



National Audit Office

Reducing the Cost of Complying with Regulations: The Delivery of the Administrative Burdens Reduction Programme, 2007

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LONDON: The Stationery Office
£13.50

Ordered by the
House of Commons
to be printed on 23 July 2007

This report has been prepared under Section 6 of the National Audit Act 1983 for presentation to the House of Commons in accordance with Section 9 of the Act.

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19 July 2007

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Terms used in this report

Administrative costs

Administrative costs are the costs to business of carrying out administrative activities in order to comply with regulations that impose information obligations. Information obligations require businesses to provide information to Government to demonstrate that, and how, they are complying with a given regulation. They also include all legal obligations that the Government puts on business to supply information to third parties, including shareholders and consumers. Administrative costs include the administrative activities that businesses would choose to continue doing even in the absence of regulation.

Administrative burdens

Administrative burdens are the cost to business of carrying out administrative activities that they would not carry out in the absence of the regulation, but that they have to undertake in order to comply with it.

Regulation

In the context of the Government's Administrative Burdens Reduction Programme, 'regulation' is used in its widest sense, that is 'an official rule'. This includes directly applicable EU regulations; EU Directives; directly applicable sections of Acts of Parliament; statutory instruments; rules, orders and schemes made under statutory powers by Ministers or agencies; licenses and permits issued under the central Government authority; codes of practice with statutory force; guidance with statutory force, codes of practice/guidance/self-regulation/industry agreements with government backing; and bye-laws made by central Government.

Business

In the context of reducing regulatory burdens, 'business' is used by Government to mean all organisations defined as being in the private sector by the Office of National Statistics when compiling the National Accounts: private non-financial corporations, financial corporations and households and the NPISH (Non-profit Institutions Serving Households) sector. This definition of 'business' was also the basis for the sample used for the NAO 2007 survey of business perceptions of regulation. Where reference is made to 'business' in relation to HM Revenue & Customs, it excludes charities and the voluntary sector.

Departments

Unless specified otherwise, 'departments' will be used collectively to refer to the four case study departments covered in this report: Communities and Local Government (CLG), the Department of Trade and Industry (DTI – from 28 June the DTI is the Department for Business, Enterprise and Regulatory Reform. See paragraph 5), HM Revenue & Customs (HMRC) and the Health and Safety Executive (HSE).



SUMMARY

1 In March 2005 the Government accepted the Better Regulation Task Force's *Less is More Report*¹ which set out eight recommendations for reducing the burdens on business of complying with regulation. In May 2005 the Government began implementing the recommendations through the Administrative Burdens Reduction Programme. It has measured the administrative burdens imposed on businesses and set targets to reduce these by 2010. Central Government departments and their agencies are implementing the Programme and have published plans setting out how reductions will be achieved.

2 The Government's aim is to improve the UK business environment by: ensuring that regulation is used only when necessary; simplifying and removing unnecessary regulations; and making sure that EU law is not gold-plated when transposed into UK law. The ultimate objective is to achieve a faster rate of productivity growth in the UK.² Reducing the administrative burdens of complying with regulation is one part of these reforms and the Government believes that burdens should be as low as they can be without jeopardising regulatory policy objectives. The Government's rationale for the Programme is that reducing administrative burdens and removing unnecessary regulations should help promote innovation and improve businesses' productivity.

3 The National Audit Office (NAO) will report to Parliament on the achievements of the Programme, and examine the extent to which it is delivering its intended objectives. The real test of the Programme is the extent to which it delivers meaningful improvements for businesses. The NAO will, therefore, conduct an annual survey to track businesses' perceptions of the burden of regulation and the impact of departmental initiatives to reduce administrative burdens.

4 This year's examination focuses on the Better Regulation Executive (BRE), which is responsible for co-ordinating the Programme, and the four departments that are responsible for 75 per cent of the total administrative burden: Communities and Local Government (CLG); the former Department of Trade and Industry (DTI); HM Revenue & Customs (HMRC), and the Health and Safety Executive (HSE). We have focused on actions taken in the five areas that impose the largest administrative burdens: Planning Law; Employment Law; Company Law; Tax Law, and Health and Safety Law.

5 On 28 June 2007, the Prime Minister announced the establishment of the Department for Business, Enterprise and Regulatory Reform (BERR). The new Department brings together functions from the former Department of Trade and Industry, including responsibilities for enterprise, business relations, regional development, fair markets and energy policy. However, this report covers the period before 28 June and, therefore, refers to the Department of Trade and Industry. The Better Regulation Executive, which was previously part of the Cabinet Office, has moved to the BERR and will retain its cross-government role promoting better regulation across the business, public and voluntary sectors.

6 This report sets out the context and rationale for the Programme (Part 1); explains the measurement of administrative burdens and reduction targets (Part 2); examines how four departments are seeking to identify and deliver reductions (Part 3); and considers how outcomes will be assessed (Part 4). This is the first in a series of annual reports that will track Government progress until 2010 and evaluate the outcomes. Our scope and methodology are set out in detail in Appendix 1.

Main observations

Reducing administrative burdens: context and rationale (Part 1)

7 Regulation has long been a concern for business in the UK and there have been numerous Government initiatives to 'cut red tape'. The Administrative Burdens Reduction Programme is different to previous initiatives as the Government has estimated, for the first time, the burden on business of complying with the information obligations created by regulations. By setting targets and monitoring progress, it has also established a means of holding departments to account for delivering reductions in regulatory burdens on business. Our analysis demonstrates that:

- the Government decided to implement the Programme following a review of a similar exercise undertaken by the Dutch Government. The Government believed that reducing administrative burdens offered potential benefits for the UK economy because businesses could use resources spent on complying with regulation to increase their productivity instead;
- the Better Regulation Task Force estimated that implementing the recommendations in the *Less is More* report could lead to an increase in UK GDP by up to £16 billion for an investment of £35 million. This estimate was based on approximate calculations of how the Dutch economy might respond to reductions in administrative burdens. The outcomes of the Dutch initiative had not been assessed at the time the *Less is More* report was published; and
- the NAO's 2007 survey of businesses showed that the majority of respondents understand the purpose of regulation. 60 per cent agreed, however, that the overall level of regulation is an obstacle to their success and nearly half rated a reduction in costs as 'very important'. Business' concerns focused on the complexity of regulations and 67 per cent did not believe that the Government understands business well enough to regulate.

Measuring administrative burdens (Part 2)

8 Between September 2005 and May 2006, the Government used a method, known as the Standard Cost Model, to ask businesses how much time they spent meeting the information obligations of regulations. This allowed the Government to estimate the aggregate administrative burdens imposed on business. The results showed that the administrative burden of regulations in the UK was just under £20 billion as at May 2005. It is important to note that:

- the calculations of administrative burdens are estimates and must be treated with caution as they are indicative and not statistically reliable. The figures do, however, provide an indication of which areas of regulation impose the highest administrative burdens and provide a baseline for assessing if reductions are achieved;
- in preparation for the measurement exercise, departments systematically mapped their regulations that impose administrative burdens on business. They also considered which businesses were affected by these regulations. This information was recorded in databases and provides departments with an opportunity to carry out a wider assessment of the impact of regulations;
- the Programme focuses specifically on regulations that impose information obligations, and thus administrative burdens, on businesses. It, therefore, covers only one element of the total cost to business of complying with regulation;³ and
- the Government spent £17 million on consultancy fees to undertake the measurement exercises. Other departmental costs were either not systematically recorded or not recorded at all.

9 Eighteen departments and agencies have committed to reducing administrative burdens on business by at least 25 per cent⁴ by May 2010. Due to the specialist nature of tax regulation, the Chancellor of the Exchequer set separate targets for HMRC to: reduce the cost to business of complying with tax forms by 10 per cent, and the cost to compliant businesses of complying with audits and inspections by at least 15 per cent by 2010-11. If all these targets are achieved, they represent total potential aggregate savings for business of approximately £4 billion. Our analysis shows that:

- in setting reduction targets, the Government followed the precedent set by the Dutch and Danish Governments that have both adopted targets to reduce administrative burdens by 25 per cent. The Dutch and Danish targets were based on political decisions. The UK targets are part of a pragmatic approach to focus efforts within departments on reducing burdens, while not jeopardising regulatory policy aims. The targets are not based on a calculation of the desired or achievable level of reductions;
- setting targets has provided a new focus and impetus to Government efforts to reduce the administrative burdens of regulation;
- there is a risk that businesses will not notice a meaningful impact from the initiatives to reduce administrative burdens, which places doubt on the extent to which the Programme will deliver its stated objectives; and
- the targets are for a net reduction in administrative burdens. Departments should, therefore, estimate the administrative burdens imposed by regulations introduced between May 2005 and May 2007 in order to update their baselines. In May 2007, the BRE introduced a new Impact Assessment process⁵, which includes a requirement for departments to record the estimated administrative burdens of new, or changes to, regulations.

Identifying and delivering reductions (Part 3)

10 In December 2006, 19 departments and agencies published Simplification Plans that outline some 500 proposed measures to reduce administrative burdens. The Plans also include initiatives to deregulate, and to consolidate and rationalise regulations. HMRC has drawn up an equivalent action plan for delivering its targets. The measures could potentially reduce administrative burdens by some £2 billion. The four departments in our sample had identified measures which, if delivered, would achieve reductions of between four and 18 per cent of their baselines. Analysis of departments' plans showed that:

- all four departments were committed to identifying possible reductions. The first round of plans drew heavily on on-going initiatives to simplify regulation;

- departments have focused on achieving reductions for regulations that impose the highest administrative burdens; and
- the type of regulation, whether it is international or domestic, will influence the ability of departments to deliver reductions. For example, DTI is responsible for much domestic regulation and is starting to claim cost reductions immediately. HSE, on the other hand, is responsible for much legislation originating in the EU and therefore expects to deliver impacts over a longer time-frame.

11 The real test of the Programme is the extent to which it delivers meaningful impacts for businesses. The experience in the Netherlands showed that the reductions achieved by the Dutch Government have not been noticed in full by businesses. Reports from Denmark show that although some businesses are aware of the Danish Government's achieved reductions, for most businesses the reductions have still not been noticeable. It is important to note that:

- the NAO survey showed that the administrative tasks covered in the measurement exercises were not always cited by businesses as the most burdensome aspects of complying with regulation. Businesses rated the following activities as particularly burdensome: keeping up-to-date with changes in existing regulations; the time it takes to go through the whole process of complying; the lack of information about which regulations apply; and finding information and guidance. These are aspects of complying with regulation that businesses find irritating – irritation factors – but that are not necessarily costly in monetary terms;
- departments have recognised that delivering impacts for business will require them to address the aspects of regulation that businesses find particularly burdensome. The four departments are seeking to reduce quantified administrative burdens but are also focusing on 'irritation factors'. Departments are, therefore, seeking to use the Programme to deliver wider improvements in the regulatory environment; and
- there has been little consideration of how reductions in administrative burdens may affect businesses of different sizes. Calculations of administrative burdens, except in the tax area, were carried out at an aggregate level.

12 Departments with Simplification Plans will update these annually until 2010. HMRC will also update its action plan on a regular basis. In 2007, departments face the triple challenge of implementing their proposed measures; identifying additional reductions that will achieve further progress towards their targets; and ensuring that these initiatives make a real difference for businesses. We evaluated if the four departments were developing adequate processes to deliver their commitments and found that:

- each department has established processes for consulting with business to identify what type of measures are likely to deliver a real difference;
- each department has put in place governance arrangements to monitor delivery against deadlines and targets; and
- departments have been proactive in establishing processes to deliver the Programme, and frameworks are now in place. Our Report next year will examine if departments are using these to deliver proposed reduction measures.

Evaluating and communicating outcomes (Part 4)

13 The Government will measure progress towards the net reduction targets by calculating changes against the administrative burden baselines established by the measurement exercises. In May 2007, the BRE released guidance that provides a framework for departments to use when calculating reductions. We found that:

- departments are responsible for calculating their own achieved reductions in administrative burdens and have started to consider how to use the BRE's framework. HMRC has already developed its own method for costing reductions that is consistent with how the Standard Cost Model was applied to estimate administrative burdens in the tax area. It remains to be seen with what level of consistency the framework will be interpreted and applied across Government;
- the limitations of the original measurement exercises, and the need to consider the burdens of regulation more widely, mean that progress towards the targets should not be used as the sole measure of success. The four departments are developing, but have not yet established, indicators to evaluate the impact of their initiatives to address the 'irritation factors' that were not quantified in the measurement exercise;

- departments with Simplification Plans will use these to report progress. The BRE will co-ordinate and report on cross-Government progress in delivering reductions. HMRC has established separate reporting arrangements; and
- it is essential to communicate changes in the regulatory regime to businesses. The BRE and departments are developing strategies to communicate changes and achieved reductions to businesses.

14 The Government is implementing the Programme as part of a wider package of measures to reduce the burden of regulation and, over the longer-term, improve the productivity of the UK economy. Our main observations are that:

- the benefit to businesses of achieving the 25 per cent administrative burdens target is uncertain. As the Government has not measured the total cost of complying with regulation, the relative importance of administrative burdens is not known. It is important, therefore, that departments are not driven exclusively by the need to meet this target;
- the effect of the level of regulation on productivity has not been conclusively established. In January 2007 a cross-departmental group was established to examine the relationship between regulation and productivity; and
- the Programme may deliver beneficial outcomes other than those intended, including a better understanding among policy officials of the regulatory regime and how it affects business. The BRE and departments are also using the need to achieve a net reduction target as a means of improving their understanding of the impact of new regulations on business.

Recommendations

15 In autumn 2007, departments will publish a second round of plans to identify initiatives to reduce the burdens on business of complying with regulation. Appendix 2 sets out the NAO's advice for the development on these plans, and our recommendations focus on the steps that departments and the BRE should take to improve the chances of the Programme delivering its intended objectives.

For departments:

- a To identify the measures that are likely to make a real difference, departments should seek to work more directly with businesses and consider any useful qualitative information collected in the measurement exercises.** Developing a thorough understanding of business' concerns is the key to delivering real impacts for business.
- b Departments need to ensure that they have robust internal processes in place to deliver projects to reduce regulatory burdens in the main areas of legislation.** In the short-term, departments should use project management techniques to manage discrete projects, and ensure that central Better Regulation teams are empowered to co-ordinate departmental progress and prioritise delivery. In the longer-term, departments should integrate the consideration of the costs, as well as the benefits, of regulation into departmental decision-making in a more systematic way.
- c Departments should supplement their estimates of reductions in administrative burdens with a broader suite of indicators to evaluate non-quantifiable improvements in the regulatory environment.** Departments should develop a series of indicators to evaluate the impact of their initiatives to address non-quantified 'irritation factors' and improve the wider business environment. This might, if practical, include a mix of internal measures and external indicators that capture business perspectives and actions, including segmentation between different sizes, sectors and ages of businesses.

For the Better Regulation Executive:

- d The BRE should prioritise and encourage cross-Government work to explore the link between the level of regulation and productivity.** It should also consider how the overall impact of the Administrative Burdens Reduction Programme on UK businesses' productivity will be assessed.

- e The BRE should maintain its co-ordinating role until May 2010.** This will involve working with departments to encourage consistency in approaches and maintaining an impetus to delivery. The BRE should also provide a forum to encourage collaboration and learning between departments and, where appropriate, joint initiatives.
- f The BRE should build on the work already done by the DTI and develop a methodology for assessing the total cumulative cost to business of regulation, as recommended by the *Less is More* report.** This would make it possible to assess how large a percentage of the total cost is made up of administrative burdens and the likely impact of reductions in these. The BRE should use this information to evaluate if the costs involved in identifying and delivering reductions are leading to worthwhile outcomes and benefits.

For the BRE and departments:

- g The BRE and departments need to improve how they communicate with businesses.**
 - Businesses need information about changes to the regulatory environment. The BRE and the departments directly involved in implementing the *Less is More* recommendations⁶, should, where practical, extend the use of Common Commencement Dates to include changes resulting from the Administrative Burdens Reduction Programme, as well as the introduction of new regulations.
 - The BRE and departments should continue to use and improve existing arrangements for communicating with business. They should also consider forming better links with trade and sector organisations and how to use established fora to communicate directly with businesses.

PART ONE

Reducing administrative burdens: context and rationale

1.1 This part:

- outlines the **context of the Government's better regulation agenda and its objectives** for improving regulation and encouraging higher rates of productivity;
- sets out the **rationale for the Government's decision** to focus on reducing the burdens of administering regulations; and
- presents **businesses' views** of what makes complying with regulation burdensome.

The Government's 'better regulation' objectives

1.2 Deregulation – removing and simplifying existing regulation – has been a Government ambition for many decades. In 1997, the Government extended this ambition by introducing the 'better regulation' agenda. Better regulation encompasses deregulation, but also aims to ensure that new regulations adhere to the five principles of good regulation set out by the Better Regulation Task Force: proportionality; accountability; consistency; transparency, and targeting.

1.3 The Government's aims for improving the regulatory environment sit within a hierarchy of goals. The long-term goal is to improve the productivity of the British economy. The Government identified five key drivers of productivity and proposed reforms related to each. Improving the way that regulations are made and enforced is included under the heading 'promoting enterprise'. The proposed regulatory reforms include three main aspects: regulating only when necessary; reducing the administrative burden of regulation; and regulatory reform at EU level.⁷

1.4 In Budget 2005, the Chancellor of the Exchequer stated that the Government was aiming to deliver better regulatory outcomes while driving down the costs to businesses of complying with regulation, especially for

smaller businesses. The Government believes that the burden of administering regulations should be as low as possible without jeopardising regulatory policy objectives. The underlying assumption and rationale is that if businesses spend fewer resources on the administrative tasks involved in complying with regulation, the 'saved' resources could be more productively deployed in running the business. This would then contribute towards the long-term goal of achieving faster productivity growth.⁸

1.5 There is ongoing debate in the worlds of politics and academia about the link between the level of regulation and productivity and economic growth. For example, a report published by the British Chambers of Commerce states that "the overall impact of regulation on innovation, competition, productivity, GDP and business profitability is probably negative but there are arguments both ways and little definitive empirical evidence."⁹ A paper for the May 2006 Oxford Review of Economic Policy also highlights that there is no conclusive evidence on the correlation between the level of regulation and productivity growth. It states, however, that if regulation has had an impact on productivity growth, it is through its "distorting effects on investment and innovation rather than simply administrative costs".¹⁰

The Government's approach to reducing administrative burdens

1.6 On Budget Day 2005, the Better Regulation Task Force published the *Less is More Report*, which set out eight recommendations for how the UK Government might reduce the cost to business of complying with regulation. The recommendations relate to two interrelated strands of work:

- adopting an approach, first developed and used by the Dutch Government in 2003, to reducing the administrative burdens of regulation; and
- introducing a programme to force departments to prioritise between new regulations, and to simplify and remove existing regulations.

