authorities and citizens in meeting legal obligations to provide information on their activities (or production), either to*

² Notably the OECD's PMR and the Word Bank's Doing business.

³ The SCM Network (<http://www.administrative-burdens.com/>) is an informal network of countries who use the standard cost model to measure and simplify their administrative burdens. All countries which use or are thinking of using the standard cost model can join the network, that currently involves: Australia-Victoria, Austria, Belgium, Flanders (Belgium), Czech Republic, Denmark, Estonia, Finland, France, Germany, Hungary, Italy, Ireland, Latvia, Luxembourg, the Netherlands, Norway, Poland, Portugal, Romenia, Sweden, and the United Kingdom.

⁴ **Annex to the Communication on Better Regulation for Growth and Jobs in the European Union**
Minimising administrative costs imposed by legislation, Detailed outline of a possible EU Net
Administrative Cost Model {COM(2005)97 final}

public authorities or to private parties”. It has to be remarked that “*... some of the procedures in place have become needlessly time-consuming, excessively complicated or useless... Unnecessary and disproportionate administrative costs severely hamper economic activity. They are also an important irritant to business activity and are often identified as a priority in consultations on simplification. The Commission is committed to reducing these unnecessary burdens to the maximum extent possible*”. In this frame, the analysis should assess between “*information that would be collected by businesses even in the absence of the legislation and information that would not be collected without the legal provisions. The former are called administrative costs; the latter administrative burdens. The Commission’s Better Regulation is aimed at measuring administrative costs and reducing administrative burdens*”⁵. Recently the European Commission underlined the importance of measuring the unnecessary AB which are likely to “*... hamper growth and inhibit innovation. Removing them will allow companies to spend more time on core business activities, thereby increase labour efficiency which will benefit productivity and reduce production costs ...*”⁶

The Standard Cost Model (SCM) is a model designed to identify and quantify the Administrative Burdens (AB) arising from regulation, per Ministry and country, over a certain period of time, in a way that provides insight and allows for comparison of the figures. The tool has a microeconomic purpose (is targeted to ex ante impact assessment and ex post simplification) and should not be used for macroeconomic purposes.

The SCM has been developed to provide a simplified, consistent method for estimating the administrative costs imposed on business by public authorities. It is focused on a pragmatic approach to measurement and provides estimates that are consistent across policy areas. The results from the SCM measurements are directly applicable in connection with the governments’ simplification efforts, in that the results shows which specific regulations and in details which parts of the regulation are especially burdensome for businesses.

From the operational point of view, according to the Dutch manual, “*The Standard Cost Model - A framework for defining and quantifying administrative burdens for businesses (August 2004 ver.)*”, “*... when starting a measurement, the regulation under examination is carefully mapped, in order to identify the inherent information obligations (IO). In order to comply with a specific IO businesses have to procure the required pieces of data – or messages (company name and address, VAT-payable etc.) – that constitute the information*

⁵ European Commission, *Commission Working Document - Measuring administrative costs and reducing administrative burdens in the European Union*, Com(2006) January 2007, final.

⁶ European Commission, *Commission Working Document – Reducing AB in the EU 2007 progress report and 2008 outlook*, COM(2008) January 2008, final.

obligation. Each message has to be delivered by a certain amount of companies a certain amount of times each year - this constitutes Q in the SCM, i.e. the total number of times that the message is delivered per year. In order to be able to deliver these messages, businesses have to perform certain administrative activities. Each activity takes a certain amount of time to perform, and therefore carries a cost to companies since they have to pay wages to those employees, who perform the task – this constitutes P in the SCM, i.e. the costs of an administrative activity. Together P and Q add up to a certain cost for businesses when complying with each information obligation contained in the law under examination ...”.

The SCM should measure the AB that businesses face due to compliance with administrative costs caused by regulation. This excludes administrative activities that businesses may continue if the regulations were removed. In this respect, for instance the UK Better Regulation Executive identified this problem and named it as ‘*business as usual*’ costs, i.e. costs of activities which businesses would be likely to carry out regardless of the regulation in place (for example, businesses would continue to keep some element of accounts even without legislation) (Torriti, 2007, Coco, 2006).

2. The EU experience.

During 2006, the European Commission designed and launched an Action Programme to reduce the administrative burdens of existing regulation in the EU. As part of this, the Commission proposed in the 2007 Spring European Council to establish a reduction target of 25 %, to be achieved jointly by the EU and Member States by 2012⁷. Italy agreed upon this target and proposed even a national target for a reduction of 25%, to be achieved at national level (on regulation with “pure” national or regional origin) by 2012⁸. The Commission's Action Programme for Reducing AB in the EU was then endorsed by the Spring Council. The European Council specifically agreed to the joint reduction target of 25% of burdens by 2012 stemming from EU legislation and its transposition into national law. The 9 October 2007 the Council (Ecofin) Conclusions recalled this mandate on the reduction of administrative burdens and, in particular, underlined the importance of ensuring that the needs of SMEs and newly created enterprises are fully considered in this context. At the same time, “... the

⁷ Commission working document COM(2006) 691: "Measuring administrative costs and reducing administrative burdens in the European Union"; Communication from the Commission to the Council, the European Parliament, the European Economic and Social Committee and the Committee of the Regions COM(2006) 689 : "A strategic review of Better Regulation in the European Union".

