



THE DUTCH APPROACH

Legislative Burden Department (IPAL)

Roma, October 11th 2004

Overview

- 1. Dutch approach for businesses**
- 2. The standard cost model**
- 3. Practical cases in a EU setting**



Part 1

**The Dutch approach
to administrative burdens (AB)
for businesses**



Why ease AB?

- **Cost factor for businesses**
- **Discourage entrepreneurship**
- **Element of impact assessments**

- **Better Regulation** → **Better Compliance**

Macro-economic effects of red tape reduction in the Netherlands

25% reduction AB = 1,5% GDP increase

25% reduction AB = 1,7% labour productivity growth

Health sector: 24,000 people taking care of patients, instead of 28,000 people doing paperwork

Dynamic effects: ability to respond more quickly to market developments

Past (1994-2003)

- **Increasing political awareness**
- **Development and evolution of the methodology**
- **Piloting and beginning of application**
- **First progress in reduction of AB**

Present (2003 – today)

June 2003 new Cabinet came into office:

- **New Ambition**
- **New “Rules of the Game”**

New Ambition & first steps

- To have reduced the AB by 25% in 2007
- First steps (Summer – January 2004):

all Ministries had to :

- measure *all* their AB in *all* of their legislation
- distinguish their AB by *(inter)national origin*
- come up with *reduction plans*
- involve *business sector*

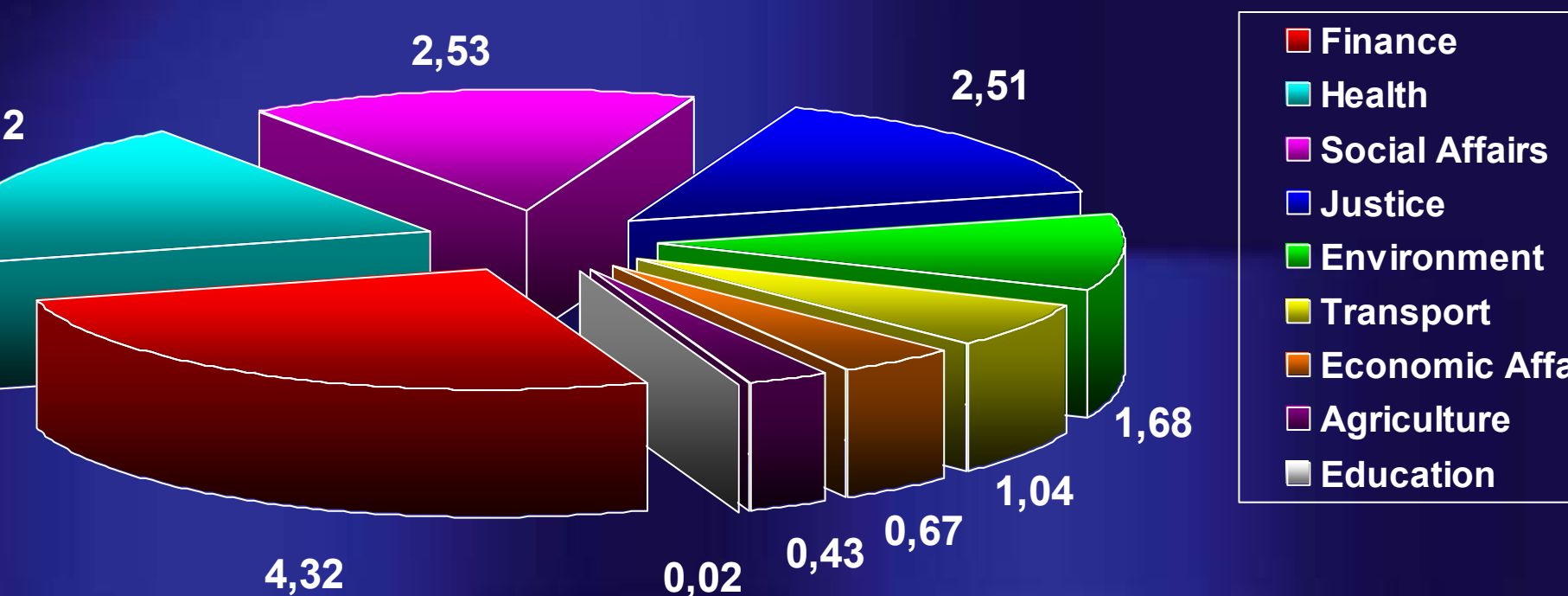
New Rules of the Game

- **Every Minister will have his/her own maximum of AB**
- **The sum of which is 75% of the 2003-level**
- **Ministers are not allowed to exceed the maximum (this implies compensation, hence ex-ante calculations)**
- **The Minister of Finance is coordinating the operation, linking the monitoring of progress to the budget cycle**

