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*Annex to the*

**Communication on Better Regulation for Growth and Jobs in the European Union**

**Minimising administrative costs imposed by legislation**

**Detailed outline of a possible EU Net Administrative Cost Model**

{COM(2005)97 final}

## COMMISSION STAFF WORKING DOCUMENT

### Minimising administrative costs imposed by legislation

At a time of comparatively modest growth in the Union and insufficient progress on the Lisbon strategy, all contributions to improving EU economic dynamism and competitiveness must be exploited. In recent years, the issue of better regulation and, in particular, that of administrative costs imposed by legislation<sup>1</sup> has gained increasing attention internationally, at EU level and in the Member States.

Although the vast majority of legislation facing European citizens, public authorities and economic operators is under the direct control of Member States, a substantial part of that legislation originates from international obligations and EU policies. While Member States bear prime responsibility for addressing the problem of administrative costs, it is also clear that the EU institutions, in collaboration with the Member States, need to do their part.

Concern for regulatory costs imposed by EU legislation is not new. The Protocol on the application of the principles of subsidiarity and proportionality annexed to the Treaty establishing the European Community already provides that “*any burden, whether financial or administrative, falling upon the Community, national governments, local authorities, economic operators or citizens needs to be minimised and proportionate to the objective to be achieved*”. In the EU’s approach to better regulation, the preparation of new legislation and simplification of existing legislation take into account the **overall benefits and costs**. Therefore, regulatory costs, of which administrative obligations are just one element, must be analysed in a broader context, encompassing in an integrated way the economic, social and environmental costs and benefits of regulation. This is why the assessment of administrative burdens must continue to form a part of the Commission’s integrated impact assessment procedure. Measuring administrative costs can help to improve the regulatory environment, but it cannot take a disproportionate weight in that broader analysis. Nor can EU legislation be presented as a mere cost factor, in particular as it often replaces 25 different national legislations and thus decreases operating costs at EU level.

It is also necessary to recognise the benefits of reporting and information obligations of EU legislation. Without the resulting data streams for public authorities and companies, enforcement and implementation will be severely restricted to the detriment of economic, social and environmental objectives. It is therefore a question of ensuring a proper balance where reporting and information costs are proportionate to the benefits they bring. Moreover, some of these benefits accrue directly to businesses. Business can, for example, benefit from having a better understanding of how it uses its resources and can use this information to identify process innovations that increase productivity.

The Commission already evaluates administrative costs when assessing the possible impact of new initiatives<sup>2</sup> and when simplifying existing legislation. However, it may be possible in the broad EU framework for better regulation to ensure that administrative costs arising from EU

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<sup>1</sup> Administrative costs imposed by legislation are also referred to as ‘administrative burden’.

<sup>2</sup> *Impact Assessment: Next Steps – In support of competitiveness and sustainable development*, Commission Staff Working Paper, SEC(2004)1377, 21 October 2004.

legislation are better evaluated, controlled and minimised, while ensuring proper enforcement of public rules.

This is one of the objectives set by the “Joint Initiative on Regulatory Reform” adopted on 26 January 2004 by the countries holding the presidency of the Council in 2004-5<sup>3</sup>. Through the response of President Prodi of 8 March 2004, the Commission agreed to examine whether “*assessment relating to the administrative burden for companies needs to be further improved*”, acknowledging the relevance of this issue.

The Council (ECOFIN) on 9 March 2004 called for the development of a method for measuring the administrative burden on business. The Spring European Council 2004 and the Council (Competitiveness) subsequently invited the Commission to reflect on how competitiveness and issues related to administrative burden could be included in the existing impact assessment approach. The European Council on 4-5 November 2004 welcomed “*the conclusions of the Council (ECOFIN) on 21 October. In this connection it noted, in particular,*

- *the support given to the development of a common methodology for measuring administrative burdens;*
- *the Commission's intention to present shortly a communication on this issue;*
- *the cooperation between the Commission and Member States in pilot projects aiming at the further determination of such a methodology, to be completed as soon as possible in 2005.*

*The European Council called on the Commission to implement the methodology in its guidelines for impact assessments and working methods for simplification after finalisation of the pilots.”*

The Commission agrees to examine the feasibility of developing a common approach with the other institutions and with Member States to quantify and minimise administrative costs in a proportionate manner. Without questioning the need for regulatory authorities to pursue policy objectives through legislation, there is scope for considering more carefully the design of EU regulations at all stages of the legislative procedure and implementation by Member States.

