
Northern Ireland Regulatory Impact Assessment

Measuring Administrative Costs:
Northern Ireland Standard Cost Model Manual

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Sections draw on the International Standard Cost Model manual available at
<http://www.amvab.dk/sw197.asp>.

This Northern Ireland manual is largely based on the Standard Cost Model manual produced
by the UK Government.

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1. Introduction

The Standard Cost Model (SCM) – also known as the Dutch model – provides a framework methodology for measuring administrative costs. To implement this model in Northern Ireland, a number of specific implementation and methodological choices need to be made.

To allow measurements to be compared and targets for reductions to be set across government, consistency in methodology and measurement is critical. This approach does not give a statistically representative measurement – which would be both a very expensive and lengthy process. Instead it is a pragmatic approach to measurement that gives indicative data on the size of burdens to allow reduction targets to be set and areas to focus on identified. In light of this it is important that the model is applied in the same way across government with any errors and biases as likely as possible to be in the same direction.

The Standard Cost Model is widely used not only by the European Union and EU Member States, but also in other regulatory jurisdictions elsewhere in the World and the OECD.

1.1. Objectives

The aim is to have a system of measuring the administrative burden imposed by the regulations made by the NI Assembly in a way that provides incentives to policymakers to pay increased attention to the administrative burden they may impose and at a later date to consider setting targets to reduce the administrative burden imposed by regulation on the NI business community.

The application of the SCM can be action-oriented to allow practical simplification measures to be undertaken and targets for burden reduction achieved.

The system should provide motivation for culture change in policymaking throughout Government and the adoption of Better Regulation practices. It should be placed in the context of the Regulatory Impact Assessment process, meaning that in making and reviewing policy the relative costs and benefits of each option overall should be considered and weighed up against the administrative burden that would be imposed while meeting the policy objectives.

1.1.1. Different types of Standard Cost Models measurements

A Standard Cost Model measurement may consist of a measurement of the *anticipated* administrative consequences of a draft law, draft executive order or other initiative. Such a measurement is designated an **ex-ante** measurement of the administrative costs as it is a measurement of the administrative consequences of a regulation before it is implemented. The results from an ex-ante measurement may, for example, form part of the overall consequence assessment of a bill's economic and administrative effects on businesses.

A Standard Cost Model measurement can also consist of the *factual* administrative consequences for the businesses in respect of an implemented law, statutory instrument or other initiative. Such a measurement is designated an **ex-post** measurement of the administrative costs as a measurement of the administrative costs that arise after a regulation has come into effect and has been able to have an impact on business. An ex-post measurement is carried out when an initial measurement is to be made of the overall administrative costs in an area of regulation, known as a **baseline measurement**.

A baseline measurement is a statement of the overall administrative costs that businesses have in following a *current* set of regulations at a given point in time. A baseline measurement may be made of selected areas of regulation or of all regulation that affects business.

Ex-post measurements are also conducted in order to keep the baseline measurement **updated** with the consequences of new or amended regulations. This should form part of wider departmental evaluation programmes. It is suggested that three years after implementation is an appropriate time for this to occur. At this time the ex-ante estimates of the administrative costs produced at the time of implementation can be reviewed and updated if necessary.

The actual measurements can be carried out by support from departmental statisticians and economists as necessary, however it is important to involve business organisations in the process.

1.2. About this manual

This manual describes how a Standard Cost Model measurement is to be carried out. The aim of the manual is for it to provide an exhaustive description of the Standard Cost Model method, whereby the most important questions in connection with the employment of the method may be answered by reference to the manual. It is, however, important to stress that the method is not static. The fundamental principles remain intact, but elements in the method will be constantly developed in line with the method being employed in new areas and in relation to new problems. The manual is not, therefore, definitive, but will be updated in keeping with the method's continued development.

This is the first edition of the Northern Ireland manual and is based on the first edition of the UK manual.

This manual is in four parts. The first two describe the Standard Cost Model, with chapter 2 containing an outline of the model and chapter 3 a more detailed description. Chapter 4 outlines the measurement process and chapter 5 gives more detailed practical measurement information. There are also a number of annexes in a separate volume.

2. Standard Cost Model: Outline

The Standard Cost Model (SCM) has been developed to provide a simplified, consistent method for estimating the administrative costs imposed on business by Northern Ireland government. It takes a pragmatic approach to measurement and aims to provide estimates that are consistent across policy areas but which are indicative rather than statistically representative.

The SCM method is a way of breaking down regulation into a range of manageable components that can be measured. The SCM does not focus on the policy objectives of each regulation. As such, the measurement focuses only on the administrative activities that must be undertaken in order to comply with regulation and not whether the regulation itself is reasonable or not.

The SCM was initially developed in the Netherlands and has also been extensively applied in Denmark. A number of other countries have used it to measure the burden of particular regulations. The international SCM framework is set out in the Administrative Burden declaration¹ that sets out the SCM approach in summary and the International Standard Cost Model Manual².

A key strength of the Standard Cost Model is that it uses a high degree of detail in the measurement of the administrative costs, in particular going down to the level of individual activities. However, the result of a measurement is only an estimate and due to the limited sample size and non-random sample design should not be regarded as necessarily being representative in statistical terms.

However experience at UK level and in both the Netherlands and Denmark shows that businesses are better able to assess time and resource consumption in connection with the individual regulations using the SCM approach. In addition the method's strength is that it is highly action-orientated, which works well as part of a broader regulatory simplification programme. It enables parts of regulations that are particularly difficult for businesses to comply with to be identified.

This section provides an overview of the SCM approach. More detail, including full definitions is given in the next section.

2.1. How to estimate administrative costs?

To estimate the administrative costs of central government regulation on business, some key questions must be answered:

- How are administrative costs defined?
- What are information obligations and what are their components?
- What is meant by business?
- What is central government regulation?
- How to estimate costs?

2.1.1. How are administrative costs defined?

The SCM simplifies administrative costs and defines them as the costs of administrative activities that businesses are required to conduct in order to comply with the information obligations that are imposed through central government regulation. The SCM focuses on potential recurring administrative costs.

¹http://www.administratievelasten.nl/default.asp?CMS_TCP=tcpAsset&id=5B09EDCA525141E2866D881AB2C43157

² http://www.amvab.dk/graphics/Byrdebarometer/Procesguide/Fase_1/ManualSCM.pdf

It is important to note that the SCM measures the total administrative costs involved not just the additional burden imposed by the government. As such SCM estimates include some elements that may be regarded as costs that would be incurred regardless of the presence of regulation. However dividing normal costs from burdens is difficult to achieve in practice as activities are embedded into business processes.

2.1.2. What are information obligations and what are their components?

Information obligations (IO) are the obligations arising from regulation to provide information and data to the public sector. An IO does not necessarily mean that information has to be transferred to the public authority, but may include a duty to have information available for inspection or supply on request. A regulation may contain many information obligations.

Each information obligation consists of one or more data requirements. A data requirement is each element of information that must be provided in complying with an IO.

To provide the information for each data requirement a number of specific administrative activities must be undertaken. The SCM estimates the costs of completing each activity. Activities may be done internally or be outsourced (i.e. done externally). It may be necessary to make acquisitions to complete a specific activity and where these are only used in complying with the requirement they are included in the estimate.

2.1.3. What is meant by business?

For Northern Ireland implementation of the SCM, business is all organisations defined as being in the private sector by the Office for National Statistics when compiling the National Accounts. This therefore includes charities, social economy enterprises and the voluntary sector.

2.1.4. What is central government regulation?

There are two elements to this question, what is meant by central government and what is meant by regulation? Central government is all bodies that are principally controlled and financed by the Northern Ireland government. It includes all agencies and arms-length bodies.

Regulation is such that failure to comply with it would result either in the business coming into conflict with the law, or being ineligible for continued funding, grants or participation in schemes. This should be taken as a broad definition and include non-statutory schemes or agreements which the government has chosen to back rather than legislating. Non-participation in such schemes implies that formal regulation may follow, and as such they are effectively mandatory.

2.1.5. How to estimate costs?

For each activity a number of cost parameters need to be collected.

Price: Price consists of a *tariff*, wage costs (plus overhead, non-wage costs) for activities done internally or hourly cost for external service providers and *time*, the amount of time required to complete the activity. Wage data is taken from statistical sources. For external costs a national average figure is used.

Quantity: Quantity comprises of the size of the *population* of businesses affected and the *frequency* that the activity must be completed each year.

Combining these elements give the basic SCM formula:

$$\begin{aligned} \text{Activity Cost} &= \text{Price} \times \text{Quantity} \\ &= (\text{tariff} \times \text{time}) \times (\text{population} \times \text{frequency}) \end{aligned}$$

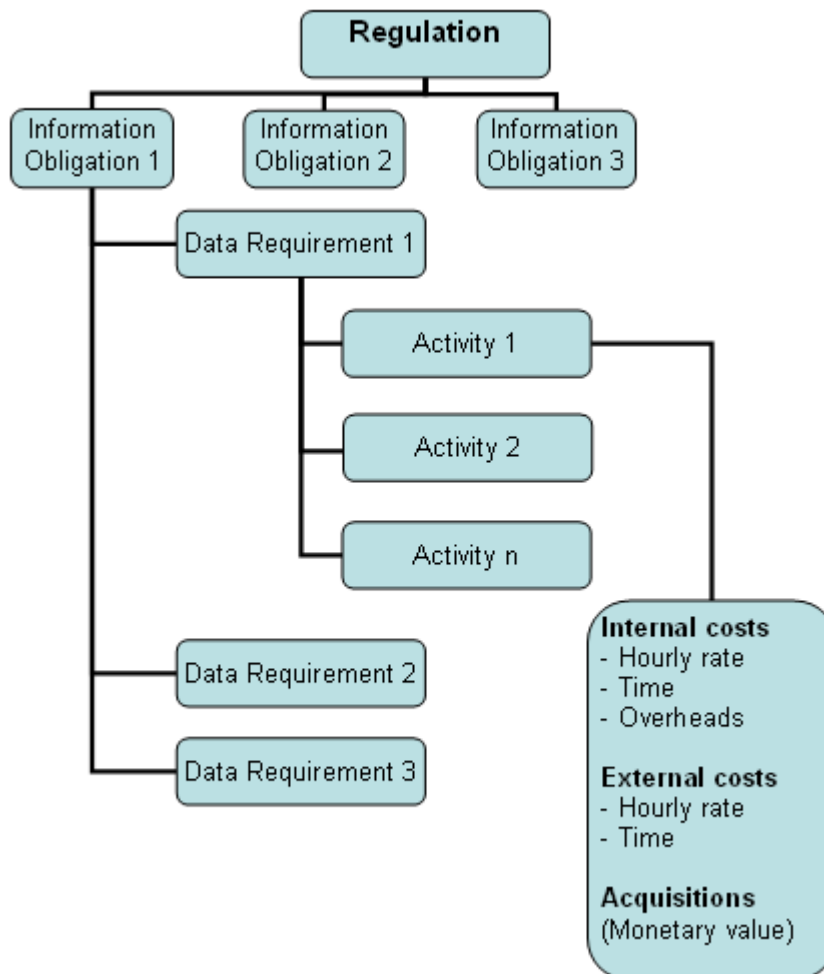
In addition certain acquisitions may be included as an average cost per year that the purchase is expected to last for. This price is then multiplied by the size of the affected population as this is already an annual cost.

For example, an administrative activity takes 3 hours to complete (*time*) and the hourly cost of the member of staff in the business completing it is £10 (*tariff*). The *price* is therefore 3 x £10 = £30. If this requirement applied to 100,000 businesses (*population*) who each had to comply 2 times per year (*frequency*), the *quantity* would be 200,000. Hence the total cost of the activity would be 200,000 x £30 = £6,000,000.

2.2. How does it all fit together?

Figure 1 below shows how the components of a regulation fit together. Once an estimate of the cost associated with each underlying activity has been obtained, the costs can simply be added together for each data requirement, then information obligation then regulation. For each department the costs of their regulations can be added to find the estimated total administrative cost they impose on business. Adding across departments allows an overall estimate to be obtained.

Figure 1: Structure of the Standard Cost Model



It is important to note that estimates obtained using the SCM are indicative. They use small samples and as such it is not possible to say that the burden is £x with confidence. What is does show is where the most burdensome areas of regulation are and which departments are the relatively large regulators in terms of the burden they impose.

3. Standard Cost Model: detailed description

This section describes the application of the SCM in Northern Ireland in more detail. It includes full definitions for the concepts associated with the model and describes other features of the model.

3.1. Definitions and concepts

3.1.1. Financial costs

Financial costs are the result of a concrete and direct obligation to transfer a sum of money to the government or the competent authority. These costs are therefore not related to a need for information on the part of the government. Such costs include administrative charges, taxes, etc. For example, the fees for applying for a permit would be a financial cost of regulation.

3.1.2. Compliance / Policy costs

Compliance costs are all the costs of complying with regulation, with the exception of financial costs. In the context of the Standard Cost Model, these can be divided into '*substantive compliance costs*' and '*administrative burdens*'. Examples of substantive compliance costs include:

- filters in accordance with environmental requirements
- physical facilities in compliance with working conditions regulations
- obtaining the specific professional knowledge necessary for a particular diploma

3.1.3. Administrative burdens versus administrative costs

The SCM measures the administrative costs faced by business. It is important to understand what this means, in particular how administrative costs relate to administrative burdens.