⁸ Council of the EU, Annex to Note a progress report on Better Regulation, November 2007, pag. 4.

Presidency considers that the need for an adequate balance between costs and benefits should be taken into account in the overall effort of measuring and reducing administrative burdens ...”.

Following the mandate of the EU Council the Commission has started the implementation of the project. Accordingly the Communication COM(2006) 691⁹ states that, “ *... the Action Programme focuses on mapping, measuring and removing IO imposed on businesses that have proven to be obsolete, redundant or repetitive: its aim is to improve the effectiveness of legislation in 13 priority areas without jeopardizing its basic objectives ...”*. The Action Programme will also examine how EU IO have been transposed into national legislation.

For carrying out the above assignment, after a complex auction procedure, the Commission awarded an important Service contract to a single Contractor¹⁰. The project started in July 2007 and the mapping phase is planned to be completed by the end of 2007 and the measurement finalised during the course of 2008. The EC measurement is in its “inception phase” and actually the EC and the Contractor are organising themselves in order to achieve the important objectives foreseen, taking into account the complexity of the work and the very limited timeframe considered for the assignment (18 months). At present a number of relevant issues are affecting the EC exercise, with particular reference to the relations between the activities of the Contractor and the contribution of the State members. There is the risk that they might hamper and jeopardise the EC exercise. In particular, taking into account the Italian case, these are the main issues:

- It is unclear what should be the exact contribution of the member state: indeed the Terms of Reference provided by the EC make reference to the validation of the IO pre-mapping provided by the Contractor but it is not defined the in-depth of this activity.
- The Terms of Reference are vague about the degree to which national regulation has to be surveyed. There are hints that the Contractor suggests to consider only primary legislation as a source of AB. This would be misleading. Most details about the burdens are in secondary norms (Ministerial Decrees in particular) and excluding them from the mapping process may deliver a highly incomplete picture of the real AB. It must be remembered that within the SCM, details are the substance matter.

⁹ European Commission, *Commission Working Document - Measuring administrative costs and reducing administrative burdens in the European Union*, Com(2006) January 2007, final, cit.

¹⁰ The Contractor is composed by 3 partners: Deloitte Touche (http://www.deloitte.com/dtt/home/0_1044.sid%253D2774.00.html), CapGemini (<http://www.capgemini.com/>) and Ramboll (<http://www.ramboll.com/eng/mainpage.htm>). The work of the Contractor has already started and the authors had the chance to meet personell in charge for the measurement in Italy and verify the status of the project.

- There seems to be an important underestimation of the complexity of the SCM in terms of getting suitable data and information upon figures (quality and quantity of business) and the transposition in the country of the EC regulation.
- An important component of the transposition in the country of the EC regulation affecting companies is placed at regional and municipality level. At present s unclear how to manage this multi-level governance issue which is crucial in the Italian experience of implementing effectively the SCM method.

3. The Italian experience

From June 2005 to November 2006, Italy completed its first pilot project (MOA - *Misurazione oneri amministrativi*) to test the Dutch Standard Cost Model. The project was coordinated by the Department of Public Administration (*Office for Simplification in public administrations*) in the Prime Minister Office, in collaboration with the Italian School of Public Administration (SSPA). On that occasion, carried out on a pilot basis, MOA (or the SCM Italian version) was applied on 19 cases of permits and other administrative obligations for the exercise of business activities, in different economic sectors, such as “*public procurement*”, “*annual reporting*” (Olive oil production, Nurseries for vegetables), “*Road freight transport*” (in connection with the RTS OECD project), “*naval transport*”, VAT and *privacy* requirements for SMEs.

At the beginning of 2007 and in connection of the first Italian Annual Simplification Plan, the Italian Government launched a new national Multi-annual Plan (2007-2010) for the Measurement of Administrative Costs and quantitative reduction of AB for enterprises. The Information Obligations (IOs) arising for SMEs and connected to national regulation (areas of Environment, Fire Security and prevention, Landscape Protection and Social Security an labour) were selected on the basis of the simplification priorities expressed by Inter Ministerial Committee in its Annual Action Plan, in consultation with stakeholders and taking into account the EC strategy. The Department of Public Administration and the Simplification Unit (PCM) coordinate the Plan. The National Statistic Office (ISTAT) is involved in the sample selection process, in the design of the method and the direct implementation of the measurement survey.

The structure of the Italian SCM has changed quite considerably between the experimental phase and the actual implementation of the first program of measurement. This change

follows directly from the lessons learned during the experimental phase. Two issues rose forcefully to the attention of the researchers. On one side the sheer size of the heterogeneity in the population of firms was reflected in a wide variety of estimates of the burden associated with a certain administrative activity. This was reduced by repeated interaction with the firms interviewed, but only to a limited extent. The ideal presented in the manuals in which a 4 out of 5 firms were actually revealing comparable costs, whose average could therefore be deemed to be close to the cost of the ‘normally efficient business’, seldom occurred.