However, the Commission also wishes to underline that before embarking on a common endeavour, some serious questions need to be addressed. Different approaches to quantifying administrative costs exist, but there is not necessarily a one-size-fits-all approach to data collection that is applicable for all policies at the EU level. A flexible approach therefore needs to be developed. Moreover, a common approach needs to be accompanied by recognition of the **shared responsibility** of EU institutions and Member States and be consistent with the balanced and integrated approach endorsed *inter alia* in the Inter-institutional Agreement on “Better Lawmaking”. Finally, the Commission will continue to exercise its right of initiative based on its own best judgement of the impacts of its proposals.

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<sup>3</sup> That objective was reiterated in the Joint Statement “Advancing regulatory reform in Europe” signed on 7 December 2004 by the initial four (Ireland, the Netherlands, Luxembourg and the UK) plus the countries who will hold the presidency in 2006 (Finland and Austria).

The pilot phase to be launched builds on the experience of Commission services in assessing administrative costs in the context of impact assessments, work of various Member States and international organisations in this domain, as well as on the recent analysis of the Economic Policy Committee and the conclusions of the Council (ECOFIN) of 21 October 2004. It starts by examining the need for a common approach at EU level and the criteria that such an approach should meet. It then outlines a possible approach, its scope of application and some preconditions for its possible introduction and use. Finally, the Staff Working Document sets out the launch of a pilot phase to test the feasibility and value-added of a common approach.

## 1. Administrative costs in the broad EU framework for better regulation

The Commission and the EU have taken measures to improve the regulatory environment that already take into account the need to minimise administrative costs and keep them proportionate to the economic, social and environmental benefits brought by legislation. Administrative costs, defined as the costs arising from reporting and information obligations laid down by legislation, are not considered as a separate issue, but as one among several types of regulatory costs faced by businesses, public authorities and citizens.

### (i) *Impact assessment (ex-ante assessment)*

The integrated approach for impact assessment provides that administrative burden has to be taken into account when assessing the impact of a proposed measure<sup>4</sup>. Administrative costs have been assessed on a case-by-case basis in several extended impact assessments (such as INSPIRE), and in these cases have allowed the Commission to improve its proposals. The revision of the Commission's impact assessment guidelines will clarify and reinforce this aspect.

### (ii) *Simplification (ex-post evaluation)*

In the context of the initiative to update and simplify the Community *acquis*<sup>5</sup>, Commission services have already screened parts of the Community *acquis* for simplification potential, including administrative costs. This led the Commission to include in its rolling programme for simplification several proposals reducing the administrative costs of existing legislation. The Commission has also launched an in-depth ex post study evaluating ex post regulatory burdens imposed by a number of key directives in several Member States.<sup>6</sup>

### (iii) *Macro-economic indicators*

The Commission has developed a set of structural indicators in the framework of the Lisbon strategy. There is, however, no specific indicator on administrative obligations imposed by legislation. In May 2003, the Commission committed itself to “develop, in close cooperation with Member States, appropriate indicators to measure progress towards a higher-quality regulatory framework and lower administrative burdens, starting with the Internal Market”.<sup>7</sup>

## 2. Need for a common approach?

Among those Member States that give priority to quantifying administrative costs, there is a clear desire to develop a common approach. This is demonstrated in the informal collaboration already under way among several Member States. On the other hand, a

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<sup>4</sup> See the Commission's handbook and technical annexes on impact assessment. *A handbook for impact assessment in the Commission - How to do an Impact Assessment*, pp.21-22 & *Technical annexes*, pp.15-24. [http://europa.eu.int/comm/secretariat\\_general/impact/docs\\_en.htm](http://europa.eu.int/comm/secretariat_general/impact/docs_en.htm); Commission Staff Working Paper, *Impact Assessment: next steps in support of competitiveness and sustainable development*, SEC(2004)1377, 21 October 2004.

<sup>5</sup> Framework action “Updating and simplifying the Community Acquis” (COM(2003)71, February 2003)

<sup>6</sup> PLS Ramboll, “Ex-post evaluation of EC regulation and its burden on businesses”, DG ENTR - MAP Project.