3.1.4. Administrative costs

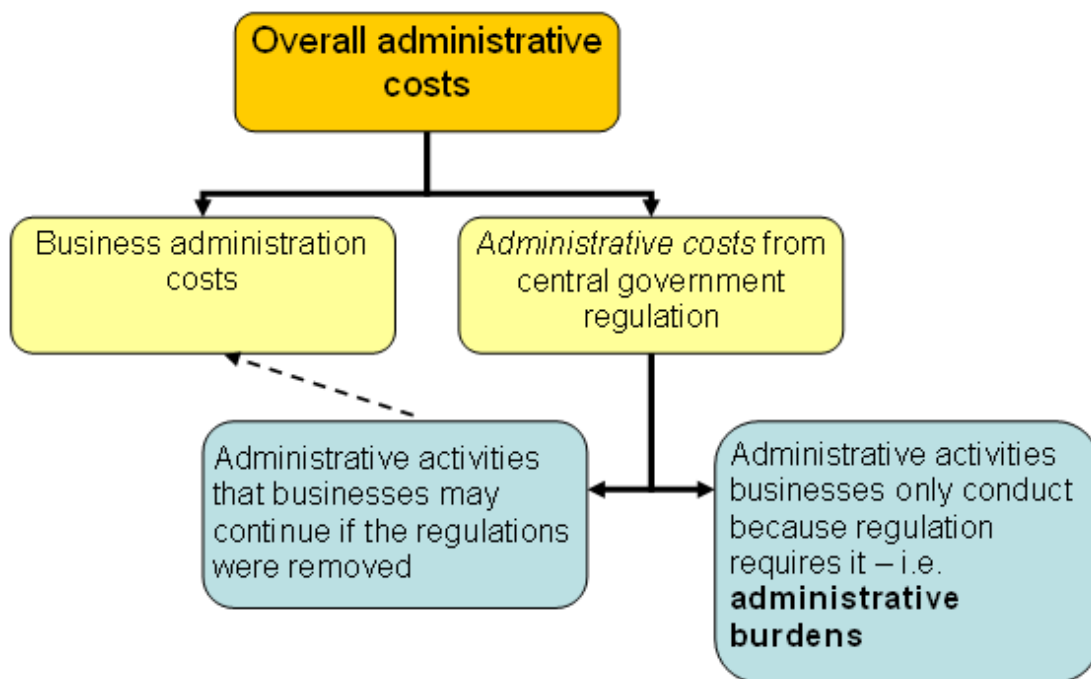
The costs of the administrative activities that businesses are required to conduct in order to comply with the information obligations that are imposed through central government regulation.

3.1.5. Administrative burdens

That part of the administrative costs that the businesses sustain simply because it is a requirement from regulation.

The administrative burdens are thus a subset of the administrative costs in that the administrative costs also encompass the administrative activities that the businesses will continue to conduct if the regulations were removed.

Figure 2: Administrative costs and burdens



The SCM measures administrative costs from central government regulation. As such some activities that businesses may continue in the absence of regulation will be included. However, administrative activities that have no relation to regulation are not included, i.e. administrative tasks that the business carries out in connection with running the business and that are not necessary to comply with regulatory requirements.

3.1.6. Information obligations

The fundamental concept behind a Standard Cost Model measurement is the information that businesses, as a consequence of regulation, have to provide and typically submit to the public sector³. These obligations to provide information and data to the public sector are termed *information obligations*:

An information obligation is a duty to procure or prepare information and subsequently make it available to a public authority, as well as a duty to facilitate the collection or preparation of information by others, e.g. by permitting and cooperating with an audit, visit or inspection. This includes regular requirements to read guidance and updated rules, for example rules which are updated annually. It is an obligation businesses cannot decline without coming into conflict with the law or being ineligible for continued funding, grants and other applied for schemes.

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

3.1.7. Data requirement

Each information obligation consists of a range of different information or data that the businesses shall provide in order to be able to comply with the information obligation – these are the data requirements.

³ The SCM as implemented in The Netherlands and Denmark also includes obligations to third parties, for example food labelling. In the UK such third party obligations which reflect policy choices are not included in the baseline. See section 5.2 for further information.

For example, as part of submitting annual accounts, a business may need to supply a range of data such as a management report and endorsement, a balance sheet, etc.

3.1.8. Administrative activity

The time and resource consumption that businesses use in providing the information that is necessary in order to comply with a given data requirement, is measured by analysing the administrative activities in the individual businesses. Each activity is a particular task or process that must be completed.

For example, compiling a balance sheet may require a number of activities such as gathering information, recording the information, entering the information into a form, checking the information.

Where an activity relates to the completion of a form this will be flagged to support the government's aim to reduce the amount of form-filling that businesses must do. Form filling is defined as any standardised way of meeting an information obligation, for example this could include electronic forms, paper forms, online forms or contact with a call centre.

3.1.9. Business

This SCM measurement covers regulation that affects active businesses operating in the Northern Ireland. Rules that only affect foreign businesses are not measured. For example, mail order sales undertaken over the Internet from another country are not covered by the measurement.

The term business should be taken to mean every sector of the economy, with the exception of the public sections of public administration and public services as defined by the Office for National Statistics for National Accounts purposes. This definition therefore includes business, charities, social economy enterprises and the voluntary sector.

In this context, all reference to "business" and "firms" in this document should be taken to include organisations in the charitable, social economy and voluntary sectors. The above definition should be used when initially clarifying if a regulation refers to businesses or not. The definition is also important for establishing the size of the population affected by a regulation.

3.1.10. Government

Government for this measurement is defined as all bodies that are principally controlled and financed by Northern Ireland government itself. For the purposes of this measurement of administrative burdens, government means central government which includes all executive agencies, next steps agencies, non-departmental public bodies, regulators and arms-length bodies for which departments have to account to the NI Assembly.

Local government is included with the scope of the SCM in so far as it acts to implement and enforce the policy of central government. It is possible to account for pure local government regulation in this framework. However this implementation is focussed on central government.

3.1.11. Non-Government

Interest organisations, foreign embassies and branches of international institutions based in a country, such as OECD and the International Court of Justice, are not considered to be part the Government and therefore do not are not included.

3.1.12. Regulation

Regulation is defined as a rule with which failure to comply would result in a business coming into conflict with the law or being ineligible for continued funding, grants and other applied for schemes. This can be summarised as all measures with legal force imposed by central government and other schemes operated by central government, including:

- Directly applicable EU Regulations
- Directly applicable sections of Acts of the NI Assembly
- Statutory Instruments
- Rules, orders, schemes, regulations etc. made under statutory powers by Ministers or agencies
- Licences and permits issued under central Government authority.
- Codes of Practice with statutory force
- Guidance with statutory force
- Codes of Practice/Guidance/Self-Regulation/Industry Agreements with Government backing, e.g. "Approved Codes of Practice"
- Bye-laws made by central Government

Excluding:

- Codes of Practice/Guidance without government backing
- Voluntary agreements between businesses including self-regulation/industry agreements with no government backing
- Obligations arising from local government measures where these are not concerned with implementing central government policy.
- Obligations arising from the Common Law (e.g. of an employer to his employees).
- Local authority bye-laws, pure local authority regulation.
- All matters reserved to the UK Government.

It is necessary to ensure there are not incentives for policymakers to switch to what is in practice an equally burdensome means of policy implementation simply to avoid imposing an administrative burden as defined by the SCM. This should also be picked up in an RIA associated with any change where the particular policy choice must be justified in a wider context.

3.2. Costs

3.2.1. Cost parameters

In order to calculate the resource consumption in connection with an administrative activity, it is necessary to identify the cost parameters that are associated with the activity.

Cost parameters are the expense variables that are associated with the individual administrative activities. The cost parameters that are included in the Standard Cost Model measurement are:

Internal cost parameters:

- Time
- Tariff (Hourly rate plus Overhead and non-wage costs per hour)

External cost parameters:

- Time
- Tariff (Hourly rate)

Acquisitions

These cost parameters combine with quantity parameters to allow the total administrative cost of an activity to be estimated. Combining these elements give the basic SCM formula:

$$\begin{aligned} \text{Activity Cost} &= \text{Price} \times \text{Quantity} \\ &= (\text{tariff} \times \text{time}) \times (\text{population} \times \text{frequency}) \end{aligned}$$

3.2.2. Price

The cost parameters form the basis of the price element in the model which consists of the *tariff*, wage costs (plus overhead, non-wage costs) for activities done internally or hourly cost for external service providers and *time*, the amount of time required to complete the activity. Wage data is taken from statistical sources. For external costs a national average figure is used.

3.2.3. Tariff

The internal tariff consists of:

- Gross wage. This is the median statistical wage of the employee who typically performs the administrative activity.
- Non-wage costs. These are the costs of holiday allowances, employer's insurance premiums and Employers National Insurance Contributions.
- Material and overhead costs. Material costs are taken to mean the costs of all materials purchased in order to satisfy the administrative obligations. This can include the costs of accommodation, materials needed for a registration system, detailed drawings and the like. Overhead costs are all the costs associated with the use of office materials, depreciation of desks, computers, and facilities for ancillary departments and such. Although the material and overhead costs are a relatively small cost item, they are very diverse and therefore difficult to calculate. In general and where relevant, these costs are estimated using a mark-up percentage on the internal tariff of the gross wage costs.

The external tariff is made up of:

- The costs of contracting out: costs of accountants, legal workers, service bureaus, administration offices and the like, which carry out administrative and procedural tasks to enable a business to comply with legislation and regulations. These costs are usually offset at a commercial rate (on the basis of wage costs). A national average cost is used for each type of service.

3.2.4. Time

The variable time should be taken to mean the time (in minutes or hours) that it takes a business to perform a certain activity.

Example: Calculating the *price*

An entrepreneur, X, is obliged to draw up and publish an annual statement in accordance with a regulation. He makes use of the services of an accountant, who he hires in via an accountants' office. This accountant charges £200 per hour. It takes the accountant a total of 30 hours to draw up the annual statement. The entrepreneur must correlate and pass on the information that the accountant needs. This takes 2 hours at the rate of £70 per hour. *Price* is therefore:

$$P_{\text{total}} = P_{\text{internal}} (\text{£}70 * 2) + P_{\text{external}} (\text{£}200 * 30) = \text{£} 6,140$$

3.2.5. Quantity

Quantity comprises of the size of the *population* of businesses affected and the *frequency* that the activity must be completed each year.

$$\text{Quantity} = \text{Population} \times \text{Frequency}$$

Population: This refers to the number of businesses to which the regulations apply. This means that when determining the administrative costs, the target group of the regulations and the number of businesses involved needs to be determined.

Frequency: The frequency is the number of times that a business delivers a data requirement per year.

Example: Calculating the quantity

The obligation to draw up an annual statement (see example for calculating price) applies to all legal entities, not just entrepreneur X. There are a total of 100,000 legal entities and they are all obliged to draw up an annual statement once per year. Quantity is therefore:

Quantity = 100,000 (number of businesses) * 1 (frequency) = 100,000

Total administrative cost for complying with the obligation to draw up an annual statement:

Total costs = Price (£ 6,140) * Quantity (100,000) = £ 61,400,000

3.2.6. Acquisitions

In addition certain acquisitions may be included as an average cost per year that the purchase is expected to last for. This price is then multiplied by the size of the affected population as this is already an annual cost. One common acquisition may be stationery or postage costs. In many cases such costs are paid by government, for example through the use of pre-paid envelopes.

3.2.7. The normally efficient business

The fundamental concept – and unit of measurement – of a Standard Cost Model analysis is the *normally efficient business*. This is taken to mean businesses within the target group that handle their administrative tasks in a normal manner. In other words the businesses handle their administrative tasks neither better nor worse than may be reasonably expected. The intention with the Standard Cost Model is thus to identify general contexts that can be traced directly back to regulation. The Standard Cost Model measurement does not, therefore, include businesses that, for various reasons, are either particularly efficient or inefficient⁴.

The normally efficient business is found by conducting interviews with a number of typical businesses in the target group, with possible external advisors that deal with outsourced tasks for the businesses, and possibly with other experts. The objective of the interviews is to find out how much time the businesses use on the individual activity that is associated with a data requirement. A check is made to see that there is consistency in the businesses' answers. If this is *not* the case, more business interviews are conducted until it is possible to ascertain standardised time consumption associated with the administrative activities for the normally efficient business.

3.2.8. One-off costs and recurring costs

In carrying out a Standard Cost Model analysis a distinction is made between one-off and recurring costs from regulation.

One-off costs are the costs that are only sustained once in connection with the businesses adapting to a new or amended legislation/regulation. This does not include the costs that a business may have in relation to complying with existing regulations for the first time, e.g. as a consequence of increased turnover or expansion with new areas of activity in the business. As such only the introduction of a new or amended regulation can give rise to one-off costs.

⁴ In the process of determining what is normally efficient, some very efficient or inefficient businesses may be observed. While these businesses are excluded from the baseline measurement they may provide insight to departments about good practice to encourage and bad practice that should be discouraged.

The one-off costs are *not* included in the baseline measurement. However they do form part of an ex-ante measurements for inclusion in a regulatory impact assessment. An example is the requirement for firms to read guidance as a result of a one-time change in a regulation.

Recurring costs are the administrative costs that the businesses constantly have in complying with the information obligations from regulation. They may be costs that arise at regular intervals, e.g. with VAT returns. They can also be costs that arise at irregular intervals for the individual business, e.g. if they are to apply for an export subsidy or submit a planning application. They can similarly be an administrative task that the individual business only experiences on one occasion, e.g. in connection with business registration where one applies for a VAT number or upon application for authorisation. Common to these two types of costs is that they arise in connection with a given situation for the business. Such costs include those associated with starting and expanding a business.

The recurring costs element means that costs recur at the level of the whole economy. An individual business may only experience a particular administrative cost once a year, or even less frequently. However at the whole economy level such costs do recur.

Recurring administrative costs are measured at both the ex-ante and ex-post stages.

3.3. Origin of regulation

In order to provide an overview of where the administrative costs of businesses originate from, data requirements have to be classified in three main categories – depending on their origin:

- A. Data requirements that are exclusively and completely a consequence of EU rules and other international obligations. The international rules describe which information businesses have to produce.
- B. Data requirements that are a consequence of EU rules and other international obligations. The purpose will be formulated in the international rules, while implementation (including formulation of the specific data requirements) will be left to the member states. The international rules do not describe which information businesses have to produce.
- C. Data requirements that are exclusively a consequence of rules formulated at national level.

The data requirements are classified in categories A, B and C by the responsible departments, who have the knowledge needed to be able to carry out the classification, working with the mapped data requirements from the consultants.

The classification process distinguishes between three different categories of data requirements for **type-A regulation**:

- Category A-EU-Directive
- Category A-EU-Regulation
- Category A-International

For all three type-A categories the data requirement and its implementation must be *laid down* by the EU (A-EU-Directive or A-EU-Regulation) or in other international rules (A-International). This means that the rules stipulate which information must be provided by businesses and how this should be done. The international rules describe which information businesses have to produce. In this situation a department has limited or no influence⁵ on the administrative burdens in the short term.

