

# Standard Cost Model SCM

Pre-conference Workshop:  
Measuring Impact SCM  
Tirana Albania  
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# Issues

- Background of SCM
- What does the SCM measure?
- Implementation of the SCM
- The SCM in the simplification process
- Summary
- Conclusions

# Background of SCM (1): history

- Implementation SCM in general
- Start-up in the Netherlands: 1992 Mistral®
- Export SCM to EU-Member States: 2004
- First supra-national implementations: 2004 OECD Red Tape Scoreboard Project
- EU Commission: 2005 common methodology
- AB reduction targets EU and OECD countries

# Background of SCM (2): institutional aspects

- Political support from the highest level
- Adequate financial and human resources
- Not to narrow time frame
- Central data base and reduction programs
- SCM if part of RIA (ex-ante)
- SCM if part of reform program (ex-post)
- Strong points SCM:
  - \* SCM delivers understandable results for politicians, civil servants and business community
  - \* SCM is political neutral

## Background of SCM (3): methodological aspects

- Starting point of every SCM measurement: detailed knowledge of law under scrutiny and high involvement stakeholders
- Each policy area its own characteristics
- Data infrastructure and data collection
- Availability of qualified interviewers
- Good understanding of 'business as usual costs'
- Segmentation/typical firms: selection of businesses
- Relevance of entrepreneurial perception

# What does SCM measure? (1)

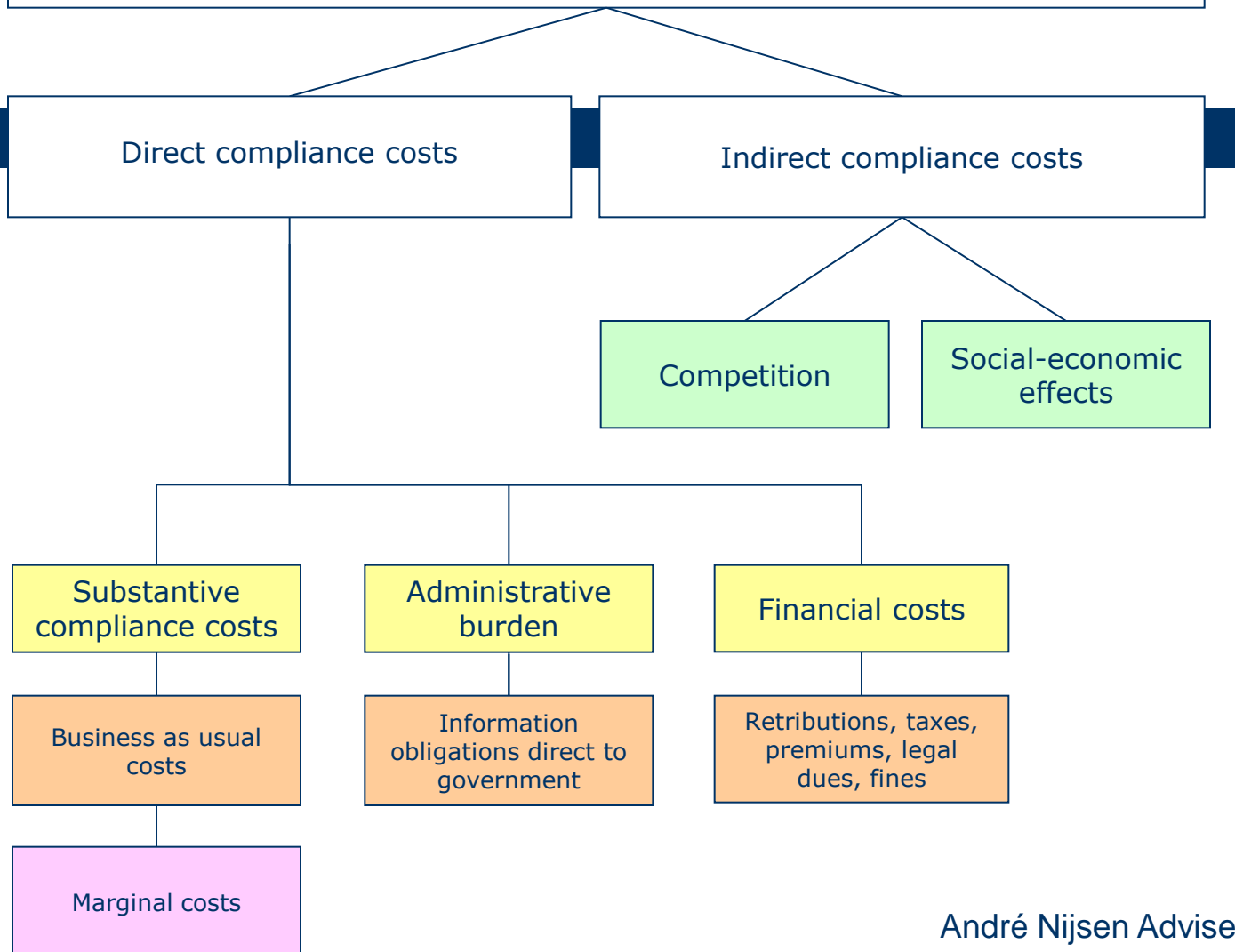
- SCM focuses on a part of the business' effects of regulations: direct compliance costs
- Direct compliance costs exist of:
  - \* substantive compliance costs
  - \* ***administrative burdens***
  - \* financial costs
- SCM measures administrative burdens
- Administrative burdens = integral costs of businesses to inform government
- Administrative burdens are hidden costs