1.7 The Task Force believed that these two strands of work would “make a real difference to UK business and the economy”, and contribute to the Government aim of improving UK productivity. The rationale was that the work would offer:

- potential for an estimated £16 billion increase in GDP for an investment of £35 million;
- an opportunity for Government to help increase the innovation, productivity and growth of business;
- a mechanism for increasing the quality and efficiency of Government through increasing the effectiveness of regulation; and
- a robust method to improve control over the flow of new regulation and a driver to reduce the burdens imposed by the stock of existing regulation.¹¹

1.8 The estimate of potential benefits was based on approximate calculations for how the Dutch economy might respond to reductions in administrative burdens, and how much the Dutch Government had invested in implementing its initiative.¹² At the time of publication of the *Less is More* report there had not been any assessment of the actual effect on the Dutch economy. The first independent assessment of the Dutch Government’s approach was carried out by the Dutch Court of Audit and published in June 2006. It concluded that the claimed reductions were adequately calculated, but that the perceived effect on businesses was less than the calculations suggested.¹³

1.9 The Government accepted the *Less is More* Report in full and committed to implementing the eight recommendations. In May 2005, the Chancellor of the Exchequer launched a Better Regulation Action Plan that set out a timeline for implementation of the recommendations (**Figure 1**).

1

The implementation of the recommendations of the *Less is More* Report

Recommendation	Deadline	Implemented	By deadline	Report Reference
1a Adopt the Standard Cost Model to measure the administrative burden in the UK.	May 2006	✓	✓	See paragraphs 2.2 – 2.14.
1b Set a target for reducing administrative burdens.	Pre-Budget Report 2006	✓	✓	See paragraphs 2.15 – 2.17.
1c Put in place an organisational structure to manage the measurement of burdens and target achievement, including a central co-ordination unit, a body providing independent scrutiny, and stakeholder participation.	Immediately after publication of the Better Regulation Action Plan	✓	✓	See paragraphs 3.2, 3.9, 3.10, 3.28 and 3.29.
2 Develop a mechanism for submission of simplification proposals by business and other stakeholders.	End of 2005	✓	✓	See paragraph 3.11.
3 All government departments should develop rolling programmes of simplification.	Pre-Budget Report 2006	✓	11 December 2006	See paragraphs 3.3 – 3.25.
4 The Regulatory Impact Assessment process should be updated to fit in with administrative burdens reduction and simplification programmes.	End of 2005	✓	May 2007	See paragraph 4.5, 4.11.
5 The review of the Regulatory Reform Act should be progressed.	Summer 2006	✓	January 2007	No reference in report.
6 Parliamentary time should be provided for a Deregulation Bill.	October 2006	No plans for introducing such a Bill	–	No reference in report.
7 The use of Common Commencement Dates (CCDs) should be extended and include implementation of simplification measures, as well as new regulation.	April 2006	Partly	–	See paragraph 4.21.
8 Develop a methodology for assessing the total cumulative cost of regulation and reassess introduction of full regulatory budgets.	July 2007	Partly	–	See paragraph 4.14.

Source: The *Less is More* report and the Government’s 2005 Better Regulation Action Plan

1.10 *Figure 2* explains how the *Less is More* recommendations fit together to provide the Government with a framework for improving the regulatory environment, and delivering its long-term aims. Three of the recommendations are aimed at providing departments with better information, and thus an improved understanding, of the impact of regulation on business. The other five recommendations seek to provide departments with the tools to deliver improvements in the regulatory environment.

1.11 The recommendations of the *Less is More* Report are being implemented through the Administrative Burdens Reduction Programme. The specific objective is a net reduction in the administrative burdens on business of complying with regulation, as the Government believes that cutting such burdens and removing unnecessary regulations will promote innovation and improve productivity. By focusing on administrative burdens, the Government also sought to improve the regulatory environment whilst avoiding the politically sensitive debate about policy objectives. The Programme is unlike previous attempts to improve the regulatory environment as, for the first time, administrative burdens have been systematically measured, targets set and mechanisms for delivery established.

Business perceptions of regulation

"The duty system was very complex. By the 1760s some 800 regulations were in force and the number was to grow to over 2,100. The regulations confused merchants and angered the general public"¹⁴

1.12 Regulation has long been a bugbear of the UK business community and innumerable reports and surveys have been published on the subject of how regulation impacts on business.¹⁵ Most of these draw attention to negative effects of regulation. Much less attention has been given to establishing how businesses benefit from regulation.

1.13 Although regulation is largely accepted as 'a cost of doing business',¹⁶ research has continually illustrated that businesses believe that complying with regulation is more time-consuming and costly than it should be and is, therefore, a strain on company resources. Whereas the purpose of regulation is often understood, it is the cumulative burden of all regulations that makes complying resource-intensive, in particular for micro and small businesses. Businesses are concerned with the total cost of complying with regulation and rarely distinguish between administrative burdens and other costs.¹⁷

1.14 The NAO conducted a survey of businesses to explore: perceptions of regulation and attitudes to the Government's approach to regulation; which aspects of complying with regulation that businesses find burdensome; and what type of Government initiatives would deliver meaningful impacts. A full set of tables setting out the responses to the survey questions, broken down by area of law and businesses' size, is provided in a separate technical summary, which is available on the NAO website (www.nao.org.uk).

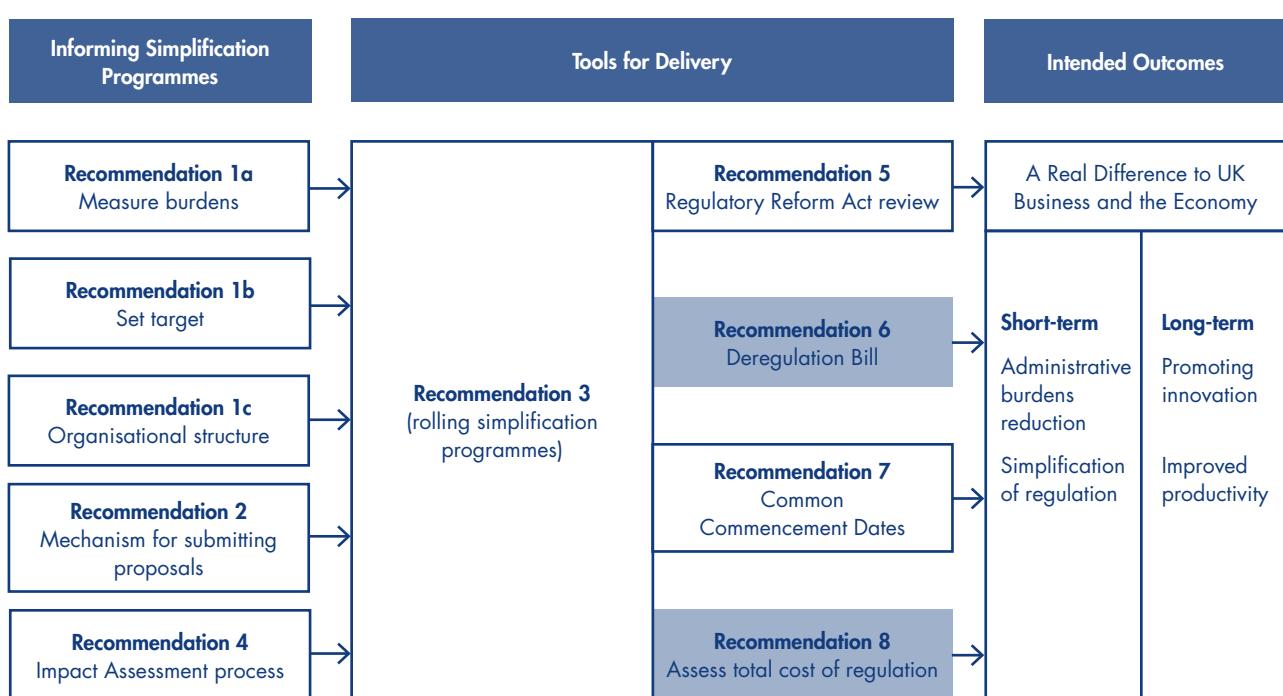
The Government's approach to regulation

1.15 The NAO survey results show that a majority of respondents agree that the purpose of regulation is generally clear. Over half of respondents, however, stated that they find it difficult to understand and comply with the requirements of regulation. The highest levels of concern regarded how well Government understands business and how well it consults before introducing new regulation (**Figure 3**). Further analysis of the survey data showed that:

- the purpose of Health and Safety regulation is understood better than the other areas of law, particularly in comparison with Planning law; and
- in terms of complexity, 59 per cent of respondents disagreed that Company law was straightforward to understand (compared with a 53 per cent average) and 62 per cent said that it was not easy to comply (compared with a 55 per cent average).

2

How the eight recommendations of *Less is More* provide a framework for simplification of regulation and reductions in administrative burdens

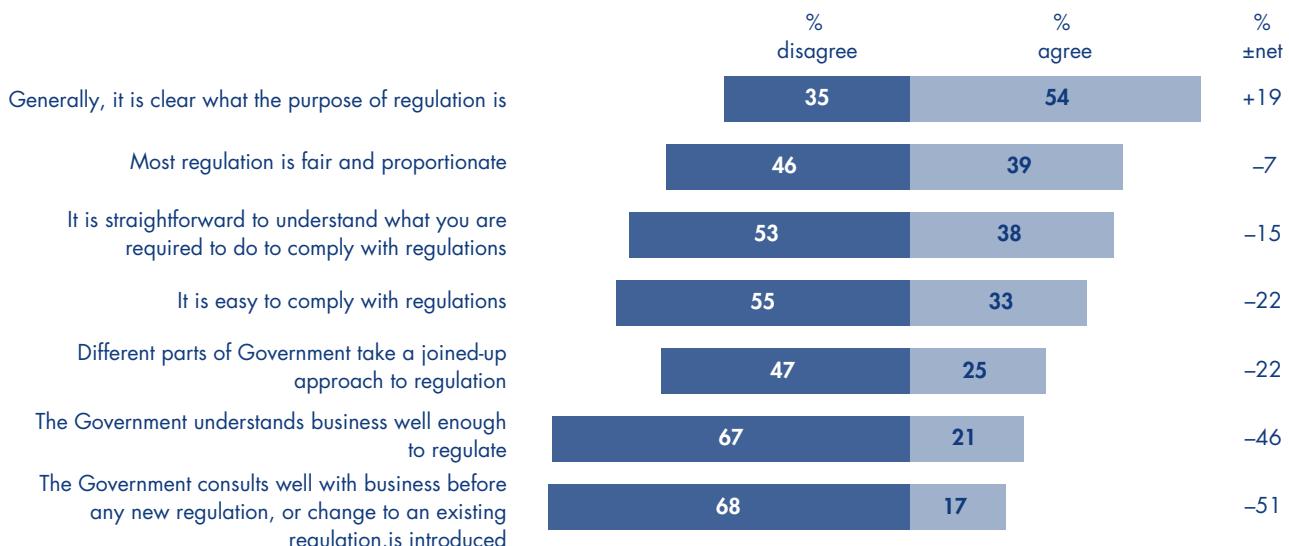


Source: BRTF (2005), *Regulation – Less is More. Reducing Burdens, Improving Outcomes*

3

Attitudes to the Government's approach to regulating

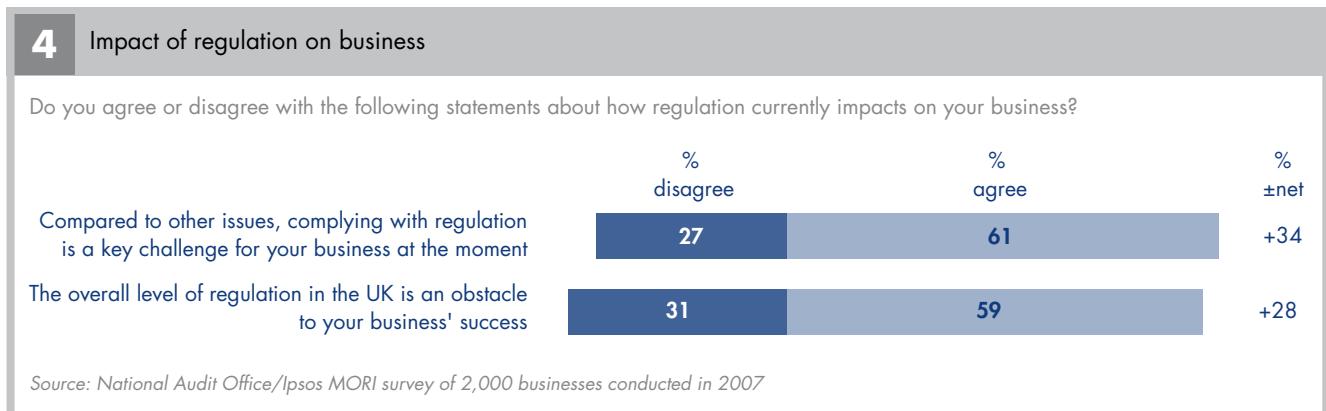
Do you agree or disagree with the following statements about the Government's approach to regulating?



Source: National Audit Office/Ipsos MORI survey of 2,000 businesses conducted in 2007

Effect of regulation

1.16 Our survey results also showed that regulation has an important impact on business. Around three-fifths of respondents said that regulation is a key challenge and an obstacle to their business' success. Further analysis showed that small and older businesses were more likely to view regulation as an obstacle to their success (**Figure 4**).



NOTE

Ratings were counted as 1-3 not important; 4-7 neutral, and 8-10 very important. The mean score was 6.86.

The importance of reducing the cost to business of regulation

1.17 Survey results also confirmed that reducing the cost of complying with regulation is perceived as important for the future success of business. Almost half of businesses rated a reduction in costs as very important, and only just over 10 per cent stated that a cost reduction would not be important for the success of their businesses (**Figure 5**).

PART TWO

Measuring administrative burdens

2.1 This part:

- provides an overview of the **measurement exercises** carried out in the UK, presents the aggregate results, and explains the caveats of the calculations;
- explains **the targets** set to reduce administrative burdens; and
- considers the **potential benefits** of measurement and setting targets, and the **challenges** associated with delivering reductions.

The measurement exercises in the UK

2.2 The two main measurement exercises were carried out between September 2005 and May 2006. The BRE employed PricewaterhouseCoopers (PwC) to measure the administrative costs¹⁸ imposed on business by 16 departments and their agencies.¹⁹ HMRC worked with KPMG to conduct a separate, but parallel, exercise to measure the administrative burdens imposed by the tax and duty system. This was because HMRC is not within the scope of the *Less is More* recommendations and is a taxing authority rather than a business regulator. A third measurement exercise was carried out for the Financial Services Authority. The cost of the consultancy contracts was £17 million. Staff costs incurred by departments were not recorded.

2.3 The same standard measurement method was used in all three exercises.²⁰ The method, based on the Standard Cost Model first applied in the Netherlands in 2003,²¹ seeks to measure the cost to business of complying with regulations that impose information obligations. Information obligations require businesses to provide information to Government to demonstrate that, and how, they are complying with a given regulation. They also include all legal obligations that Government puts on business to supply information to third parties, including shareholders and customers.

2.4 The Standard Cost Model estimates the cost of the tasks that businesses have to undertake to provide the necessary information to comply with regulations (**Figure 6**). It assumes that businesses are compliant and normally efficient for their type or sector.

2.5 The consultants conducted interviews and held focus groups with a small sample of businesses to establish the time and resources they spent carrying out the activities each year. The estimated costs of these administrative activities were then added together for each regulation.

'Business as usual' costs

2.6 There are certain administrative activities that businesses would continue to carry out in the absence of regulation. For example, companies are required to file annual accounts via Companies House, but also need these accounts for their own business purposes. The costs

6

The Standard Cost Model Formula

Administrative costs are related to the time and wage costs that a business spends carrying out a particular administrative activity. This is multiplied by the number of businesses affected and the frequency with which they have to do that task.

Administrative Activity Cost = Price x Quantity

Price = tariff x time **Quantity** = population x frequency

Tariff is the wage costs (plus overhead, non-wage costs) for activities done internally or cost of external goods or service providers.

Time is the amount of time required to complete the activity.

Population is the number of businesses affected.

Frequency is the number of times that an activity must be completed each year.

Source: BRE (2006) 'Administrative Burdens – Routes to Reduction'

of activities that business would continue to do even if the regulation did not exist are called ‘business as usual’ costs. There would be little benefit in removing the information obligations that companies would carry on complying with, as this would not lead to a change in behaviour or reduced costs for business. ‘Business as usual’ costs have, therefore, been excluded from the calculations of ‘administrative burdens’. Each department’s baseline is based on administrative burdens so that measures taken to reduce costs are focused on areas where businesses will feel a difference.

The results of the UK measurement exercises

2.7 The total administrative costs measured in the UK were approximately £31 billion. After ‘business as usual’ costs had been taken out, the administrative burden was estimated to just under £20 billion as at May 2005. The regulations of CLG, DTI, HMRC and HSE represent about three quarters of the total administrative burdens in the UK (**Figure 7**). The burden imposed by the regulations of these departments is high because many of their regulations apply to all businesses in the UK.