⁵ Limited influence should be understood in relation to the immediate sphere of influence. An international context does offer opportunities for reducing the administrative burdens, of course, but it has to be done in consultation with the international community.

The classification process also distinguishes between three different categories in the case of data requirements of **type-B**:

- Category B-EU-Directive
- Category B-EU-Regulation
- Category B-International

For all three type-B categories, the data requirement must be a *consequence of EU rules* (B-EU-Directive or B-EU-Regulation) or other international obligations (B-International). In this case the international obligation will only formulate a purpose, which the states have to implement in their own regulation. The international rules do not describe which information businesses have to produce. It is therefore up to the states themselves to formulate any data requirements to be provided by businesses.

Type-C regulation only covers one type of regulation, i.e. data requirements that are exclusively a consequence of national regulations. Both the information obligation and its implementation are laid down at national level.

Classification in categories A, B and C forms the basis for investigating whether and to what extent administrative burdens fall within the sphere of influence. Once a category A regulation is in place, this category does not in principle fall within United Kingdom's immediate sphere of influence, while the administrative burdens in category C fall exclusively within the sphere of influence. Category B comes between these two categories, with implementation falling more or less within the sphere of influence.

Classification serves two purposes. First of all it provides a balanced picture of the composition of a department's rules and the potential for rule simplification in the short term. A department with a lot of national legislation (i.e. mainly type-C regulation) will find it easier to reduce the administrative costs of businesses in the short term than a department that is mainly responsible for regulation formulated under the auspices of the EU, for example (i.e. type-A regulation).

Classification also serves another, longer-term purpose. If substantial, inexpedient costs are identified in connection with an EU-Directive where the information obligations are laid down in the directive, the analysis can form an important element in support of simplification of the directive by the EU.

3.4. Coverage of measurement

3.4.1. International rules implemented in regulations are measured

All business-related regulations with **information obligations and data requirements** are included in the measurement. Also included are EU rules as well as international conventions *to the extent* they are implemented domestically.

Most international regulations require domestic implementation. However, EU regulations are directly applicable without domestic transposition. In many cases they also require some domestic implementation around monitoring and enforcement. In cases where no domestic implementation is required the regulations will be listed and flagged as such. While it is possible to estimate the burden for such regulations if desired they will not be relevant for domestic simplification programmes, and as such would not form part of any Northern Ireland baseline measurement for simplification initiatives. There may be some interest in understanding the burden imposed when considering EU simplification plans and it is for such purposes that it may be desirable to estimate the burden of such regulations.

3.4.2. All compulsory and voluntary regulations

As far as the regulations that are to be measured are concerned, it is important to distinguish between two types of regulations: *compulsory regulations* that businesses have to follow, and *voluntary regulations* that businesses may choose to follow.

All costs that the businesses incur in complying with information obligations in compulsory regulations should be measured in a Standard Cost Model measurement. Such regulations may be compulsory through legislation or may be compulsory in effect through clear government backing.

Voluntary actions are also fully included within the SCM; examples include applying for licences, support schemes, grant schemes, etc. For such actions 100 percent take-up of the target group(s) should be assumed within the model⁶. The focus is on the potential burden where high burdens could be a barrier to full take-up. Where there is known to be a very different level of take-up this should be noted during the listing of regulations and/or measurement process.

3.4.3. Full compliance

To measure businesses' administrative costs by following a set of regulations, it is important to make it clear assumptions about compliance. The costs of complying with a regulation as prescribed may be measured, or the actual costs that the businesses incur through only partial compliance. There can be many different reasons why a regulation is not followed to the letter by all the businesses that are covered by it. One possibility is that the legislation is misunderstood by the businesses, while another is that the businesses consciously fail to follow parts of the provisions of the set of rules.

The measurement of a regulation by means of the Standard Cost Model method is based on a measurement of the costs that all the businesses concerned have in following the rules *completely*. It is thus not the actual number of businesses that observe a rule that is of interest, nor whether the individual business only follows the rules partially. The factor being captured is how many businesses are to follow the rule and what costs these businesses typically have in following those parts of the set of rules that they are required to. The focus is on the potential burden that the government imposes.

3.4.4. Regulations including the reimbursement of administrative costs

In some cases businesses are subjected to information obligations where they receive some form of reimbursement to cover their administrative costs of complying. In such cases the regulation should be included in the measurement but the level of the reimbursement should also be recorded. This will allow such regulations to be included on a net basis if reimbursements are very different to the costs calculated using the SCM.

3.4.5. Contingent requirements

Some regulations only impose a burden in the event of a particular event occurring. For requirements where an event is expected to occur reasonably frequently somewhere in the population of businesses, for example annually, the burden should be estimated and included with the frequency determined by the expected level of occurrence.

Other event-contingent regulation may only be used on very few occasions. For some such regulations the expected frequency may be so low that they should not be considered part of the recurring administrative burden. Where departments believe a regulation falls into this category they should provide appropriate evidence in their Regulatory Impact Assessment to

⁶ This may mean that take-up is assumed to be at the level targeted in the scheme design.

support. This type of regulation should be in the list of regulations and should be marked as a rare contingent requirement and its record should also contain details of the reason for not being considered as part of a recurring administrative burden.

3.4.6. Geographical coverage

All regulation within the remit of the Northern Ireland government is within the scope of this implementation. There may be geographic differences, which would be a matter for the policy lead concerned and there may be a need to access geographic data to support application of the Standard Cost Model for a particular policy initiative.

3.5. Segmentation

Appropriate segmentation is necessary to ensure measurements reflect differing cost/resource structures in businesses and the incidence of particular regulations. It is also needed to allow specific areas of interest to be analysed. For the Northern Ireland SCM implementation there are three areas where segmentation may be considered: firm size, industry sector and e-Government solution.

In choosing the level of segmentation required for the measurement of the administrative burden baseline, the overall aim is to segment as little as possible to ease the measurement process.

3.5.1. Firm size

Firms of different sizes face different resource and cost constraints. A regulatory change may be substantially less significant in its impact on a large business with resources dedicated to dealing with such changes when compared with a small business where taking on a change means diverting resources from other activities and incurring unplanned costs.

The measurement should be conducted in such a way as to allow the results to be presented according to four size bands as far as practicable. The size bands to be used are those defined by the European Union⁷:

- Micro (0-9 employees)
- Small (10-49 employees)
- Medium (50-249 employees)
- Large (250 or more employees)

For some regulations results it may not be possible to obtain results with this split. In such cases the responsible department should consider a reasonable alternative and within the RIA state the rationale for selecting the particular alternative and why it was deemed necessary to deviate from the above size bands in support of the measurement exercise.

Where a regulation defines alternate size bands based on employment, turnover or different numbers of employees, these should be used, and an explanation provided in the RIA as appropriate.

3.5.2. Industry sector

Different industry sectors face differing levels of regulation. For example firms handling certain chemicals must comply with additional health and safety rules in addition to other regulation. In some cases there may be a large number of such industry-specific regulations.

⁷ http://europa.eu/legislation_summaries/enterprise/business_environment/n26026_en.htm#

The SCM normally-efficient business-based measurement approach means that in general splitting the measurement by industry sector is not necessary. Sector breakdowns can be derived using statistical population information.

For sector specific regulations the measurement must be segmented to reflect the coverage of the regulation. In general, industry sector should be recorded using the Standard Industrial Classification 2003 (SIC 2003) published by the Office for National Statistics⁸. In many cases the SIC may not be sufficiently detailed where regulation covers very specific areas of business. In such cases departments must provide information on the proportion of the relevant SIC class that is covered and the number of businesses that are affected.

3.5.3. e-Government solutions

For a growing number of information obligations electronic solutions are made available to the businesses whereby they are able to report the required information, apply for subsidy or permits etc via the internet. An electronic solution is understood to mean that the businesses are able to send in the required information via electronic communication. A form that the businesses can download from a homepage and which subsequently has to be printed out and submitted by letter or fax, is thus not an electronic solution. E-Government solutions may include the use of direct data entry through call centres or telephone responses systems.

Such e-Government solutions should be designed to be quicker and more efficient than paper-based forms. As such it is important to be aware of when they are used and measure them. It is particularly important to segment to separate an electronic solution from an equivalent manual process.

The actual measurement of an electronic solution is carried out in the same way as the measurement of the corresponding manual solution, i.e. how much time do the businesses employ on the administrative activities that are involved in being able to comply with the information obligation. The effect of an electronic initiative may thus be shown by comparing the time consumption of the manual solution with that of the electronic one.

In a number of cases an electronic solution will form part of a wider e- Government initiative. In such cases it should be registered that the electronic solution in question is part of a larger initiative and the details of that initiative recorded.

3.6. Flow of regulation and updating the baseline

3.6.1. Flow of new regulation

A core element of the SCM is that once the baseline has been measured it needs to be updated to reflect progress on simplification and new regulations that have come into effect. It is important that estimates of administrative costs for new regulation are of a similar quality to the baseline measurement.

The primary source of new administrative cost data will be Regulatory Impact Assessments (RIAs) produced to accompany new and changing regulation. Such ex-ante measurements will be scrutinised by departmental economists to ensure the quality of the measurements is appropriate. For significant regulation it may be appropriate to use consultants to estimate the costs.

Costs will only be added to the stock of regulation when they are finalised. For example, legislation must have been passed and any amendments properly taken into account. Departments are responsible for maintaining their list of regulations and associate costs to

⁸ <http://www.statistics.gov.uk/statbase/Product.asp?vlnk=9769>

each, as and when the regulation is made law and the most accurate cost estimates available.

This should allow the effect of potential changes on the baseline to be assessed as well as the baseline to be updated. As such there will be a “live” baseline in addition to the fixed point baseline used to inform targets and simplification plans.

When producing ex-ante estimates, it is impossible to be totally certain what the realised impact will be once initial adjustment to the regulation has occurred. To assess the quality of ex-ante estimates, administrative cost estimates should be evaluated as part of departments’ evaluation programmes. It is recommended that regulations should be reviewed three to five years after their introduction. As part of the review it may be helpful to conduct a full measurement exercise for the regulation in question using consultants or internal departmental resources where feasible⁹. Results of evaluation can then be used to update the costs of that particular regulation on departmental legislative lists.

3.6.2. Standard Cost Model and Regulatory Impact Assessment

In implementing the Standard Cost Model in Northern Ireland it is important to place it in context. NI has been using a Regulatory Impact Assessment process for some years. As part of the policy making process, policymakers should be considering different options to meet their objectives and in doing so balancing the total costs and benefits of each option. The introduction of a specific methodology for the measurement of administrative costs does not change the need to carry out this assessment. As noted above, for new or changing regulations the administrative costs must be estimated and these costs will be presented in the RIA. The estimation method will be as presented in this manual.

It is important to note that the approaches to measuring costs taken in the SCM and the RIA process are slightly different. As described above the SCM does not exclude activities business may already be doing, whereas the RIA looks for additional costs (and benefits). This means care must be taken in presenting cost estimates in RIAs.

3.6.3. Assessing progress

This will link in with other regulatory reform plans, particularly in the context of simplification and rationalisation of the regulatory stock in Northern Ireland and the NI Economic Strategy. It is not intended to overly burden departments in continuous measurement and baselining administrative burden data, rather through the process of regulation review and at the direction of any centrally initiated review plan to support simplification work, which in turn will aid economic growth.

It should be recognised that there is the issue of accounting for growth and change in the economy in the measurement process. If a highly regulated sector expands this would mean the total burden in the economy has grown but this would not be observed with a fixed base year measurement. To allow some flexibility to analyse such changes the standard statistics should be able to be varied, for example using data from a later year with the time observations from the businesses.

⁹ Note that consultants may obtain better results as businesses may be cautious about talking to departmental representatives if they are not fully complying with all provisions of a regulation, or are unsure if they are complying.

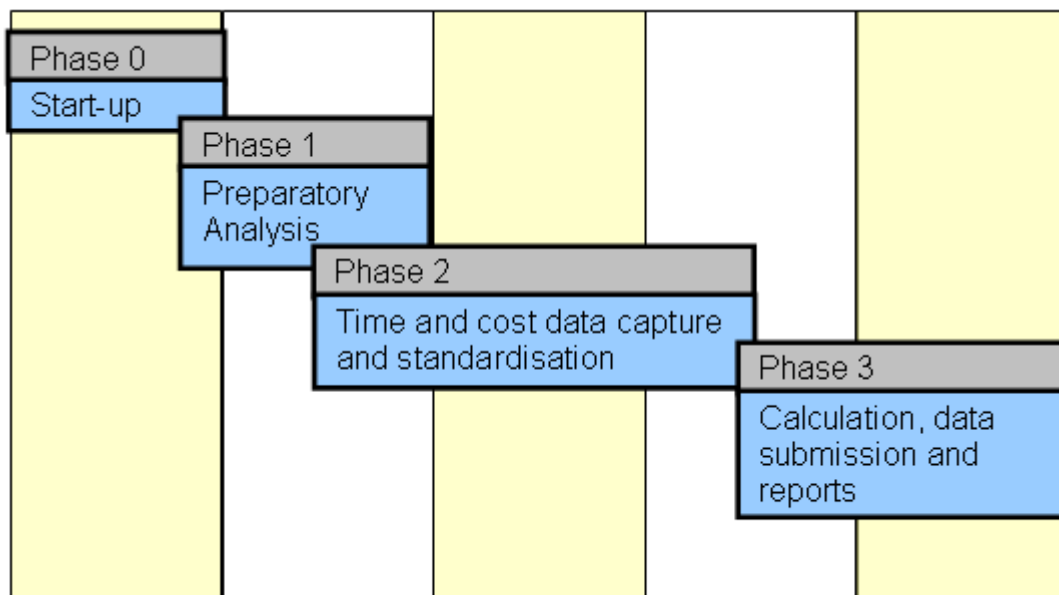
4. Measurement process

This section sets out the process involved in carrying out a measurement using the Standard Cost Model. The process can be split into four phases and 14 steps.

This is a detailed approach used in the UK Standard Cost Model and is designed for a wide range of regulatory applications. The detailed methodology has been designed to be used by external consultants supporting policy officials in devising regulatory policy. For those carrying out measurement exercises inhouse (including with the support of economists), it is possible to streamline the process however this will become apparent through use and familiarity. The UK model recommends the creation of a monitoring group (consisting of external stakeholders and others) which can oversee the work done and provide assurance on the approach being adopted for the specific measurement. It would be advantageous to adopt this approach in a commensurate way to the policy area within the responsible department.