Results

- Early this year all the measurements and plans were sent to Ministry of Finance
- In April Cabinet sent White Paper to Parliament
- White Paper: *“More leeway for businesses thanks to fewer burdens”*
- Contents: baseline, first reductions, how to proceed

Division of AB between Ministries (in billions €)



Baseline

- Core findings:
- Total annual AB for business sector in the Netherlands : € 16.5 bln
- Equals 3,6 % GDP
- 56% of the zero base measurement originates in the EU
- 13% Dutch transposition, 43 % EU prescribed
- 10 legislations account for approx. 50 %

Top 10 Dutch legislation causing AB for businesses

Legislation	AB (in millions €) in the Netherlands
1. VAT	1,500
2. Financial accounting	1,500
3. Product & safety requirements (labelling)	1,200
4. Tax on wages/salaries	700
5. National health service act	700
6. Employees' insurances	600
7. Act on conservation of nature	600
8. Income tax	600
9. Pricing of products	500
10. Working conditions	500
Total	8,400

First reductions

- **Over 130 regulations for businesses simplified**
- **Cutting red tape with € 3 bln already**
- **Huge effort in historic perspective
(previous 9 years: € 1 bln)**
- **However: not enough yet (€ 3 bln relates to 18%;
target is 25%)**

Overview of expected AB reductions per year (in millions €)



How to proceed?

Looking for another € 1 bln by:

- **Additional ministerial reductions**
- **Inter-ministerial projects**
- **ICT**
- **EU (EU Presidency)**

Part 2

Measuring AB for businesses: the Standard Cost Model (SCM)



Advantages of the SCM

- It makes AB imposed by legislation ‘visible’
- Policy instrument for focused reduction strategies
- Easy to measure, monitor and communicate
- Commitment and awareness policy makers
- Uniformity, transparency, reliability and comparability

Different possibilities

In principle the SCM methodology can be applied:

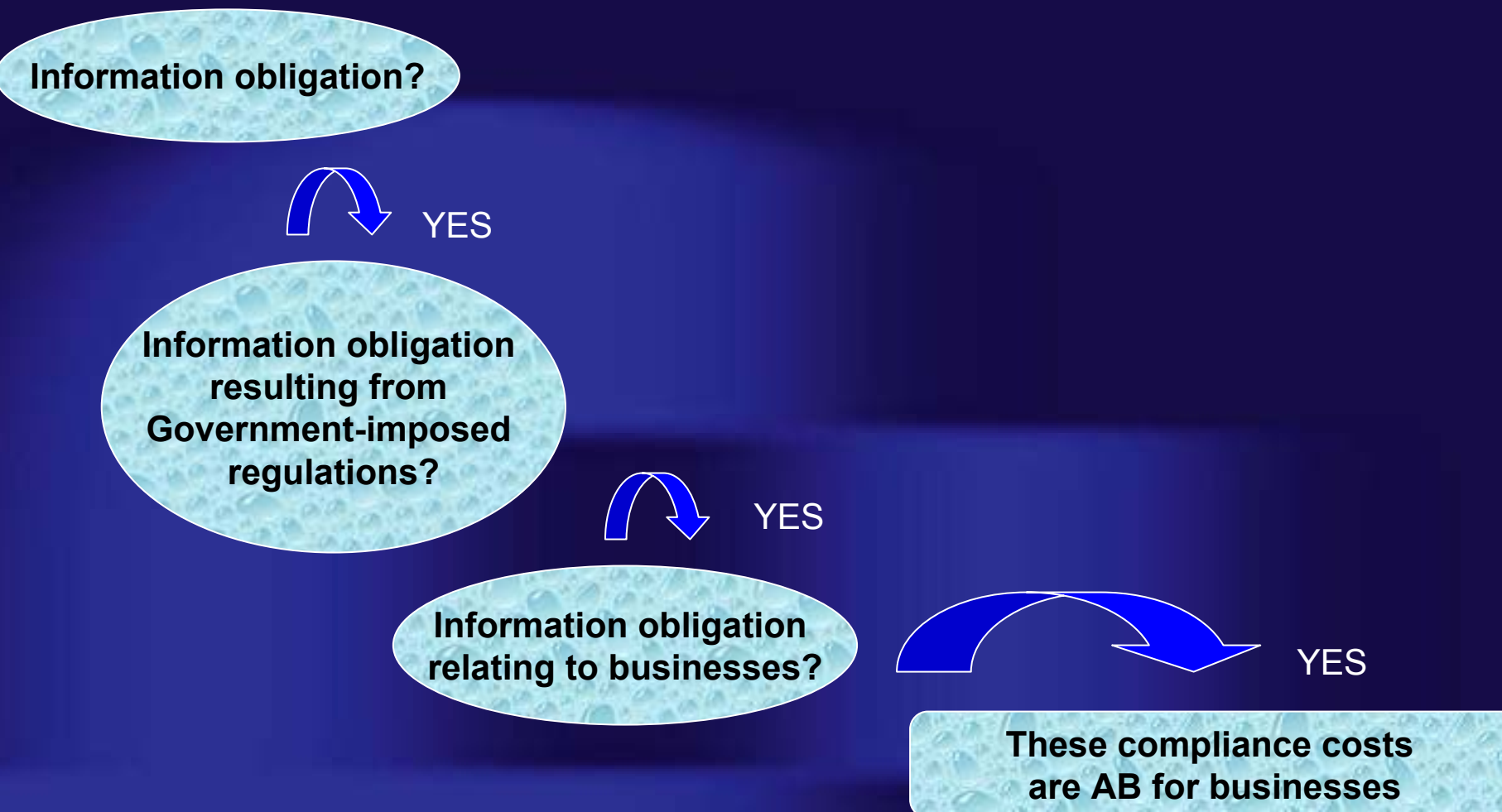
- On a local, national and international level
- For measurement of AB imposed by existing legislation
- For estimation of AB imposed by new legislation