2.8 The specific areas of regulation that impose the highest administrative burdens in the UK are the Town and Country Planning Act, the Companies Act, the Employment Rights Act, Value Added Tax legislation and the Management of Health and Safety at Work Regulations 1999. Again, these regulatory areas are generic and have high administrative burdens because they apply to large numbers of businesses (**Figure 8**).²²

2.9 **Figure 9** shows which regulations impose the largest administrative burdens in the four case study departments.

The caveats of the administrative burdens figures

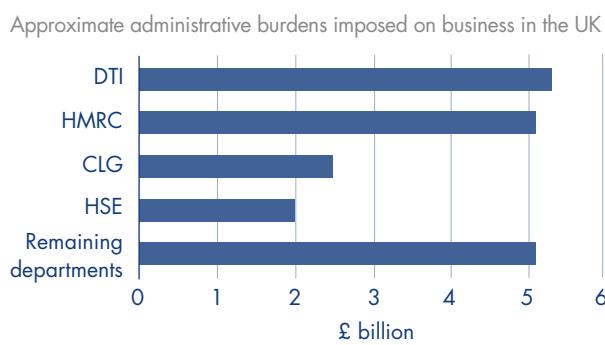
2.10 The results from the measurement exercises provide an indicative estimate of administrative burdens. The small sample sizes and non-random sample selection mean that the results should not be seen as representative in statistical terms.²³ The figures do, however, give an indication of which areas of regulation impose the highest costs on business and provide a baseline for departments to measure the effect of initiatives taken to deliver net reductions in burdens.

2.11 The Standard Cost Model estimates the costs of a defined set of administrative activities. It does not capture the ‘costs’ to businesses of dealing with other administrative aspects of complying with regulation that are perceived as irritating, but that are not necessarily costly in monetary terms. These are generally related to how businesses perceive regulation and include issues such as the cumulative impact of regulations that businesses have to comply with; complexity of regulation; instances where businesses perceive that they have to provide duplicate information to Government; and not knowing which regulatory requirements apply, especially because of frequent changes made to regulations. These ‘irritation factors’ contribute to the total perceived burdens of regulation on business but are not included in departmental baselines. The qualitative information collected from businesses during the measurement exercises gave some indication of the nature of these costs.²⁴

2.12 Furthermore, the Standard Cost Model does not measure the costs to business of complying with the policy objectives of regulation; for example, having to make adjustments to premises to ensure disabled people can access them. Neither does it measure ‘one-off costs’²⁵ nor the ‘financial costs’ of complying with regulation, such as paying tax or license fees. This means that the Standard Cost Model only measures one part of the total cost to business of complying with regulation.

7

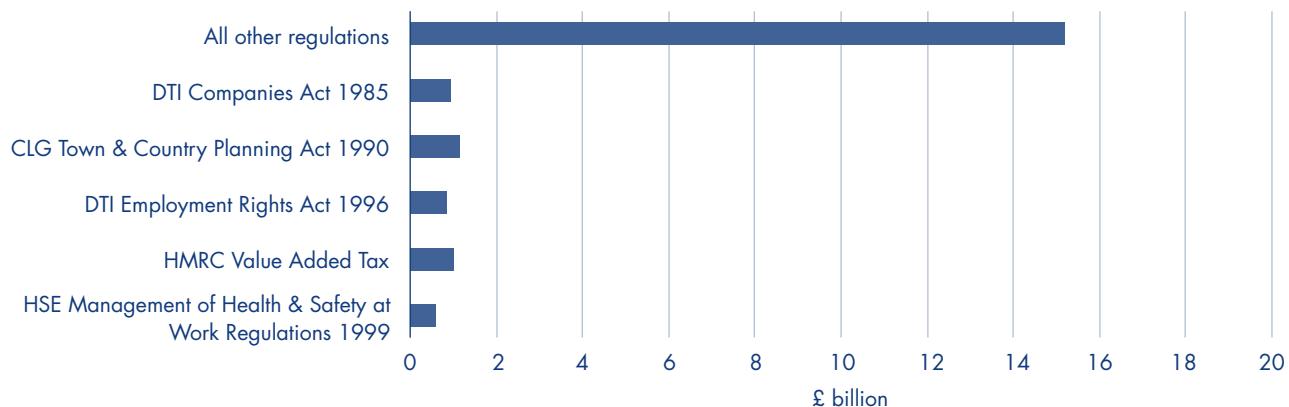
Administrative burdens imposed by case study departments compared to the remaining Government total



Source: CLG, DTI and HSE Simplification Plans and KPMG report from HMRC measurement exercise

8 The five regulations imposing the largest administrative burdens

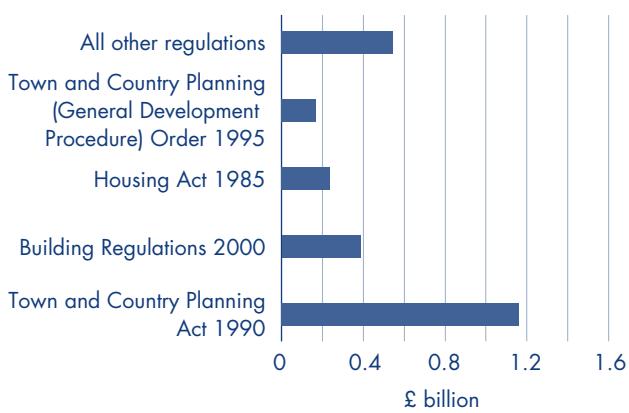
Cross-government top five regulations by administrative burdens



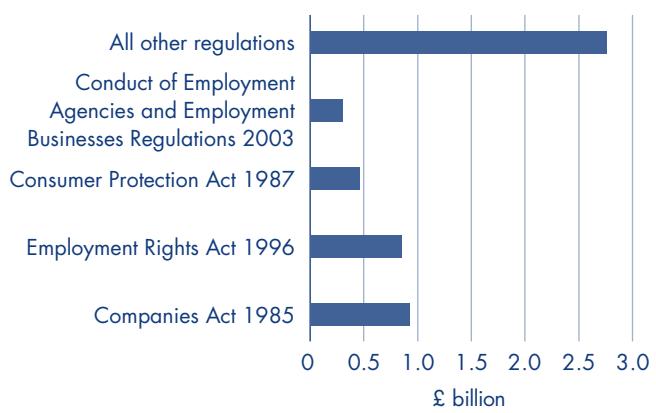
Source: BRE/PwC Stock Database and KPMG report from HMRC measurement exercise

9 Regulations that impose the largest administrative burdens: CLG, DTI, HMRC and HSE

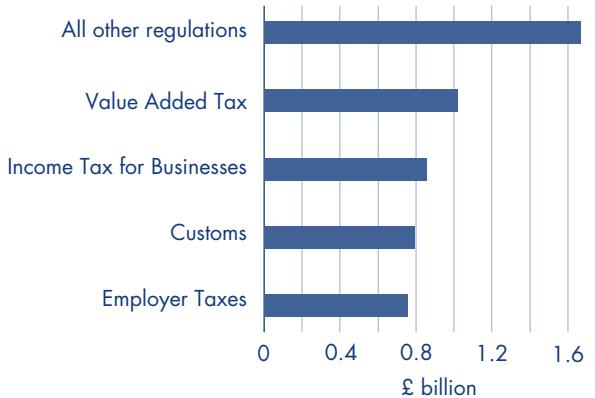
CLG top four regulations by administrative burden



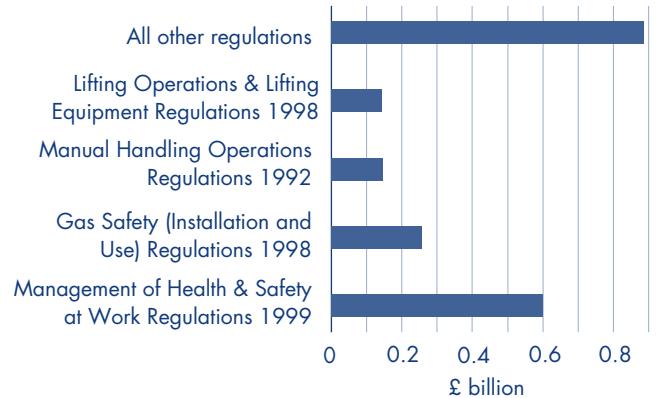
DTI top four regulations by administrative burden



HMRC top four policy areas by administrative burden



HSE top four regulations by administrative burden



Source: BRE/PwC Stock Database and KPMG final report produced for HMRC

2.13 Not all businesses experience administrative burdens in the same way. For example, administrative burdens are likely to be higher for smaller businesses in relative terms, when compared to the resources available. The Standard Cost Model allows for such segmentation but such differences were not taken into account in the BRE/PwC measurement exercise as the consultants estimated a single aggregate cost figure for meeting the information obligations of each regulation. HMRC and KPMG adopted a different approach and considered the distribution of administrative burdens between businesses (**Box 1**).

BOX 1

Distribution of administrative burdens by size of business

After calculating the administrative burdens of regulation imposed on business by HMRC, KPMG broke down the results for each tax area by business size. Five size categories were used: nano (0 employees), micro (1-9 employees), small (10-49 employees), medium (50-249 employees), large (250+employees). This allows for consideration of how administrative burdens fall on businesses of difference sizes, both in absolute and relative terms.

2.14 A regulation can appear to impose large administrative burdens because it applies to a large population of businesses, even if the burden is not particularly high for individual businesses. At the same time, a regulation may appear not to impose significant administrative burdens because it affects a small population, but the burdens may still be significant for the individual businesses affected by it. It is important, therefore, that departments develop a thorough understanding of the nature and distribution of the administrative burdens imposed by the regulations for which they have responsibility.

Targets for reducing administrative burdens

2.15 UK departments and agencies have committed to net targets to reduce administrative burdens between May 2005 and May 2010. In deciding on reduction targets, the Government followed the precedent set by the Dutch and Danish Governments that have both applied the Standard Cost Model and adopted reduction targets of 25 per cent. The Dutch and Danish targets were based on political decisions. The UK Government adopted targets that it believes will support a pragmatic approach to focus efforts within departments on reducing burdens, while not jeopardising regulatory policy aims. The targets are not based on calculations of the desired or achievable level of reductions.

2.16 In the pre-Budget Report 2006, the Government announced that 18 departments and agencies²⁶ would commit to reducing the administrative burdens of their regulations by at least 25 per cent by May 2010, compared to their May 2005 baselines. These bodies were responsible for around £14 billion of administrative burdens as at 31 May 2005 and, if they meet their targets, should jointly achieve a net reduction of around £3.5 billion by 2010-11.

2.17 HMRC's administrative burdens baseline was estimated to be £5.1 billion. The Chancellor of the Exchequer also announced two reduction targets for HMRC. The first is to reduce the administrative burden of dealing with HMRC forms and returns by at least 10 per cent; a reduction of £337 million, by 2010-11. The second is to reduce the administrative burdens on compliant businesses of dealing with HMRC's audits and inspections by 10 per cent over three years and, at least, 15 per cent over five years – reductions of £14 million and £21 million pounds, by 2010-11.²⁷

The potential benefits of measuring administrative burdens and setting targets, and the challenges of delivering reductions

Potential benefits

2.18 The measurement exercises and setting targets have potential benefits:

- measuring administrative burdens raises Government awareness of which departments are responsible for the majority of burdens; which areas of regulation impose the costliest information obligations; and identifies which administrative activities create the largest part of that cost;
- the measurement exercises have led to improved knowledge by policy officials about the regulations in force in the UK and which businesses are affected by them. For example, at the start of the measurement exercises, many departments did not know how many businesses were affected by their regulations; and
- a target can help ensure that the focus on delivering reductions is sustained until May 2010. In addition, the establishment of baselines make it possible to start to hold departments to account for delivery.

2.19 Before the measurement exercise could start, each department had to identify their regulations, which imposed information obligations on business. This type of mapping exercise has not been undertaken before in the UK and there was no one source of information that departments could use to identify relevant regulations (**Figure 10**).

10 Source of Information about UK Regulation

All information gathered throughout the measurement exercises, records of regulation, qualitative comments and the cost figures have been collected into searchable databases. There is one stock database with information from the BRE/PwC measurement exercise and another for the HMRC/KPMG exercise. These databases are new and unique. They will be updated as departments start claiming reductions and will be used to simulate reductions to allow departments to model the effect of proposed measures to reduce burdens.

At the same time, the Department for Constitutional Affairs (the Ministry of Justice, since May 2007) launched the new UK Statute Law Database (SLD) in December 2006. This database is the official revised edition of the statute book for the UK in electronic form. The Office of Public Sector Information (OPSI) also holds records of UK legislation.¹

Policy officials now have access to three different sources of information that should, when finished, map out the entirety of UK regulation that is currently in force (from EU Regulations all the way down to industry-specific Codes of Practice). However, for the sake of clarity and consistency, and to avoid confusion about the current stock of UK legislation, the Government should consider linking the SLD and OPSI systems with the information about regulation in the stock databases. This would create, for the first time, a 'one stop shop' for information about UK regulation. The potential benefits are:

- it could assist departmental policy staff in identifying simplification opportunities including deregulation, consolidation (clarifying regulation or removing regulation that is out of date) and rationalisation (addressing regulatory overlaps);
- it would bring transparency to the regulatory system; and
- a much improved understanding of what regulation is in place in the UK.

Each department could be given the responsibility to submit updates to the 'one-stop-shop' database on an annual basis to a central team that would be responsible for adding the updates to the main database. This central team could, for example, be the team that is editing the SLD.

NOTE

Currently the SLD contains most types of primary legislation made in the UK before 1991 in its revised form. Primary legislation and secondary legislation from 1991 onwards is held in unrevised ('as enacted') form. When finished, all revised text of legislation on SLD will be up to date. OPSI records legislation as enacted or made and does not take into account amendments made.

The challenge of delivery

2.20 The Government has committed to making a real difference to businesses by reducing the burden of complying with regulation. The potential benefit is that businesses will be able to free up resources that are currently used to fulfil information obligations. Reductions are calculated at an aggregate level and, therefore, the total £4 billion reduction would mean only a small

average saving per business per year considering that there are over two million registered companies in the UK, excluding the self-employed, partnerships, charities and third sector organisations.²⁸

2.21 There is, therefore, no guarantee that a 25 per cent reduction in administrative burdens will lead to a noticeable change in the resources that businesses devote to complying with regulation. Administrative burdens are likely to be a relatively small element of total cost to business of complying with regulation (**Box 2**). As it is difficult to establish the impact of regulation on productivity, there is no benchmark for the level of reduction needed to deliver an increase in productivity levels. Equally, there is no benchmark for the level at which the benefits of regulation to business would start to diminish as a result of reductions.

BOX 2

International comparison

The Board of Swedish Industry and Commerce for Better Regulation measured the total cost of regulation to a sample of businesses operating in different sectors and presented the results in three categories – administrative costs, policy costs and financial costs. These measurements demonstrated that the administrative costs of complying with regulation are only a small part of the total cost of regulation, and vary depending on the business' size and sector.

2.22 A reduction in administrative burdens may also be achieved, but not be noticed because:

- the Standard Cost Model assumes full compliance rates.²⁹ If regulation is made less burdensome and enforcement regimes improve, actual compliance rates may increase. Businesses that were originally non-compliant may experience an increase in administrative burdens as they start to comply;
- there is usually a time lag between the implementation of burden reduction measures and the incorporation of these into business processes;
- measures taken by Government may mean that businesses have to change their compliance systems. Such one-off costs can be high for business and change may therefore, be perceived as an increase in burdens; and
- business advisers or consultants may not pass savings on in the form of reduced fees to their clients. Although, as agents and consultants are businesses themselves, they would benefit from the reduction in administrative burdens.³⁰

PART THREE

Identifying and delivering reductions

3.1 This part:

- reviews the **progress** that departments have made in identifying reductions in administrative burdens;
- compares the **types of measures** that departments are proposing with business' priorities for improvements in the regulatory environment; and
- examines how departments are seeking to ensure that **reductions are delivered**.

Progress in identifying reductions

Roles and responsibilities

3.2 The *Less is More* report recommended that the Government should establish appropriate organisational structures to deliver reductions in administrative burdens (see Figure 1 on page 11). We found that existing Government structures provide a sound basis to deliver the Administrative Burdens Reduction Programme (**Figure 11**).

Rolling programmes for simplification

3.3 The *Less is More* report also recommended that departments should develop rolling programmes for simplification of regulation, widely known as Simplification Plans. In December 2006, 19 departments and agencies published their first Plans.³¹ HMRC has drawn up an action plan, which is the equivalent of a Simplification Plan, for delivering its reduction targets. The main elements of the action plan are outlined in a series of papers entitled 'Delivering a New Relationship with Business', which are updated and released with the Budget and Pre-Budget Reports.

3.4 The Simplification Plans, which will be updated annually until 2010, outline proposed actions to reduce administrative burdens and set milestones for implementation (**Figure 12**). Departments also use Simplification Plans to bring together different strands of the Government's better regulation agenda. They should, for example, include initiatives to prevent gold-plating of EU legislation³² and mention progress made on implementing the Hampton recommendations on enforcement and inspection.³³ The Plans can include measures to reduce administrative burdens imposed by

11 Roles and responsibilities

The Better Regulation Executive

The **Better Regulation Executive** (BRE) acted as project manager and co-ordinator for the measurement exercise that involved 16 government departments and their agencies. The BRE will offer support and guidance to departments and work collaboratively with them to ensure that the intended reductions in administrative burdens on business are delivered by May 2010.

Departments

Each department has a **Better Regulation Minister** who is accountable for the wider better regulation agenda within his or her department.

Each department also has a **Better Regulation Board Level Champion**, whose role is to ensure that board members are committed to the wider better regulation agenda, provide adequate resources within their directorates to reducing administrative burdens, and liaise with BRE senior management.