For the measurement of a single regulation these phases are sequential, however for a larger measurement exercise such as a baseline measurement some of the phases may overlap as areas of regulation may move through the process at different rates. This is illustrated in Figure 3.

Figure 3: Example phasing of measurement



To conduct an SCM measurement for a given area of regulation requires both a detailed knowledge of the SCM methodology and of the particular area of regulation. Measurement can be done by policy officials or departmental economists, working closely with business bodies and representative organisations as necessary.

It is important for the data collected is accurately recorded and stored against each relevant piece of work. This will support wider baselining and simplification work in support of the NI Economic Strategy and the regulatory reform initiative.

Table 1 below presents the four logical phases in the measurement and the steps which underlie them.

Table 1: Phases and steps in the measurement

Phase 0: Start-up		
Initial meetings of the department, Better Regulation Executive, consultants and other key stakeholders		
Phase 1: Preparatory analysis		
	Step 1	Identification of information obligations, data requirements and administrative activities and classification by origin
	Step 2	Identification and demarcation of related regulations
	Step 3	Identification of segments
	Step 4	Identification of population, rate and frequency.
	Step 5	Business interviews versus expert assessment
	Step 6	Identification of relevant cost parameters
	Step 7	Preparation of interview guide
	Step 8	Expert review of steps 1-7
Phase 2: Time and cost data capture and standardisation		
	Step 9	Selection of typical businesses for interview
	Step 10	Businesses interviews
	Step 11	Completion and standardisation of time and resource estimates for each segment by activity
	Step 12	Expert review of steps 9-11
Phase 3: Calculation, data submission and reports		
	Step 13	Extrapolation of validated data to Northern Ireland level
	Step 14	Reporting and transfer to database

The remaining elements in this chapter outline the tasks for each phase or step and how completion is determined. The next chapter contains detailed practical guidance necessary to complete the measurement.

4.1. Phase 0 – Start-up

This phase ensures the infrastructure for the rest of the measurement is in place. Tasks for phase 0 are:

- Check the scope of measurement relative to list of regulations provided by responsible department, including dealing with borderline inclusion issues
- Start up measurement project including meetings of key stakeholders including departments, regulators, and businesses
- Detailed planning for subsequent phases
- Establishment of quality assurance process
- Set-up of a tool to allow access, sharing and maintenance of information necessary to run project. For example, this may be a secure website. It should allow officials to support decision processes, track progress and keep a record of decisions made.

Completion of phase 0

Preparation of a data set **of the business-related regulation** to be included in the analysis. More and more information will gradually be added to the data set as the subsequent steps of the analysis are completed.

Consideration should also be given to drawing up a list of the business-related rules that are not to be included in the analysis, including the reasons for their omission.

The data set must be **validated by the responsible department/policy unit**.

4.2. Phase 1 – Preparatory analysis

A large part of the work involved in carrying out a standard cost analysis is linked to the preparatory analysis, which precedes the actual collection of data. The purpose of the preparatory analysis is to identify the business-related information obligations and resulting data requirements in the relevant legislation. Then the administrative activities to be performed by businesses in order to supply the required information have to be identified. The next step is to identify the relevant background variables. Finally, the business segments covered by the regulation are identified.

This process is divided into eight steps. The process is continuous, however, with considerations and choices in the various steps having mutual relevance. It is therefore essential to think of the process as a whole.

It is also important to validate the information produced by the preliminary analysis on an ongoing basis. This means that:

- the responsible department/policy area has to be involved on an ongoing basis with a view to ensuring technical quality
- relevant experts are involved (as appropriate/necessary) with a view to evaluating and validating the classifications and specifications generated in steps 1-7

4.2.1. Step 1: Identification of information obligations, data requirements and administrative activities and classification by origin

Tasks in step 1 are:

- Break down list of regulations from phase 0 into **information obligations**
- Split information obligations into **data requirements**
- Classify data requirements
- Identify administrative activities – These will be validated during interviews with businesses at step 10
- Start classification of regulation by origin – note this does not need to be completed until reporting in phase 3

Completion of step 1

The firm of consultants **breaks down each individual business-related regulation** into information obligations and data requirements plus associated administrative activities for each data requirement. It must be possible to identify links between regulations, e.g. which primary legislation gives rise to which secondary legislation. A section and subsection reference must also be given for the data requirements so that they can be found quickly in the rule in question.

The data set containing the breakdown of legislation into information obligations, data requirements and administrative activities must be **validated by the responsible department/policy area**.

4.2.2. Step 2: Identification and demarcation of related regulations

Tasks in step 2 are:

- Identification of related/overlapping regulations
- Assignment of ownership of regulations to departments

Completion of step 2

Production of a clear demarcation and definition of the area of regulation where administrative costs are to be measured. Related regulation is identified and the owner of the costs is clear so that identical information obligations are not counted more than once. Integration of the information on related regulation in the data set for the business-related regulations from step 1. As part of the report that has to be produced at the conclusion of phase 1, there should be

a description of which regulations connect with other regulation, including whether the information obligations and data requirements identified are identical to information obligations and data requirements in other rules and/or to what extent there are interfaces between regulations.

4.2.3. Step 3: Identification of segments

Tasks in step 3 are:

- Segment data requirements by firm size, e-Government solution and if appropriate industry sector
- Identify where non-standard segments are defined in regulation and agree segmentation with the responsible department/policy unit
- Identify where segmentation by firm size may not be appropriate or relevant and agree an alternative segmentation scheme with the policy area in the responsible department.

Completion of step 3

Segmentation is approved by the policy area in the responsible department and the information is integrated in the data set of business-related regulations from step 1. If there are special segments that ought to be analysed in more detail, then these should be identified.

The status report that has to be produced at the conclusion of phase 1 should also include a description of how segmentation was completed.

4.2.4. Step 4: Identification of population, rate and frequency.

Tasks in step 4 are:

- Identify population for each information obligation
- Establish rate for each data requirement
- Determine frequency for each data requirement/information obligation

Completion of step 4

This step is designed to obtain as much information as possible about populations, rates and frequencies, and incorporate it in the data set. This information is validated by the responsible department/policy area, which also identifies any information that is missing.

The process of identifying population, rate and frequency can take a long time. Therefore, it does not have to be completed during phase 1, since the information will not actually be used until extrapolation is carried out in phase 3. It is essential, however, to identify which information obligations affect the most businesses so that this information can be included in considerations regarding what the business interviews should focus on, as considered in step 5 regarding clarification of what should be calculated by means of business interviews and expert assessment respectively.

4.2.5. Step 5: Business interviews versus expert assessment

Tasks in step 5:

- Criteria for deciding to interview or use expert assessment must be specified
- Identify which information obligations will be assessed using business interviews and which will not and note this
- List information obligations to be estimated by expert assessment with reasons for decision

Completion of step 5

Incorporate the information on which information obligations will be measured by business interview and which will be evaluated later in the data set of business-related regulations from

step 1. The criteria on which the division between interviews and expert assessment is based must be made clear in order to facilitate validation by the responsible department. These criteria must also be included in the status report to be prepared at the conclusion of phase 1.

4.2.6. Step 6: Identification of cost parameters

Tasks for step 6 are:

- Identify relevant cost parameters for each administrative activity/data requirement/information obligation
- Documentation of areas of uncertainty regarding likely cost parameters

Completion of step 6

The administrative activities are split into a number of cost parameters that can be evaluated at interview.

4.2.7. Step7: Preparation of interview guide

Tasks at step 7:

- Produce and test interview guide
- Demonstrate interview guide will ensure uniform, consistent and accurate data collection

Completion of step 7

Preparation of an interview guide, which is approved by the policy unit in the responsible Department.

4.2.8. Step 8: Expert review of steps 1-7

Tasks at step 8:

- Produce end-of-phase report summarising all work undertaken in phase 1, including specific information outlined in steps 1 to 7, for review by the relevant monitoring group (consisting departments, business representatives, and other experts/key stakeholders)
- Monitoring group quality assure work undertaken in phase 1 and approve commencement of phase 2

Completion of step 8 and end of phase 1

Based on the material that is produced continuously in connection with phase 1, the consultants have to draw up an end-of-phase report for the work in phase 1 that describes the implementation of steps 1-7, including how the work of identifying the components of business-related regulations was done, which information obligations and data requirements are important, what demarcation has been done in relation to other legislative areas and integrated processes, which administrative activities are relevant, the segmentation of businesses, etc.

The report must be submitted to the policy unit in the responsible department and presented to the monitoring group for approval. Once any changes requested by the monitoring group have been implemented, phase 1 is complete.

4.3. Phase 2 - Time and cost data capture and standardisation

Based on the preparatory analysis in phase 1, the task in phase 2 is to gather empirical data from interviews with a selection of typical businesses affected by a given piece of legislation. The overall task is thus to fill in all the “cells” in the data structure for the individual segments with standardised figures for each information obligation, data requirement, administrative

activities and cost parameters. In most cases, this is done on the basis of at least three in-depth interviews with typical businesses in each of the identified segments.

4.3.1. Step 9: Selection of typical businesses for interview

Tasks in step 9 are:

- Draw up plan of how to identify businesses to interview including an estimate of total number of interviews and how the burden on respondents will be managed
- Selection of businesses for interview to cover all segments/data requirements/information obligations to be estimated using interviews
- Packaging of interviews to ensure the most effective use is made of business time and that full coverage is achieved
- Information to provide to businesses produced in co-operation with the responsible department.
- Selection of further businesses/repackaging of interviews based on progress with interviews in step 10

Completion of step 9

Draw up a plan of how to identify businesses to interview and the total number of planned interviews. Both parts of the plan must be approved by the policy unit in the responsible department. The procedure must also be described in the status report to be produced at the conclusion of phase 2.

Information about the process, why administrative costs are being measured, etc will be produced to give to respondents. This should be developed in cooperation with the responsible department and business organisations.

Following approval of the plan, businesses are contacted ahead of being interviewed.

4.3.2. Step 10: Business interviews

Tasks at step 10:

- Conduct interviews with businesses as determined in step 9 using the interview guide produced at step 7
- Assess responses to determine if a stable result for the normally efficient business has been identified
- Conduct further interviews as necessary to identify the normally efficient response
- Clarify any problems/flag questions/issues to the policy unit in the responsible department.

Completion of step 10

Describe the procedure for implementing the interviews for use in the status report to be produced at the conclusion of phase 2.

4.3.3. Step 11: Completion and standardisation of time and resource estimates for each segment by activity

Tasks at step 11:

- Standardise results for each segment to provide a single estimate for a normally efficient business to complete each activity
- Use experts to estimate results where there are gaps in the interview results or where determined at step 5

Completion of step 11

All the cells in the data structure are filled in with relevant standardised entries.

4.3.4. Step 12: Expert review of steps 9-11

Tasks at step 12:

- Produce end of phase report summarising all work undertaken in phase 2, including specific information outlined in steps 9 to 11, for review by the relevant monitoring group (consisting departments, business representatives, and other experts/key stakeholders)
- Monitoring group quality assure work undertaken in phase 2 and approve commencement of phase 3

Completion of step 12 and end of phase 2

Based on the material that is produced continuously in connection with phase 2, draw up an end of phase report for the work in phase 2 that describes the implementation of steps 9-11, including an account of the choices and estimates made.

The end of phase report must be submitted to the policy unit in the responsible department and presented to the monitoring group for approval. Consideration of the group's comments, as to whether this gives rise to additional work. Once any such work has been implemented, phase 2 is complete.

4.4. Phase 3 – Calculation, data submission and reports

4.4.1. Step 13: Extrapolation of validated data to Northern Ireland level

Tasks at step 13:

- Scaling up of approved, standardised data from phase 2 to the Northern Ireland level for each activity and segment
- Produce totals required for reports at step 14, including total costs by segment and information obligation, by information obligation only, by regulation, by departmental organisational unit and by department

Completion of step 13

Make the relevant calculations, which then form the basis for writing the report in step 14.

4.4.2. Step 14: Reporting and transfer to database

Tasks at step 14:

- Write departmental reports, presenting agencies and other associated bodies as agreed with the policy unit in the responsible department
- Agree departmental reports producing further drafts as necessary
- Transfer departmental data to the department in question
- An overview report maybe required for a large scale measurement, e.g. a baseline

Completion of step 14 and end of phase 3

Final report in which all the results are presented and which gives a detailed account of the method used and considerations involved.

The report is approved by the policy unit in the responsible department, making changes as necessary, before being sent to the monitoring group for consideration.

Once the report has been finally approved, the figures can be incorporated as evidence into the relevant RIAs. Phase 3 is now complete.

5. Detailed measurement guidance

This chapter sets out detailed guidance necessary for conducting the measurement. It is presented in process order.

5.1. Borderline cases in the scope of standard cost analyses

There will often be a number of borderline cases where it may be difficult to decide whether a regulation falls within the scope of the standard cost analysis or not. It is important to ensure that such borderline cases are discussed and evaluated in the light of decisions taken in other similar areas so as to ensure consistency with regard to which rules are included in the analysis. A number of examples are presented below.

5.1.1. Treatment of complaints

The right of businesses to complain about decisions is not an administrative burden and so is not measured in a standard cost analysis. It is not classified as an administrative burden because no information obligations are imposed on businesses in connection with complaints – the legislation just describes how to complain about a decision and what the formal requirements are, i.e. that the complaint has to be in writing and include supporting documentation, if any.

In some cases, however, it may be relevant to ask about a business's experience of the complaints system. This applies in particular to areas where it is common for businesses to complain. This may be an indication of the rules generally being difficult for businesses to understand. As part of the standard cost analysis it is, for example, possible to ask businesses about which parts of legislation they have particular trouble understanding. This would only involve qualitative reporting, with no extrapolation of burdens to a Northern Ireland level. This means that it would not be possible to produce a standardisation of how long a normally efficient business spends on a complaint. The time consumption for a complaint is too variable for this.

The results from the qualitative survey can be used to make the rules easier for businesses to understand, which may help to reduce the amount of time spent by businesses on familiarising themselves with the rules. The number of complaints can also be reduced, thereby relieving pressure on the public complaints process.