This prompted another consideration about the particular structure of the Italian firms’ structure. Indeed, the existence of 4,5 millions registered SMEs (of which, around 4 million below 4 employees), renders the Italian situation almost unique. On one side this makes it more urgent for Italy to run an appropriate program of burdens reduction. It is an accepted fact that the AB and more in general compliance costs, weights disproportionately on small firms mainly because there are economies of scale in the related activities. A country with fragmented firms’ structure therefore stands to gain potentially much more from cost reduction than one with a concentrated structure. Following this line the Italian SCM program focused only on SME, on which all the substantial gains are to be found. In addition however it is reasonable to suppose that the huge number of SME firms makes the assumption of estimating the cost of the normally efficient business once for all classes with 5 interviews almost meaningless. Stratification of the population is clearly one answer. All Italian estimates have been carried out only on single-located Small-Medium Enterprises and are based on two separate surveys for firms in the classes (1-5) and (5-249) employees. However also a statistically sounder approach appeared necessary.

Furthermore some problems arose in the sample selection process. Participation in the survey was difficult to secure in particular for micro firms. The easiest route to ensure a reasonable level of compliance was to obtain a backing of the initiative from business associations. However even then most small firms were unaware of the burdens associated with most administrative activities simply because most of them were actually externalising most of them. Notably the most important providers of those services are the very business associations involved in the measurement. This prompted the consideration that a biased selection of the sample through business association might severely affect destroy the credibility of the estimate. Of course, a similar problem of credibility exists (this time against the government) when firms are directly chosen by the government and particularly if chosen by the regulatory agency. That is the reason why those tasks are better allocated to a third structure not directly neither to business association nor to the regulatory agency involved. In

Italy this has been identified in the national statistic institute (ISTAT). This line seemed to fit also the need to develop a sounder statistical approach based on the representativeness of single firms interviewed in terms of their relevant characteristics.

Externalising the survey however did not solve the problem of micro firms, defined as the business having 4 or fewer employees (which actually weren't able to answer the detailed questionnaire). Excluding micro firms from the survey would certainly contribute to deliver a total biased results. The solution adopted has been to gather information on micro firms burdens through expert assessment and to aggregate the estimates obtained with the results obtained by ISTAT on the sample of single-location firms from 5 to 249 employees.

Building a good quality sample is one of the most difficult steps of the analysis. We simplify the process by choosing the same size sample (about 40/50 firms) for each measurement, independently from the subject regulation. In choosing the sample size it is important to take into account that the impact of outliers and the time needed to investigate correct this impact on the estimate increase as the sample size decreases, and that these costs can overcome the time needed for conducting an higher number of surveys.

ISTAT selects the sample in two steps: first it conducts a telephone survey to a sufficiently large number of firms, distributed uniformly over the national territory, aimed at estimating the number and type of businesses that are required to follow certain rules and that comply with the specific activities involved. Companies are asked to provide information over the last three years, ending with 2006. This first step is also important to identify the relevant population, in particular when some information obligation do not involve the whole population of enterprises affected by the regulation but only firms that undertake some specific action: participating in a tender, opening a new venue or installing new equipment.

The second step consists in direct interviews to a smaller number of businesses. Businesses chosen are those that have claimed to have complied with at least one administrative burden in the year selected for the measurement. The sample has been constructed using a balancing technique aimed at guaranteeing the presence of a minimum number of businesses for each region, type of administrative burden, size, presence of internal and external costs. A model has been used to extrapolate results from the sample to the population. The model uses some auxiliary variables (number of enterprises, number of employees, sector of economic activity, geographic distribution) to assign a weight w_k for each enterprise k of the sample. Questionnaires and interview guides were prepared for each regulation subject. The questionnaires were reviewed and discussed in a focus group before being sent out for use by the local statistic office interviewers. Interviewers undertook a training programme to

understand the purpose of the project and the way to collect information and complete the questionnaires. To facilitate measurements, reduce errors and ensure a greater homogeneity of the results, national experiences show the value of a database and the importance to fix some “standard” value for recurrent costs (filling a form, posting it etc.). The same issue will most likely arise at the EU-level.

The Italian Office for National Statistics does not provide data on the appropriate wage for relevant occupational group. Eight employee types were identified as typically working in small medium enterprises. The cost applied on each type is the average hourly wage indicated by businesses interviewed, including a 25% uplift for overhead costs, in accordance with the SCM. External costs are the fees paid to external advisers, collected in the interviews with businesses and verified in a focus group with accountants and professional advisers. In particular, professionals can provide more information than businesses regarding the distribution of total costs among the specific administrative activities. Frequency represents how many times in a year the information obligation has to be complied with where a prescribed mandatory periodic occurrence exists. In the other cases, frequency was estimated on the basis of the occurrence revealed by interviews, using administrative information, if available, to verify the resulting numbers. The cost for each administrative burden is the sum of internal and external costs. The final aim of the methodology is to determine the administrative costs of a “typical” firm, that means avoiding the impact on the results of exceptional and not representative businesses on the estimate. The methodological issues and the criteria for identifying “abnormal” values, however, are not explicated in a satisfactory way in international manuals. The choice of values that have to be excluded from the measurement is largely discretionary and can produce inconsistent and non-homogeneous results. In Italy, in the first experimental phase it was decided to use, as exclusion criteria, a measure of the distance of the data from the mean. This concept of “abnormal”, borrowed from statistical theory, did not claim any statistical significance but was meant to provide a standard and homogeneous criterion to limit user discretion. In statistical terms the concept can be operatively captured better using the median (that, in general, is insensitive to “outliers”), rather than the average cost. However, for very small samples the median is a less reliable statistical indicator. The National statistic Office uses the median of the total burden, but calculates also average values to control and investigate for eventual excessive anomalies.