<sup>7</sup> Communication from the Commission, *Internal Market Strategy – Priorities 2003-2006*, COM(2003) 238 final, 7 May 2003. Section B.8. Simplifying the regulatory environment, (b) Actions, No 4.

significant number of Member States are not trying to quantify administrative costs and have expressed doubts about the value added of doing so, focusing their efforts instead on concrete simplification measures.

Currently, Member States use two main approaches for quantifying administrative costs. The first consists of a detailed assessment of individual pieces of legislation, mainly based on direct interviews of enterprises and simulations by experts (the micro assessment approach). The second consists of a global assessment of sectoral legislations, mainly based on general surveys where a representative sample of enterprises is invited to answer broad questions (the macro assessment approach). Both approaches focus on administrative burdens on businesses.

A micro assessment methodology called the Standard Cost Model (SCM) was adopted in the Netherlands in 2003. It has recently been introduced to various extents in Denmark, the Flemish Community (Belgium), Sweden, Slovenia and the UK. The SCM relies on detailed data on the time needed to comply with each information requirement imposed by a legislative act. Estimates of the time needed are usually based on interviews from a sample of companies and to some extent on simulation and/or information from a sample of companies.

A macro assessment methodology is used by the Belgian federal government and was used by Denmark until 2004. A questionnaire is sent to a representative sample of businesses, which are asked to indicate how much they spend per month on complying with administrative tasks imposed by tax, employment and environmental legislation, etc. The total administrative burden on businesses is calculated by extrapolating these results.

Several Member States believe that a costing method such as the Dutch Standard Cost Model has interesting potential. The OECD is proposing to develop in 2005 a methodology for measuring administrative burden across OECD members and refers to the SCM as one of the possible starting points. However, the SCM is still fairly new and the few Member States that now apply it have only just begun.

The Commission considers that it is worth examining the feasibility of a common EU approach insofar as the Union, on one hand, has agreed that the challenges at EU and national levels are fairly similar, and, on the other hand, has established common objectives and policies for better regulation as demonstrated, for example, in the Inter-institutional Agreement on Better Lawmaking. A common approach could bring added value as long as it is flexible enough to deal with the diversity of situations at EU level and across Member States, in particular in terms of data collection.

The likely benefits of a common approach include:

- bringing clarity about possible differences in procedures followed by the EU institutions and different Member States;
- facilitating cross-country or cross-policy area comparisons, benchmarking and the development of best practices;
- offering economies of scale in terms of data collection and validation.

The Commission intends to continue working proactively with the Member States and the other EU institutions in developing a common approach. This work includes identifying best practice for Member States' transposition of EU legislation, in accordance with the measures

set out in the Commissions Communication on “Better Monitoring of the Application of Community Law”<sup>8</sup>.

### **3. Outline for a common approach**

Although at present no generally accepted common approach has been identified, there is a wide consensus on the criteria that such an approach should ideally meet:

- relative simplicity of use;
- versatility (capacity to evaluate costs imposed by different levels of legislature on various parties: businesses, but also public authorities, voluntary sector and citizens);
- adaptability of the methodology for data collection for use across a range of policies and different types of instruments (broad policy communications, regulations, directives, evaluations etc) in a proportionate way;
- transparency of the assessment and visibility;
- reliability of estimates;
- facilitation of ex-post monitoring and review of the costs arising from a particular piece of legislation;
- clarity on the origin of regulatory obligations (international, EU, national).

#### ***(a) Prototype for a light “EU Net Administrative Cost Model”***

The Commission, with the collaboration of several Member States, has carried out a preliminary analysis of existing approaches for assessing administrative costs. This analysis has enabled it to identify methodological elements enjoying wide consensus and backed by solid empirical evidence, as well as others whose feasibility or value-added for a common EU approach are not fully proven.

The Commission has taken those elements as a starting point for outlining a possible common approach adapted to the EU needs and the above criteria, the “EU Net Administrative Cost Model”. It postulates that some elements could and should be predefined and standardised in order to ensure comparability of data (definition of administrative costs, main cost factors to be taken into account and reporting format) while flexibility should prevail for other aspects (level of detail required, possibility to choose from a range of methods for data collection in particular). Details of this possible approach are set out in Annexes.

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<sup>8</sup> COM(2002) 725 final/4 of 16.5.2003; SEC(2004)418.