Departments have established **Better Regulation Units** (BRU) that are dedicated to supporting policy teams in reducing administrative burdens and delivering the wider better regulation agenda. The BRUs act as the liaison point for the BRE and are the project managers with responsibility for working with policy teams to identify and implement measures to reduce administrative burdens by May 2010.

Source: BRE

both UK and EU regulation and legislation. Consideration should also be given to measures aimed at reducing burdens for the third and public sectors. BRE guidance states, however, that simplification measures should not alter the policy objectives of regulation.

Progress to date

3.5 The four departments in our examination are, collectively, responsible for regulation that imposes some 75 per cent of the measured administrative burden in the UK. The progress of these departments in delivering reductions is, therefore, crucial to the success of the Programme, and the achievement of the Government's objectives. In their 2006 Plans, all four departments had made reasonable progress in identifying potential measures to reduce burdens (**Figure 13**).

3.6 Departments began developing the first round of Plans in May 2005. The measurement exercises started in September 2005. Departments did not, therefore, have access to the results of the measurement exercises when they started to draw up their Plans. Consequently, most simplification measures that departments have included in the 2006 Plans drew on other sources. These measures included, justifiably, initiatives to simplify regulation that were already on-going when the measurement exercises started (**Figure 14**).

12 What Simplification Plans should include

Simplification Plans should include initiatives to reduce the administrative burdens of complying with regulation, as identified by the measurement exercise. This can include measures that require legislative change and those that do not, such as simplifying forms; improving guidance and information available to business; or increasing the intervals between information requests. Initiatives should also deal with the 'irritation factors' of regulation. Departments should consider initiatives to:

- de-regulate – remove regulations from the statute book, leading to greater liberalisation of previously regulated regimes;
- consolidate regulation – bring together different regulations into a more manageable form and restate the law more clearly; and
- rationalise – use 'horizontal' legislation to replace a variety of sector specific 'vertical' regulations and resolve overlapping or inconsistent regulations.

Source: BRE (2006) Guidance on Simplification Plans

13

Progress towards administrative burdens targets, December 2006

	Net targets	Identified reductions as a percentage of the baselines	Identified reductions in administrative burdens
	%	%	£ million
CLG	25	14	350
DTI	25	14	700
HSE	25	15	305
HMRC			
Target 1: Forms and returns	10	4	130
Target 2: Audits and Inspections	15	18	43

Source: CLG, DTI and HSE Simplification Plans and HMRC 'Delivering a New Relationship with Business' papers

NOTE

CLG, DTI and HSE must meet their targets for reduction by 2010; HMRC by 2010-11.

14

Examples of simplification measures initiated before May 2005

DTI five year programme

In 2004, the DTI put in place a Five-Year Programme 'Creating Wealth from Knowledge' aimed at improving the relationship with business to promote enterprise and high-performing workplaces, and deliver a new approach to regulation that would reduce the burdens on business by £1 billion. This target has since been extended in accordance with the Administrative Burdens Reduction Programme reduction target of 25 per cent and the simplification measures (most of which came under the Companies Act) planned under the Five-Year Programme have been transferred to the DTI's Simplification Plan.

HSE asbestos simplification project

In 2004, HSE began a project to implement the amendments to the Asbestos Worker Protection Directive. This project was integrated into the HSE 2006 Simplification Plan. As the Control of Asbestos at Work Regulations needed amendment in order to fully implement the Directive, the decision was made to simplify the regulatory regime for asbestos and to commission research to make sure that the regulations were proportionate. In April 2006 a single set of asbestos regulations replaced the three sets previously in force, and lower risk work with asbestos decorative coatings was taken out of the licensing regime.

Source: DTI and HSE

3.7 In April 2005 HMRC developed a programme aimed at modernising the administration of the UK tax system and transforming its relationship with business. This included consulting on how to minimise any unnecessary burdens (now called administrative burdens) imposed by the tax system.³⁴ HMRC used the results from the measurement exercise to supplement its existing programme, and reducing administrative burdens sits within the overarching work programme to improve its relationship with business.

3.8 The administrative burdens of regulations were broken down into three categories according to the origin of the regulation: EU/international rules where there is no domestic discretion in terms of implementation; EU/international rules where implementation is the responsibility of the UK Government; and domestic regulation.³⁵ It will be easier and quicker for departments to identify and implement measures to simplify domestic regulations. Changes to EU or international rules have to be negotiated and agreed with other EU Member States or with other Governments at a wider international level.

Departmental approaches to identifying measures to reduce administrative burdens

Consultation

3.9 Consultation with businesses is fundamental to the success of Government initiatives to reduce the burden of regulation. Policy makers need to develop an understanding of which aspects of regulation cause 'grit in business systems' to make complying with regulation a smoother process for business. The four departments have all recognised the importance of consultation in identifying potential measures and have consulted primarily with already established and formalised stakeholder groups:

- CLG has established a Monitoring Group with key stakeholders from business, Local Authorities and the voluntary sector. The Group provided input to the 2006 Simplification Plan and mostly fulfils a challenge and scrutiny function;
- DTI runs a Ministerial Challenge Panel that provides external scrutiny of new regulatory proposals to ensure new regulation is considered by senior officials;
- HSE has set up a Monitoring Group of representatives from business, charities, Local Authorities, trade unions and HSE staff to review the Simplification Plan. The Small Business Trade Association Forum that provided suggestions for simplification measures, was consulted on the 2006 Simplification Plan and continues to be involved with projects in the 2007

Plan. HSE has an internal challenge panel that scrutinises all regulatory and large non-regulatory policy projects; and

■ HMRC has been consulting its Administrative Burdens Advisory Board on what actions to take based on the data collected in the measurement exercise. The aim is to focus on areas that are likely to make a real difference to business. The Board is comprised of business representatives and is externally chaired. HMRC has also developed a 'consultation framework' for making sure that consultation is carried out often and early in the policy-making process. The framework covers both formal and informal consultation.

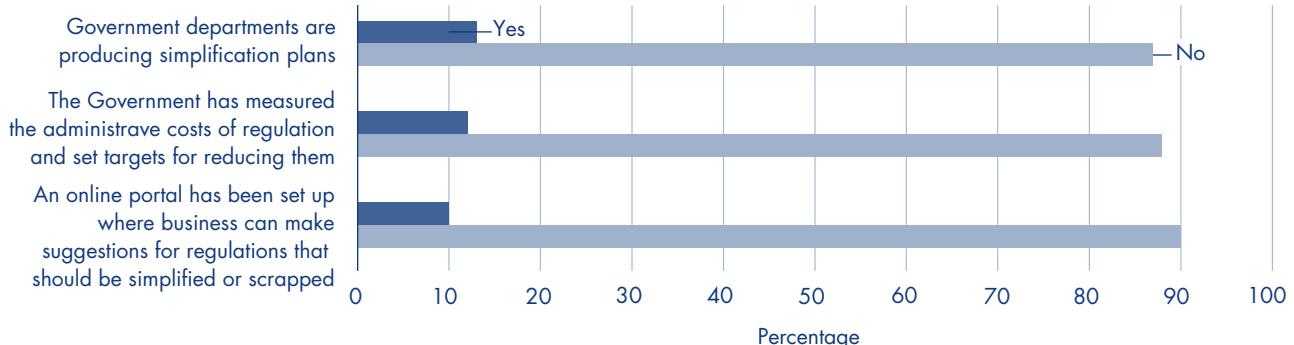
3.10 The NAO has found that consultation is commonly a strength of departmental approaches to considering new regulations and, in particular, there was, generally, adherence to the Cabinet Office code of practice on consultation.³⁶ Only 17 per cent of respondents to the NAO's business survey, however, agreed that Government consults well before new regulation, or change to an existing regulation, is introduced (Figure 3 on page 13). This is likely to reflect departmental approaches of consulting primarily with trade and sector organisations, rather than directly with businesses. However, it is important that departments develop strategies to seek the views of the wider business community, particularly as it is especially problematic for smaller businesses to find the time to engage in formal consultation. Trade bodies also have an important role to play in raising the awareness of their members and encouraging the submission of ideas for burden reduction.

The on-line portal

3.11 The BRE set up an online portal in September 2005 to provide a flexible method for businesses to communicate with Government and submit simplification proposals. The portal could, potentially, be an important method for Government to receive feedback on what businesses find burdensome about complying with regulation. However, an Institute of Directors report found that departments were not always meeting the target of responding to proposals within 90 working days.³⁷ The NAO survey results also demonstrated a low level of awareness of the portal and other Administrative Burden Reduction initiatives (Figure 15). In spring 2007, the BRE updated the portal in an attempt to strike a balance between simplicity for users in submitting proposals and maintaining a requirement for submissions to be evidence-based. In addition, businesses' proposals and Government responses can now be viewed online through the portal.

15 Awareness of Government initiatives to reduce administrative burdens

Are you aware of any of the following initiatives by Government to try and improve regulation and reduce the current burdens on business?



Source: National Audit Office/Ipsos MORI survey of 2,000 businesses conducted in 2007

A comparison of business priorities with actions proposed in departmental plans

Business priorities for improvements in the regulatory environment

3.12 The NAO asked businesses about the administrative tasks that make it burdensome to comply with regulation. The results showed that the majority of respondents found all of the administrative tasks of complying with regulation burdensome (**Figure 16 overleaf**). The most burdensome areas were ‘irritation factors’: ‘having to keep up to date with changes to existing regulations’ and ‘the length of time it takes to go through the whole compliance process’. These results demonstrate the importance of addressing the wider aspects of the regulatory regime, rather than focusing exclusively on the tasks that impose the highest administrative burdens on business. BRE guidance on Simplification Plans highlights this and states that “success will be achieved if departments and regulators deliver a net reduction of administrative costs and a real, tangible decrease in regulatory burdens that matter most to stakeholders”.³⁸

3.13 Our survey focused on the five areas of law that, according to the measurement exercise, created the highest administrative burdens: Planning Law, Company Law, Employment Law, Tax Law and Health and Safety Law. Further analysis of our survey results showed that:

- responses relating to Health and Safety were consistently more positive than other areas (particularly Planning law); and

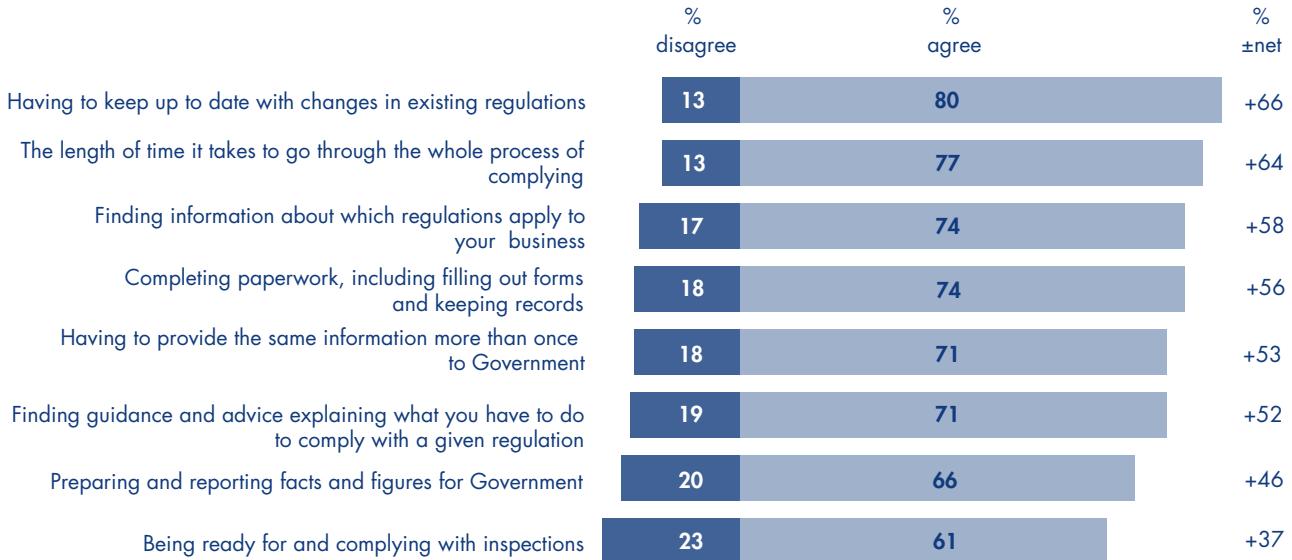
■ small and medium-sized enterprises (SMEs) found administrative activities more burdensome than large businesses. 75 per cent of SMEs agreed that it was difficult to find information about which regulations apply, compared with 58 per cent of large businesses. 71 per cent of SMEs reported that finding guidance and advice on compliance is a burden, compared with 58 per cent of large businesses.

3.14 We also asked businesses about the importance of the measures that departments were proposing to make it easier to comply with regulation. The results show that measures to improve the clarity and simplicity of the regulatory environment were the top priorities (**Figure 17 overleaf**). It is important, of course, that the departmental approaches are tailored to an understanding of the context of specific regulations.

3.15 **Figure 18 on page 25** lists business priorities by area of law and shows that clarity, simplicity and guidance are consistently among the top three on the business wish list. The exception is in the area of Tax Law where ‘not having to provide duplicate information to Government’ is seen as more important than improving guidance. However, not having to provide duplicate information to Government received high mean scores in all areas. For all five areas of law, the provision of background information about regulation and a wider use of online tools were seen as less important. It should be noted that the survey provides results for the five regulatory areas in their entirety and does not take into account differences between sub-sections of each regulatory area.

16 Aspects of complying with regulations that businesses find burdensome

Do you agree or disagree that the following administrative activities are a burden when complying with regulations?



Source: National Audit Office/Ipsos MORI survey of 2,000 businesses conducted in 2007

17 Importance of Government measures to reduce burdens on business

How important, if at all, would the following measures be in making it less burdensome for your business to comply with regulation?

Measures



Source: National Audit Office/Ipsos MORI survey of 2,000 businesses conducted in 2007

NOTE

Respondents were asked to rate the measures on a scale of 1-10, where 10 was the most important. Scores of above 8 are considered to be very important.

18

Burden reduction measures in order of importance to business (score out of 10)

	Planning Law	Company Law	Employment Law	Tax Law	Health and Safety Law
1	Simplification of complex rules (8.70)	Improved access to information setting out in clear and simple language which regulations apply to a business (8.7)	Simplification of complex rules (8.52)	Simplification of complex rules (8.81)	Improved access to information setting out in clear and simple language which regulations apply to a business (8.65)
2	Provision of guidance that sets out in clear and simple language what a business has to do to comply with regulation (8.65)	Simplification of complex rules (8.64)	Provision of guidance that sets out in clear and simple language what a business has to do to comply with regulation (8.4)	Improved access to information setting out in clear and simple language which regulations apply to a business (8.61)	Simplification of complex rules (8.52)
3	Improved access to information setting out in clear and simple language which regulations apply to a business (8.58)	Provision of guidance that sets out in clear and simple language what a business has to do to comply with regulation (8.61)	Improved access to information setting out in clear and simple language which regulations apply to a business (8.33)	Ensuring businesses do not have to provide duplicate information to Government (8.6)	Provision of guidance that sets out in clear and simple language what a business has to do to comply with regulation (8.48)
4	Ensuring businesses do not have to provide duplicate information to Government (8.42)	Ensuring businesses do not have to provide duplicate information to Government (8.46)	Ensuring businesses do not have to provide duplicate information to Government (8.16)	Provision of guidance that sets out in clear and simple language what a business has to do to comply with regulation (8.42)	Ensuring businesses do not have to provide duplicate information to Government (8.33)
5	Consultation with business before any change to regulation takes place or new regulation is made (8.31)	Consultation with business before any change to regulation takes place or new regulation is made (8.23)	Higher levels of stability and less frequent changes to regulations (7.94)	Consultation with business before any change to regulation takes place or new regulation is made (8.26)	Consultation with business before any change to regulation takes place or new regulation is made (8.31)
6	Improving regulators' and inspectors' understanding of business (8.22)	Higher levels of stability and less frequent changes to regulations (8.16)	Consultation with business before any change to regulation takes place or new regulation is made (7.9)	Higher levels of stability and less frequent changes to regulations (8.17)	Higher levels of stability and less frequent changes to regulations (8.20)
7	Higher levels of stability and less frequent changes to regulations (8.18)	Improving regulators' and inspectors' understanding of business (8.08)	Improving regulators' and inspectors' understanding of business (7.83)	Improving regulators' and inspectors' understanding of business (8.13)	Improving regulators' and inspectors' understanding of business (8.16)
8	Provision of background information that explains what the purpose of a given regulation is (7.52)	Provision of background information that explains what the purpose of a given regulation is (7.38)	Provision of background information that explains what the purpose of a given regulation is (7.2)	Provision of background information that explains what the purpose of a given regulation is (7.34)	Provision of background information that explains what the purpose of a given regulation is (7.46)
9	Improvement to and more use of online tools such as electronic forms and information (6.92)	Improvement to and more use of online tools such as electronic forms and information (6.98)	Improvement to and more use of online tools such as electronic forms and information (6.38)	Improvement to and more use of online tools such as electronic forms and information (6.77)	Improvement to and more use of online tools such as electronic forms and information (6.98)

Source: National Audit Office/Ipsos MORI survey of 2,000 businesses conducted in 2007

Actions proposed in departmental 2006 plans

3.16 A review of the CLG, DTI and HSE 2006

Simplification Plans showed that the departments have focused on addressing the areas of regulation that impose the highest administrative burdens. They are prioritising initiatives that will contribute to their reduction targets but also measures that address business' concerns. Departments have proposed a wide range of activities, focusing primarily on non-legislative measures to improve the regulatory environment. HMRC is taking advice from its Administrative Burdens Advisory Board to ensure the department prioritises work on burdens that businesses perceive as the most irritating. In most cases, there is a match between departments' proposed initiatives and the type of measures that businesses think are important for improving the regulatory environment.

3.17 We undertook a more detailed analysis of the proposed approaches of CLG, DTI, HMRC and HSE, and compared their planned initiatives against our business survey results in the five areas of law.