4. A cross-country comparison of the application of the SCM method. Convergences and divergences with the Italian approach.

4.1. Different approaches to measurement and the possibility to undertake a useful benchmark.

The number of countries that use SCM has grown significantly in the last few years. Despite all these countries apply the same technique, some countries have made deliberate choices to deviate from the original SCM standard in the application. As stressed by the Dutch manual itself, the method is not static and it is important to let the single elements in the method to be constantly developed in line with the method being employed in new areas or in relation to new problems. That is why the manual has to be considered as a reference to solve the most important problems related to the employment of the method and, keeping intact the fundamental principles, it will be updated with the method's continued development. In other terms the SCM is an open standard that can be, up to some points, customised or adapted to different circumstances. This section compares some of the most significant experience of SCM in Europe (in particular Denmark, the UK, the Netherlands and Norway. Also see specific countries' manuals and in particular the Appendix to the UK SCM manual) and evidences and explains some Italian choices. It illustrates some of the most relevant decisions on a number of central matters that have to be taken before applying SCM and discusses the possible options in the application of the technique and the choice adopted by European countries in their measurements. Understanding the different methodologies used to carry out the SCM measurement is critical for the purpose of making comparisons or benchmarking between countries.

The SCM is a transparent approach and a tool to study the impact of international regulation, to benchmark the implementation of EU Directives in member states or to compare across countries specific areas of regulation with the aim to identify the best practices and the actions for reducing the burden of regulation and promoting a higher quality of regulation. For a good comparison/benchmarking and a correct interpretation of the results it is necessary not only to understand the basic social, economic and historical differences among countries but also to ensure that differences observed are uniquely due to differences in the regulations and not to the use of different approaches to measurement.

One of the most important points that must be addressed before starting comparison/benchmarking regards definitions. The definition of information obligation,

regulation, business etc. is not so obvious and need to be clarified. It is also important to find an agreement on what has to be measured and what can be neglected, on the way data have to be collected and reported and so on.

First of all, since the SCM is aimed to measure the administrative costs for private businesses, it is necessary to clarify what is meant by private businesses. The definition of private business is also necessary to identify the size of the population to be affected by a given rule. The traditional and narrow definition of private business is: “units that produce and/or supply goods and/or services under market conditions with the objective of generating profit for the owners”. While Denmark, Sweden and Italy have employed this narrow definition of private businesses other countries have chosen a broader definition of “private business”, including also “semiprivate” businesses, like charities and the voluntary sector (UK) or also public or partly public owned businesses that cover its own costs. (Netherlands). Norway extended the narrow definition to state corporations that perform regular business activities.

Differences among countries also arise in the definition of the regulation whose administrative costs have to be measured. These differences are mainly due to differences in legal and political systems. In some countries, where a great part of the regulatory burden comes from non-legislative regulation, also part of these costs are included in the measurement (as approved codes of practice in UK). In Italy, as in the Netherlands and Denmark, the SCM is designed to measure the administrative costs arising from legislation only.

Another choice to be made before starting SCM is if to measure the EU-Regulations that have been implemented in national legislation, or if to completely exclude all EU-Regulations, taking into account that in many cases also EU regulation that is formally directly applicable needs some domestic implementation. Including only EU regulation that are implemented in national legislation, as chosen by Denmark, the Netherlands, Norway and Sweden, is surely less resource demanding than the option of measuring all EU Regulations but that is not necessarily the most rational choice. UK decided to list and flag even if not to measure, the EU-regulations when domestic implementation is not required.

Another choice concerns whether to measure voluntary regulation or not. In principle, SCM should measure only administrative costs of compulsory regulations that businesses have to follow and not voluntary regulations. Italy decided not to measure voluntary rules. However, there are cases in which rules are voluntary in theory but may be considered necessary in relation to entry, permanence or competition on the market, e.g. public procurement. Some countries (Denmark, Norway) measure the voluntary rules regarded as necessary that is the

rules observed by the majority of the businesses that are covered by it. Sweden, the United Kingdom and Netherlands measure all voluntary rules.

Another decision that varies among countries regards the choice of measuring businesses' information obligations to the public sector only or including third parties information obligations (like employees or consumers, ex. food labelling of products, financial prospectus). Just like information obligations to the public sector, information obligations to third parties arise from regulation and cause administrative costs for businesses. Denmark, Norway, the Netherlands and Sweden have measured both types of information obligations, while Italy and the United Kingdom only measure information obligations to the public sector. In order to measure businesses' administrative costs of regulations, it is important to establish clear assumptions about compliance. Not always a regulation is complied in full by all the businesses for which it is relevant. It may happen that the legislation is misunderstood by the businesses, or that the businesses consciously fail to follow parts of the provisions of the regulation. In these cases the costs of complying with a regulation may be different from the actual costs that the businesses incur through only partial compliance. Most countries have decided to measure full compliance, with the aim to capture how businesses are supposed to follow the rule and what costs these businesses would bear in following all the rules that they are required to. Netherlands privileges the full compliance principle, but also measures with actual compliance when statistics about actual compliance are available. In carrying out their experimental measures, Italy has tried when possible to compare the measures obtained basing on actual compliance with those under the hypothesis of full compliance (that are the centrepiece of the analysis anyway). The extent of the difference between the two measures can provide some further suggestion about the opportunity to simplify the regulation. When the businesses fail to comply with the regulation because it is too complex to be understood completely, or because is too "irritant to businesses", simplification of the rules can have the double goal of reducing information costs and increasing the efficacy of the rule and the number of businesses that will comply with all parts of it.