## Outline of “EU Net Administrative Cost Model”

Item	Description
Aims and scope	<ul style="list-style-type: none"> <li>• Administrative costs are defined as the costs arising from information and reporting obligations imposed by law.</li> <li>• Assessment of <u>net</u> administrative costs (new costs imposed by an act minus costs suppressed by the same act be it at EU or Member State level). If requirements duplicate what an entity would do even in the absence of a legal obligation, such action is not counted.</li> <li>• Applicable for assessing costs imposed on business, citizens, the voluntary sector and public authorities.</li> </ul>
Core equation	Price of an administrative action multiplied by its frequency, multiplied by the number of entities concerned.
Level of detail	Proportionate to likely burdens.
Data sources	Pragmatic choice of the most reliable and relevant data available at EU level or data provided by Member States.
Reporting	Standardised, using a basic typology of administrative obligations only for the ex post assessment of transposition measures.

### *(b) Proportionate and case-by-case application*

Assuming that the feasibility and value-added of a common approach are confirmed, the Commission considers that it could be integrated into existing EU mechanisms on better regulation in the following manner and on the following conditions:

When preparing new initiatives and simplifying existing legislation, the basic challenge is normally to compare alternative options and to choose the one which best meets the objectives while minimising the overall costs implied. In that context, it may sometimes be useful to put an indicative “price tag” on different options.

If validated, a common approach could thus be used in the context of the integrated **impact assessment** procedure to examine (ex-ante) alternative options for meeting a Community objective. A complicating factor at this level is the fact that EU directives have to be transposed into Member States’ national legislation and that Member States rarely decide on how to transpose until Community law is adopted. If, in such cases, the likely administrative costs are considered to be important enough to justify their quantification, the assessment will have to be based on hypothetical transposition measures. This is likely to increase the error margin. Such estimates would therefore have to be interpreted with care.

A common approach could also be used to assess the administrative costs of existing legislation (ex-post) and thus help identify **simplification** measures to improve the regulatory environment, and to assess the success of these measures.



In both cases the Commission will have to judge how best to aggregate up from samples that may be limited to specific sectors or geographical regions, to estimate the total administrative burden of a given piece of EU legislation for the EU25.

By contrast, preliminary analysis suggests that it would be difficult and not cost efficient to use an approach such as the “EU Net Administrative Cost Model” or similar micro-assessment approaches for **estimating total administrative costs** imposed on society or on selected sectors. The difficulty would come in particular from the wide variety of regulatory cultures in the Union, decreasing reliability of sectoral aggregates of micro-assessments, and the fact that applying the Dutch SCM at EU level would cost an estimated EUR 100 million.

The Commission therefore considers that a micro-assessment approach to producing a macro-economic indicator of administrative costs in the EU cannot be envisaged at this stage. Should the Union decide that it needs a macro-economic indicator, modelling or estimates based on extrapolation of data collected through general surveys could be considered.

In conclusion, the Commission considers that application of a possible common approach should be based on the following principles:

- A common approach such as the “EU Net Administrative Cost Model” could be used selectively for assessing individual pieces of EU legislation whilst such a method could not be envisaged, at this stage, for broader measurement exercises.
- A common approach should be part of the existing integrated mechanisms for assessing new and existing legislation, taking into account all relevant costs and benefits.
- A common approach should be flexible enough to ensure that the effort of assessment remains proportionate to the scale of the administrative costs imposed by the legislation.
- A common methodology needs to be adaptable to be useful in a wide range of policy areas, in particular concerning the collection of data needed for estimating key variables such as wage costs or overheads<sup>9</sup>.
- A common approach should be developed for assessing administrative costs imposed by different levels of government to business, public authorities or citizens, whenever relevant.
- Where detailed and accurate estimates prove necessary, the active collaboration of Member States could be highly important for applying a methodology such as the ‘EU Net Administrative Cost Model’. Member States should therefore be ready to provide factual data for the assessment of European policies, in particular by conducting national fieldwork, defining what ‘typical firms’ in a sector are and simulating their performance. However, the Commission will be free to verify the quality of data provided and to make its own judgement based on all available evidence in line with its right of initiative.

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<sup>9</sup> Data collection methods that might be chosen according to the individual case include: focus groups, wide stakeholder consultation, field trials, consultancy studies, extrapolation from comparable situations and expert assessment. The choice of method lies with the institution or Member State carrying out the assessment.