Communities and Local Government

3.18 Planning regulations account for a majority of CLG's administrative burdens and is its top priority in terms of simplification measures. Most of CLG's measures aim to alter regulations to achieve an overall simplification of the planning system. Non-legislative measures include

providing more and better electronic solutions; simplifying forms; and making applying for planning consent a simpler and more consistent process, thereby reducing the overall time it takes to go through the process. The proposals largely match the types of measures that businesses ranked as important. The one exception is the proposed increase in the use of online tools, which was ranked as the least important change by businesses (**Figure 19**).

Department of Trade and Industry

3.19 Two of the DTI's areas of regulation which impose the largest administrative burdens are Company Law and Employment Law. DTI's 2006 Simplification Plan prioritises simplification measures in these areas.

3.20 Within the area of Company Law, the measures included in the Companies Act 2006 provide the framework for reducing burdens. The Companies Act aimed to respond to businesses' calls for simplification of complex rules. Our survey indicates that the DTI should also focus on ensuring that information and guidance on the new regulations is clear and simple. For employment law, the DTI is focusing on improving the guidance available to business. This demonstrates an understanding of the types of measures likely to make a difference for business. However, the use of online tools, which features as a priority in the Plan, was ranked by businesses as the least important in the NAO survey (**Figure 20**).

19 CLG 2006 simplification measures for Planning Law

Planning regulations covered in 2006 Plan (expected annual reduction)	Proposed measures in CLG 2006 Simplification Plan (£188 million reduction per year)
Planning and Compulsory Purchase Act 2004 (£124 million)	The Act intends to make applying for planning consent a simpler and more consistent process; for example, planning applications to be submitted electronically; and more information will be made available about what is required for an application to be valid. New system of Statutory Plans to enable Local Authority Plans to be produced more quickly.
Planning White Paper published in May 2007	Improve efficiency, speed, flexibility, transparency and predictability of planning system. Consideration of how to reduce information burdens associated with submitting planning applications.
Householder Development Consent Review (HDCR) (£53 million)	Options for introducing more proportionate, customer-focused consent regimes for householders, which could also free up local authority resources.
Local Development Orders (LDOs) (£11 million)	Provide discretionary power for local authorities to make a LDO to ensure quicker and more cost-effective delivery of developments specified in a LDO.

Source: CLG Simplification Plan 2006

20 DTI 2006 simplification measures for Employment Law and Company Law

Company Law aspects covered in the 2006 Plan (expected annual reduction)	Proposed measures in DTI 2006 Simplification Plan (£195 – 246 million reduction per year)
Simpler Law for Smaller Firms (£19.2 million)	Law to be rewritten with clearer structure and language. Produce better guidance.
Electronic Communication with Shareholders (£16.3 – 24.4 million)	Provisions included in Companies Act 2006.
Remove requirement for private companies to hold AGM (£45.5 – 47.9 million)	Abolish requirement. Modernise company decision-making processes.
Capital Maintenance (£34.4 – 8.7 million)	Simplify and abolish 'financial assistance' rules for private companies.
Other Companies Act measures (£13 million)	Allowing registers of Directors to be kept anywhere, simplifying written resolution procedures and providing non-court procedures. Companies Act 2006 introduces statutory statement of directors' duties.
My Companies House (£6.5 – 13 million)	Development of initiative, electronic services, individual company portals and provide access to wider range of services.
Joint-filing Project with HMRC (£60 million)	Forms for Corporation Tax registration at incorporation and linked filing of returns and accounts.
Employment regulations covered in 2006 Plan (Expected Annual Reduction)	Proposed measures in DTI 2006 Simplification Plan (£412 – 417 million reduction per year)
Dispute Resolution (£57 million)	Range of options considered for improving current arrangements.
Employment Particulars (£145 – 160 million)	Online tool on businesslink.gov.uk for producing statements and improved guidance.
Agency Workers (£78 million)	Improved guidance for employment agencies. Work on possibility to reduce administrative requirements related to providing information to hirers.
Employment Status (none stated)	Provision of Interactive tool on businesslink.gov.uk
Redundancy (£5 million)	Improved guidance and provision of online tool for written statements on businesslink.gov.uk
National Minimum Wage Regulations (£5.1 million)	Requirement to provide written agreement for the hourly rate of the minimum wage to apply where the worker is taking part in accredited training in certain circumstances was abolished on 1 October 2006.
Guidance – general (£122 million)	Content and delivery of guidance should meet business needs, help-line provision be improved and business awareness of guidance be raised.
Maternity Leave and Pay (non-quantified irritation factors)	Improved advice and guidance.

Source: DTI Simplification Plan 2006

Health and Safety Executive

3.21 The area of regulation imposing the largest administrative burdens is the Management of Health and Safety at Work Regulations 1999. HSE's Simplification Plan focuses on explaining the requirements of these regulations. For a large part of these regulations, HSE provides guidance to business on how to comply. As a main simplification measure, HSE is seeking to provide more straightforward information and guidance to provide greater clarity and reduce complexity. This matches the type of measures that businesses cited as important in improving their experience of complying with Health and Safety Law (**Figure 21 overleaf**).

HM Revenue & Customs

3.22 HMRC has set itself a long-term aim of ensuring that businesses do not have to provide duplicate information to the department; that inspections are easier to deal with; that support, education and guidance is clear and targeted and provided when businesses need it; that businesses have a single point of contact within the department; and that there are flexible payment options. This is consistent with what businesses told the NAO that they would like to see in the area of Tax Law (**Figure 22 overleaf**).

21 HSE simplification measures for Occupational Health and Safety Law

Initiative (and expected reduction)

Management of Health and Safety at Work Regulations
(target £200 million)

Gas Safety (Installation & Use) Regulations

Lifting Operations & Lifting Equipment (LOLER)
and Provision & Use of Work Equipment
Regulations (PUWER)
(up to £33 million)

Health and Safety Information for
Employees Regulations
(up to £12 million)

Construction Regulations
(These elements were not measured in the
measurement exercise)

Control of Substances Hazardous to
Health Regulations
(target £11 million)

Health and Safety at Work etc Act 1974

Proposed measures in HSE 2006 Plan (£256 million reduction)

Sensible Risk Management: To develop the culture of health and safety at work – providing accessible, useable advice and guidance, encouraging effective risk management through proportionate risk assessment.

A review of the gas safety regulatory regime including reviewing the landlords' gas safety check in line with risk based principles.

Initially producing new guidance to clarify what is required. Followed by a scoping review of the regulations to consider other simplification measures.

Consideration of the usefulness of the approved health and safety poster and investigation of delivery options for the information on it.

To simplify the process for checking contractors' competence and to remove four pieces of legislation to produce one key set of consolidated regulations.

Radically rationalising guidance, making it more accessible and focusing on key 'how to' information for employers.

A review of the health and safety policy statement and what, if any, overlaps there are with the requirements of the Management Regulations.

Source: HSE Simplification Plan 2006

22 HMRC simplification measures in the area of tax administration

Focus areas 2005-2010

Forms and returns (£337 million)

Audits and inspections
 (£14 million over three years and
 £21 million over five years)

Proposed action in the area of administering tax (£372 million reduction)

Reducing the burden of forms and returns.

This applies to the areas of corporation tax, income tax for the self employed and partnerships, Stamp Duties, customs duties, PAYE and employer taxes as well as to particular regimes such as pensions and the construction industry.

Provide online solutions for submitting returns and making payments.

Working with businesses to identify areas for change.

Develop a fresh approach to audits and inspections.

Better risk profiling to minimise the impact on compliant businesses.

Working to develop new types of audit and inspection.

Working through the Review of Links programme providing early certainty on the effect of significant transactions.

Source: HMRC

3.23 Some departments have found that it is difficult to use the Administrative Burdens Reduction Programme to initiate wide-ranging reviews of regulations. They have, however, sought to ensure that the need to consider the burden of regulation is an integral part of wider policy reviews, as exemplified by the recent reviews of Company law, the Land-Use Planning System and the domestic gas regulatory framework (**Figure 23**).

Updating plans in 2007

3.24 Departments will publish the second round of Simplification Plans in autumn 2007. The new Plans should include an update on the level of reductions achieved; new proposed measures; and information about how new regulations affect baselines. The targets are for net reductions in administrative burdens, so departments must take into account new regulations that have been introduced since May 2005.

23 Recent large-scale reviews of regulatory regimes

The Companies Act 2006

In 1998 the DTI initiated a review of Company Law to consider how it could be modernised to provide a simple, efficient and cost effective framework for British business in the twenty-first century. The result of this review is the Companies Act 2006, which received Royal Assent on 8 November 2006. The implementation of the Act will be completed by October 2008.

Plans to reform the Land-Use Planning System

Reform of the Land-Use Planning System is an important part of the CLG Simplification Plan. Administrative burdens reduction measures in this area will be drawn from findings of the Barker Review of Land-Use Planning that reported in 2006. Its findings formed the basis of the Government's Planning White Paper, published in May 2007.

The Gas Review

HSE initiated a review of the domestic gas regulatory framework to consider how to make the registration and competence system for gas installers simpler and more competitive, and to research the viability of taking a risk-based approach to the requirement for a gas safety check in rented domestic premises. The amended registration scheme is now running while the review continues to investigate the options for the gas safety check.

Source: DTI, CLG and HSE

3.25 In 2007 departments face a triple challenge of delivering the measures proposed in the 2006 Plans; identifying additional initiatives that will help them achieve further progress towards their targets; and ensuring that initiatives make a real difference for businesses. For the 2007 Plans, departments have had time to make better use of the results, both quantitative and qualitative, from the measurement exercises. In particular, the qualitative information provides some indication of the areas that are particularly problematic for business. The BRE issued guidance on how to use the measurement exercise results and the stock database in April 2007. The BRE is also encouraging departments to not only focus on administrative burdens but to also identify policy cost savings and reduce administrative burdens on the third and public sectors.³⁹

Delivering reductions in administrative burdens

3.26 To maintain focus on delivering the aims of the Programme, departments have established processes to incentivise delivery and monitor policy teams' progress against deadlines:

- CLG: there are ad hoc meetings between the Better Regulation team and policy teams to discuss progress against the trajectory of reductions and potential additional simplification measures. An Officials Review Group has also been set up, chaired by the Board Champion for Better Regulation, to help steer progress. Performance is reviewed every six months to ensure that progress is being made.
- DTI: project management disciplines are used for simplification measures, many of which are established as discrete projects. The Board Champion for Regulation monitors delivery against deadlines and the Programme Board oversees delivery of all Programme initiatives.
- HSE: There are quarterly progress meetings between the Better Regulation team and policy teams. Performance is reviewed every six months to ensure that progress is being made. The Better Regulation Oversight Group, made up of senior managers from all divisions of HSE, meets four times per year to monitor progress on the key initiatives in the Simplification Plan and to maintain the focus on better regulation across HSE.

- HMRC: The HMRC Directors involved in delivering burden reductions have to appear before an internal Challenge Panel on a regular basis where they are questioned about progress. The Panel holds Directors accountable for progress in their areas and for delivering reductions. Progress is reported to a working group comprised of HMRC's core Directors, as well as to a Deregulation Programme Board of senior staff from HMRC and the Treasury. This Board holds Directors to account for delivering reductions in different policy areas (**Box 3**).

BOX 3

HMRC training for policy staff

HMRC has put in place a training programme for policy staff and analysts to ensure that all staff involved in delivering reductions in administrative burdens and improvements for business take a consistent approach to the work. Elements of the training are compulsory and have been offered in HMRC locations around the country. The first round of training involved explaining the research and results from the HMRC/KPMG measurement exercise. A second round of training is aimed at explaining how to use a new HMRC/KPMG database and software to test options for reductions and calculate reductions achieved.

- 3.27** Adequate resources are also important to implementing the Programme. The measurement phase and producing the first round of Simplification Plans were seen by many departments as a major project. There is a risk that completion of this phase is seen as the end, rather than the start, of the Programme. Some Better Regulation Units have reduced in size and the BRE's 'Administrative Burdens Team' that managed the BRE/PwC measurement exercise has been dissolved. The BRE has, however, designated 'account managers' for each department who will act as a source of expertise and support departments in meeting reduction targets.

External challenge

3.28 The Better Regulation Commission (BRC) provides external quality control of Simplification Plans. In 2007, the BRC will examine the progress made in delivering the reductions identified in the 2006 Plans and the extent to which the 2007 Plans contain credible reductions in administrative burdens. This will include an examination of progress towards the 25 per cent target; quantification of new burdens; and the extent to which the plans contain a realistic timetable for delivery. HMRC has established a separate governance and challenge procedure to ensure that progress is made and maintained.

3.29 In addition to the BRC assessment, Simplification Plans are considered by the Panel for Regulatory Accountability (PRA). The PRA, which is the ministerial committee chaired by the Prime Minister,⁴⁰ advises on how close Plans are to the 'gold standard'. Plans must be approved before they can be published. The PRA also plays a role in holding departments to account for their performance and progress in delivering measures set out in Simplification Plans. In addition, all regulatory proposals likely to impose major new administrative burdens on business require clearance from the PRA.⁴¹

PART FOUR

Evaluating and communicating outcomes

4.1 This part:

- examines how departments are intending to **measure the achievements** of the Administrative Burdens Reduction Programme;
- considers the extent to which the emerging approach to measurement will enable a robust **evaluation of the success of the Programme**, its wider contribution to reducing regulatory burdens and progress towards the longer-term goal of improved productivity; and
- evaluates the arrangements for **reporting achievements**.

4.2 Measuring achievements and assessing outcomes is essential in order to determine if the programme is delivering its intended objectives and achieving value for money. It is also important to learn lessons to improve the way the Programme is being implemented.

Measuring reductions in administrative burdens

4.3 The NAO Report on the Government's Efficiency Programme (HC 802, 2005-06) identified three key principles that departments should adhere to in measuring efficiency gains: measure against clear baselines; develop comprehensive calculation methodologies; and establish clear and reliable audit trails. We used these principles to evaluate how the four departments were intending to measure their achievements in reducing administrative burdens.

Baselines

4.4 Departments will use the results of the measurement exercise as the baseline against which to measure reductions in administrative burdens. The limitations of the original measurement method mean, however, that the baseline costs should be treated with caution. They were based on small sample sizes and only give information about the cost of 'administrative activities', which means that any cost savings achieved by addressing 'irritation factors' or wider compliance costs cannot be assessed against the baselines.

4.5 The targets for reducing administrative burdens are net targets. This means that departments must calculate the administrative burdens imposed by all new regulations, introduced after May 2005, and add this to their baselines. In May 2007, the BRE introduced a new Impact Assessment process that requires policy officials to include an estimate of administrative burdens. From November 2007 departments must apply the new Impact Assessment requirements to all new regulatory and non-regulatory proposals. In the second round of departmental Plans, to be published in 2007, departments will need to adjust their baselines to include new or amended legislation.

Measurement methodology

4.6 Measuring reductions in administrative burdens is a challenge. The Programme is the first of its kind in the UK and departments had not previously measured the administrative costs of regulation, or the impact of their initiatives to reduce regulatory burdens. The BRE has prescribed that departments should: use the Standard Cost Model to calculate achieved administrative burdens reductions; to estimate the administrative burdens of new proposals in Impact Assessments; and update their baselines.

4.7 Recalculations of departments' administrative burdens will be carried out annually and updated each May. This will allow for comparisons of the Government total administrative burdens year on year, and enable departments to track progress towards their administrative burdens targets. The BRE's 2005 'UK Standard Cost Model' manual and Simplification Plan guidance, issued in 2006, outlines the methodology and approach that departments should take to calculate reductions and update their baselines. The BRE's framework guidance was issued in May 2007 and provides further high-level advice to departments on how to accurately and consistently calculate and report progress towards meeting their reduction targets.

4.8 The BRE has advised departments to take a pragmatic and proportionate approach when calculating revisions to administrative burdens, concentrating time and resources on those regulations likely to have the highest cost. Departments also have discretion to decide whether to use the same approach as used in the original measurement exercise or base costs on comparable regulations.⁴²

4.9 Departments have now begun to adapt the BRE's measurement framework to their own circumstance. HMRC has established a methodology and follows the Standard Cost Model for measuring reductions in administrative burdens. It has also been working on adjustments to its baseline since March 2007. It remains to be seen with what level of consistency the framework will be interpreted and applied across Government.

Audit trail

4.10 A clear audit trail should be available to verify the data used to calculate burden reductions. Our focus departments have recognised the importance of, and need for, maintaining audit trails. We have not yet tested the systems but the Better Regulation teams in departments should learn lessons from their colleagues in Efficiency teams to understand the standards that the NAO expects. HMRC is planning to include its administrative burdens reduction targets in its next set of Departmental Strategic Objectives.

4.11 The new Impact Assessment process, requires departments to provide evidence for both the impact of new regulation and of reductions achieved in departmental baselines. This evidence has to be validated by departmental Better Regulation teams and the BRE. This information will also be recorded in the Administrative Burdens Database, which is the successor to the BRE/PwC stock database, from July 2007.

Evaluating the wider effects of the Programme

4.12 Departments have recognised the need to demonstrate progress towards their targets but, at the same time, are seeking to deliver wider improvements in the regulatory environment and address the non-quantified 'irritation factors'. A range of indicators will be required to assess the outcomes of these initiatives (**Box 4**). Our four focus departments have started to develop their own methodologies and indicators to assess the impact of their approaches and evaluate wider improvements in the regulatory environment. Although their approaches have yet been finalised, there are examples of good practice:

- HMRC is using its baseline database to estimate reductions that can be achieved and will review its estimates before the end of the Programme in 2010 to assess if they were correct. HMRC already assesses the outcomes of measures not directly related to reducing baseline figures; initially through Impact Assessments and, after implementation, through its Compliance Cost Review (CCR) programme.⁴³ Any impact on policy/compliance costs will also be assessed through the new Impact Assessment process and HMRC plans to review both compliance costs and estimated reductions in administrative burdens through its CCR programme.
- HSE's approach focuses on explaining the requirements of its regulation, especially in the area of risk assessment. It is planning, therefore, to secure agreement from businesses to be part of an assessment of outcomes that will span a number of years. This would allow HSE staff to assess outcomes by monitoring the same businesses to see if they change their approaches to risk assessment over time.
- DTI has developed an IT tool to enable policy officials to model how changing features of regulations would impact on the regulation's administrative costs. The original version contained only DTI data but, due to the level of interest from other departments, the BRE is further developing this to create a Government-wide version.

