

The administrative burden declaration

A common approach open to everyone

1. Introduction

Administrative burdens are obstacles in the life of our enterprises. In order to fulfil obligations from public authorities, enterprises are forced to allocate resources to administrative activities rather than investing them in more productive activities. This is not only a costly affair for the business community in each country. It also inhibits economic growth and prosperity in society.

As countries, we have an obligation to create the best possible conditions for our business community.

Most of us have already taken important measures towards improving the conditions for businesses. Results have been achieved, but we have to acknowledge that we have not yet achieved the desired results. Administrative burdens are still a huge obstacle to a progressive and dynamic business environment. We seem to be in the need of stronger methods that can give us a greater understanding and knowledge of the costs stemming from administrative burdens. These insights will allow us to tackle the administrative burdens and to get a firm grip on monitoring progress.

2. A common methodological approach

Developing a common methodological model is a logical starting point. We all face the same challenges when dealing with administrative burdens, so it makes sense to employ the same methodological approach towards the problem. This way we will also be able to benefit from the potential economies of scale in e.g. sharing methodological experience and economic co-operation.

In autumn of 2003 a number of European countries formed a network, committed to using the same methodological approach, when measuring and tackling administrative burdens. All countries had come to the realization, that common problems were faced, and that only a common approach could help solve these problems. The network currently consists of the UK, Norway, Sweden, Denmark, Belgium and the Netherlands. Several other countries have shown an interest in joining the network, amongst them a number of the new EU-member states.

The Standard Cost Model (SCM), which has been developed in the Netherlands, was chosen as the common approach. The SCM provides transparent measurements, which are ideal when trying to simplify legislation and lower the administrative burdens.

A common model allows for a systematic analysis of administrative burdens within each country. This can be used to monitor the development of burdens over time, and to pinpoint where the effort towards reducing burdens should be focused.

Moreover, a common methodological approach will make comparisons between our countries possible. Such benchmarks will not only provide each country with fresh ideas for reducing its own

burdens. It will also give us a tool to highlight the impact of international legislation, especially EU regulation. With these insights, we can make joint efforts towards reducing the burdens of such legislation.

All in all, using the Standard Cost Model as our common methodological tool, it will be possible for us to work systematically towards reducing the administrative burdens for businesses by:

- creating awareness with policy makers
- setting out a focused reduction strategy with well defined targets
- getting commitment and approval from various authorities
- monitoring the administrative burdens
- creating uniformity, transparency, reliability and comparability
- simulating ex-ante the administrative effects of draft legislation, in order to design regulation where costs and benefits are more carefully balanced

3. When should the Standard Cost Model be chosen?

The SCM approach allows for either a measurement concentrating on some specific fields of existing regulation or –as part of impact assessment procedures- an ex-ante measurement of administrative burdens resulting from new legislation. A full scale measurement of the administrative burdens, that is a measurement of all legislation, is of course also possible. The concentrated approach can be used to build up technical knowledge and practical experience with the methodology, before deciding whether to proceed at a full scale level.

Norway and Sweden have decided to carry out a limited measurement using the SCM. This way they will be able to test the approach in their countries, without having to allocate significant resources to the task. In both countries VAT regulation was chosen for the pilot measurement. Being a complex law, the VAT regulation poses the greatest challenge to the SCM method. At the same time, the total administrative burdens imposed by the law are rather large, because most companies have to comply with it. Consequently, the potential for rule simplification is expected to be significant.

Both the Netherlands and Denmark have chosen to do full scale measurements of the administrative burdens using the SCM. In both countries ambitious targets for reductions in the administrative burdens of all government departments have been set up. Therefore both countries need to measure all regulation, in order to identify where administrative burdens can be reduced.

In the Netherlands all the departments have measured their administrative burdens in a couple of months. This measurement is being done only one time every four years, and constitutes a ‘baseline measurement’. Using this insight, it is then possible to design proposals to reduce the administrative burdens and to monitor the progress by registering the changes in the level of administrative burdens. The baseline measurement is done by consultancy companies that are specialised in measuring administrative burdens. Registration of the reductions and increases can be done by the department itself.

In August 2004 Denmark will start its baseline measurement of all government regulation. The procedure will be much the same as in the Netherlands, but starting from a more basic point, the whole process is expected take a bit longer and will be completed by the end of 2005.