#### 4. Next steps

The Commission considers a test phase indispensable before taking a final decision on the feasibility of a common approach, its modalities and the way it should be applied.

The general objectives of that phase should be to test the feasibility of the proposed model and, where there is a range of methodological options, to assess each alternative. This should i.a. include:

- the speed of delivery and operating budget required to produce estimates of administrative costs, in order to determine what can be reasonably delivered and define a proportionate approach;
- specific problems with ex-ante assessment of administrative costs and with the evaluation of costs imposed on public authorities, voluntary sector and citizens;
- the accuracy of estimates produced in comparison with other methods (this would include verifying whether the model is applied consistently and how much the choice of data sources affects the results of the assessment, with particular attention to sampling techniques);
- the value-added of the model in spotting unnecessary obligations ex-ante and ex-post, suggesting alternative solutions, and in setting priorities for simplification;
- how to assess the regulatory origin of administrative costs (international, EU, national and regional law);
- how to distinguish between major administrative costs and insignificant ones;
- how to distinguish between what an actor would normally do for operational reasons and the additional burden due exclusively to legislation;
- how to take account of synergy effects and of the fact that time spent on each obligation declines over time with technological and human resource adaptations.

The Commission intends to carry out 3-5 pilot projects in collaboration with the Member States. The pilot phase should be concluded in the course of 2005.

Suitable pilot projects will be identified among the items on the Commission's rolling programme for the simplification of existing legislation, from the list of priorities for simplification established by the Council (Competitiveness) in November 2004 and from the list of new measures the Commission intends to propose in 2005.

A follow-up Communication on administrative costs imposed by legislation will present the results of the test phase. If the test phase concludes in favour of a common approach, the Commission will incorporate it in its Better Regulation procedures and work with the other institutions and the Member States to move this issue forward.

## **Annexes - Detailed outline of a possible EU Net Administrative Cost Model**

A preliminary analysis shows that some elements could and should be predefined and standardised in order to ensure comparability of data (definition of administrative costs, main cost factors to be taken into account and reporting format), while flexibility should prevail for other aspects (in particular for the level of detail required and the possibility to choose from a range of methods for data collection). These two types of elements are detailed hereunder. Before taking a position on whether and what to recommend as a common approach, the Commission will carry out a test phase to clarify the pros and cons of a number of methodological options.

### ***Aims and purposes***

The main aim of the model proposed is to assess the net costs of administrative obligations imposed on enterprises, the voluntary sector, public authorities and citizens (net costs = costs introduced by legislation minus the costs suppressed by legislation at EU and/or national level). It will also allow the origin of administrative obligations to be determined, distinguishing between regional, national, EU and international obligations.

The model is intended for microeconomic purposes, i.e. to assess the administrative costs imposed by a specific piece of legislation. It should be used in the impact assessment of a proposed measure (ex ante) and the simplification of an existing measure (ex post). It has not been designed to suit macroeconomic purposes.

### ***Definition of administrative costs***

Administrative costs are defined as the costs incurred by enterprises, the voluntary sector, public authorities and citizens in meeting legal obligations to provide information on their action or production, either to public authorities or to private parties. Information is to be taken in a broad sense, including costs of labelling, reporting, monitoring to provide the information and registration.

While the calculation will often focus on regulatory costs of a recurring nature, one-off costs may be taken into account (i.e. costs incurred when (re)designing the way administrative obligations will be met).

An administrative action required by law but corresponding to what an entity would normally do in the absence of any legal obligation should not be regarded as an administrative obligation. For example, a large part of accounting and auditing legislation corresponds to normal business practice. Administrative costs incurred for participating in voluntary public programmes are not concerned either.

### ***Core equation of the cost model***

Administrative costs are assessed on the basis of the average cost of an action (Price) multiplied by the total number of actions performed per year (Quantity). The average cost per action is estimated by multiplying a tariff (based on average labour cost per hour including prorated overheads) and the time required per action.

$$\Sigma P \times Q \text{ (Price = Tariff} \times \text{Time; Q: Quantity = Number of businesses} \times \text{Frequency).}$$

The model focuses on labour costs and overheads because, in most cases, these costs are the main input required to meet administrative obligations. However, where appropriate, other types of costs will be taken into account. For instance, in the case of an obligation to inform all customers by mail, the time spent by staff in drafting the leaflet is generally marginal compared to the printing and mailing costs.