5.1.2. Differentiation between households and businesses

When the self-employed apply for schemes as an employee, it often results in relatively extensive administrative activities for them. Among other things, they have to document their employment and income situation. This form of administrative work is not included in the standard cost analysis because the self-employed are regarded in such situations as acting as employees and not as businesses.

5.1.3. Measuring the administrative costs of inspections

Businesses are subject to a range of different inspections. However, administrative costs as defined by the SCM are only incurred where the inspection relates entirely to an information obligation. Inspections with a broader focus are not included.

5.1.4. Tribunals, court cases and investigations

Certain types of legal procedure are a daily element in modern business. Such procedures clearly involve some degree of administrative process. However this is only appropriate for

inclusion in the SCM analysis in as far as it can be standardised. In general this means that only non-case specific requirements should be included.

Court cases and tribunals are only included in so far as they relate to business compliance with a regulation and cannot be avoided by fully complying, for example some cases will be brought regardless of the behaviour of a business. Only the costs of information obligations arising from such cases should be included.

Similarly administrative costs from investigations should only be included where they result from specific normal businesses processes. Ad hoc investigations are not included. For example, information obligations to the Office of Fair Trading relating to a merger would be included but requests relating to a market study would not.

5.1.5. Start-ups and first time compliance

Some regulations and activities within them only apply at key times in the life of a business. A new firm must comply with a certain set of regulations associated with starting a business. A business that is growing or diversifying may become subject to regulations they did not previously have to comply with.

Regulations associated with starting a business should be included with the population affected being the number of new businesses having to comply each year. For such regulations reading necessary guidance may be part of the measurement.

First time compliance should be included as specific segments in the measurement where there are particular requirements for businesses having to comply for the first time. For example there may be a registration process or specific guidance that has to be read. The population is the number of new businesses that have to comply in the base year.

5.1.6. Reading guidance

To comply with many regulations there are various forms of guidance that must be read. However not all guidance should be included in the baseline.

Guidance associated with first time compliance with a regulation (as discussed above) should be included. In addition regularly updated guidance should be included; this may include guidance that is directly part of a form.

Any other guidance that does not change should not be included except where reading it is necessary for first time compliance.

5.2. Breaking down regulations into information obligations and data requirements

This work is based on detailed analysis of the actual text of the individual regulation, its explanatory notes, relevant circulars and any guidelines relating to the regulated area. The information obligations (one or more) that give rise to administration on the part of businesses are identified in the course of this analysis. Example types of information obligations are shown in section 5.2.1 below.

Once a regulation has been broken down into one or more information obligations, the information obligations are broken down into **data requirements**. This is done by identifying all the data requirements in the regulation that go to make up the individual information obligation. There are many different data requirements – some will be very specific with regard to the concrete information obligation, while others will recur in different information obligations in various regulations across the departments.

When breaking down information obligations into data requirements, the consultants must carry out a **systematic classification** of the individual data requirements. The aim is to make it more practicable to develop a standard cost catalogue based on a standardisation of the cost of compliance with various types of data requirement. This is described in section 5.2.2 below.

Once the data requirements have been pinpointed, the next task is to identify the **administrative activities** that businesses have to go through in order to comply with the individual data requirement.

It must be possible to identify links between regulations, e.g. which primary legislation gives rise to which secondary legislation. A section and subsection reference must also be given for the data requirements so that they can be found quickly in the regulation in question.

5.2.1. Information Obligations: example types

- Returns and reports: This relates to returning and reporting information, e.g. tax deducted from income at source.
- Applications for permission for or exemption from...: This relates to all types of application for permission for or exemption from various activities, e.g. application for a licence to sell spirits.
- Applications for authorisation: This relates to applications for authorisation to carry out certain activities, e.g. authorisation as a sewer contractor.
- Notification of activities: This relates to businesses having to notify the authorities of specific activities, e.g. notification of the transportation of a dangerous cargo.
- Entry in a register: This relates to businesses having to be entered in a register or on a list, e.g. entry in the business register.
- Carrying out inspections of...: This relates to the business itself carrying out inspections of machinery and equipment that can represent a risk to health or the environment, or monitoring the conditions for employees. Inspections are normally carried out by certified organisations, e.g. drawing up a workplace assessment.
- Applications for subsidies or grants for...: This means the business applying for a subsidy or the like, e.g. a subsidy for job training.
- Keeping commercial emergency plans and programmes updated, etc...: This relates to the business keeping those documents required by the authorities up to date. It would include manuals and emergency plans, for example.
- Cooperating with audits/inspections of...: This relates to informing and assisting inspectors who carry out inspections of and auditing work for a business, or who visit a business in connection with enforcement of a regulation.
- Statutory labelling for the third parties: This means, among other things, labelling products or installations with consumer information, e.g. energy labelling of domestic appliances.
- Providing statutory information for third parties: This relates to providing third parties with information (as distinct from labelling), e.g. a financial prospectus to accompany investment products.
- Framing complaints and appeals: This relates to submitting complaints about and (possibly later) appealing against a decision made by the authorities. This information obligation should only be analysed if it is characteristic of a normally efficient business to complain in the area in question.

The list of information obligation types above includes obligations to third parties. As such obligations are also the object of policy, i.e. the policy is about the provision of information to third parties, it has been decided that such obligations should be identified but not included in the baseline. They should be flagged as relating to third parties in the database.

In general such obligations to third parties should be included in the measurement. Where particular departments have a large proportion of such obligations an alternative approach may be required.

The example below outlines a concrete example of how a regulation, in this case the Value Added Tax Act in Denmark, can contain information obligations:

Example information obligations: VAT

An examination of the Value Added Tax Act shows that the primary information obligations for businesses fall into three areas. Firstly there is registration of the business for VAT with the authorities as required by part 12 of the Act. Secondly and thirdly, part 15 of the Act defines a number of obligations in relation to VAT returns and settlement.

Part 12. Registration

Part 12 of the Value Added Tax Act requires businesses to register with the authorities, cf. section 47. This represents the information obligation.

“Taxable persons who conduct business involving the supply of goods and services that are not exempt under section 13 must apply to register their business...”

Part 15. Settlement of tax

Part 15 defines the detailed provisions that businesses must comply with when settling VAT. Taken together, these provisions represent the information obligation. The general provision is set out in section 57, which states that:

“After the end of each tax period registered businesses must inform the government customs and tax authorities of the amount of their output and input tax in the period and the value of goods and services that are exempt from tax under sections 14-21 or section 34...”

5.2.2. Categorisation of data requirements

An information obligation may lay down requirements with regard to the following information, for example:

- Identity of business – name and business registry number, etc.
- Business’s turnover/statement of turnover
- Statement of business’s equity

The data requirements have to be classified in two main types of category – “data requirements – process” and “data requirements – content”. Both have a number of subordinate categories. Efforts have been made to describe the categories in such a way that they are mutually exclusive. As with the other master table lists in the standard cost database, it is possible to expand the subordinate categories in the event of a data requirement not fitting in any of them. Should this happen, the category must be agreed with the Better Regulation Executive.

Data requirements – process:

There are currently three subordinate categories that describe the process of complying with the data requirement in question in the business. The idea is that the nature of the data requirement and therefore the process of complying with it affect how long it takes to comply with the data requirement.

1. Manual process

This subcategory covers ad hoc tasks. In other words, tasks that are performed so rarely that the information has to be constructed each time and therefore produced “manually”. This can include both one-off and situation-related tasks. One-off tasks might, for example, be an application for a licence, while a situation-related task could be an application for planning permission. Compliance with data requirements in this category will usually be characterised by high time consumption per transaction.

2. Partially automated process

This subcategory covers tasks where up to half the information has already been generated or can be generated relatively easily. This means that some of the information needed to comply with the data requirement can be generated using either IT tools or systemised administrative processes in the business. Compliance with the data requirement will usually be characterised by both lower time consumption and higher costs of obtaining information than in the above category.

3. Predominantly automated process

This subcategory covers tasks where more than half the information has already been generated or can be generated relatively easily. This means that most of the information needed to comply with the data requirement can be generated using either IT tools or systemised administrative processes in the business. Compliance will usually be characterised by both lower time consumption and higher costs of obtaining information than in the two above categories.

Figure 4: Decision tree for classifying data requirements – process

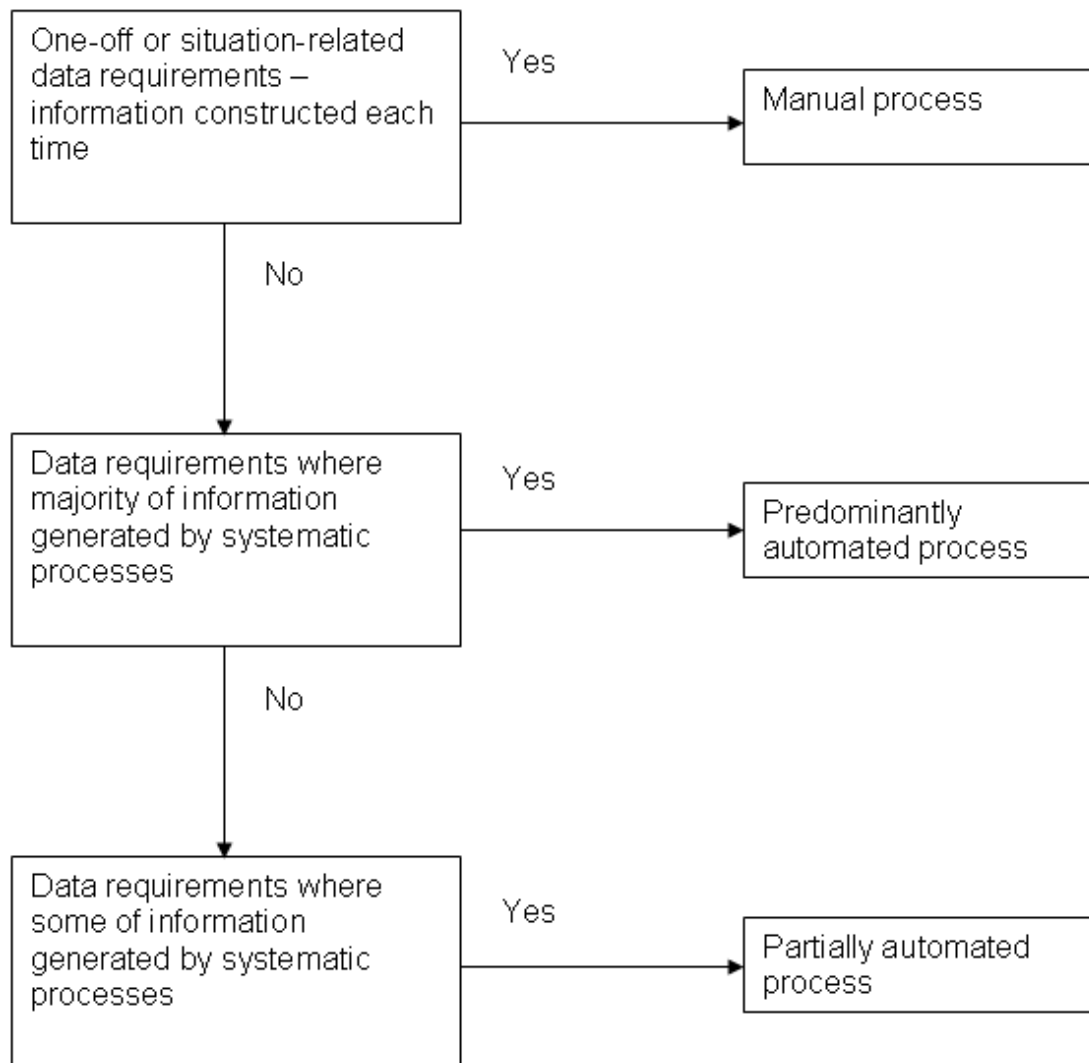


Figure 4 shows using a decision tree how data requirements can be classified based on the process of complying with the data requirement in the business. Data requirements are assigned to the three categories by assessing the proportion of information needed to comply with the data requirement in question that can be generated by means of a manual or an automated process respectively. Assignment to a category is not therefore determined by the time consumption involved in obtaining information manually or automatically.

Data requirements – content:

There are currently seven subordinate categories that describe the content of the data requirement in question:

1. *Business data*

This category covers various forms of fixed data about the business. This includes the name of the business, its address, its telephone number and its business registry number. This is general information that has to be included in the majority of reports. It also includes more specific information arising from the individual reporting obligation: e.g. data about ownership, area, rent, etc.

Overall, business data can be characterised as fixed information about the business that a report always has to contain owing to a given regulation requirement. This category differs from the other subordinate categories in that the information is fixed in the short term. A business does not, for example, change its name and address very often.

2. *Production data*

This category covers all data requirements relating to actual production of goods/services in the business. This includes data on volumes produced, discharges or emissions from the business's production and the like.

3. *Personnel data*

This category covers all forms of data about the personnel in the business. This includes information on the individual employee: e.g. pay, terms of employment, maternity leave, courses, sick pay. It also includes more general information/obligations not directly linked to the individual employee: e.g. Workplace Assessment.

4. *Purchasing*

This subcategory covers data requirements about input into the business. This includes information on purchasing (whether gainful or not) of goods/services for the business, stock movements and the like. This category covers both domestic and foreign purchases.

5. *Sales*

This subcategory covers data requirements about output from the business. This includes information on sales (whether gainful or not) of goods/services by the business, customers and the like. This category covers both domestic and foreign sales.

6. *Product data*

This subcategory covers data requirements about the product itself, including miscellaneous consumer information. The requirement will often relate to information to be attached to the product itself, e.g. weight, list of contents, statutory warnings, but can also involve information on the right to complain.