What are administrative burdens?

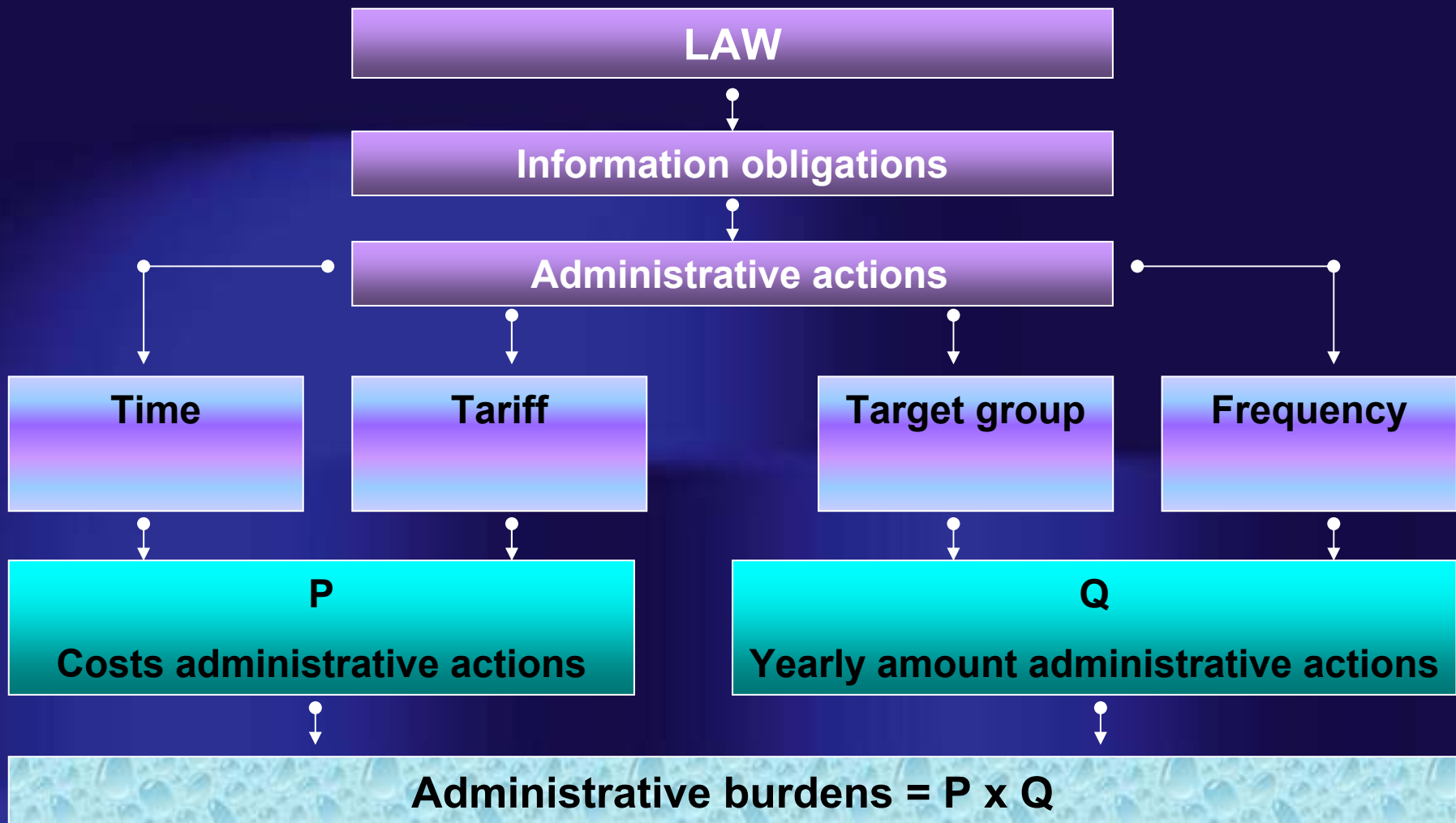
Definition:

Administrative burdens (AB) are the costs imposed on *businesses*, when complying with *information obligations* stemming from *government regulation*

AB decision tree



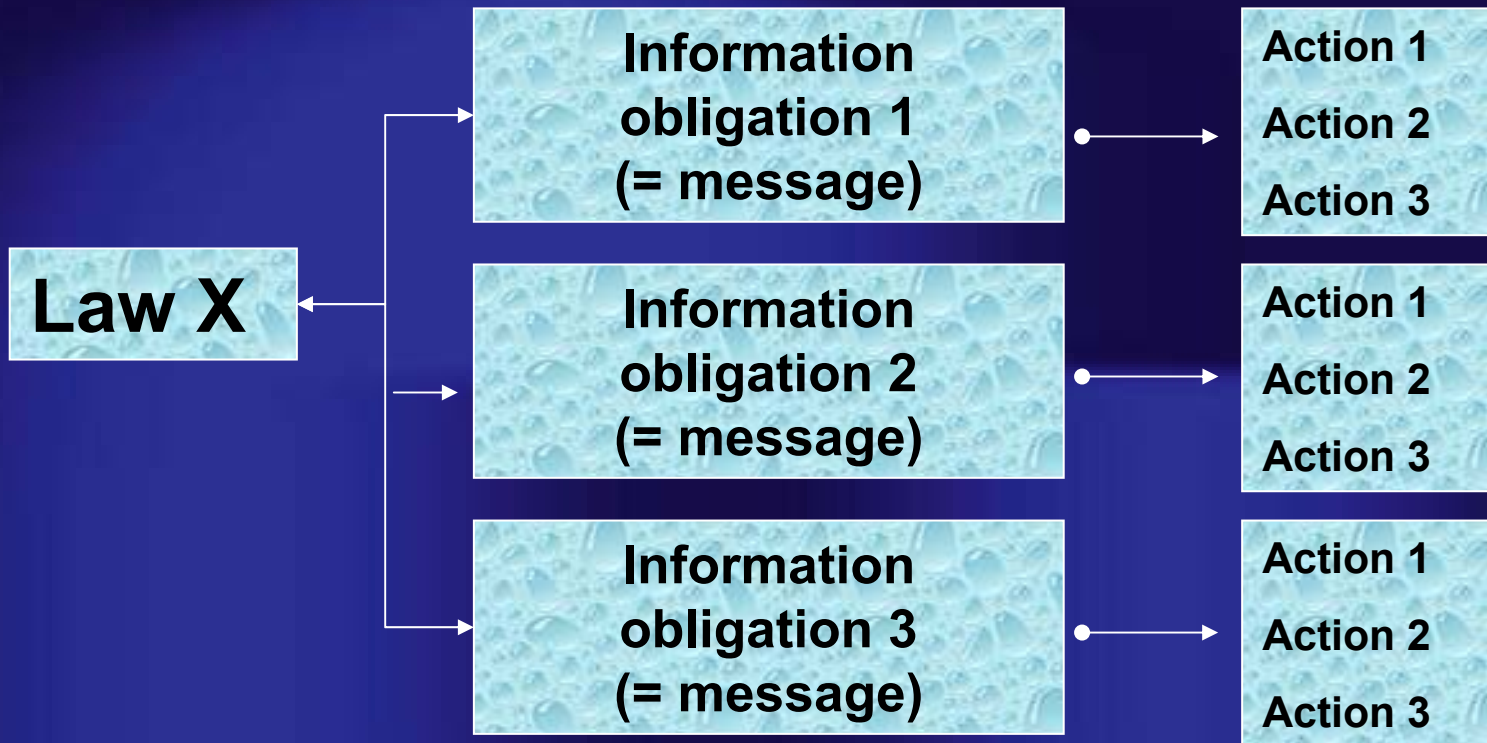
Structure AB model



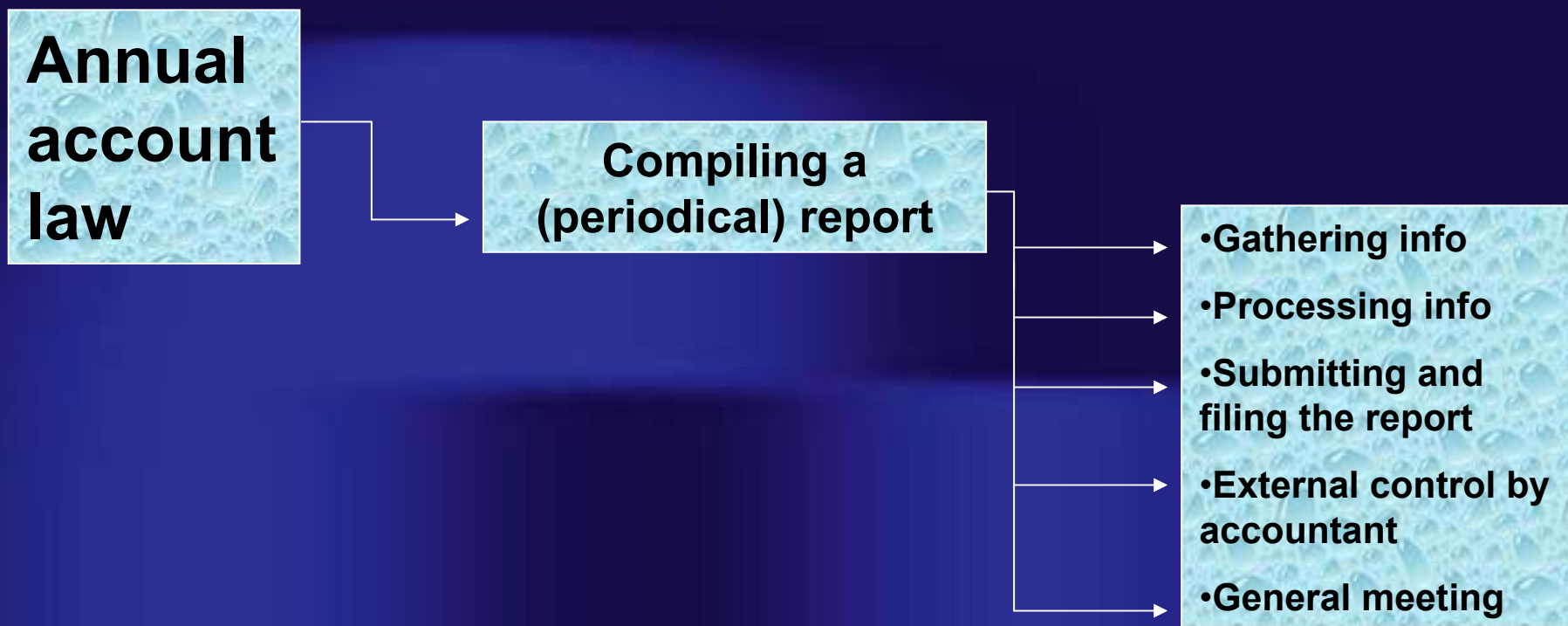
AB Formula

- **Costs administrative action = Price * Quantity**
- **Costs information obligation = sum** of the costs of each administrative action
- **Total AB law = sum** of the costs of each information obligation

How does the SCM work?