# What does SCM measure?(2)

## Some definitions

- **Substantive obligation:** obligation to comply with legal standards and norms regarding the process of production, products and services
- **Financial obligation:** (Mistral®) obligation to pay taxes, premiums, fees and dues
- **Information obligation:** obligation to inform government about compliance with substantive and financial obligations
- The **functionality** of every obligation is decisive for assignment too substantive, financial or information obligation

# Business' effects of regulations



# What does SCM measure? (4)

## Implementation of the SCM

- The SCM connects ***legal information obligations*** (IOs) too administrative ***activities*** (AAs) ***of businesses***
- The SCM translates every IO into data requirements (DRs)
- The core of the SCM is breaking down:
  - \* IO into DRs, and
  - \* DRs into AAs

# What does SCM measure? (5)

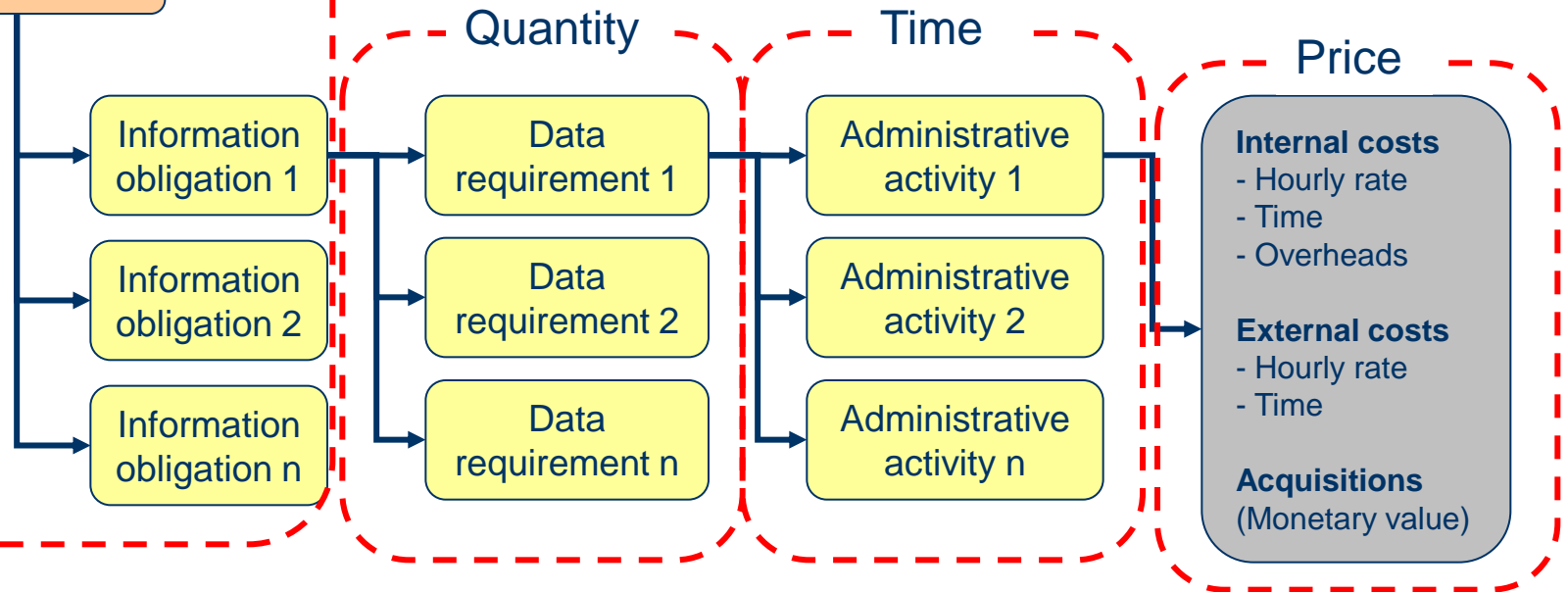
## Technical definition of Administrative Burdens (AB)