BOX 4

International comparison

The Confederation of Danish Industries is developing a survey of start-ups to determine how the environment for new businesses is changing as a result of Government measures to reduce regulatory burdens.

4.13 Despite these positive developments, our examination identified two factors that raise doubts over the extent to which it will be possible to measure accurately the impact of initiatives to deliver reductions in administrative burdens and improvements in the regulatory environment:

- there remains much uncertainty over measurement, including a need to re-perform the original administrative burdens calculations and how to treat business compliance rates in cases where actual compliance rates are not known; and
- departments will not be able to rely solely on measuring cost reductions to evaluate the success of the Programme and further work is required to develop a broader suite of indicators.

4.14 The *Less is More* report recommended that the Government should consider how the total cumulative impact of regulation on business could be assessed. This work has not been a top priority while Government has focused on establishing the framework for delivering reductions in administrative burdens. The DTI has completed some work on a methodology for measuring the total cumulative cost of regulation.⁴⁴ It would be important to develop this further to gain a fuller picture of costs to business of complying with regulation.

4.15 Assessing the longer-term objective of improved productivity will be the most challenging task, due to the difficulties of such measurements and because there is no conclusive empirical evidence demonstrating the link between regulation and productivity levels. In January 2007, the BRE and departments established a cross-departmental group to examine the relationship between regulation and productivity.

Reporting achievements

The importance of communication

4.16 The NAO business survey highlights the importance of Government communication with business and shows that it is the source of much business concern about regulation. Our results show that most respondents had little confidence that the Government will be able to reduce regulatory burdens (**Figure 24 overleaf**). Overall, 14 per cent showed a positive outlook, although this rose to 19 per cent among large businesses and 21 per cent for companies running for between one and three years.

4.17 Communication of achievements is also important to raise awareness of changes and improve the credibility of the Government's efforts. The Dutch Court of Audit's report on the Administrative Burdens Reduction programme in

the Netherlands found that business' expectations were far higher than the perceived reduction in administrative burdens. This was partly due to the Government not communicating well enough with businesses and not managing expectations.

4.18 **Figure 25 overleaf** shows that 75 per cent of businesses think that the burden of regulation will increase in the next year. Awareness of Government initiatives positively affects the level of confidence that business people have in the Government's ability to successfully deliver the Administrative Burden Reduction programme. For example, respondents who were aware of the online portal were more likely to be confident that the Government will succeed in reducing burdens (21 per cent were confident compared with 13 per cent of those who had not heard of the online portal). There is also a correlation between attitudes to regulation in general and confidence that the Government will succeed in reducing burdens: 91 per cent of those who find it difficult to comply with regulations were not confident that the Government will succeed in reducing burdens, compared with 75 per cent of those who find it easy to comply.

The BRE's role in reporting achievements

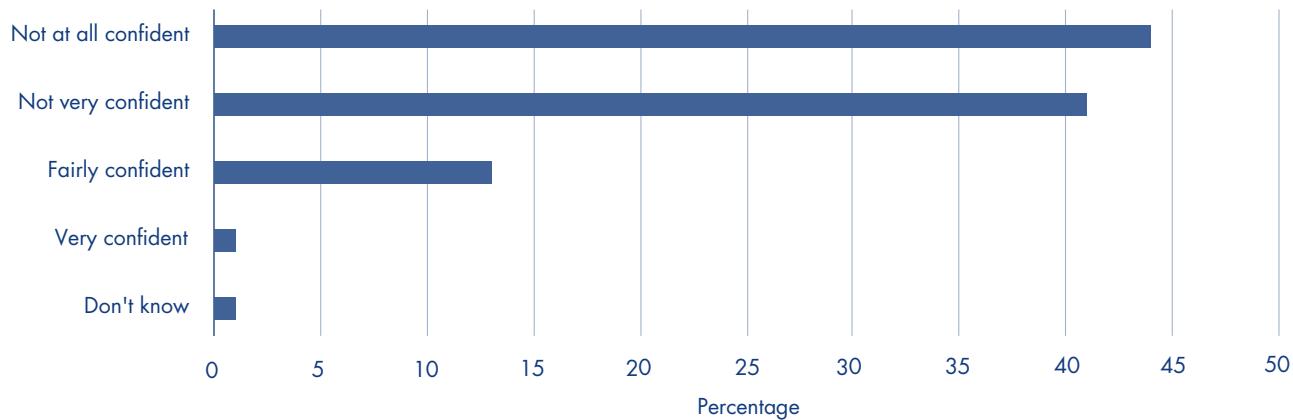
4.19 The BRE account managers will work with departmental Better Regulation teams to establish strategies for delivering reductions and meeting targets. Account managers and Better Regulation teams will jointly review progress every six months to ensure that departments are meeting deadlines and achieving reductions. HMRC has put in place a separate framework for reporting on its achievements.

4.20 Departments are considering how to communicate changes in the regulatory environment to businesses but have not yet finalised their strategies. The BRE is developing a communications strategy, which will be shared with other Government departments. The emphasis will be on communicating 'good news stories' and providing examples of achieved reductions in administrative burdens to businesses, charities and voluntary organisations.

4.21 Our survey also highlighted that 80 per cent of businesses were concerned by the need to keep up to date with changes in regulations. The *Less is More* report recommended that the use of Common Commencement Dates (6 April and 1 October) should be extended to communicate changes as a result of measures taken to reduce burdens, as well as new regulations. Four departments and two regulators have so far signed up to using Common Commencement Dates⁴⁵ but it is not clear if they will be used for communicating changes as well as new regulation.

24 Business confidence in the Government's ability to reduce burdens

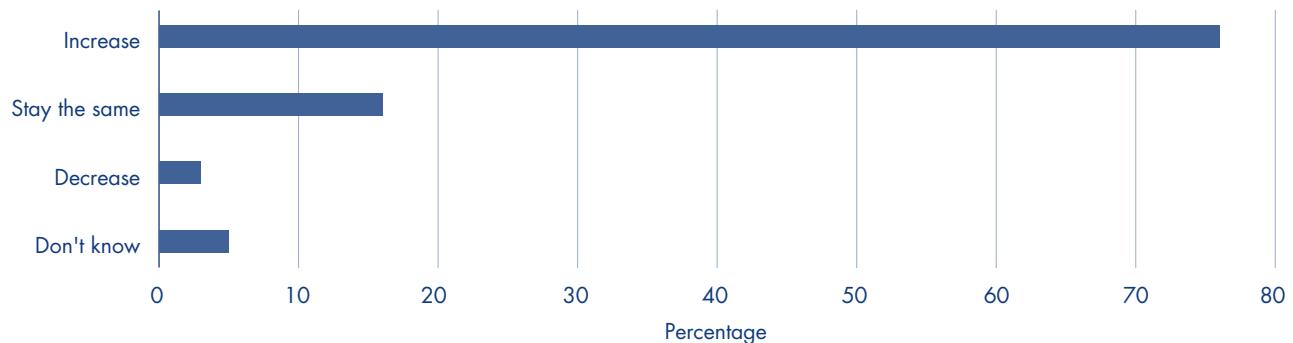
How confident are you that the Government will succeed in reducing regulatory burdens on business and deliver real benefits for your business?



Source: National Audit Office/MORI survey of 2,000 businesses conducted in 2007

25 Business perception of how regulatory burdens will change in the next 12 months

In the next 12 months, do you think that the burdens on business resulting from regulation will decrease, stay the same or increase?



Source: National Audit Office/MORI survey of 2,000 businesses conducted in 2007

APPENDIX ONE

The National Audit Office has begun an evaluation of the value for money and outcomes of the Government's programme to reduce the administrative burdens on business of complying with regulation. This report is the first in a series of annual reports with the overall objective of reporting to Parliament on if, and how, the Government is:

- delivering against its targets for reducing administrative burdens on business by 2010;
- fulfilling its commitment to implement the recommendations of the Better Regulation Task Force's *Less is More* report; and
- achieving, as a result of delivering these commitments, a real difference to UK businesses in the form of higher levels of innovation and improved productivity.

In order to evaluate the Government's approach to reducing regulatory burdens on business, we focused on the four departments whose regulation imposes the largest administrative burdens: Communities and Local Government (CLG), the Department of Trade and Industry (DTI), HM Revenue & Customs (HMRC) and the Health and Safety Executive (HSE).

We have focused on actions taken by these departments to reduce costs in the five areas of regulation that impose the largest burdens on business: Planning Law, Company Law, Employment Law, Tax Law and Health and Safety Law.

The five areas of law

Planning Law: This plan-led system sets out what can be built and where. These laws are administered by Communities and Local Government.

Company Law: Company Law sets out the legal basis on which companies are formed and run. It also includes the law governing the relationships among various constituents of a corporation such as shareholders, directors and management. These laws are administered by the Department of Trade and Industry.

Employment Law: Employment laws are all laws that regulate the relationship between employer and employee. These laws are administered by the Department of Trade and Industry.

Source: CLG, DTI, HMRC and HSE

Scope and methodology

Departments and their areas of responsibility

Communities and Local Government (CLG) was created in May 2006 and brought together the main responsibilities of the Office of the Deputy Prime Minister, plus parts of the Department of Trade and Industry and Home Office. Overall its functions include planning, housing, local government, regeneration, neighbourhood renewal, equality, communities, civil renewal and also building and fire safety regulations.

The Department of Trade and Industry (DTI) is responsible for trade, business, employees, consumers, science and energy. Its purpose is to create the conditions that enable business and employees to prosper and help the UK respond to the challenge of globalisation. DTI is both the department for business and a major regulator.

HM Revenue & Customs (HMRC) is responsible for collecting the bulk of tax revenue, as well as paying Tax Credits and Child Benefits, and strengthening the UK's frontiers. They ensure that the correct tax is paid at the right time, whether this relates to payment of taxes received by the department or entitlement to benefits paid.

The Health and Safety Commission and its Executive, together with Local Authorities, are responsible for the regulation of almost all the risks to health and safety, arising from work activity, in Britain. Their mission is to protect people's health and safety by ensuring that the risks in the workplace are properly controlled.

Source: CLG, DTI, HMRC and HSE

Tax Law: Tax laws cover direct taxes, paid by individuals or businesses on money earned or capital gained, as well as indirect taxes, paid by individuals or businesses on money spent on goods or services. The laws are administered by HM Revenue & Customs.

Health and Safety Law: These laws have been put in place to protect people's health and safety by ensuring that risks in the workplace are controlled and managed. These laws are administered by the Health and Safety Executive.

If the Government's objective is to help businesses spend fewer resources dealing with the administrative tasks involved in complying with regulation, 'value for money' can only be achieved if the intended outcomes for business are delivered, and lead to actual improvements in the regulatory environment. The real test of the Administrative Burdens Reduction Programme, therefore, is the extent to which it delivers meaningful improvements for business. To evaluate the success of the Programme we will track perceptions of regulatory burdens by conducting an annual survey of businesses – the 'business' perceptions of regulation' survey. The survey will measure the impact of Government initiatives to make complying with regulation less burdensome for business.

This year's report is based on:

- Interviews with the Better Regulation Executive (BRE) and officials who worked in the BRE 'Administrative Burdens Team' (now dissolved) and from the Regulatory Reform Directorate and the four focus departments' Better Regulation Units.
- Analysis of Administrative Burdens Reduction Programme documentation.
- Study of the final reports of the measurement exercises from PricewaterhouseCoopers (PwC) and KPMG to the focus departments and interviews with the teams from PwC and KPMG that carried out the measurement exercises.
- Analysis of the BRE/PwC stock database versions 1.1 (received on 3 October 2006) and 1.3 (received on 27 March 2007).
- Consultation with an Advisory Network of business organisations and a focus group of trade association representatives and business people.
- The results from the 2007 NAO 'Business' Perceptions of Regulation' survey.
- Interviews with government, business and Supreme Audit Institution (SAI) representatives in the Netherlands, Denmark and Sweden.

Interviews with the BRE and focus departments

To understand how the measurement exercises were designed, managed and carried out, and to gain knowledge of the processes and structures put in place to reduce the administrative burdens imposed on business by regulation, interviews were carried out with the following:

- The BRE Administrative Burden Team. This team was responsible for designing and managing the measurement exercise that included the administrative burdens imposed on all central government departments and agencies that regulate business and that was carried out by PwC.
- The BRE Better Regulation Board Champion and representatives from the BRE Regulatory Reform Directorate central unit, as well as the BRE account managers for the four focus departments.
- Communities and Local Government Better Regulation Unit.
- The Department of Trade and Industry Better Regulation Team.
- The HM Revenue & Customs Better Regulation and Policy Team.
- The Health and Safety Executive Better Regulation Unit and Chief Economist.

Analysis of Administrative Burdens Reduction Programme documentation

To understand the Government's rationale for focusing on reducing administrative burdens and its approach to doing so, as well as its long-term goals to be achieved by reducing administrative burdens, key documentation relating to the Administrative Burdens Reduction Programme was analysed. This documentation included:

- The Better Regulation Task Force 'Regulation – Less is More. Reducing Burdens, Improving Outcomes' report published in March 2005 and the formal Government response to the report.
- The Budgets 1998-2007, sections relating to promoting enterprise and meeting the productivity challenge.
- The BRE 'Measuring Administrative Costs: UK Standard Cost Model Manual' published in September 2005.
- Guidance from the BRE to departments that were included in the BRE/PwC measurement exercise on Simplification Plans: 'Guidance on Simplification Plans' published in June 2006; 'Administrative Burdens - Routes to Reduction' published in September 2006 and 'Simplification Plan Guidance' published in April 2007.
- The BRE summary of the 19 Simplification Plans published in 2006: 'Simplification Plans: a summary' published in December 2006.

- The Communities and Local Government 2006 Simplification Plan and the Better Regulation Commission's (BRC) review of this Plan.
- The Department of Trade and Industry 2006 Simplification Plan and the BRC's review of this Plan.
- The HM Revenue & Customs 'Delivering a new Relationship with Business: HMRC's plans to deliver a better service for business by 2010-11' published in November 2006 and 'Delivering a new Relationship with Business: progress towards reducing the administrative burden on business' published in March 2007.
- The Health and Safety Executive's 2006 Simplification Plan and the BRC's review of this Plan.

PwC and KPMG measurement exercises final reports and interviews with teams

Both PwC and KPMG produced final reports at the end of the measurement exercises that they were responsible for carrying out. We studied the final reports produced by PwC for CLG, DTI and HSE and the final report produced by KPMG for HM Revenue & Customs to gain a fuller picture of the details of the measurement exercises, the scope and approaches and methodologies used, and the results and analysis of these results.

In addition we carried out interviews with the teams from PwC and KPMG that were responsible for carrying out the measurement exercises.

Analysis of the BRE/PwC stock database

Analysing the contents of the BRE/PwC stock database, versions 1.1 and 1.3, allowed us to gain an overview of what type of information is, and is not, included in the database; identify which types of administrative activities that businesses have to undertake to comply with regulation emerged as the costliest in the BRE/PwC measurement exercise; and which individual regulations seem to impose the highest administrative burdens on business. This, in turn, allowed us to consider options for how the stock database may be used to best effect in the future, and compare the importance of the costliest administrative activities as measured with the importance of non-quantified 'irritation factors' in terms of their effect on businesses' success. This analysis was done in the 'Business Perceptions of Regulation' survey (in particular for Questions 9 and 14). The stock database also indicated which areas of regulation would be sensible to focus on in our examination of the Administrative Burdens Reduction Programme.

Advisory Network of Business Organisations and business focus group

We invited policy staff with experience and knowledge of the Government's better regulation agenda from eight business organisations to join an Advisory Network to assist with analysis of the Administrative Burden Reduction Programme from a business perspective. The business organisations were chosen to ensure representation of all sizes of businesses, as well as key sectors. The Advisory Network works as a sounding board for testing our approach to examining the value for money and outcomes of the Administrative Burden Reduction Programme. It also advises us on the wider business community's view of Government initiatives to reduce administrative burdens and of what really matters to business in terms of a better and more 'business-friendly' regulatory environment. We have consulted the Advisory Network members individually and also conducted a roundtable discussion session to which all members were invited. This session was used for in-depth analysis of the emerging results from the Business Perceptions of Regulation survey. The Advisory Network members are:

- The Association of Chartered Certified Accountants (ACCA)
- The British Retail Consortium (BRC)
- The Confederation of British Industry (CBI)
- The Corporation of London
- The DTI Small Business Service (SBS)
- The Federation of Small Businesses (FSB)
- The Institute of Chartered Accountants in England and Wales (ICAEW)
- The Institute of Directors (IoD)

Furthermore, we organised a focus group with members from the CBI. The focus group was used to discuss the proposed structures and contents of the NAO examination of the Administrative Burden Reduction Programme and the topline results from the Business Perceptions of Regulation survey.

Business perceptions of regulation survey

The main intended outcome of the Administrative Burden Reduction Programme is to measure and then reduce administrative burdens on business, in line with the net reduction targets. To track if this outcome materialises over time, we designed a survey to identify businesses'

perceptions of regulation and the administrative burdens imposed on them by regulation. The survey will also track if, and how, businesses' experience of regulation changes as a result of government initiatives to reduce the cost to business of complying with regulation. The survey will be carried out annually for up to five years and will, in the future, also be used to capture which, if any, Government initiatives are delivering meaningful impacts for business.