An example: the annual account law



Price

- $P = \text{Tariff} * \text{Time}$
 - Tariff: hourly (internal/external) costs to carry out the administrative action
 - Time: time needed to carry out a certain administrative action

Calculation example for P

- Entrepreneur X
- Obligated to draw up and publish annual statements
- Accountant = € 200 per hour
- Time needed for accountant = 30 hours
- Entrepreneur = € 70 per hour
- Time needed for entrepreneur = 2 hours

- $P_{\text{total}} = P_{\text{internal}}(\text{€}70 * 2) + P_{\text{external}}(\text{€}200 * 30) = \text{€ } 6,14$

Example of report sheet for P

No.	Art.	Information obligation/ action	Tariff per hour		Time		P
			I	E	In hours	In hours	
					I	E	
		ANNUAL ACCOUNT LAW (title 9)					
A		Compiling a (periodical) report					
A1		Gathering information	75		16		1,200
A2		Processing information	75		108		8,100
A3		Submitting and filing report	100		40		4,000
A4		External control by accountant		125		480	60,000
A5		General meeting	125		8		1,000

Quantity

- **Q = Number of entities * Frequency**
 - **Number of entities: businesses affected by the particular legislation**
 - **Frequency: the number of times a year the action is carried out by an enterprise**

Calculation example for Q

Obligation to draw up annual statement applies to all legal entities in country Y

100,000 legal entities in country Y

Obligation once a year

$$Q = 100,000 \text{ (number of businesses)} * 1 \text{ (frequency)} = 100,000$$

$$\text{Total AB} = P (6,140) * Q (100,000) = \underline{\underline{\text{€ } 61,400,000}}$$

Example of report sheet for P and Q

No.	Art.	Information obligation/ action	Tariff per hour		Time		P	Frequency Per year	Target group Large businesses	Q
			I	E	In hours I	In hours E				
		ANNUAL ACCOUNT LAW (title 9)								
A		Compiling a (periodical) report								
A1		Gathering information	75		16		1,200	6	2,560	15,360
A2		Processing information	75		108		8,100	12	2,560	30,720
A3		Submitting and filing report	100		40		4,000	5	2,560	12,800
A4		External control by accountant		125		480	60,000	1	2,560	2,560
A5		General meeting	125		8		1,000	2	2,560	5,120

Example of total report sheet

No.	Art.	Information obligation/ action	Tariff per hour		Time		P	Frequency Per year	Target group Large businesses	Q	P*Q	Origins of regulations			
			I	E	In hours I	In hours E						A	B	C	
			A		ANNUAL ACCOUNT LAW (title 9)										
		Compiling a (periodical) report									477,184,000				
A1		Gathering information	75		16		1,200	6	2,560	15,360	18,432,000	100%			
A2		Processing information	75		108		8,100	12	2,560	30,720	248,832,000	100%			
A3		Submitting and filing report	100		40		4,000	5	2,560	12,800	51,200,000	100%			
A4		External control by accountant		125		480	60,000	1	2,560	2,560	153,600,000	100%			
A5		General meeting	125		8		1,000	2	2,560	5,120	5,120,000	100%			

Reduction options

- **Less:**
 - information obligations
 - administrative actions

- **Limitation of:**
 - time needed to carry out the administrative action (e.g. ICT)
 - target group affected by information obligation
 - frequency of periodical action
 - amount of incidental actions

Less information obligations...

No.	Art.	Information obligation/ action	Tariff per hour		Time		P	Frequency Per year	Target group Large businesses	Q	P*Q	Origins of regulations			
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A5		General meeting	125		8		1,000	2	2,560	5,120	5,120,000				100%

Less administrative actions...

No.	Art.	Information obligation/ action	Tariff per hour		Time		P	Frequency Per year	Target group Large businesses	Q	P*Q	Origins of regulations		
			I	E	In hours	In hours						A	B	C
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A4		External control by accountant		125		480	60,000	1	2,560	2,560	153,600,000	100%		
A5		General meeting	125		8		1,000	2	2,560	5,120	5,120,000	100%		

Less time needed to carry out actions...

No.	Art.	Information obligation/ action	Tariff per hour		Time		P	Frequency Per year	Target group Large businesses	Q	P*Q	Origins of regulations		
			I	E	In hours I	In hours E						A	B	C
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A3		Submitting and filing report	100		40		4,000	5	2,560	12,800	51,200,000	100%		
A4		External control by accountant		125		480	60,000	1	2,560	2,560	153,600,000	100%		
A5		General meeting	125		8		1,000	2	2,560	5,120	5,120,000	100%		

Limitation target group affected...

No.	Art.	Information obligation/ action	Tariff per hour		Time		P	Frequency Per year	Target group Large businesses	Q	P*Q	Origins of regulations		
			I	E	In hours I	In hours E						A	B	C
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A5		General meeting	125		8		1,000	2	2,560	5,120	5,120,000	100%		

Lower frequency periodical actions...