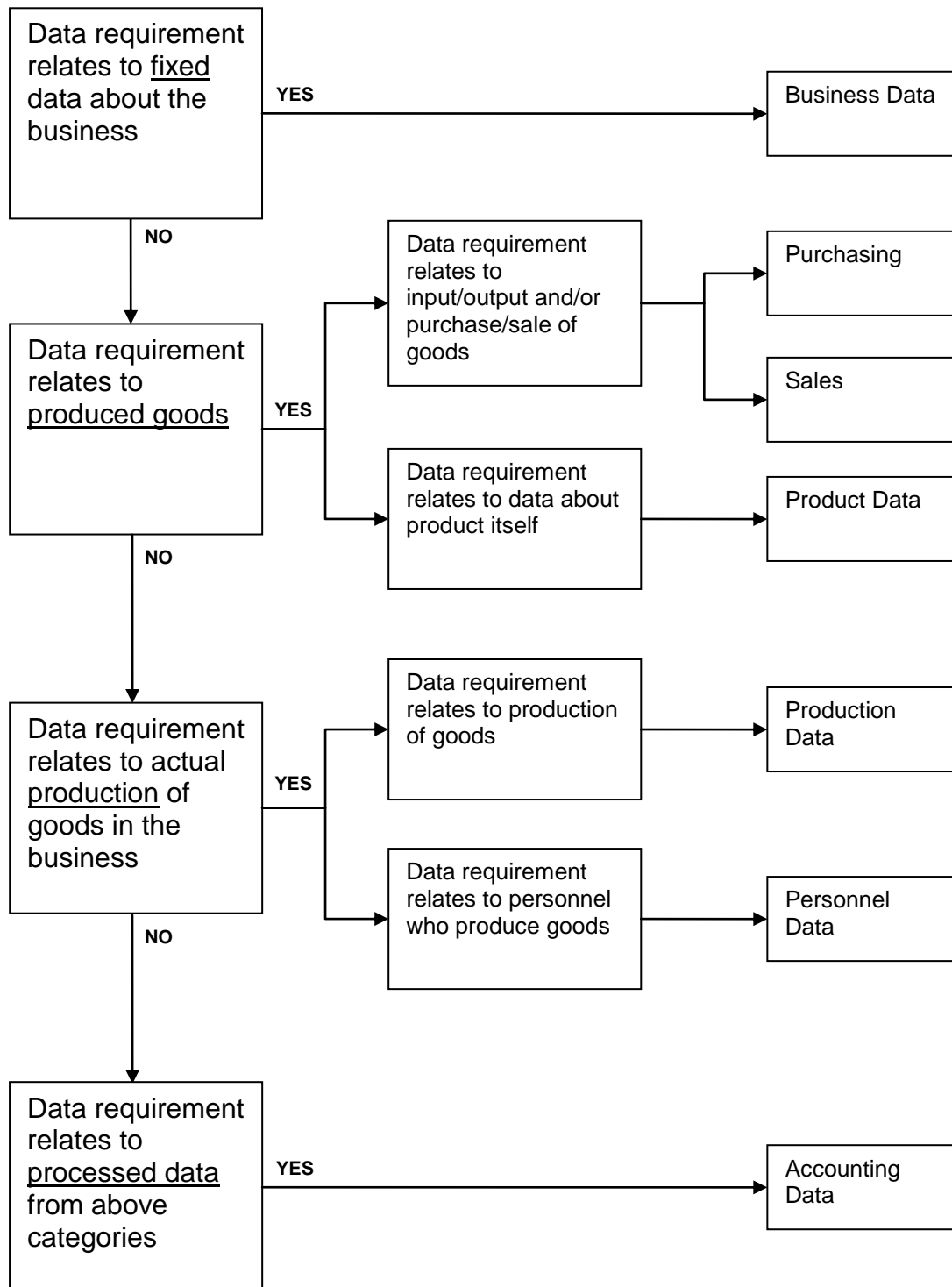
7. *Accounting data*

This subcategory covers data from the accounting systems to be used for a report. Accounting data consist of processed data from the six above categories.

Figure 5 shows a decision tree for classifying data requirements based on their content. A specific data requirement within a segment can only have one classification – e.g. manual process/business data. A data requirement that applies to several segments within a regulation, on the other hand, can have various classifications. In other words, what is classified as manual process/business data in one segment might be classified as partially automated process/business data in another. As the example illustrates, the subordinate classification does not vary in these cases.

The actual classification in categories can be done in the way for the particular measurement exercise. One possible approach could be to classify “Data requirements – content” by breaking down the legislation, while classifying “Data requirements – process” by standardising data.

Figure 5: Decision tree for classifying data requirements – content



5.3. Identification of administrative activities

The identification of administrative activities is based on 16 standard administrative activities. It is important to make an independent decision on which administrative activities are linked to the individual data requirement.

As regards the first administrative activity, the resources used by businesses to *familiarise themselves with the information obligation*, it is linked to the actual information obligation, while the rest of the administrative activities are linked to the individual data requirement.

1. **Familiarisation with the information obligation.** The resource consumption of businesses in connection with familiarising themselves with the rules for a given information obligation.
2. **Information retrieval.** Retrieving the relevant figures and information needed to comply with a given information obligation.
3. **Assessment.** Assessing which figures and information are necessary for the public authorities to accept the report.
4. **Calculation.** Performing the relevant calculations needed for the public authorities to accept the report.
5. **Presentation of figures.** Presenting the calculated figures in tables or the like.
6. **Checking.** Checking the calculated figures, e.g. by reconciliation with other data.
7. **Correction.** If the business's own checks reveal errors in the calculations, corrections are made afterwards.
8. **Description.** Preparation of description, e.g. the directors' report in the Financial Statements Act.
9. **Settlement/payment.** Payment of tax, charges or the like.
10. **Internal meetings.** Meeting held internally between the various personnel groups involved in complying with the information obligation.
11. **External meetings.** Meetings held in cases where compliance with the information obligation requires meetings with an auditor, lawyer or the like.
12. **Inspection by public authorities.** Businesses must assist external inspectors when they carry out their inspection at the business.
13. **Correction resulting from inspection by public authorities.** If the external inspection identifies administrative faults/defects, corrections are made afterwards.
14. **Training.** Relevant employees must be kept up to date with regulations that change frequently (at least once a year).
15. **Copying, distribution, filing, etc.** In some cases the report is copied, distributed and/or filed in order to comply with the information obligation. It may also be necessary to store the information obligation with a view to subsequent production in connection with an inspection.
16. **Reporting/submitting information.** In cases where compliance with an information obligation requires the submission of information on the business, the information must be sent to the relevant authority.

It is possible that further standard activities may be required. Proposals for new standard activities must be very well founded, however, and require formal approval to be included in a revision to this guidance.

The identification of the relevant administrative activities is intended to help give an idea of the process that businesses have to go through in connection with each rule. In the interview situation itself it is also easier for businesses to relate to specific administrative activities when they have to specify the resources they use. This results in more valid measurements of the administrative costs, as businesses do not have to look at a whole body of laws to the same extent, but just relate to quite specific administrative activities.

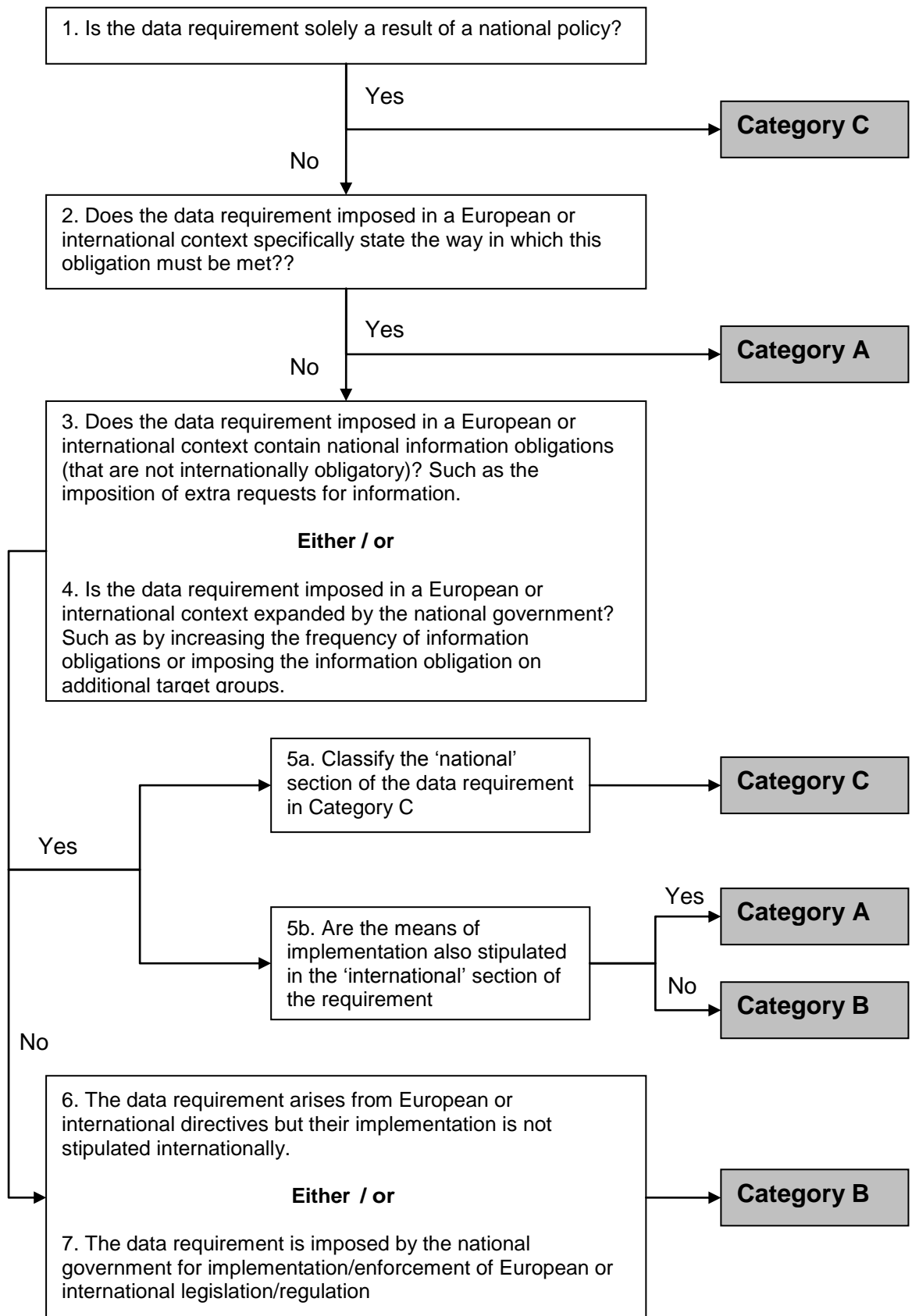
Each administrative activity may be associated with completing a form. Any such activities should be flagged to allow results to be presented for the form filling element of the administrative costs.

5.4. Classification of data requirements by origin

Classifying the origin of the requirements in each regulation involves comparing the text of the domestic data requirement/information obligation/regulation with that of the relevant international regulation. Figure 6 below provides a decision tree for determining which top-level origin classification applies, i.e. A, B or C.

Classifications must be discussed and agreed with the policy unit in the responsible department.

Figure 6: Decision tree for classification of origin



5.5. Demarcation of regulation

It is important in any standard cost analysis to clarify whether the administrative costs of an information obligation or data requirement are attributable to one or more rules. If the administrative costs are attributable to two or more rules, it is also vital to ensure they are only counted once. This problem is illustrated in the two examples below.

Example 1: The Financial Statements Act contains a requirement to the effect that annual accounts have to contain information on the company's turnover. This information must also be included in businesses' tax statements, a duty that follows from the fiscal requirements for accounts laid down in the Tax Act. The same cost should not be measured twice.

Example 2: *The Bookkeeping Act* regulates the duty of commercial enterprises to record their financial transactions. The Act does not, however, require the information recorded to be submitted or the like, it just has to be possible to document that the transactions have been recorded. The recording of transactions does not therefore serve a direct purpose in relation to the Bookkeeping Act, but the information recorded is needed in all sorts of other contexts. The financial transactions recorded are, for example, used in processed form to prepare annual accounts, VAT returns, tax accounts, etc. Although these laws do not explicitly state that businesses must record their financial transactions, compliance with such rules is dependent on compliance with the requirements of the Bookkeeping Act.

As the two examples show, it is possible for the requirements of regulations to overlap. This may occur within a department and between two or more departments. Where this occurs departments must reach agreement between themselves as to which is taking lead responsibility for the requirement in question, or which of their regulations requirements are assigned to for links within departments. This is similar to issues around which department would take responsibility in the Assembly. Departments will be required to show an audit trail confirming this process and that agreement has been reached. The responsible regulation/department will take full ownership of that particular requirement.

5.6. Segmentation

To enable results to be presented as required, segmentation by firm size, industry sector and e-Government solution may be needed. In choosing the level of segmentation required for the measurement of the administrative burden baseline, the overall aim is to segment as little as possible to ease the measurement process.

5.6.1. Firm size

The measurement should be conducted in such a way as to allow the results to be presented according to four size bands as far as practicable. The size bands to be used are those defined by the Small Business Service:

- Micro (0-9 employees)
- Small (10-49 employees)
- Medium (50-249 employees)
- Large (250 or more employees)

For some regulations it may not be possible to obtain results using these bands. In such cases the presentation of results must be discussed with the policy unit in the responsible department.

Where a regulation defines alternate size bands based on employment, turnover or different numbers of employees, these should be used, with the segmentation scheme being agreed by the policy unit in the responsible department.

5.6.2. Industry sector

In general splitting the measurement by industry sector is not necessary. Sector breakdowns can be derived using statistical population information, although see note below on the limitations of such breakdowns.

For sector specific regulations the measurement must be segmented to reflect the coverage of the regulation. In general, industry sector should be recorded using the Standard Industrial Classification 2007 (SIC 2007) published by the Office for National Statistics¹⁰. In many cases the SIC may not be sufficiently detailed where regulation covers very specific areas of business. In such cases departments must provide information on the proportion of the relevant SIC class that is covered and the number of businesses that are affected.

5.6.3. e-Government solutions

e-Government solutions must be measured separately from equivalent manual processes. Departments must assist consultants in identifying relevant e-Government solutions.

Where an electronic solution forms part of a wider e-Government initiative, it should be registered that the electronic solution in question is part of a larger initiative and the details of that initiative recorded.

5.6.4. Other segmentation issues

The SCM measurement process does not aim to provide regional (or sub regional) estimates of administrative costs. For external costs, and to some extent acquisitions, it is possible that regional differences in costs may be an issue.

To ensure such issues are understood, and Northern Ireland average costs are used, a research report may require to be produced which includes analysis of possible regional (or sub regional) variations, within Northern Ireland. Variation between local authorities in their enforcement of regulation could also be considered, if deemed appropriate.