In the cases businesses receive some form of reimbursement of the administrative costs of complying with information obligations, it must be decided whether to include these costs in the measurement. Some countries, as Denmark, decided to exclude from the measurement information obligations with cost-determined reimbursement. Other countries considers all information obligations, but keep track of the level of reimbursement in order to take account of this information in the administrative cost measurements and to include such regulations on a net basis (United Kingdom, Netherlands). The measurements carried out in Italy did not

include cases in which businesses subjected to information obligations received some form of reimbursement to cover their administrative costs of complying. However, the intention of Italy is to include all information obligations on a gross basis and to report separately the size of reimbursement. In this way it would be possible to evaluate both the total impact of information obligations and the distribution of this impact between private businesses and the public sector. In the case motivation of public interest would hinder or limit the possibility to reduce the burden for businesses simplifying the regulation, it can be considered the possibility to reduce it by increasing the level of reimbursement.

Some countries use the SCM model to calculate the administrative costs to other groups than businesses, typically citizens and public authorities (the Netherlands for example). The approach used is similar to that used for businesses, but the analysis covers different aspects and may have different implications. Italy do not exclude to extend the analysis to other groups in the future.

One of the most difficult steps of the SCM analysis is to collect information and to build a good quality sample. The aim of the methodology is to determine the administrative costs of a “typical” firm¹¹. The choice of the typical firm is aimed to avoid the impact on the results of exceptional and not representative businesses on the estimate. That is usually taken to mean excluding from the calculation all abnormal values form the estimate. The methodological issues at the basis of the choice however are not explicated to a satisfactory point in international manuals. Italy, as other countries, use the median rather than the average cost. In the presence of outliers, the median is in general a more reliable indicator.

As it happens this increases the importance of building a good quality sample of businesses to derive costs to a typical firm. Random samples have to be avoided. A sample that is statistically representative of the population affected by the regulation is not to be considered because the costs of constructing such a sample (and performing the survey) would greatly overcome the benefits obtainable from the model. Moreover, the time involved would not be consistent with the time frame of the analysis.

In order to avoid that the costs of the measurement would overcome its simplification potential, some countries decided not to measure observations under a defined threshold limit (for example, not measure rules implying less than a certain number of hours of presumed administrative work per year for all the businesses concerned). Denmark has set a lower threshold limit: laws which involves less than 100 hours administrative work per year for all businesses concerned are not measured. The Netherlands, the United Kingdom and Sweden

¹¹ What manuals term a ‘normally efficient business’

have not set a formal threshold limit. Italy has not set a threshold limit on single parameters of the measurement, but has set a dimensional threshold limit for the businesses involved in the analysis. In a first stage the measurement will be carried out only on Small-Medium Enterprises (up to 249 employee). The exclusion of large firms is motivated partly by the structure of the firm population in Italy, where large firms are a negligible minority. But mostly by the large amount of evidence in support of a regressive impact of administrative burdens. According to this view, red tape and compliance costs more in general are to some extent fixed costs and therefore weight more heavily on smaller firms¹².

In practice the consultants select the relevant sample by partitioning total population of enterprises affected by the rules into a limited number of groups of typical firms, on the basis of the specification rules and the level of differentiation chosen. The criteria used to select the sample differ among countries, and also varies the way each country account for these criteria. Most countries using the SCM have involved businesses or consultants for information collection. The consultation procedures the subjects involved and the contents of interviews should take into account the aspects that have driven the selection of the sample.

The “overhead costs”, the costs that cover necessities linked to general administration (expenses for premises - rent or building depreciation -, telephone, heating, electricity, IT equipment, absence owing to illness etc) are not easy to identify as there is no central statistical source that provides the necessary information. The overhead percentage varies among countries. Italy have used an overhead percentage of 25 %, in analogy to other countries (Denmark, Norway and Sweden). The Netherlands uses sometimes higher percentages.

In practice the SCM measures all administrative costs. While in theory the methodology does distinguish between the costs a company incur due to a specific regulation imposed by central government and costs a company incur because of administrative activities that it would make also in absence of legislation (the “normal” business costs), no application attempts a practical separation between the two categories of costs. The reasons why these costs are not considered separately, is that the distinction would be too difficult to implement and it would not add much to the simplification process. Most countries have chosen not to make a formal distinction between normal business costs and administrative costs. Norway separate administrative costs from normal costs.

¹² The overall estimate will not change substantially if larger firms were added. On the other side as they may bear substantially different costs they need to be surveyed separately increasing substantially the cost of the survey. On the whole the final aim of the SCM exercise is to cut firms' administrative burdens. It makes therefore sense to concentrate on those firms for which AB make a difference.

Different countries also use different approaches to assess if simplification succeeded in reducing administrative burden. The time horizon needed for simplification targets to be met is usually fixed more or less in three years. The frequency of the monitoring process differs among countries: the Netherlands carry out 2 monitoring a year in order to know in advance if the targets are likely to be met in three years. Denmark intends to conduct annual measurements. The United Kingdom will use ex-ante assessments as part of the post-implementation review process after three years.