Whether a country decides to make a limited or a full scale measurement it will benefit from being able to benchmark its SCM measurements with measurements carried out in other countries. During autumn of 2004 Sweden, Norway, the Netherlands and Denmark will be doing a benchmark analysis on the VAT regulation. The aim is to identify “best practice” in regulation and identify areas where only a joint effort will lead to a reduction of the administrative burdens.

Recently Belgium decided to join the initiative and use the model, measuring administrative burdens in legislation yet to be selected.

In sum, the SCM approach is ideal for both a small or full scale measurement. Either way, it gives great insights into the origins of administrative burdens, and can help us to identify, how we can create the best possible climate for our businesses.

The standard cost model (SCM)

A short introduction

In this paper we describe the principles of the existing Standard Cost Model that is used in our countries to reduce the administrative burdens for enterprises. A more comprehensive Manual is available, and can also be obtained electronically at www.compliancecosts.com.¹

Two questions are important if you want to measure the administrative burdens for enterprises:

1. How do you define and determine administrative burdens for enterprises?
2. How do you measure administrative burdens?

The two paragraphs below will give an answer to these two questions and will explain how the standard cost model works in practice.

1. How do we define and determine administrative burdens for enterprises?

Definition of administrative burdens for enterprises

Administrative burdens are the costs imposed on enterprises, when complying with information obligations stemming from government legislation.

Determining whether or not a company costs is an administrative burden requires a clear definition of following two points:

- What is an information obligation?
- How is government legislation defined?

Information obligation

An information obligation is a duty to procure or prepare information and subsequently make it available to either a public authority or a third party. It is an obligation you cannot decline without coming into conflict with the law. Information obligations do not necessarily imply that enterprises have to send information to a public authority and/or a third party. Sometimes enterprises are required to keep information in stock so that it can be send or presented upon request.

Examples of information obligations

Drawing up and sending a report about labour conditions, drawing up and sending a pay roll, labelling provisions, filing the annual account at the chambers of commerce, etc.

Government legislation

Government legislation is defined as all legislative acts, ministerial orders and EU regulation that contain information obligations for enterprises.

In order to achieve the best possible overview of the regulation – especially if the aim is to identify possible areas of rule simplification – it is essential to distinguish between three types of regulation:

- A. Regulation, where the EU sets out both purpose and means of implementation.
- B. Regulation, where the purpose is formulated by the EU, but the implementation is left to the member states.
- C. Regulation, which is solely formulated at the national level.

A rule does not necessarily fit into only one of these categories, since parts of it may be defined solely by the EU, i.e. category A regulation, while other parts of it may have been drawn up in order to satisfy national policy goals, i.e. category C regulation.

FAQ about definition:

- *Should rules that are used on a voluntary basis also be included in the measurement?*
Yes, because although it can be voluntary to use a certain rule, a number of administrative burdens come into effect the moment a company chooses to make use of the rule (for example: subsidies)
- *Should costs that companies incur when adjusting to new regulation, be included in the measurement?*
Although costs of adjustment are defined as administrative burdens, they should not be included in measurement itself. The measurement only focuses on the running costs of regulation, i.e. costs that are recurring.

2. How are the administrative burdens from a legislative act or rule measured?

After it has been determined that a rule contains administrative burdens, it is important to measure them. The first step is to do a careful mapping of the regulation under study, in order to identify the inherent information obligations.

The formula for measuring administrative burdens (AB)

$$Total\ AB\ per\ law = \sum C_{io}$$

- C_{io} : cost of a single information obligation

$$C_{io} = \sum C_{aa}$$

- C_{aa} : cost of a single administrative activity

$$C_{aa} = Price * Quantity$$

The total administrative burden of a law is the sum of the cost of all information obligations in that law. If you want to measure the administrative burdens of one information obligation you have to subdivide it into administrative activities. The cost of one single information obligation equals the sum of the cost of all the related administrative activities, which are necessary to perform in order to fulfil that single information obligation. Administrative activities are the different types of actions, which businesses have to carry out, either by themselves or by consultants, in order to fulfil the information obligation.

Examples of administrative activities

Filling in an information sheet, sending information, archiving information, gathering information, etc.

Experience has shown that it is easier for businesses to relate to these concrete administrative activities, than to the more abstract question of for instance how much time is spent drawing up and submitting the annual accounts.