The test phase could also examine whether the manner administrative costs are phased in (period of time and progressivity) needs to be taken into account and, if so, how.

### ***Scope and frequency of estimates***

The EU net cost model should be applied in a proportionate way, as and when the scale of the administrative obligations imposed by an EU act justifies it. Normally, it would only be applied to proposals introducing major new administrative obligations and/or to acts identified as particularly problematic by end-users (for example through the European Business Test Panel - EBTP). No sector would be excluded a priori, but no sectoral or general baseline measurements are envisaged either.

Indicative thresholds could help to determine de minimis costs which do not need to be assessed. Monetary thresholds may not do justice to differences of impact across Member States (what is financially marginal in one country, production sector, type of enterprises or group of population may vary greatly within the Union). It will often be preferable to use time thresholds determining what a significant amount of time is for targeted groups. In such cases, obligations below a certain number of hours per year and per entity would not be taken into consideration. It may occasionally be important to look beyond the total number of hours per year and per entity. Indeed empirical evidence suggests that the frequency of actions, the disruption of 'productive' work and the possibility of meeting obligations in down time (i.e. when there is no work to do) are important variables when determining the actual 'burden' of administrative obligations. In any case, if, a priori, the amount of time per action is small and the frequency low, the obligation should not be quantified.

The frequency with which the administrative costs imposed by a specific piece of legislation are reviewed would be defined on a case-by-case basis.

### ***Expected level of accuracy and data source(s)***

The level of accuracy sought will depend on the cost of the assessment, its potential benefits (proportionate analysis), and the input provided by Member States.

In exceptional cases, a high level of accuracy may be sought by means of field work, limited to a sample of Member States and/or to a standard sample of the business community (for instance via the EBTP), as well as by simulation of the required administrative activities by independent experts. This would apply to assessing actions likely to be particularly burdensome or disruptive to the work of enterprises, public authorities and citizens, as well as to data that are costly to produce or whose dissemination is sensitive.

In standard cases, it will be sufficient to produce rough estimates based on: available EU statistics (provided, among others, by Eurostat and the Small and Medium-Sized Enterprises Observatory); standard ratios (for example assessing overheads on the basis of a mark-up percentage on labour costs); the opinion of experts (consolidated or not – cf. Delphi method); and Member State studies.

### ***Division of responsibility***

The division of responsibility will depend on the level of detail and accuracy seen as necessary. Member States are often best placed to conduct national fieldwork and simulations of typical national firms, while the European Commission is usually best placed to define what is needed and to aggregate data. Member States should therefore be ready to cooperate with the Commission and provide factual data the latter may need for the assessment.

### ***Reporting***

The report sheets currently used by Member States assessing administrative burden were designed for national purposes. For instance, Dutch public authorities use a report sheet which does not distinguish between international and EU obligations, because they are first and foremost interested in clarifying what is within their exclusive remit and what is not (this is important in particular for their ex-post simplification programme).

An EU report sheet needs to suit EU needs and constraints. For instance, when working at EU level, it is of course necessary to distinguish between international obligations and EU obligations. Among other things, the EU needs to know what it can do alone and what requires the agreement of the other signatories of international treaties. The particular aim of the proposed model, i.e. assessing net costs, must also be taken into account.

The proposed report sheet reflects EU needs and constraints in the following ways (see Annex 3). For a regulatory act transposing an international or EU act, the report sheet must include the name and reference of that international or EU act, as well as a light concordance table (the table consists of two columns; the first column gives the reference of the article detailing the obligation assessed; the second column gives the reference of the ‘original’ obligation, i.e. the article of the act laying down the obligation transposed by the act assessed). Where the costs of transposition measures are evaluated ex post, the report sheet states the nature of the administrative obligation based on a simplified typology that will be proposed and tested in the pilot projects (one article may impose several obligations; the table of concordance would then be insufficient to ensure that the comparison concerns the same obligation). In order to report on who will bear the costs, answers for the ‘target group’ column could also be based on a basic typology (that will also be proposed and tested in the pilots). In order to take the removal of obligations into account, it allows negative costs to be entered. It also refers to the origin of administrative costs distinguishing between international, EU and national obligations. Finally, the software (Excel) and the layout have been chosen in order to facilitate use by Member States and EU institutions and therefore ensure a high compliance rate.