No.	Art.	Information obligation/ action	Tariff per hour		Time		P	Frequency Per year	Target group Large businesses	Q	P*Q	Origins of regulations		
			I	E	In hours I	In hours E						A	B	C
		ANNUAL ACCOUNT LAW (title 9)												
A		Compiling a (periodical) report									477,184,000			
A1		Gathering information	75		16		1,200	6	2,560	15,360	18,432,000	100%		
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A4		External control by accountant		125		480	60,000	1	2,560	2,560	153,600,000	100%		
A5		General meeting	125		8		1,000	2	2,560	5,120	5,120,000	100%		

Lower frequency and smaller target group

No.	Art.	Information obligation/ action	Tariff		Time		P	Frequency	Target group	Q	P*Q	Origins of regulations			
			per hour		In hours	In hours		Per year	Large businesses			A	B	C	
			I	E											I
		ANNUAL ACCOUNT LAW (title 9)													
A		Compiling a (periodical) report									477,184,000				
A1		Gathering information	75		16		1,200	6	2,560	15,360	18,432,000	100%			
A2		Processing information	75		108		8,100	12	2,560	30,720	248,832,000	100%			
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A4		External control by accountant		125	480		60,000	1	2,560	2,560	153,600,000	100%			
A5		General meeting	125		8		1,000	2	2,560	5,120	5,120,000	100%			

New legislation

Responsibility Dutch policy makers:

- **Limit AB of legislation to the utmost (take into consideration alternative options)**
- **Report about AB in quantified form in the explanatory note**
- **Mention advice of ACTAL in the explanatory note**

International level

The Administrative Burden Declaration

- International network of countries
- Growing interest, also new EU countries
- Common problems = common approach
- Commitment to using a common methodology
- SCM principles
- Limited or full scale measurement
- Benchmarks: best implementation practices, impact EU regulation

Current international projects

- Development common methodology



- Benchmark (e.g. VAT)



- Projects in preparation



Practicalities of the SCM: FAQ

- **Costs to collect data and calculate AB**
 - Total red tape measurement costs: +/- € 2.5 - € 3 mln
 - On-off costs, not annual
- **Time needed to quantify legislative areas**
 - In the Netherlands: zero-base inventory within few months
 - Integral new inventory: only once every 4 years
- **Following that:**
 - Only changes new legislation and reduction plans need to be updated

Part 3

European approach and practical cases



Addressing the European AB

- **EU Better Regulation Action Plan**
- **Regulatory Impact Assessment Procedures**
- **Simplification Programme Commission**
- **Inter-Institutional Agreement Better Lawmaking**
- **Joint Regulatory Reform Initiative**
- **Brinkhorst/Harney Letter**

AB Priorities Dutch Presidency

- **Development of quantitative economic indicators for better regulation**
- **Nomination of suggestions for simplification programme**
- **Measurement of AB related to simplification proposals**
- **Development of a joint methodology for IA**
- **Implementation of Inter-Institutional Agreement**

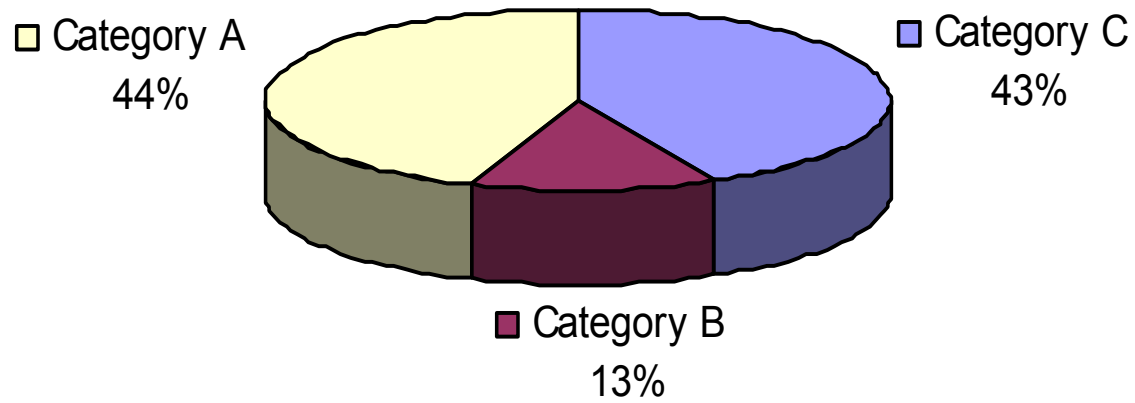
EU Meetings 2004

- **Spring Council - March**
- **ECOFIN - September**
- **EPC - September**
- **Competitiveness Council - September**
- **HL Conference on Better Regulation - October**
- **ECOFIN - October**
- **EU Council - November**