Each administrative activity is a function of the internal and external costs to business multiplied by the number of times each business has to perform the activity and the total number of businesses who have to perform the activity.

*Price = tariff * time*

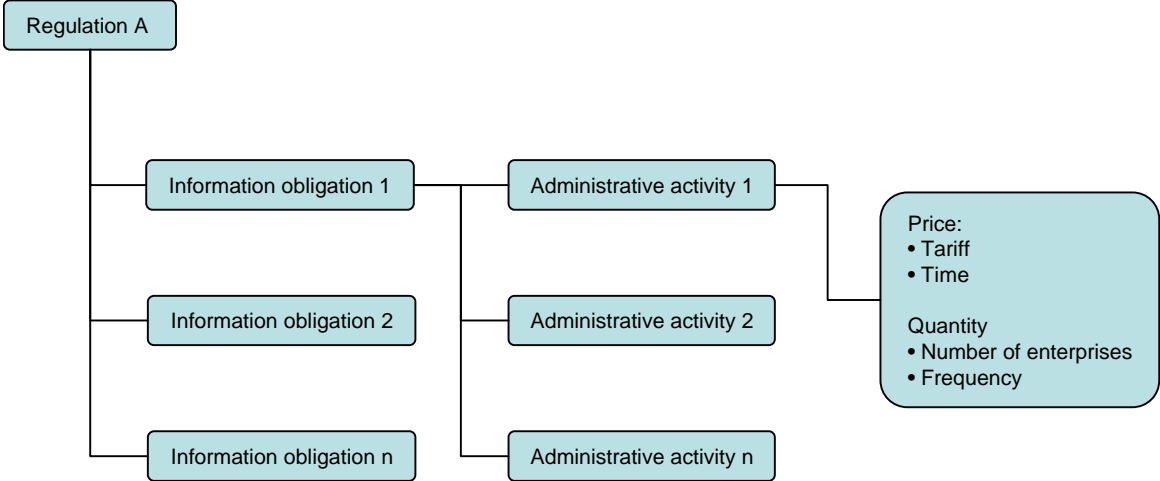
- Tariff: hourly costs to carry out the administrative activity
- Time: time needed to carry out a certain administrative activity

*Quantity = number of enterprises * frequency*

- Number of enterprises: enterprises affected by the particular legislation
- Frequency: the number of times a year the activity is carried out by an enterprise

The relationship between the law, information obligations, administrative activities and price and quantity is illustrated on figure 1 below:

Figure 1: Relationship between the components of the Standard Cost Model



Measuring the administrative burdens is performed by making in-depth interviews with a small number of businesses within the target group of the law. They are asked to specify how much time and money they spend, performing each administrative activity that is required when fulfilling a given information obligation. In order to take into account, the different effects that a law may have on various types of businesses, a relevant segmentation of businesses is carried out. Often it will for instance be relevant to distinguish between smaller and bigger businesses.

Based on the data material collected during the interviews, a subsequent standardization of the time and money spend performing each administrative activity, is carried out. The standardization gives a representative figure of the costs incurred by a normally effective business within each segment, when living up to the information obligations of the law. A normally effective business is a company within the target group, which handles its administrative tasks in an ordinary way. In other words the enterprise does not handle its tasks better or worse than could be expected.

The measurement allows us to locate those information obligations within a law, which cause administrative burdens. For each information obligation it is also possible to see precisely why, it causes administrative burdens. This allows us to weigh whether or not the costs for businesses owing up to the information obligation, are compatible with the benefits of the law. This is what makes the Standard Cost Model such an effective tool for rule simplification.

FAQ about measurement

- *How are new rules measured?*
If a new legislative act contains new information obligations, it must be measured in the same way that existing legislation has been measured, i.e. with estimates made by the normally effective enterprises. The estimates can be validated against the time spent on already known activities similar to the new activity.
- *How are simplifications of legislative acts measured?*
An analysis of the proposed simplification will show the effects of removing the information obligation. If weighing the pros and cons of this leads to a decision of removing the information obligation from the regulation, the information obligation and the administrative activities it is composed of can be removed from the baseline measurement.
- *How are the effects by digital solutions measured?*
Effects of digital solutions that government provides for businesses, e.g. one-stop shops, are measured, by measuring how much time businesses save when fulfilling the digital version of the information obligation, compared to the time spend fulfilling the manual information obligation.