### ***Methodological caveats***

Estimates of administrative costs should be presented with the appropriate caveats and not provide the occasion for sweeping statements or unfounded conclusions.

Therefore, when reporting on their assessment, EU institutions and Member States should include appropriate caveats that put figures in a proper perspective. They should indicate, in a succinct but clear manner, the limitations of the method used. This would normally include a reminder of the working assumptions (for instance, the fact that the methodology used assumes that businesses fully comply with the legislation); a warning about the nature of the data presented (estimates and not exact measures); and indication of the margin of error. They

should also state whether EU regulation (and the administrative costs arising from it) replaces existing national regulations and/or reduces the cost to operators.

## Annex 1: Comparative table – Dutch SCM / EU Net Administrative Cost Model

Given that the Standard Cost Model developed by Dutch authorities is one of the best known methodologies for assessing administrative costs, this annex provides a comparison with the proposed EU net cost model, item by item.

	Dutch ‘Standard Cost Model’	EU Net Administrative Cost Model
<i>Aims / Purpose</i>	<p>Assesses only the costs of administrative obligations imposed on enterprises, distinguishing between national and non-national origins.<sup>10</sup></p> <p>Microeconomic purpose (ex ante impact assessment and ex post simplification).</p> <p>Macroeconomic purpose (estimate of administrative burden on the economy as a whole)</p>	<p><b>Adapted to EU integrated &amp; proportionate approach</b></p> <p>Assesses <u>net</u> costs of administrative obligations imposed on <u>enterprises, the voluntary sector, public authorities and citizens</u>, distinguishing between national, <u>EU and international</u> origins. (net costs = new costs – costs suppressed).</p> <p>Microeconomic purpose (ex ante impact assessment and ex post simplification).</p> <p><u>No</u> macroeconomic use envisaged</p>
<i>Definition of administrative costs</i>	<p>“Administrative burdens are the costs to the businesses of complying with the information obligations resulting from Government-imposed legislation and regulations”.<sup>11</sup></p> <p>One-off costs should not be taken into account<sup>12</sup>.</p> <p>The question of whether the business would have undertaken the actions concerned had there not been a statutory information obligation is irrelevant. (Dutch guide December 2003, p.16).</p>	<p><b>Similar</b></p> <p>Administrative obligations are defined as the costs incurred by enterprises, the voluntary sector, public authorities and citizens in meeting legal obligations to provide information on their action or production, either to public authorities or to private parties.</p> <p><u>One-off costs may be taken into account.</u></p> <p>An administrative <u>action</u> required by law but <u>corresponding to what an entity would normally do</u> in the absence of any legal obligation <u>is not regarded as an administrative obligation.</u></p>

<sup>10</sup> “Category A: The information obligations and fulfilment of them are generated at European or international level. Category B: The information obligations arise from European and international legislation and regulations, where implementation however rests on the Netherlands. Category C: The information obligations are only the result of Dutch legislation and regulations.” Dutch Ministry of Finance - Legislative Burden Department (IPAL), *Administrative burdens in an (inter)national perspective - Guide for classifying administrative burdens according to national (and international) origins* (Version 1.0), The Hague, August 2003, p.5.

<sup>11</sup> Dutch Ministry of Finance - Legislative Burden Department, *Focus on Administrative Burdens! Guide for defining and quantifying administrative burdens for businesses*, The Hague, December 2003, p.7.

<sup>12</sup> “Administrative burden declaration – A common approach open to everyone” of June 2004, p.5 provides that costs that companies incur when adjusting to new regulation should not be included and