4.2. Possible challenges in the use of the methodology to measure administrative costs.

The first step of the measurement consists in identifying the information obligations inherent to the law under examination. These information obligations may be further split into a number of pieces of information known as messages. In order to produce this information, the businesses have to carry out a range of administrative activities that require internal resource in the form of use of employees' time and external resources in the form of fees for auditors, external experts and so on.

Despite the basic calculations to determine the administrative costs for businesses are quite simple, the way to proceed to the measurement may be not so trivial and may differ among countries, leading to non-homogeneous results.

The basics of administrative cost calculation are the cost parameters:

- The Tariff T, i.e. the internal cost per official of the State administration, that corresponds to the wage costs plus overhead for administrative activities done internally and the external cost, that is the hourly cost for external services providers;
- The Time required for carrying out the administrative activity, measured in hours, h;
- the Price P represents the costs the companies incur in performing these activities, that is the product of Tariff x Time;

The variable Q in the SCM represents the total time businesses spend each year to perform the administrative activities necessary to deliver the specific data requirement. It corresponds to the frequency that the activity must be completed each year multiplied by the size of the population of businesses affected.

Together P and Q add up to a certain cost for businesses when complying with each information obligation contained in the law under examination.

The basic formula for calculating the costs for the administration is: Σ (Price x Quantity). In theory, the more detail the better. In practice, in complying with information obligation

companies perform a number of activities that are sometimes difficult to disaggregate and tariffs and time are frequently measured for aggregated activities. In these cases, the measure can be produced aggregating two or more activities with a loss in the level of detail. In other cases, the cost of performing certain activities, P, is available only in aggregate form (for example, when administrative processes are outsourced to external service providers such as tax consultants, notaries, lawyers) and it cannot be possible to disaggregate this cost to obtain tariff and time. Germany suggests that the tariff of external providers shall be taken as a basis for calculation. However, the tariffs of these providers are generally defined for a specific service (better, on a whole “package” of activities) and not on a time basis. Italy collects information regarding external costs in interviews with businesses and verify costs and their distribution among specific administrative activities in a focus group with professional advisors. External costs are summed up with internal costs and a total cost is calculated for each activity. This method, used in other countries, does not allow to have separate estimates of the average internal and external time needed to perform a specific activity.

In the first experimental phase Italy has also explored some options to include aggregate costs in a way that allows to obtain separate average values for internal and external cost. The first consists in splitting the total costs on the basis of an estimate of the commercial hourly rate of the external provider of the service (assuming as the time needed as the average time used by internal employees), or, inversely, of the time needed assuming as the hourly rate the average cost of an internal employee. The second option consists in including the aggregate cost calculating a weighted average of disaggregated and aggregated costs, using as weights the number of companies that provide disaggregated and aggregate costs or that declare to use internal or external service providers. In the case external costs are available in aggregate and it would not be possible to obtain the hourly rate of the service provider, the costs of administrative burdens P for the administrative activities is calculated as:

$$P = P_i + P_e = \frac{P_i * n_i + P_e * n_e}{n_t} = \left(\frac{\sum_{k=1}^{n_i} T_{ik}}{n_t} \cdot \frac{\sum_{k=1}^{n_i} h_{ik}}{n_h} * n_i + \frac{\sum_{l=1}^{n_e} P_{el}}{n_{pe}} * n_e \right)$$

where n_t is the total number of firms that provide information useful for calculation, n_i is the number of firms that declared to use internal resources and n_e is the number of firms that declared to use external resources. Note that n_t may be lower than n_i+n_e in the case some firms

in the sample use both internal and external resources. Note also that all information gained through the interviews will be reliable and valid: data of company that are judged not normally efficient relative to the other businesses in the target group should be omitted.

In the SCM manual it is not very clear whether all data relative to the “inefficient” company have to be omitted from the analysis or only the specific observation (for example, only time is omitted if the tariff is judged to be consistent with the level declared by the other firms in the group). This second hypothesis seems to be preferred also in the need of account of as more data as possible. In this case, the total number of observation used to derive the “typical” tariff (n_t) may differ from the number of observations valid to calculate the typical time in hours (n_h) and both of them may be lower than the total number of firms who provides information (n_i).

4.3. Coordinating units and monitoring groups.

Eventually, the success of SCM methodology depends crucially on the presence and effectiveness of a central coordinating unit. This unit has the important role of setting the timetable and giving support and cooperation to consultants and departments for solving methodological issues. It is responsible of ensuring that the method is consistently applied by the consultants and in maintaining a good cooperation between the consultants and the departments.

Among the bodies charged with the responsibility of the SCM measurements are: the Danish Commerce and Companies Agency (division for Better Business Regulation) in Denmark, the Ministry of Trade and Industry in Norway, the Ministry of Finance in the Netherlands, the Swedish Agency for Economic and Regional Growth (Nutek) in Sweden.

In the United Kingdom the Better Regulation Executive that co-ordinates the SCM measurements, previously part of the Cabinet Office, is now part of the new Department for Business, Enterprise and Regulatory Reform. This new Department inherits functions from the former Department of Trade and Industry, and bears responsibility for creating the conditions for business success through competitive and flexible markets and regulatory reform. It works across Government and with the regions to raise the levels of UK productivity.