The 2006-07 questionnaire was designed to be used for telephone interviews. Bearing in mind that surveys are often viewed by business as an administrative burden the aim was that no interview should take more than fifteen minutes to complete. The questionnaire is divided into four main sections covering:

- businesses' general opinion and perceptions of regulation;
- which aspects of complying with regulation businesses find burdensome;
- businesses' perception of the Administrative Burdens Reduction Programme; and
- Government initiatives that would deliver meaningful impacts.

The questionnaire was developed after extensive analysis of the qualitative information collected during the measurement exercises carried out by PwC and KPMG; the results from the Government measurement exercises; departmental Simplification Plans/action plans; and consultation with the Advisory Network, the NAO VFM Development Team and Government officials who were involved in designing and carrying out the measurement exercises. The questionnaire is included as part of the Technical Summary with survey results that is available on the NAO website (www.nao.org.uk).

The questionnaire was piloted twice before the main stage of the research started. The first pilot was carried out in November/December 2006 with the help of PwC. The second pilot was conducted by Ipsos MORI between 16 January and 2 February 2007 and intended to achieve 200 interviews on the basis of a 2:1 conversion rate. However, only a total 118 interviews were completed, which led to a new estimated conversion rate of 4:1. The pilot results led to only limited changes to the questionnaire and the pilot interviews were, therefore, amalgamated into the mainstage to form part of the final 2,000 base.

Survey mainstage

Ipsos MORI interviewed 2,000 senior managers of British-based companies, such as owners/partners, CEOs, Managing Directors, Finance Directors and other senior

members of staff between 16 January and 2 February 2007 and 13 February and 23 March 2007. The interviews were conducted by telephone using CATI (Computer Assisted Telephone Interviewing).

Sample

Business leads were bought from an approved Ipsos MORI supplier; 793 for the pilot stage and 10,061 for the mainstage. The leads were proportionate to the profile of British businesses by size and sector.

All leads received an advance letter prior to fieldwork providing further information about the research and an opportunity to supply Ipsos MORI with an alternative contact name or number if required, or to remove the company from the sample.

Following the advance letters, 399 leads were issued to the Ipsos MORI Telephone Centre for the pilot (ratio of 2:1 to achieve 200 interviews) and 7,528 for the mainstage (ratio of 4:1 to achieve 1,882 interviews).

Given the small representative base sizes of medium and large businesses and certain sectors such as finance, the sample was disproportionately stratified (**Figure 26**).

26 Sample stratification

	Pilot stage	Mainstage
Base: All respondents	N	N
Sector (four digit SIC code)		
Agriculture	24	440
Construction	32	612
Finance	20	384
Hotel/Catering	22	412
Manufacturing	26	504
Other	65	1,236
Property/Business Services	80	1,520
Public Admin	42	756
Retail/Distribution	64	1,208
Transport	24	456
Size of company		
Small (1 – 49 employees)	344	5,635
Medium (50 – 249 employees)	28	1,089
Large (250+ employees)	27	804
Total	399	7,528

Source: Ipsos MORI

Quotas were set by industry sector and size of business and fieldwork progress was monitored carefully to ensure these targets were achieved. A week before the end of the mainstage fieldwork, it became apparent that a small reserve sample would be required for some subgroups such as the construction, hotel and catering and retail and distribution sectors and 398 leads were subsequently issued.

To allow for assessing both general attitudes towards regulation and any difference between the five focus areas of regulation, each business in the sample was asked to answer the questions thinking specifically about one of the five areas:

- Employment Law
- Planning Law
- Tax Law
- Health and Safety Law
- Company Law

The area of law focused on for each business was assigned at random. A fairly even split between the five areas was achieved.

Response rate

Figure 27 shows the unadjusted and adjusted response rate for the telephone fieldwork – combining response rates for the mainstage and pilot fieldwork.

Data have been weighted by company size and sector due to the stratification of the sample. Weights were applied to reflect the profile of British-based companies.

Where percentages in the charts or tables in the report do not always add up to 100 per cent, it is due to multiple answers, computer rounding and/or the exclusion of neutral, don't know or not stated responses. In addition, where percentages in the charts vary by one percentage point from those in the text, this too is simply due to computer rounding.

In the report, reference is made to "net" figures. This represents the balance of opinion on attitudinal questions and provides a useful means of comparing the data for a number of variables. In the case of a "net agree" figure, this represents the percentage of respondents who agree with a particular issue, less the percentage who disagree with it. For example, if 33 per cent of respondents agree that it is easy to comply with regulations and 54 per cent disagree, the "net agree" figure is -21 percentage points.

27 Combined mainstage and pilot response rate

	Total
Total sample issued	8,327
Achieved interviews	2,000
Unadjusted response rate	24%
Adjusted response rate	33%
 Eligible sample:	
Achieved interviews	2,000
Respondent refusal	1,726
Other refusal	530
No response	1,634
Interview terminated	127
Total eligible sample	6,017
 Ineligible sample:	
Incorrect telephone number	600
Company/Respondent moved/no longer in business	204
Not available during fieldwork	378
Other ineligible	539
Total ineligible sample	1,721
Not needed – target achieved	489

Source: Ipsos MORI

Interviews with Government, business and SAI representatives in the Netherlands, Denmark and Sweden

To learn from the experience of other countries that are also implementing programmes to reduce administrative burdens on business, we conducted interviews with representatives from Government and the business community in the Netherlands, Denmark and Sweden. We also met with the Dutch and Danish Supreme Audit Institutions (SAIs) to learn about the examinations that they have completed of the administrative burdens reduction programmes in their respective countries. The Netherlands designed and applied the Standard Cost Model in 2003 and Denmark adopted this approach in 2004. In Sweden, measurements of administrative burdens using the Standard Cost Model have been ongoing since 2004. Consequently, these countries are a few years ahead of the UK in their efforts to reduce administrative burdens and it would be important to learn from their experiences. Interviews were carried out in Denmark on 6 and 7 March 2007, in Sweden on 8 and 9 March 2007 and in the Netherlands on 15 and 16 March 2007. We interviewed representatives from:

- The Danish Commerce and Companies Agency (DCCA) – Division for Better Business Regulation (an agency within the Danish Ministry of Economic and Business Affairs) – *Erhvers – og Selskabsstyrelsen (EOGS) – Center for Kvalitet i ErhvervsRegulering;*
- The Confederation of Danish Industries – *Dansk Industri;*
- The National Audit Office of Denmark – *Rigsrevisionen;*
- The Swedish Ministry of Enterprise, Energy and Communications – *Näringsdepartementet;*
- The Swedish Agency for Economic and Regional Growth – *Nutek;*
- The Board of Swedish Industry and Commerce for Better Regulation – *Näringslivets Regelnämnd (NNR);*
- The Dutch Inter-Ministerial Project Unit for Administrative Burdens (IPAL);
- The Dutch Court of Audit – *Algemene Rekenkamer.*

APPENDIX TWO

NAO advice for departments in delivering reductions in regulatory burdens

Identify Measures

- Make greater use of the measurement exercise databases of regulations to identify areas where reductions will have greatest impact;
- develop a more sophisticated understanding of business to identify the type of measures that will improve the regulatory environment;
- do not focus exclusively on administrative burdens – consider other simplification of de-regulatory measures, and do not neglect aspects of regulation that are ‘irritating’ to business;
- consider how to deliver some ‘quick wins’. Learn lessons from other departments and internationally; and
- be bold and ambitious – conduct more holistic reviews of the impact of regulation.

Prioritise

- Consider the trajectory of proposed reductions and focus attention on the priority areas. Do not spread resources or focus too thinly; and
- apply recognised project management techniques.

Deliver

- Treat initiatives as discrete projects – assign responsibilities; identify required resources; set milestones;
- establish appropriate mechanisms to monitor progress and hold policy teams to account for delivery; and
- raise awareness of better regulation principles among policy officials. Promote the benefits of better regulation to develop buy-in, motivate officials and embed into the culture of departments. Senior management must show an active involvement.

Measure/evaluate

- Co-ordinate with other departments and the BRE to develop a consistent approach to measuring cost reductions;
- the target is a net reduction. Calculate and include the increased administrative costs associated with the introduction of new regulations. The revised Impact Assessment process provides a means to measure costs; and
- consider the other measures required to evaluate the impact of initiatives on the regulatory burden and wider business environment. Develop a broad suite of measures.

Communicate

- Develop communication strategies to inform business of changes to information obligations and the achievements of the Programme.

APPENDIX THREE

This appendix gives an overview of how efforts to reduce administrative burdens on business are taken forward in the Netherlands, Denmark and Sweden. These three EU Member States that have, like the UK, used the Standard Cost Model to estimate administrative burdens on business of complying with regulation, set targets to reduce those burdens and set up organisational structures to achieve reductions. Although the basic approach is the same, all countries have adapted the Standard Cost Model to fit in with the national context and are taking slightly different approaches to achieving reductions. The case studies are structured along the same lines as the main report in order that similarities and differences compared with the UK Administrative Burdens Reduction Programme can be easily identified. The appendix is based on information collected through interviews with or that has been provided by:

The Netherlands:

- The Dutch Inter-Ministerial Project Unit for Administrative Burdens (IPAL)
- The Dutch Court of Audit

Denmark:

- The Danish Commerce and Companies Agency – Division for Better Business Regulation
- The Confederation of Danish Industries
- The National Audit Office of Denmark

Sweden:

- The Swedish Ministry of Enterprise, Energy and Communications
- The Swedish Agency for Economic and Regional Growth – Nutek
- The Board of Swedish Industry and Commerce for Better Regulation

Administrative burdens reduction projects in the Netherlands, Denmark and Sweden

Background

As in the UK, simplification of regulation and reducing the cost to business of complying with regulation has been on the political agenda for decades.

The Netherlands

Context and rationale

Reducing administrative costs⁴⁶ is part of the Government's agenda to encourage entrepreneurship and job-creation.

The Government has established four policy strands aimed at reducing administrative costs:

- reducing costs resulting from disproportionate regulations and regulatory overlap where more than one ministry is responsible for an area of regulation;
- simplifying communication between government and business by increased use of ICT;
- reducing administrative costs of EU legislation and by municipalities, and
- reducing administrative costs on business by 25 per cent by 31 December 2007, compared to 31 December 2002.

Measuring administrative burdens

The Standard Cost Model was developed and first applied to measure administrative costs in 2003. The baseline measurements finished in December 2003. The measurements established the administrative costs as at 31 December 2002.

Each ministry carried out its own measurement exercise using the Standard Cost Model. The measurements included all regulation, both national and international, that applies to business.

Ministries were responsible for recording all regulation that they are responsible for and the results from their measurement exercise in databases. Each ministry is responsible for keeping its database up-to-date.

'Business as Usual' costs were not taken out of the first baseline measurements (report reference: paragraph 2.6). They will be treated differently in the forthcoming new baseline measurement.

Complementary qualitative information has been collected to identify 'irritation factors'.

The Government is also aiming to measure policy/compliance costs. It will work with business to identify 10-20 areas where a method for carrying out such measurements will be trialled.

Target

A target has been set to reduce administrative costs by 25 per cent by 31 December 2007, compared to the baseline as at 31 December 2002.

The target is for a net reduction. Any administrative costs added by new regulation have to be compensated for. Impact Assessments are used to estimate the potential administrative costs of new regulation proposals. Ministries also have to clarify if their preferred policy option is the least burdensome for business.

In addition, each ministry has an 'administrative cost ceiling', based on its baseline. This provides another mechanism for ensuring that ministries meet their reduction targets.

Roles and responsibilities

Central level

The Ministry of Finance, in co-operation with the Ministry of Economic Affairs, co-ordinates the cross-government administrative cost reduction programme through the Inter-ministerial Project Unit for Administrative Burdens (IPAL). In the next stage of implementing the administrative cost reduction programme – 2007-2011 – a new joint project directorate will be formed.

Ministries

Each ministry has appointed a 'better regulation champion'. The champions and IPAL co-operate in an inter-departmental commission. Each ministry has also set up a small unit of civil servants dedicated to supporting the reduction of administrative costs in that ministry.

External advice

The Government has established an independent public body called ACTAL (Dutch Advisory Board on Regulatory Burden). ACTAL evaluates ministries' annual 'administrative cost reduction progress reports' that are sent to Parliament. ACTAL especially reviews ministries' Impact Assessments and examines how potential administrative costs of new regulatory proposals have been estimated.

Identifying and delivering reductions

Action plans

In 2004, all ministries produced action plans setting out proposed reduction measures. The plans were developed based on information collected in the baseline measurements. This first round of plans included measures to cut administrative costs by 18 per cent. The plans were presented to Parliament.

In 2005, updated plans were presented to Parliament. These plans included measures to complete the 25 per cent reduction by 2007.

Consultation with business

Some ministries were already implementing programmes to become more business-friendly and streamlined before the measurement exercise started. These programmes were incorporated into the ministries' action plans. Any new reduction measures outlined in the plans were identified in co-operation with business.

Each ministry has set up a joint commission of senior civil servants and business representatives to identify and scrutinise administrative cost reduction proposals. Ministries are also working with so-called 'model companies' to identify which areas or aspects of regulation that they find burdensome. The aim is to ensure that any action taken will make a real difference to business and not just change processes. Businesses are also encouraged to submit proposals for simplification of regulation to government through an online portal.

Furthermore, in 2005 the 'Business People's Sounding Board on Regulatory Pressure' (also known as the 'Stevens Committee') was established to identify which aspects of regulation that businesses find most burdensome, as well as proposals for how government should deal with them. The Committee is made up of business representatives and looks at administrative burdens from the perspective of individual companies, rather than at the aggregate level. The Committee advises government on which areas would be important to address to reduce administrative costs for business.

Focus on delivery

There are monthly meetings with better regulation champions from ministries and IPAL to discuss progress and solve any potential problems.

Risk analysis is carried out for the top 10-20 planned measures to check if targets are credible and can be realised on time. This allows for modifying projects if needed.

Evaluating and communicating outcomes

Measuring reductions

In 2007, ministries will carry out new baseline measurement exercises using an updated version of the Standard Cost Model. The basic formula is the same. However, the model has been revised to reflect actual compliance rates (rather than assuming full compliance); to capture information about 'irritation factors' as well as the cost of administrative activities; and more qualitative information on, for example, businesses' experience of interacting with enforcement officers and different types of regulation. The aim is for government to gain a fuller picture of what makes complying with regulation burdensome for businesses of different sizes and sectors.

'Business as Usual' costs will only be taken out of the new baselines for Information Obligations that impose large burdens and only if there is consensus between ministries and business representatives on the level of 'Business as Usual' costs.

Reporting achievements

IPAL monitors cross-government progress in meeting the reduction target. Every six months, ministries have to submit progress reports to IPAL. These are then complied into an overall progress report that is presented to Parliament.

Ex post evaluation is carried out for most reduction claims that involve efficiency (ICT) measures. If proposals for reductions require a legislative change, an Impact Assessment has to be carried out and ACTAL will review it.

Communicating change to business

All reduction measures taken have to be discussed and followed up with business.

Outcomes to date

The last Government was scheduled to meet its 25 per cent reduction target in 2007, and estimated that it could even achieve a 26 per cent reduction. As the Netherlands held early elections and a new Government came to power in May 2006, it has now been calculated that the last Government, having had one year less to meet its targets, achieved a 20 per cent reduction.

IPAL has concluded that measuring administrative costs and setting a target has been useful for focusing minds within the civil service on the need for addressing the problem high regulatory compliance costs imposed on business. However, the approach and the achievement of the reduction target have not, to date, led to any significant reduction in administrative costs for business.

The Government has made a commitment to reduce administrative costs by another 25 per cent by 2011.

Independent scrutiny

The Dutch Court of Audit audits the robustness of the Government's claimed reductions in administrative costs.

In 2006, the Court of Audit published its cross-government evaluation of the efforts to reduce administrative costs. The report considers developments in 2003 and 2004. It examines if the Government has met its commitments in the area of reducing overregulation. It also examines what impact measures taken had had on business (a sample of 24 reduction measures was selected).

The report concludes that the Government had largely met its commitments. However, the reductions in administrative costs claimed by government had not been felt in full by business.

Denmark

Context and rationale

Reducing administrative costs is part of the Government's wider 'Growth Strategy' aimed at helping businesses to be competitive and thus contribute to overall economic growth.

In 2001, the Government launched a new programme to reduce the administrative costs of regulation on business. The programme includes simplification of current regulation, reduction of administrative costs and the introduction of electronic reporting solutions. The objective is to reduce administrative costs by 25 per cent by 2010.

Measuring administrative burdens

The Standard Cost Model was used as a basis for developing a method for measuring administrative costs called 'Activity-based Measurement of Business' Administrative Burdens' (AMVAB).

A full-scale measurement of administrative burdens, using AMVAB, was initiated in August 2004. Measurements were completed in March 2006. The measurements established the administrative costs as at November 2001.

The baseline measurement included all ministries that regulate business. It was co-ordinated by the Danish Commerce and Companies Agency (DCCA), which sits within the Ministry of Economic and Business Affairs, in co-operation with ministries and consultants.

The measurements included regulation, both national and international, that applies to business. However, only international regulation that has been implemented through national regulation is included in the measurement.

'Business as Usual' costs were not taken out of the baseline measurements (paragraph 2.6).

Much emphasis was put on collecting complementary qualitative information throughout the measurement exercise.

The Standard Cost Model was also used to develop a method for measuring administrative and adjustment costs incurred by municipalities when new regulation is introduced: the 'Evaluation of Administrative Consequences for the Municipalities' (VAKKS).

A project has been launched to develop a method for measuring policy/compliance costs as well.

Target

In 2001, the Government set a target to reduce administrative costs on business by up to 25 per cent by 2010. This target was set before the AMVAB method had been adopted to measure administrative costs.

The target is for a net reduction. Therefore, from 2005, the AMVAB method has also been applied as part of Impact Assessments to estimate potential administrative costs of new proposals.