<p><i>Core equation</i></p>	<p><math>\Sigma P \times Q</math></p> <p>(Price = Tariff x Time; Q: Quantity = Number of businesses x Frequency).</p> <p>Focus on labour costs and overheads, assumed to be the main input for meeting administrative obligations.</p>	<p><b>Similar / more flexible</b></p> <p><math>\Sigma P \times Q</math></p> <p><u>Where appropriate, types of costs other than wages and overheads</u> will be taken into account</p>
<p><i>Scope and frequency</i></p>	<p>Method applied to all regulatory proposals and all acts in force.</p> <p>Applied to all administrative actions imposed by a piece of legislation, except for exceptional<sup>13</sup> and (undefined) marginal costs</p> <p>Periodic review (4-5 years)</p>	<p><b>More selective and flexible</b></p> <p>Method <u>only applied to</u> proposals imposing major administrative obligations and/or to acts identified as particularly burdensome by end-users. No sector excluded a priori, but no sectoral or general baseline measurements envisaged either.</p> <p>Only <u>applied to the most onerous actions</u> identified in most cases by means of indicative thresholds (based on time required per action and frequency)</p> <p><u>Review</u> and timeline defined <u>on a case-by-case basis</u></p>
<p><i>Expected level of accuracy &amp; data source(s)</i></p>	<p>High level of accuracy sought mainly through fieldwork and simulation.<sup>14</sup></p> <p>Use of national registers and statistics.</p>	<p><b>Variable</b></p> <p>Expected level of accuracy <u>depends on the cost of the assessment, its potential benefits (proportionality) and the degree of Member State cooperation.</u></p> <p>In exceptional cases, high level of accuracy sought via field work, limited to a sample of Member States and/or to a standard sample of the business community, and simulation. This would apply to required actions likely to be particularly disruptive to the work of the enterprise, and data that are costly to produce or sensitive.</p> <p>In standard cases, rough estimate based on available EU statistics, standard ratios and Member States studies.</p>

that the measurement only focuses on the recurring costs. This seems to be contradicted by the Dutch Guide of December 2003, which provides that the measurement must include the costs of keeping abreast of the legislation.

<sup>13</sup> « Adjustment costs... » see Dutch presidency, *The administrative burden declaration – A common approach open to everyone*, June 2004, p.5.

<sup>14</sup> Field work: ad hoc sample of businesses interviewed by phone & on site using a questionnaire detailing the cost of each action. Simulation: the evaluator or the consultant (possible outsourcing) puts him/herself in the position of a ‘typical firm’ (stopwatch).



<i>Determination of the regulatory origin</i>	Decision tree in 7 steps.	<b>Simplified</b>  Decision tree in 4 steps.
<i>Division of responsibility</i>	Each public entity assesses its regulatory proposals and sectoral legislation (with the occasional help of consultants), under the supervision of an interdepartmental body (IPAL), and is monitored by an independent body (Actal).	<b>Variable (subsidiarity principle)</b>  Will depend on the level of detail and accuracy seen as necessary.  <u>Member States are a priori best placed to conduct national fieldwork and simulations of typical national firms</u> , while the European Commission is a priori best placed to define what is needed and to aggregate data.
<i>Report sheet</i>	Various standard report sheets. See one example of SCM report sheet in Annex 2.  In principle, reporting on obligations and actions must follow a typology consisting of 17 categories of administrative obligations, each divided into up to 5 subcategories of actions. <sup>15</sup>	<b>Adapted and simplified report sheet</b>  Standard report sheet including specific columns for EU origin and for transposition 'markers' (see EU net cost model report in Annex 3).  <u>Use of a (simplified) typology of administrative obligations only for the ex post assessment</u> of transposition measures.
<i>Methodological caveats</i>	No methodological caveats accompanying the presentation and use of estimates produced by the SCM.	<b>Inclusion of clear caveats</b>  Listing clearly and systematically the limitations of the method used (nature of the assumptions and extrapolations made; reminder that the figures are only approximations / estimates; margin of error). Mention whether EU regulation (and the administrative costs arising from it) replaces national regulations and whether EU regulation is in fact reducing costs to operators; etc.

<sup>15</sup> Dutch Ministry of Finance..., Dec. 2003, p.36.

## Annex 2: Reporting sheet used by Dutch authorities / Standard Cost Model

Legislative burden department - Ministry of Finance, *Focus on administrative burdens! Guide for defining and quantifying administrative burdens for businesses*, The Hague, December 2003, p.26

No.	Art.	Information obligation/action	Target group/size of business	Tariff per hour		Time		Frequency	P (Pi+Pe)	Q	$\Sigma(Pi+Pe) \cdot Q$	Origins of regulations		
				I	E	Per hour	Per hour	Per year				A	B	C
						I	E							
		<b>LAW X</b>												
		Description information obligation A												
1		Action A1												
2		Action A2												
3		Action A3												
		Description information obligation B												
4		Action B1												
5		Action B2												
6		Action B3												
7		Action B4												

I = internal tariff. E = external tariff