Where a regulation is aimed at a specific region or geographical location a measurement covering the appropriate geographies will be required. The appropriate population must also be identified. Such segmentation must be agreed with the policy unit in the responsible department.

Similarly, it will be relevant to distinguish between businesses that have opted to outsource the task, i.e. use external assistance to perform the task to a large extent, and businesses that do the work themselves.

It may be “tempting” to segment on the basis of a number of different variables. Any attempt to capture the complexity in full will soon result in the method breaking down because it is case based. As complexity increases as more and more factors are included in the analysis, such an attempt would very quickly lead to measurements having to be carried out in far too many business segments. It is therefore essential to achieve a sensible balance between the degree of segmentation, optimisation of benefits and resource consumption in the project. It is necessary to focus on those factors that are judged to be most important when it comes to identifying differences in the administrative costs of businesses. The number of segments will vary from time to time, and will depend on a concrete assessment in relation to the specific information obligation. The decisions made on what to include and what not to include in the measurement must be well founded and should also be documented so that it will be possible to reproduce the results of the analysis at a later stage. Segmentation choices should be discussed with the responsible departments.

Example of business segmentation

¹⁰ <http://www.statistics.gov.uk/statbase/Product.asp?vlnk=9769>

In the Danish VAT Act it is possible to identify four essentially different types of business with regard to how VAT has to be calculated and reported. They are:

- Ordinary businesses liable for VAT
- Businesses with foreign trade
- Mixed businesses
- Property letting

It is also relevant to segment for digital reporting and outsourcing. This segmenting is illustrated in the following table.

	Ordinary businesses liable for VAT		Businesses with foreign trade		Mixed businesses		Property letting	
	Out-sourced	Not out-sourced	Out-sourced	Not out-sourced	Out-sourced	Not out-sourced	Out-sourced	Not out-sourced
Manual VAT reporting								
Digital VAT reporting								

5.6.5. Limitations on industry sector analysis

There are serious measurement issues that must be considered when deciding on the level of industry sector analysis.

A business may be involved in more than one industry sector, e.g. a supermarket may be involved in retailing (food, petrol, etc), wholesaling, distribution, etc. Indeed an individual location within a large enterprise may conduct multiple activities. This is always an issue with industrial analysis and statistics. As such care must be taken when breaking down measured burdens by industry sector. Some units within a highly regulated area may be included in the statistics in another sector and hence be excluded from the regulated sector. Equally a highly regulated sector may implicitly include elements of less regulated industries.

This issue is magnified the more detail is used in analysis. Consider for example a general retail business that operates a number of types of retail business such as food, clothes, petrol, etc. Using a more aggregated classification (i.e. retailing) will remove some of these problems but may make the exact cause of the underlying regulatory burden more difficult to see. Importantly it will not deal with businesses that operate across a number of sectors that are differentiated in the Standard Industrial Classification (SIC).

Therefore industry sector analysis must be conducted with care. Such analysis should generally be at the most aggregated levels of the SIC. Comparative qualitative analysis can provide additional reliable industry sector evidence.

Population tables by industry and size band should be available through NISRA. These will be at the VAT enterprise level which for complex businesses will mean there are units assigned to an overall industry sector that is different from the classification of the individual unit. Affected populations will be presented as a share of the total as presented in these tables.

5.7. Specifying population, rate and frequency

Each regulation/information obligation has a **population**. The population indicates how many businesses are affected by the regulation in question.

As a regulation can affect several different business segments – as identified in step 3 – populations have to be identified for each segment. Note that different regulations impact at different levels within a firm. Some affect individual sites, some affect particular reporting units (such as for statistical surveys and tax), some are based on company registrations, etc. An appropriate population level must be found for each regulation. This means that the populations for different regulations will vary.

The businesses in each segment comply with a number of information obligations. A population has to be specified for each information obligation. In this case the population indicates the number of businesses in the segment that comply with the specified information obligation. If an information obligation can be reported both manually and digitally, the population for each of the two options also has to be specified.

Each information obligation contains a number of data requirements. These do not have a population specification, but a **rate**. The rate indicates the proportion of businesses complying with the information obligation that comply with the given data requirement.

A population is generally the number of businesses affected by a given regulation. It is important to be aware, however, that a population can also be an event: e.g. the number of annual applications or reports.

Because the figures from the population specifications are used at step 13 to extrapolate the standardised resource consumption per business when complying with a rule, it is important for the population to be as accurate as possible.

Specifically when calculating **the population for subsidy/grant/applied for schemes**, it is possible to differentiate between two types. First, those schemes where the subsidy is granted if a number of objective criteria are satisfied. This applies to hectare subsidies, for example. In this case the population is only those businesses that receive the subsidy, while those businesses that do not satisfy the criteria and do not receive the subsidy have to be left out of the population. Second, there are schemes where the subsidy is granted on the basis of an assessment of all the applications received. The applicant cannot therefore be sure of receiving the subsidy in advance. An example of this would be innovation grant schemes, where businesses submit project proposals, after which a selection committee decides which proposals will receive a grant. In this case the population is the number of project proposals submitted.

Frequency indicates how many times a year a data requirement/information obligation has to be complied with. In some cases the frequency can be derived directly from the regulation. In certain instances there may be an information obligation/data requirement that all businesses have to report, but to a varying extent. This applies to a number of statistics such as Intrastat and commodity sales statistics, for example. It is also important to be aware that some information obligations are not required every year – this applies to a range of statistical information, for example. The frequency for such obligations will therefore be 0.5 if the statistic has to be reported every other year and 0.33 if it has to be reported every three years, etc.

Examples of specifying population and frequency

Example 1:

If a business has to report a set number of times annually (e.g. twice), the frequency must be specified as 2 and the number of businesses that submit this type of report (e.g. 4000 businesses) must be specified as 4000 under population.

Example 2:

If 70 businesses are covered by an information obligation that requires them to report every other year, the Population is: 70 and the Frequency is: 0.5.

Example 3:

If there is no regular reporting for the individual business (e.g. once in the life of the business for authorisation, for example), the frequency must be specified as 1, while the number of

annual reports of this type (e.g. 70 annual authorisations of this type) must be specified under population as 70.

When identifying population, rate and frequency, it is important to remember the discussion of 100% compliance with the rules that appears in section 3.4.3.

There are several different **sources** that can be used to determine population, rate and frequency:

- Departments have information on how many inspections have been carried out, how many applications have been received, how many businesses have been registered for a certain circumstance, etc. They should also have an understanding of the number of businesses they regulate.
- Information can be taken from statistical material. It is, for example, only possible to calculate the administrative costs of maternity leave on the basis of statistics regarding the number of instances of leave in the private sector. Standard population totals will be made available based on statistical sources broken down by industry and size band. These will be at the enterprise level.
- In some cases it may be necessary to carry out a survey in order to identify the number of business affected by a certain regulation, or the ratio of businesses that employ a certain option in the regulation. If it is a matter of certain businesses dealing with an information obligation themselves while others outsource it, it may also be necessary to carry out a survey in order to establish what proportion of businesses outsource, and what proportion of businesses handle the task themselves.
- If it is not possible to obtain the necessary information, the solution may be to make a qualified estimate of the information in question.

Whatever the method used, it is important to document the source of the information so that the information can be reproduced in the same way at a later date. Specifically in situations where an estimate has been made, it is essential to document the criteria for the estimate.

Population tables by industry and size band should be available through NISRA. These will be at the VAT enterprise level. Affected populations should be presented as a share of the total as presented in these tables.

5.8. Business interviews versus expert assessment

The basic assumption in a standard cost analysis is that everything has to be evaluated. This also applies to information obligations that might only be relevant for a small number of businesses or that only involve very minor administrative activities for the individual businesses.

However, not all information obligations must necessarily be evaluated by means of business interviews¹¹. Information obligations that only cover a very small number of businesses and minimal administrative costs can, for example, be quantified using other methods. This includes expert assessment, in which specialists with considerable knowledge of the field in question are involved in quantification of the administrative costs for a normally efficient business. An alternative would be to make use of the extensive data gathered in the business interviews conducted in phase 2. Based on this data, it will often be possible to quantify less burdensome information obligations by comparing them with similar information obligations analysed by means of business interviews. This is done in step 11 of phase 2.

It is difficult to produce unambiguous criteria for when a less burdensome information obligation can be evaluated using expert assessment or existing data. A concrete appraisal has to be performed in each case, but it is important to emphasize that it must be made clear which information obligations and data requirements are being selected for later evaluation. The data structure stipulates that the consultants must make a note in the database to show

¹¹ The complexity of the information required means that in most cases face-to-face interviews will be needed to ensure respondents fully understand what is being asked.

which information obligations have been analysed not by means of interviews, but on the basis of similar existing data/expert assessment.

Example of an information obligation selected for later evaluation

The VAT Act contains special rules for a very small number of businesses. For some businesses there is a requirement for secondary meters to be installed to document the resale of electricity in caravans and pleasure craft. These special rules will be evaluated by means of expert assessment.

5.9. Identification of cost parameters

The relevant cost parameters of businesses for the work involved in complying with individual data requirements must be identified. This applies to both cost parameters within the business and cost parameters relating to work done by external advisers, etc. The work involved in this step mainly consists of making sure that the relevant cost parameters of businesses are identified before the interviews are conducted in step 10. It is these interviews that finally establish which occupation groups perform a given administrative activity.

The analysis uses 2005 prices. The cost parameters used are set out in Table 2 below.

Table 2: Cost parameters for administrative activities

Cost areas	Cost parameters in the calculation
Internal	<ul style="list-style-type: none"> • Number of hours / minutes spent on administrative activity • Hourly pay for various occupation groups that perform administrative activities • Overhead
External	<ul style="list-style-type: none"> • Number of hours/minutes spent on administrative activity • Hourly rate for various external service providers that perform administrative activities
Acquisitions	<ul style="list-style-type: none"> • Expenditure (in £) on necessary acquisitions to comply with specific information obligations and/or data requirements

5.9.1. Internal occupation groups

The internal occupation groups are the employee groups within the businesses that perform the administrative activities. Internal hourly pay is based on occupation groups with their hourly pay from the Office for National Statistics Annual Survey of Hours and Earnings (ASHE). Hourly pay is specified in 2005 prices¹² and represents median rates for the entire country irrespective of gender. The occupation groups with their hourly pay can be seen in annex 2^{13,12}.

There is an obligation to use the occupation groups with their hourly pay from annex 2 when identifying the occupation groups who carry out the administrative activities. If those carrying out the measurement are unable to find an occupation group in annex 2 that corresponds to

¹² Current statistics are for 2004. 2005 results will be released in the autumn and these will be used in the final calculations.

¹³ Median rates are the preferred measure from the Office for National Statistics. Mean hourly rates may be biased upward by exceptionally highly paid individuals in the sample, whereas the lower end of the earnings distribution is constrained.

the occupation group that performs the administrative activity/activities they are charting, they must suggest a new occupation category with hourly pay and overhead. This occupation category must be approved by the policy unit in the responsible department and supported by departmental economists and statisticians.

5.9.2. Overhead

An overhead of 30% must be used unless specific circumstances suggest otherwise. Annex 2 gives the 30% overhead for each occupation category. The overhead for the individual employee represents costs in addition to direct pay costs. The overhead covers costs in connection with fixed administration costs, such as expenses for premises (rent or building depreciation), telephone, heating, electricity, IT equipment, etc. The overhead also includes absence owing to illness, since the hourly pay used to calculate administrative costs should, as far as possible, be the hourly pay per effective hour. The overhead also covers Employer's National Insurance Contributions. Annex 3 explains the components on which the overhead is based in greater detail.

As there is no central statistical source that can throw light on overheads for all industries and sizes of business, it is difficult to specify an overhead percentage that is both generally applicable and accurate. In cases where the guide overhead of 30% is nowhere near the overhead costs that they encounter for the personnel groups performing the administrative activities, those carrying out the measurement must estimate the overhead percentage themselves and must state why the overhead percentage differs from the guide overhead percentage. This estimate must be approved by the policy unit in the responsible department.

5.9.3. External service providers

In some cases businesses outsource administrative activities to service providers outside the business. These providers groups are called external service providers.

Those carrying out the measurement must, in discussion with the policy unit in the responsible department, determine the external provider groups that are necessary and provide estimates of average hourly rates.

Information from business interviews may contribute to these estimates. In the final analysis a common rate for each group will be used across all measurements.

An overhead does not have to be added to the hourly rate for external service providers.

5.9.4. Acquisitions

Acquisitions are defined as acquisitions that are necessary in order to comply with an information obligation or data requirement and are used solely for that purpose. The costs of such an acquisition are included as a cost parameter in administrative burdens alongside internal and external pay costs.

Examples of an acquisition might be the postage for letters sent in order to comply with an information obligation or data requirement, e.g. the costs involved in sending in annual accounts. Another example might be the cost of purchasing and installing a meter to enable the business to take a reading for subsequent reporting. A third example might be the cost of purchasing external administrative services that cannot be converted directly into hours. Examples of this include costs connected with external payroll administration for which a fixed annual charge is payable. This cost cannot be broken down into a specific number of hours spent by the external supplier.

The costs are calculated per year. Where an acquisition has a service life of several years – e.g. a meter – a fixed annual cost equivalent to the total cost divided by expected service life is specified for the acquisition. After a certain number of years it is assumed that a new meter

will be purchased – if this is the type of acquisition involved – on the same terms. NISRA or Departmental Economists can provide information on asset lives as used in the National Accounts.

As the examples illustrate, the costs must be incurred solely to enable the business to comply with a specific information obligation/data requirement. A business may well need an Internet connection in order to comply with a digital reporting duty, but because the connection is also used for many other purposes, the costs of the connection are not included directly in the measurement. They are, however, included indirectly through the overhead.

As far as postage is concerned, the relevant postal rate is used plus £0.10 per letter to cover paper, printing and insertion costs. Any indirect production costs such as relevant machinery, computer equipment, etc., are already included in the overhead and so do not count. As far as the example of the meters is concerned, it will be possible to obtain information on the costs of purchasing and installing a “normal” meter. This will be compared to costs cited by businesses to ensure it is an appropriate estimate. Then the same cost will be applied to all businesses.