In Italy the Department of Public Administration and the Regulatory Simplification Unit, that jointly bear the responsibility for SCM measurements and for reducing or simplifying unnecessary regulation, are part of the Prime Minister’s Office.

To guarantee the success of SCM method and the accountability and comparability of the results, it would also be important to establish a monitoring group or unit, with the mission to follow, monitor and validate the results of the measurement. This group should involve, in addition to the central coordinating unit, representatives from the relevant departments and from business organisations and businesses.

5. The SCM: some problems and some advantages.

Administrative burdens are usually defined as the information costs of regulation. The concept of IO is defined in opposition to substantive obligation stemming from regulation. Of course focussing on information requirements set in the regulation can be justified on practical grounds for its relative simplicity. Getting data on the time needed for complying with paperwork obligation is certainly much simpler than calculating the whole compliance costs. Another reason is that paperwork is only indirectly linked to benefits and, as we will see later, this is linked to another basic assumption of the model: some burdens can be cut without affecting the benefit from regulation. Of course information obligation are in most cases instrumental to ensuring actual substantive compliance. But in some cases it may be reasonable to assume that compliance is virtually unaffected. Notably this is the case in at least three instances:

- Some paperwork requirement may be redundant because the Public Administration already owns a certain piece of information. In this case a better integration (information sharing between different administrative bodies, unification and centralization of information collection) within the PA at different levels may preserve the same compliance with less paperwork and information burden for the business sector;
- Digitalization of administrative processes decreases paperwork and time waste without losses for compliance;
- A shift from controls across the board to a risk based approach may cut burdens were they are less likely to be productive in terms of increased compliance. Of course in this case the assumption of zero-effects on benefit is less tenable. But if the shift is accompanied by increased penalties for non compliance it may be reasonable.

Limiting attention to information obligations is certainly a simplification of the task for the estimate of the burden. On the other side in some cases it may be difficult to define clearly whether a certain cost stems from an information obligation or not. A typical case is that of taxes or fees (transfers in general). In general this types of payments are excluded from the estimate of the SCM that is normally an estimate of the time needed to provide an obligation. Businesses can certainly hire (and often do it) an external professional to carry out the administrative activities necessary for an information obligation. But even in this case the estimate of the burden is based on the time (and a standard salary rate, with all the connected operational problems for the assessment) needed to carry out the activities that is often indeed been asked to the professional itself.

The exclusion of payments to the public administration however may be unsatisfactory sometimes. In some cases payments to the PA are justified explicitly by the need to finance efficient oversight. For example, in the Italian regulation of fire prevention, firms are required to pay a compulsory fee that finances an ‘on site inspection’ necessary to ensure that regulation has been duly complied with. In some sense, the firm acquires the services of the PA to ensure that it complies with existing regulation. This payment is therefore a possible substitute for a payment to a private sector professional certifying the due compliance.

In this case paradoxically a literal application of the SCM excluding the fee will no doubt underestimate the true cost of information exchanges between the business and the PA. A PA relying heavily on direct control will perform better in terms of administrative burdens than a PA relying on self certification. In our experience however this is hardly a good indicator of a less burdensome system.

Another potential problem with the definition of AB lies with the restriction of attention to the costs directly shouldered by businesses. While originally the definition of business was taken to include only strictly private and for-profit firms, according to most experts also non-profit and even some public organizations should be included in the measurement (in particular those providing services for tariff/charges). More importantly however concentrating on the direct costs to businesses may deliver an incomplete picture of the overall burdens of regulation. On one side the costs are not the sole type of burden shouldered by businesses. During the implementation of the Italian measurement, businesses often complain about the delays of the PA in delivering permits for example. Thus, the simple cost dimension of the overall burden to the business system is an incomplete description as it overlooks the cost of delays and the uncertainty caused in the business operation.

Moreover there may be a trade-off between the cost to business and other categories of costs. Again Self-certification and Certification obtained by endorsed professionals are often used as substitutes for direct controls of the PA. The motivation is often that of speeding the process. However both these modalities of regulation probably increase administrative burdens narrowly defined as direct costs, relative to a centralized system of controls that is necessarily more burdensome for the PA and are anyway more costly in terms of delays for the business itself. In this respect the measurement may be misleading because incomplete.

Of course within the logic of the SCM, the benefits of the regulation under examination are not to be considered. Policy-makers should judge whether the benefits outweigh the costs of the regulation after the measurement has been carried.

Focusing on business is one of the pillars of the tool and sustaining and supporting private business can be considered a basic value for the policy maker. In the real world and when dealing with a large number of stakeholders, anyone with different policy objective, the above can turn out as a weak point for the analyst who might miss or receive biased basic information for implementing an effective policy in line with the social welfare function of the society as a whole (see also Radaelli, 2007b). Here comes the problem of deciding what is really "*disproportionate and irritant to business*": when implementing a measurement of controversial regulation where there are different stakeholders assessing the threshold of proportionality and irritability can be difficult without precise information coming from the policy maker. At the same time another key for implementing SCM is connected to the fact that any income that businesses may generate through the IO should be disregarded. This is something that might occur in the actual implementation and cannot be underestimated. Then, eventually, the definition of AB disqualifies lost turnover from being deemed an AB. According to the manuals, only costs that have actually been made in order to satisfy a statutory information obligation count as AB. In this respect, the picture provided by the measurement can be considered incomplete even for business, in terms of not considering the opportunity costs of the resources of the company involved in providing the compliance to regulation.