Classification: national and international origins

- A: Obligations directly imposed by EU legislation; implementation on national level
- B: Obligations indirectly imposed by EU legislation: implementation on national level
- C: Obligations resulting purely from national legislation

Origin Dutch AB



Some major Dutch legislative areas causing AB for businesses

Legislation	Origin of AB		
	A	B	C
1. VAT	56%	42%	2%
2. Financial accounting	99,6%	0%	0,4%
3. Product & safety requirements (labelling)	98,5%	0%	1,5%
4. Tax on wages/salaries	0%	0%	100%
5. Working conditions	44%	28%	28%

1. Occupational Safety & Health

- **Ministry of Social Affairs and Employment**
- **Zero base measurement (31/12/02): € 2.5 bln**
- **Measurement divided into policy areas:**
 - Occupational Safety & Health
 - Social Insurance
 - Labour relations
 - Labour market

- **Each policy area consists of several laws**

Working Conditions Act 1998

- **WCA 1998, part of Occupational Safety & Health**
- **WCA imposes information obligations: € 528 mln**
- **(Inter)national origin**
 - **Category A: € 233 mln**
 - **Category B: € 150 mln**
 - **Category C: € 145 mln**
- **Directive 89/391/EEC**

Working Conditions Act 1998

	<u>A</u>	<u>B</u>	<u>C</u>
1. Making a risk assessment			
▪ Recording risks	X		
▪ Consultation employees council			X
▪ Registration accidents		X	
▪ Annual year report			X
2. Informing employees	X		
3. Reporting about accidents		X	

Reduction

- **Focus on whole Working Conditions Act 1998**
- **National**
 - Model for risk analysis per branche – Time / Frequency
 - Accessible via Internet - Time
 - Reduction € 23 mln in the Netherlands
- **International**
 - Screening of directive by EC
 - Part of simplification programme

2. Agriculture & Manure

- **Ministry of Agriculture, Nature & Food Quality**
- **Zero base measurement: € 430 mln in total**
- **Measurement divided into policy areas**
- **Each policy area consists of several laws**

Dutch Nitrate Policy

- **Burden of current manure policy: € 195 mln**
- **100% category B**
- **Change of legislation or implementation?**

Reduction

- **Decision Court of Justice**
- **European Nitrate Directive**
- **Current manure system did not meet EU standards**
- **Design of new system**
- **AB new system: € 82 mln, reduction 50%**
- **Reductions:**
 - **Abolishment standards for administration – Abolishment of information obligations**
 - **Introduction risk approach – Number of entities**
 - **Multiple use of information - Frequency**

3. Food & Drugs

- **Ministry of Health, Welfare & Sports**
- **Zero base measurement: € 3.2 bln**
- **Measurement divided into different policy areas:**
 - **Social Care**
 - **Health Protection, e.g. Food & Drugs Act**
 - **Health Care**
 - **Medical Ethics & Other**

Food labelling

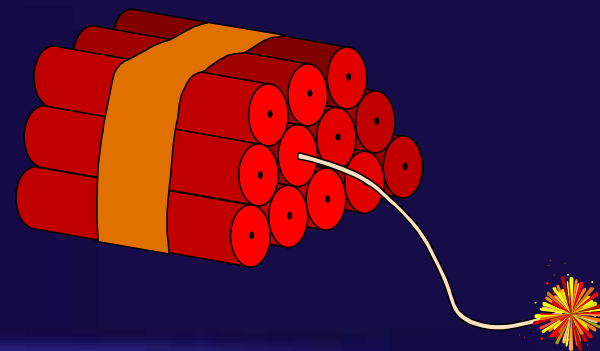
- **Food labelling, part of Food & Drugs Act**
- **98% category A**
- **Directive 2000/13**
- **Provision of information to consumers**
- **High irritation factor**

Reduction

- **Reduction possibilities one could think of:**
 - **Minimum standards - Time**
 - **Use of ICT - Time**
 - **Less changes in legislation - Frequency**
- **Adaptation of directive would be necessary**
- **Realisation depends on support EC and MS**

Last but not least...

- Burning questions?



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