For proposals likely to impose large administrative costs, the DCCA undertakes full-scale ex ante measurements (around 8-10 cases per year). The Government's Committee on Economic Affairs then decides whether a ministry has to reduce the administrative costs in the proposal before it can be approved. The ex ante measurements are followed up by ex post measurements once the proposals have come into force.

Roles and responsibilities

Central level

The Ministry of Economic and Business Affairs and the Ministry of Finance co-ordinate the simplification/administrative cost reduction programme.

The Ministry of Economic and Business Affairs (and its Danish Commerce and Companies Agency) has been responsible for developing the AMVAB method and for carrying out all measurements. DCCA also provides support and advice to ministries on how to use the results.

In 2006, the two ministries set up a joint project organisation to take the programme to reduce administrative costs forward. They review the other ministries' plans for reducing costs, work out the Government's overall action plan, and also support the other ministries in implementing their action plans.

Ministries

Ministries are responsible for delivering reductions. Each ministry has appointed a 'better regulation champion'. However, there is no equivalent to the UK Better Regulation Units.

Identifying and delivering reductions

Action plans

A first round of ministerial action plans for better regulation and simplification of regulation covered the period 2002-2004. These plans were drawn up before the measurement of administrative costs had been carried out.

No plans were published in 2005. Instead the activities planned and implemented up to that point were assessed and the future activities targeted.

In June 2006, ministries delivered their second round of action plans. This time the action plans were focused on reductions of administrative burdens on business. The initiatives in these plans are based on the AMVAB measurement exercise results.

The seven ministries imposing the largest burdens have produced action plans focusing on their top 10 burdensome areas. The other eight ministries imposing burdens on business are asked to reduce administrative costs in their most cost-intensive ministerial areas of regulation.

Data-sharing and online solutions have been identified as important. A central online point of contact (www.virk.dk) has been established for business to be used for reporting to public authorities. The aim is for business to be able to use this for communication with government and for managing compliance issues; and also for government to communicate with business.

In order to ensure that the most irritating burdens for businesses are reduced, the Government has also initiated a 'de-bureaucratisation' project aimed specifically at addressing barriers to entry into markets and growth of Small and Medium-sized enterprises (SMEs).

Consultation with business

In 2004, 16 ‘Burdens Committees’ were established with policy officials and business representatives. There was one Committee for every area of regulation that is considered burdensome and imposes large administrative costs on business. The Committees identified proposals for simplification in the areas that matter most to business.

What has emerged is the importance of addressing the areas of regulation that businesses perceive to be irritating or burdensome – these are not necessarily the areas that are costly according to the measurements.

Focus on delivery

Twice yearly status reports from the seven ministries will be collected by the joint project organisation. The status reports include assessments of target achievement for current projects. Any deviations from the time schedule or the reduction targets should be reported and explained.

Evaluating and communicating outcomes

Measuring reductions

There are annual updates of the baseline. These updates take into consideration both the impact of new regulation and reduction measures taken. These updates are carried out using the AMVAB method.

The updates are done by the DCCA. The DCCA agrees which areas of regulation should be included with ministries. Both legislative and practical changes are included. The latest updates provide information about the administrative burdens as at 1 July 2006.

Reporting achievements

A Parliament resolution from 2001 committed the Minister of Economic and Business Affairs to prepare an annual statement to Parliament on the progress in reducing administrative costs. The results from the annual updates carried out by the DCCA are therefore presented in an annual statement to Parliament.

The statement gives an overview of progress made by ministries in the area of better regulation, simplification of regulation and reduction in administrative costs.

Communicating change to business

There is much emphasis on communicating changes to business. The Government is co-operating with business organisations to spread messages about changes in the regulatory environment to the wider business community.

Outcomes to date

From 2001-2004, a 1.6 per cent reduction was achieved. From 2004-2005 another 3.5 per cent was achieved. In May 2007, the results of the latest updates of the 2001 baseline showed that a reduction of another 4.6 per cent had been achieved resulting in a total reduction of 9.7 per cent.

A survey conducted by the Confederation of Danish Industries among SMEs showed that one in three respondents had noticed a reduction in administrative costs. However, it also showed that for most businesses the reductions have still not been noticeable.

Independent scrutiny

The National Audit Office of Denmark (NAOD) has carried out an examination taking stock of the better regulation and simplification effort made between 2001 and 2006. The report was published in February 2007.

The report concludes that the action plans drawn up by ministries for 2002-2004 were important for internal management of the better regulation and simplification effort but there was no clear prioritisation of activities. The 2006-2010 action plans are targeted at reducing administrative burdens on businesses and contain project descriptions. The impact of quantifiable reduction measures has been relatively low. However, the report was published before the last update of the 2001 baseline was carried out.

An examination conducted by three business organisations, quoted in the NAOD report, concluded that a significant number of businesses have not yet experienced any reductions in administrative costs.

The report further concludes, however, that there have been other positive, not measured, effects of the better regulation and simplification activities, for example in the area of addressing ‘irritation factors’.

Sweden

Context and rationale

Reducing administrative costs is part of efforts to encourage economic growth and job creation. In particular, the Government is aiming to encourage enterprise and remove barriers to entry and to growing businesses.

Following pressure from Parliament, in 2003 all ministries and government agencies had to carry out a review of all regulation that they are responsible for, in order to identify simplification opportunities. They then had to establish action plans for implementation of simplification measures. Since the new Government was elected in September 2006, renewed efforts have been put into speeding up the reduction of costs imposed on business by regulation. In November 2006, the Government launched a call to all ministries and 53 government agencies, responsible for regulation that applies to business, to review their work on reducing administrative costs. New measures for simplification of regulations were reported to the Ministry of Enterprise, Energy and Communications in March 2007. The Government then presented, in early June 2007, the first steps in a new action plan for reducing administrative burdens for businesses.

Measuring administrative burdens

In November 2003, the Government commissioned the Swedish Agency for Economic and Regional Growth (Nutek) to carry out a pilot measurement of administrative costs for businesses in the area of value added tax. The results of the measurement were presented in a report in May 2004.

Since then, Nutek has – in co-operation with consultants, ministries, government agencies and business organisations – measured the administrative costs for businesses in several areas, using the Standard Cost Model. The measurements have been carried out by area of regulation rather than by ministry or government agency.

Nutek will continue to measure the areas that remain. The goal is that all baseline measurements of administrative costs for businesses will be completed during 2007.

Nutek has set up an online database, 'Malin', containing results from the measurements of administrative costs. This database will be a tool for civil servants at ministries and government agencies when working with simplification of existing regulations. The database provides all data from the measurements of administrative costs gathered in one place: a possibility to monitor the development of the administrative burdens over time, and a possibility to conduct data simulations by using data from previously measured areas.

The Board of Swedish Industry and Commerce for Better Regulation (NNR) has played an active role in better regulation and simplification work. For example, it is encouraging the Government to consider the total cost to business of complying with regulation. To this end, NNR has designed a methodology that has been used to measure the total cost to selected businesses of complying with regulation. These measurements show that administrative burdens are only a small part of the total cost. NNR has also created an electronic tool that companies can use to estimate the total cost that they incur by complying with regulation – the 'regulation calculator'. Regulatory areas covered are labour market related regulations, environment and tax. NNR's surveys of businesses show that the total cost of regulation is much higher than expected.

Target

In autumn 2006, the Government announced (in the Budget Bill for 2007) a new, single quantitative target for a reduction of the administrative burdens for businesses. The target is to reduce the overall administrative costs for businesses by 25 per cent by 2010. The target is for a net reduction.

Several measures have been and will be undertaken in order to reach the net target. In early June 2007, the Government presented the first steps in a new action plan for reducing administrative burdens for businesses. Impact assessments will be used for ex ante estimates of the potential administrative costs to business of new regulatory proposals. The Government Offices are working on a proposal for an improved model for impact assessments. The preliminary idea is to integrate different methods, traditions and approaches to impact assessments into one coherent system, based on a single ordinance, taking into account a wide range of economic, social and environmental consequences for a sustainable development. The intention is that the new model will enable a more systematic use of impact assessments in the regulatory making process.

Roles and responsibilities

Central level

In spring 2007, the Government appointed a group of state secretaries with responsibility for strengthening coordination of the better regulation and simplification work within the Government Offices.

The Market and Competition Division at the Ministry of Enterprise, Energy and Communications co-ordinates, supports and follows up the cross-government work on simplification of regulation and reduction of administrative costs.

The Swedish Agency for Economic and Regional Growth (Nutek) is responsible for measuring the administrative costs imposed on business by different areas of regulation. The measurements are carried out in close co-operation with ministries, other agencies and business organisations. Nutek also gives advice and support on how to use the results from the measurement exercise and advises other agencies on how to carry out impact assessments.

Ministries

An inter-ministerial working group has been established to allow for, among other things, collaboration and learning between ministries.

Identifying and delivering reductions

Action plans

Each ministry is responsible for reviewing its portfolio of regulation and identifying simplification measures.

Since the new Government was elected in September 2006, renewed efforts have been put into speeding up the reduction of costs imposed on business by regulation. In November 2006, the Government launched a call to all ministries and 53 government agencies responsible for regulation that applies to business to review their work on reducing administrative costs. New measures for simplification were reported to the Ministry of Enterprise, Energy and Communications in March 2007. On the basis of this information, the Ministry of Enterprise, Energy and Communications prepared a draft for the first steps in a new cross-Government action plan. In early June 2007, the Government then presented the first steps in a new action plan for reducing administrative burdens for businesses. The first steps in the new action plan contain, among other things, 167 proposed actions/measures (which is a selection from a total of several hundred actions and measures) from 53 agencies and authorities and all ministries within the Government Offices; and some guidelines for the continuing better regulation work. Some of the proposed actions and measures affect several industrial sectors, while others are more specific and only affect certain industrial sectors.

The ministries and agencies/authorities will report again during autumn 2007 and the Ministry of Enterprise, Energy and Communications will then finalise and publish the cross-Government action plan in 2008. The cross-Government action plan will be updated annually until 2010.

Consultation with business

The Ministry of Enterprise, Energy and Communications has established a central working group with business representatives to identify areas of particular concern to business.

Each ministry also has to consider how it will engage with business. Information about ministries' consultation strategies will be included in the cross-governmental action plan.

Evaluating and communicating outcomes

Measuring reductions

Nutek will update the results from the baseline measurement exercises to establish if reductions are achieved.

The Ministry of Enterprise, Energy and Communications and Nutek intend to develop indicators that can be used to assess the effect of simplification measures taken in areas that have not been quantified in the measurement exercise.

ENDNOTES

1 The Better Regulation Task Force was put on a permanent footing on 1 January 2006 and is now called the Better Regulation Commission. The full title of the report is: *Regulation – Less is More. Reducing Burdens, Improving Outcomes*.

2 Budget 2005, Chapter 3, *Meeting the Productivity Challenge*.

3 Research in Sweden has estimated that administrative burdens represent up to one quarter of the total cost of complying with regulations. Further information on this research is in Appendix 3.

4 For example, the Cabinet Office has agreed a reduction target of 35 per cent.

5 Impact Assessments should be used by policy officials to challenge the need for new regulations and ensure that the most cost effective method of implementation is chosen.

6 This excludes HMRC whose administrative burdens changes go through the Budget and Finance Bill process.

7 Budget 2005, Chapter 3, *Meeting the Productivity Challenge*.

8 Ibid.

9 Tim Ambler and Francis Chittenden (2007) *Deregulation or Deja-Vu? UK Deregulation Initiatives 1987-2006* – published by the British Chambers of Commerce.

10 Crafts, Nicholas (2006) Regulation and Productivity Performance, revised paper for *Oxford Review of Economic Policy*, May 2006.

11 Better Regulation Task Force (2005) *Regulation – Less is More. Reducing Burdens, Improving Outcomes*.

12 The estimates were made by an independent Dutch research institute in 2004.

13 Algemene Rekenkamer (2006) *Reducing the Administrative Burden on Businesses*, English translation.

14 Docklands Museum exhibition text.

15 For example, the ICAEW ‘Enterprise Survey Report’ series; CBI (2006) *Lightening the Load: the need for employment law simplification*; IoD (2004 & 2006) *In Their Own Words: regulation case studies*, volumes I and II; the FSB *Barriers to Growth* series of business surveys; the FSB *Inspector at the Door* series of reports.

16 CBI (2005) *Response to the Hampton Review Interim Report and Consultation on Reducing Administrative Burdens: effective inspection and enforcement*.

17 This is recognised in the *Less is More* report.

18 ‘Business as usual’ costs were taken out of the BRE/PwC calculations in a separate exercise in order that departmental baseline reflect the level of ‘administrative burdens’ (paragraph 2.6).

19 The Ministry of Defence, Department for International Development and the Foreign and Commonwealth Office (FCO) were not included as their regulations did not fall within the scope of the measurement exercise. The Cabinet Office was also excluded from the original exercise, but had business regulations assigned to it as a result of changes in Government in summer 2006. The Cabinet Office subsequently committed itself to a net reduction target of 35 per cent. The FCO has also committed itself to reducing administrative burdens for its frontline staff and individual users of their services, whether from business or members of the public, in the UK and abroad.

20 Even if both the BRE/PwC and HMRC/KPMG measurement exercises used the Standard Cost Model, a number of specific implementation and methodological adaptations had to be made for each exercise. Therefore, caution should be used when comparing the results from the two exercises.

21 To ensure consistency, the BRE produced a manual – *Measuring Administrative Costs: UK Standard Cost Model Manual* – which provides definitions and explanations for how it should be applied. More information about the measurement exercises can be found in the PwC final reports to departments and in the KPMG ‘Administrative Burdens – HMRC Measurement Project’.

22 Figure 8 presents administrative burdens in this form for ease of comparison. However, it should be noted that the administrative burdens of Value Added Tax cover the entire policy area and not just a single Act such as the Companies Act.

23 Better Regulation Executive (2005) *Measuring Administrative Costs: UK Standard Cost Model Manual*.

24 As interviews were carried out with business, any ‘qualitative’ comments that were made over and above the answers to the specific interview questions were recorded. These were comments made either on the subject matter, or on other dealings with departments or regulators.

25 One-off costs are the costs that are only sustained once in connection with a business adapting to a new or amended regulation. This does not include the costs that a business may have in relation to complying with existing regulations for the first time. One-off costs have to be recorded in the new 2007 Impact Assessment process.

26 Cabinet Office, Charity Commission, Ministry of Justice, Communities and Local Government, Department for Culture, Media and Sport, Department for Environment Food and Rural Affairs, Department for Education and Skills, Department for Transport, Department of Health, Department of Trade and Industry, Department for Work and Pensions, Foreign and Commonwealth Office, Food Standards Agency, Forestry Commission, HM Treasury, Home Office, Health and Safety Executive, Office for National Statistics.

27 HMRC (2007) *Delivering a new Relationship with Business: progress towards reducing the administrative burden on business*.

28 According to Companies House.

29 HMRC had information on actual compliance rates for the tax area, which was used by KPMG for measuring administrative burdens.

30 These reasons why reductions may not be noticed by business were also cited by the Dutch Court of Audit in its 2006 report.

31 The departments that took part in the BRE/PwC measurement exercise, and the Cabinet Office and Foreign and Commonwealth Office, have published ‘Simplification Plans’. The Financial Services Authority also published a Simplification Plan but did not take part in the BRE/PwC measurement exercise and has not committed to a reduction target.

32 In accordance with the recommendations in the Davidson Review Final Report *Implementation of EU Legislation*, November 2006.

33 Hampton, Philip (2005) *Reducing Administrative Burden: effective inspection and enforcement*, published by HM Treasury.

34 HMRC (2006) *Delivering a new Relationship with Business: HMRC’s plans to deliver a better service for business by 2010-11*. In this paper, HMRC set out initial milestones for a programme to deliver its long-term vision of improving its relationship with business.

35 Category A – obligations that are exclusively and completely a consequence of EU rules or other international obligations (i.e. the international rules describe what information businesses have to produce); Category B – obligations that are a consequence of EU rules and other international obligations where the purpose has been formulated in the international rules but where implementation has been left to individual Member States (i.e. the international rules do not describe which information businesses have to produce); and Category C – obligations that are exclusively a consequence of rules formulated at national level.

36 *Evaluation of Regulatory Impact Assessments 2005-06* (HC 1305, 2005-06).

37 Institute of Directors (2007) *Words or Deeds? – Government responses to IoD regulation case studies*.

38 Better Regulation Executive (2006) *Guidance on Simplification Plans*.

39 Better Regulation Executive (2007) *Simplification Plan Guidance*.

40 In practice, the Minister for the Cabinet Office, chairs most meetings. The Chancellor of the Exchequer, the Chief Secretary to the Treasury and the Secretary of State for the Department of Trade and Industry also sit on the panel and the Chairs of the Small Business Council and the BRC and the Executive Chair of BRE also attend.

41 The two main exemptions from this are emergency legislation and tax matters considered by the Chancellor in the course of normal budgetary processes.

42 BRE guidance on the new Impact Assessment process prescribes that this discretion is dependent on the size of the impact that new regulatory proposals might have.

43 HMRC's CCR programme has been running since 2005 and uses independent consultants to research if the ex ante estimates of compliance costs in published Impact Assessments were correct. Ex post reviews of Impact Assessments are carried out between one and three years after implementation. The results of these reviews are compiled annually into a report that is published on HMRC's website.

44 DTI (2006) *The Impact of Regulation: a pilot study of the incremental costs and benefits of consumer and competition regulation*, DTI Occasional Paper No. 7.

45 Communities and Local Government, the Department for Environment, Food and Rural Affairs, the Department of Trade and Industry, the Food Standards Agency, the Health and Safety Executive and the Home Office.

46 Administrative costs are the cost to business of carrying out administrative activities in order to comply with regulation. They include the administrative activities that businesses would choose to continue doing in the absence of regulation. In the Netherlands and Denmark, the so-called 'Business as Usual' costs were not taken out of the baseline measurements. Therefore, the estimates reflect the administrative costs, rather than administrative burdens in these countries.