All the above are weak points of the SCM, directly linked to the pragmatic nature of the methodology. Of course only a full Cost benefit Analysis (CBA) delivers a satisfactory evaluation of net benefits maintaining a high level of transparency. The logic of CBA is that a community has limited resources and decision-makers must convey them towards the interventions capable of maximizing the net benefit. A transparent benefit-cost framework is best adapted to encompass a broad range of interests (social – economic- environmental

impacts). However the hypothesis of implementing a fully fledged CBA on the whole of the existing regulation in a given country wouldn't be feasible (nor pass itself the CBA test probably), while a complete evaluation of AB, given the more limited scope and more pragmatic methodological approach of the analysis, has been already implemented in some countries. The current move of regulatory impact analysis toward more soft forms of CBA and toward an increase in partial analysis does not depend uniquely on dissatisfaction with formal CBA. As underlined by Jacobs (2006), the increase in partial analysis reflect the growing pressures on governance from the many groups of interests. Different sources of interest lead to different goals and kinds of analysis. SCM is mainly driven by competitiveness issues.

The main advantage and logic of the SCM however lies probably not in its formal properties but in its ability to deliver results. An important aspect of the properties of different tools of regulation is their practical ability to achieve their formal goal in the face of real world obstacles to their achievement and hence their efficacy rather than their theoretic efficiency. In this perspective the various instruments can and need to be evaluated not only for their formal properties but also for their chances of success in a given institutional and political system. In our opinion the main advantages of the SCM are to be found within this class of reasons. A tool for regulatory quality may be in theory the most efficient but it may be liable to distortions or encounter problems in its application that undermine its desirability ex-ante.

There are at least two types of obstacles that are very relevant: the resistance of the administration (or more generally vested interest that promote stricter regulation) and the difficulty in maintaining simplification policies at a high level in the political agenda. On both grounds the SCM is more likely to succeed than other tools. On the first account the SCM is a rather rigid tool. Given the quantitative nature of the evaluation and the limited need for ad hoc hypotheses it is more difficult to bend it to other purposes.

On the second account the strength of the SCM lies again in the commitment it requires to cut red tape. Once the 25% target is agreed and made public, it becomes a sensible target for politicians (and bureaucrats as well). Of course the fundamental tenets to achieve accountability of governments is their stability over a sufficient time horizon. Taking this requirement for granted however the 25% cut goal, mostly for its quantitative nature, requires a stronger commitment than any other target in the field of regulatory quality (Coco, 2006).

6. Conclusions.

The Italian 2006-2007 first experience in implementing SCM has indicated that a number of regulatory requirements could be measured and even simplified, without altering the expected public interest objectives. On the other hand, the results of the pilot project raise some methodological and substantial concerns on the validity of the SCM as a “stand-alone tool” to evaluate the impact of administrative requirements on enterprises and consequent interventions for burden reduction. In particular, some points that we have raised and have to be duly considered are:

- The SCM provides an advantage in terms of potential for commitment of the policy maker to policies improving regulatory quality;
- It is a flexible tool but it allows international comparison and benchmarking more than other alternatives. As such it is more likely to be useful in the EU where many countries implement the same EU regulation with different outcomes in terms of AB. Nonetheless benchmarking presupposes uniformity of the method applied;
- Its pragmatic approach allows in theory full measurement of the AB from the whole regulatory system in a country (at a non negligible cost, though). This would be unthinkable with alternative tools;
- On the other hand it is an incomplete instrument. Benefits are ignored altogether and this may lead to big mistakes in the wrong hands;
- AB may be a misleading measure even of the real overall burden to a business. Letting aside other categories of compliance costs, for example costs stemming from delays are entirely ignored;
- The method suffers from the possibility of wide variation in the AB measured in connection with fundamental choices of regulatory policy (direct regulatory body control vs. self/self certification), and the structure of the State (centralized approach vs. federal state). In both cases the use of the results for comparison among countries may be misleading as measurement may be biased.
- According to manuals and implemented activities carried out so far, figures to be used for the analysis are very limited in comparison to the universe of businesses (for instance, in Italy over 4.4 mn SMEs). In this respect, what is really a “representative sample” and how we are going to select a *normally efficient business*. In this respect there are still, too many hidden assumptions.
- What is really “*disproportionate and irritant to business*”? Who is entitled to determine this from the public point of view?

- When measuring administrative costs and assessing AB, the analysts should consider that different pieces of legislation on businesses are coming out from different level of government: in Italy, there is the EU level, the national level, the regional and municipal level for regulation on businesses. In this respect, for a homogeneous measurement, there is a need to come to a common model.

The discussion on each point above has been undertaken both at a general methodological level and, more importantly, considering the wide variety of solutions that each problem has received in different European countries. Taking into consideration all the above, our conclusion is that the SCM is a powerful tool for simplification. However it should be considered as an important component of a Global Programme, with a number of further tools needed to complement it, and aimed at strengthening the effectiveness of existing policies and rules.

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