- $AB = \text{Total costs of IOs}$
- $\text{Total costs of IOs} = \text{Total costs of all DRs (messages)}$
- $\text{Cost of DR} = P(\text{rice}) \times Q(\text{quantity})$
- $\text{Price DR} = \text{Total costs of AAs per DR}$
- $\text{Cost AA} = \text{Tariff} \times \text{Time to fulfill AA}$
- **Quantity DR (message):**
  - \*Event driven DR:  $Q = \text{number of events}$
  - \*Calendar driven DR:  $Q = \text{number of businesses} \times \text{periodicity per year}$

# The SCM methodology

Total AB

Regulation



Total AB = Total Costs of IOs

# Implementation SCM (1) Examples of IOs

- Returns and reports
- Applications for permissions/exemptions
- Applications for authorisation
- Notification of activities
- Entry in a register
- Carrying out inspections
- Applications for subsidies or grants
- Keeping registers updated
- Cooperating with audits/inspections

***What about duty to label?*** This is a third party disclosure. Third party disclosures belong too substantive obligations

# Implementation SCM (2) Example of DR (message)

- Each IO consists of a range of different information or data that the businesses shall provide in order to be able to comply with the information obligation – these are the data requirements (messages)
- For example, as part of submitting annual accounts (IO), a business may need to supply a range of data such as:
  - a management report and endorsement
  - a balance sheet, etc.

# Implementation SCM (3) Examples of AAs

- Orientation to the duty
- Acquiring data/information
- Carrying out calculations
- Filling in data
- Control and revision of data
- Internal consultation
- External consultation
- Copying, archiving
- Transmission of data

# Implementation SCM (4)

## Measurement process: overview

- Phase 0: start-up:
- Phase 1: preparatory analysis
- Phase 2: time and costs data capture
- Phase 3: calculation, data submission and reports

# Implementation SCM (5)

## Phase 0: start-up

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

# Implementation SCM (6)

## Phase 1: preparatory analysis

- Step 1: Identification (text reading) and break down of IOs, DRs, AAs. Start classification of law by origin (international, international plus national implementation, national)
- Step 2: Identification and demarcation of related regulations. Assignment of ownership of regulations to departments (avoiding double counting)
- Step 3: Identification of segments of typical firms specified in the IOs, outsourcing or not, IT related or not
- Step 4: Identification of Q-parameters: population, event-driven and calendar-driven DRs
- Step 5: Decision about business interviews versus expert assessment to gather P-parameters from businesses
- Step 6: Identification of relevant cost parameters: blue print (profile) of AAs for every individual DR determining 'normal efficient' compliance
- Step 7: Preparation and testing of interview guide or expert assessment based on profile of AAs for every single DR
- Step 8: **Expert review of steps 1-7**: produce **end-of-phase report** for review by stakeholders

# Implementation SCM (7)

## Phase 2: time and costs data capture

- Step 9: Selection of typical businesses for interview
- Step 10: Businesses interviews
- Step 11: Completion and standardisation of time and resource estimates for each segment by activity
- Step 12: **Expert review of steps 9-11: produce end-of-phase report**

# Implementation SCM (8)

## Phase 3: Calculation, data submission and reports

- Step 13: Extrapolation of validated data to national level
- Step 14: Reporting and transfer to database

# SCM in the simplification process (1)

## Impacts of the reforms

- Up to now there is not much evidence
- However, more awareness of politicians and civil servants
- Problem in the 'real world' of businesses
- Reduction programs are their own means to and end: functional autonomy at institutional level
- Effective reduction policies: more focus on 'real world' effects without jeopardising public goals
- Keep in touch with business community
- Two knobs to turn: Price and Quantity

# SCM in the simplification process (2)

## Types of results

- “What gets measured gets done”
- SCM is not simplification as such
- SCM facilitates the simplification process
- SCM identifies:
  - \*Total costs of administrative burdens (and trends)
  - \*Where the major costs of regulation come from
  - \*Largest 'irritation' factor for businesses
  - \*Ministries responsible for burdensome regulation