5.10. Preparation of interview guide

The purpose of an interview guide is to ensure uniform, accurate data collection which ensures that all the information to be used for calculations in the database is gathered with the greatest possible precision. The guide should be tested, for example through pilot interviews to ensure suitable results are obtained.

It is also important for the interview guide to be structured in such a way that the interviewees can answer the questions as precisely as possible, allowing the interview to be conducted efficiently.

In addition to the collection of quantitative data at activity level, it is important that the interview sheds light on qualitative aspects as well so that such information can be included in subsequent reporting. It is, for example, important to gather knowledge concerning:

- Proposals for rule simplification
- Irritation burdens
- Best practice in businesses
- Whether businesses use the information in other contexts (cf. demarcation in relation to other legislation)
- Whether businesses just prepare information for the government or whether they also use it themselves (to identify areas where some “normal” business costs are involved)

It is important for the interview guide to give businesses the opportunity to make suggestions with regard to rule simplification and digitalisation initiatives within the information obligations in question. It is also important to note how businesses perceive given regulation, particularly if an information obligation is regarded as especially irritating/onerous.

An important element of the interviews also consists of acquiring knowledge of efficient ways of handling the administrative work, i.e. best practice. Such knowledge can subsequently be used to advise other businesses on what they can do themselves to reduce the costs of the administrative work.

In connection with the interviews it is also important to ascertain whether the information to be provided by businesses is only used to comply with the information obligation in question or whether it is also used in other contexts. This would include reporting to other departments, and local authorities. The information obtained in this way will have to be coordinated with the demarcation of legislation carried out in step 2.

In addition, it is important to clarify in the course of the interview whether the business would continue to produce the information in full or in part even if the information obligation were to

be discontinued. The basic assumption is that the business complies with the information obligation in question and related data requirements purely because of a statutory requirement. If there is anything to suggest that the business would continue to comply with all or part of the information obligation if there were no statutory requirement this should be stated for each data requirement (or information obligation). On this basis it is possible to take account of areas where the administrative burden may be only a small proportion of the total cost measured.

Most businesses would, for example, keep books even if there were no government requirement for them to do so. Bookkeeping helps give businesses an adequate information basis concerning their own financial activities. However, they may not keep such detailed records of their financial transactions if there were no specific statutory requirements to do so.

5.11. Selection of typical businesses for interview

Businesses can be selected for interview in several ways. In the case of an information obligation where the target group is easy to define and where a large proportion of the target group is judged in advance to be affected, one option is to take a random sample and start to contact the businesses to arrange an interview. When it comes to screening the businesses for interview, the businesses can be asked a few questions with a view to gaining an indication as to whether it is typical of the target group. It is also possible to use this initial contact as an actual survey, with the businesses being asked about outsourcing, IT use or other matters that are judged significant with regard to the business's resource consumption in complying with an information obligation.

In some cases it will be difficult to find sufficient affected businesses using the above method. Here it may be advantageous to make use of the often very concrete information held by the responsible department on the individual businesses covered by the given information obligation. In such situations it will be possible for the responsible department to write to some of the affected businesses and offer them the opportunity to take part.

The selection of businesses to interview should be selected to allow the statistical properties of the measurement to be optimised as far as possible. In practical terms this may mean that initial sampling is conducted at random from a large business list. A non-random sampling can then be used to fill gaps in the sample to ensure sufficient businesses of the appropriate size and subject to the relevant range of regulations are covered.

The selection of businesses should result in it being possible to implement interviews with at least three typical businesses in each business segment. This will provide an insight into the resource consumption of a normally efficient business with regard to the information obligation in question.

While one business can logically only cover one segment with regard to a given information obligation, the same business can be interviewed about other information obligations within the legislative area by which it is affected.

Consideration should also be given to whether external experts can be involved in connection with assessing the administrative costs for a normally efficient business. With an external expert it is possible to cover several business segments at once with regard to a given information obligation. An accountant, for example, will often be able to assess the administrative costs for a number of business segments. The assessments made by external experts must never be used in isolation, however.

5.12. Conducting business interviews

Using interviews with businesses that are affected by the legislation, it is possible to identify which of the 16 standard administrative activities a business has to carry out in order to comply with a data requirement and how much time is spent on each activity. This makes it

possible to evaluate the individual data requirements that make up an information obligation. In some cases it will not be possible for the business to say how long it spends on each activity. In such cases it may be necessary to ask how much time is spent on complying with the actual data requirement and how that time is divided between the administrative activities that are carried out in order to comply.

The interviews will also make it possible to validate the information obtained with regard to time, wages, outsourcing, etc.

Implementing the interviews with businesses is a task that requires experienced interviewers with fundamental knowledge of the method and area of regulation. The interviewers must use the interview guide, prepared under step 7, and the interview itself should take the form of a qualified dialogue between the business and the interviewer.

There are three ways of interviewing businesses:

- Personal interviews with businesses are the preferred method for identifying the administrative costs of regulation. The interviews typically last 1-2 hours for each business, but this can vary depending on the complexity of the area of legislation in question. In the case of complex areas of legislation it may also be an advantage to have two interviewers.
- Telephone interviews with businesses can be used in cases where only the costs of isolated information obligations have to be identified and where the interview may be expected to last less than half an hour.
- Focus group interviews with a small number of businesses and relevant experts may be an option in the case of highly complex legislation. The discussions of the focus group can, for example, help to analyse complex information obligations correctly, including the administrative activities that a normally efficient business has to carry out and how long they take.

Specifically with regard to personal interviews and telephone interviews, it is important for the interviewers to be sure both during and after the interview that the business interviewed can still be described as typical as far as resource consumption is concerned. The business does not necessarily have to be typical in all areas, but if it is not normally efficient in a number of areas, the data for it should not be included in the data material. It is difficult to set out clear criteria for when a business is not normally efficient, but resource consumption that is substantially different from that specified by other businesses *without* there being a good explanation for the discrepancy must be regarded as not meeting the criteria for a normally efficient business. If a business is excluded from the data material, it must be replaced with a new business, which will have to be interviewed.

5.13. Identifying the normally efficient business

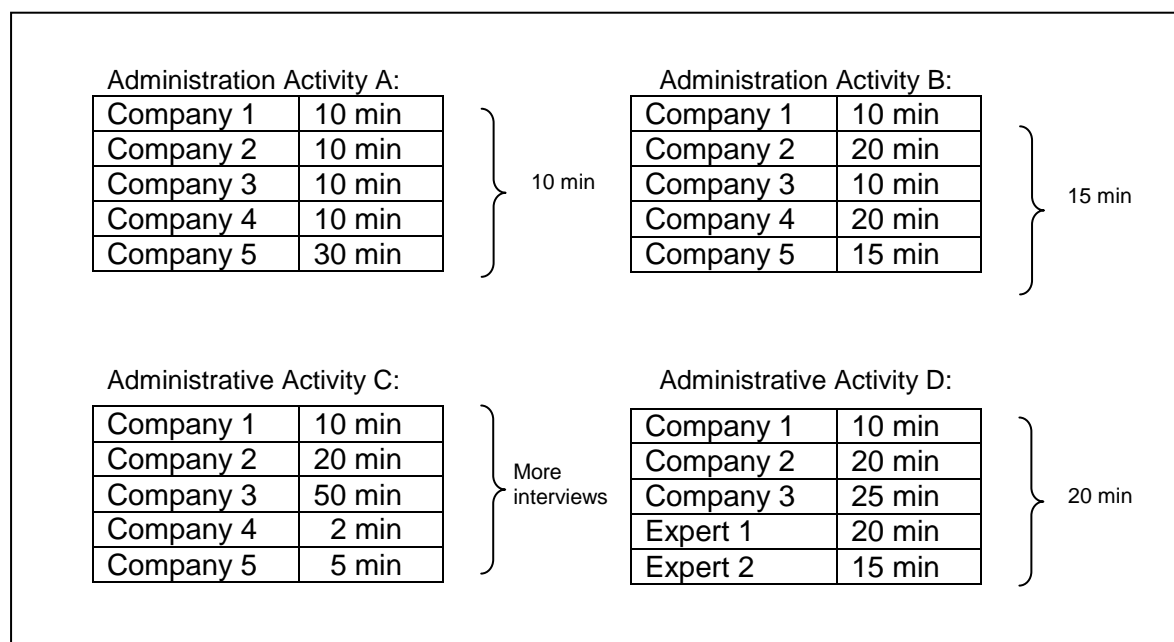
When all the interviews have been carried out, the results have to be summarised for the individual business segments. Based on the interview material, an assessment must be made of how long it takes a normally efficient business to carry out the various administrative activities required to comply with a data requirement for a given information obligation. Then the business's internal costs and costs for external assistance are calculated.

In other words, based on the information provided by the businesses in the interviews, the consultants have to make a qualitative assessment of how long businesses spend on each individual administrative activity connected with compliance with a data requirement. This should make it possible to insert a standardised figure in the data template. It is important in this context to make a critical assessment of the individual results and decide which results are most reliable. It goes without saying that this is a time-consuming process in which it is important to document the individual considerations on which each choice is based.

The approach does not entail calculating a mean average uncritically on the basis of the data collected. Instead a standardised figure has to be set on the basis of the data collected and any expert assessments.

Figure 7 shows how the time consumption for a normally efficient business can be calculated and illustrates where a business can be described as normally efficient or not.

Figure 7: Identifying the normally efficient business



As far as activity A is concerned, business 5 is clearly different from the others and therefore should not be counted as a normally efficient business. There is no need to carry out further interviews though. In the case of activity B, the an informed assessment has been made on what the level for a normally efficient business should be. Further interviews will have to be conducted with regard to activity C because the answers given by the businesses vary too much for it to be possible to assess the level for a normally efficient business. In this case consideration should also be given to whether the businesses selected are not typical or whether it is simply because specific circumstances mean that the businesses have different resource consumption. In this case the segmentation carried out as part of the preparatory analysis should be reconsidered and, if necessary, further segmentation carried out, resulting in more business interviews. In the case of activity D an expert assessment should be made of what the level is for a normally efficient business.

5.14. Completion and standardisation of time and resource estimates for each segment by activity

Before aggregate results can be calculated, it is necessary to ensure that each data requirement/activity/segment cell has an estimate for the normally efficient business for all relevant parameters.

Having identified such estimates using the results of business interviews, any gaps must now be filled in using estimates. Such gaps may arise because of issues arising in the interview process or they may be areas left for expert assessment.

Estimates can be derived using expert groups, including representatives from departments and business. Measurements for other similar cells can provide a useful source of information.

Having filled the gaps in the data set, it is important to check that where cells that should be similar have very large variation in their estimates this can be explained. Statistical analysis can be used to identify such cells.

5.15. Reporting

Following the completion of the measurement, reports must be produced. For a large scale baseline measurement there will be policy area reports and an overview report summarising the whole measurement. These reports are the primary means of communicating the results of the measurement. They must be comprehensive and sufficiently detailed, but they must be written in plain English and be accessible to an audience with a wide range of backgrounds and interests.

In addition to giving the administrative costs for the area of regulation analysed, the report communicating the results from a standard cost analysis must also explain how the analysis was carried out, what problems were encountered in the course of the analysis and how these problems were handled. An outline reporting template describing minimum requirements for the content and coverage of a report is set out in annex 5. The final structure and content of reports should be agreed by the policy unit in the responsible departments. This may include innovative ways of presenting complex information.

The main features of the reporting template for each part of the measurement (e.g. department) will be:

- Plain English and a simple structure with detail and technical information in annexes.
- Focus on major requirements/regulations for the department, subdivided by the policy areas/organisational units/agencies/etc within the department.
- Highlight linkages with other departments, including industry sector overlaps where appropriate, and firm size issues
- Highlight major areas of regulation in terms of regulations and industries
- Analyse the source of the department's regulation (EU, domestic, etc) and the burden from each source
- Document proper application of the methodology and any issues for the department. This should include a summary of the measurement process including its timing, the number of interviews conducted, problems encountered, demonstrating agreement where departments have overlapping regulations – i.e. who is taking responsibility, etc. This may refer back to earlier reports but should be presented in such a way as to summarise the main issues without the need to refer back.
- Include annexes with complete listings of obligations, burdens, etc.

For major organisational units, agencies or regulators linked to departments detail should in general be contained in the main policy area report. In some cases it may be decided that an agency or regulator is sufficiently significant that a separate report may also be prepared. Prior to submission of the final report, the detail must have been agreed with the responsible department.

It is important for the report to be in a complete, presentable form, easy to read and communicate the results correctly. It is a good idea to illustrate the report with graphs and figures that both illustrate the problems of using the standard cost method for the given regulation base and the results produced by the analysis.

Where a wider measurement programme is being undertaken (e.g. a baseline measurement), an overview report should also be produced. This cannot be done until individual policy area measurement reports have been produced. The overview report should:

- Draw together policy area information
- Highlight linkages

- Demonstrate methodology complied with and measurements are consistent, highlight any areas for caution
- Include limited industry sector analysis where appropriate.
- Analyse overall source of regulation (i.e. EU, domestic, etc)
- Provide an overview by size of business

5.15.1. Presentation of results

Conducting a Standard Cost Model measurement, particularly a baseline measurement, results in a large number of *estimates* of administrative costs at various levels of detail being produced. It is important that such results are presented clearly and in such a way that the properties of the measurement are clear. It is important that it is understood that estimates are *indicative* and not statistically representative. There is a danger that estimates will be presented as being more accurate or of a higher quality than they actually are.

The aim of the SCM measurement is to provide a reasonably consistent baseline of the administrative costs on business arising from central government regulation. This baseline can then be used in a simplification and target-based burden reduction process. It is also to support new policy areas and new regulation to consider and devise a costing for the administrative burden to be imposed. The fundamental aim being about bringing culture change across government in the way policy is made as part of the broader better regulation agenda.

To help with the presentation of results some basic principles have been developed. These are:

- Always describe results as estimates, approximate, etc – avoid giving an impression of undue certainty
- Be clear estimates are of administrative costs of which administrative burdens are a part.
- Include a standard description of the results up front: These results are estimates based on the NI Standard Cost Model methodology. This uses a pragmatic approach to measurement and these results are therefore indicative not statistically representative.

To ensure the quality of the results is understood, it is important that analysis is conducted of the quality of the measurement in practice. This may include statistical analysis to attempt to determine what the statistical properties of the estimates actually are.