# SCM in the simplification process (3)

## How to start?

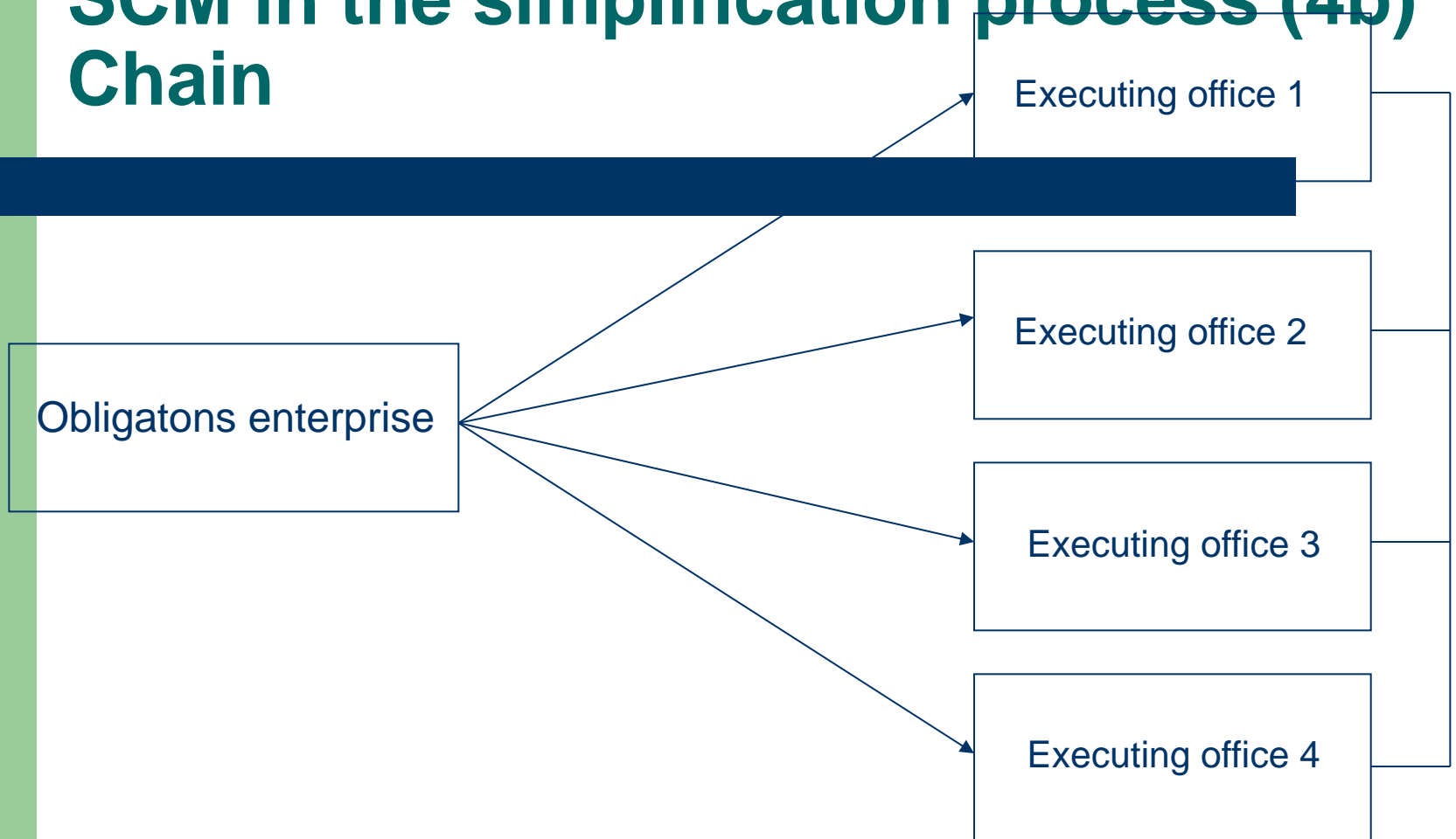
- Locate major costs in regulation – how can these be reduced?
- Consult business community where to put priorities
- Proposals from businesses – can these be implemented?
- Are existing processes optimal or should they be reengineered (chain management)?
- Make comparison with SCM measurements in other countries
- Simulate effect of proposals in database

# SCM in the simplification process (4a)

## Chain analyses

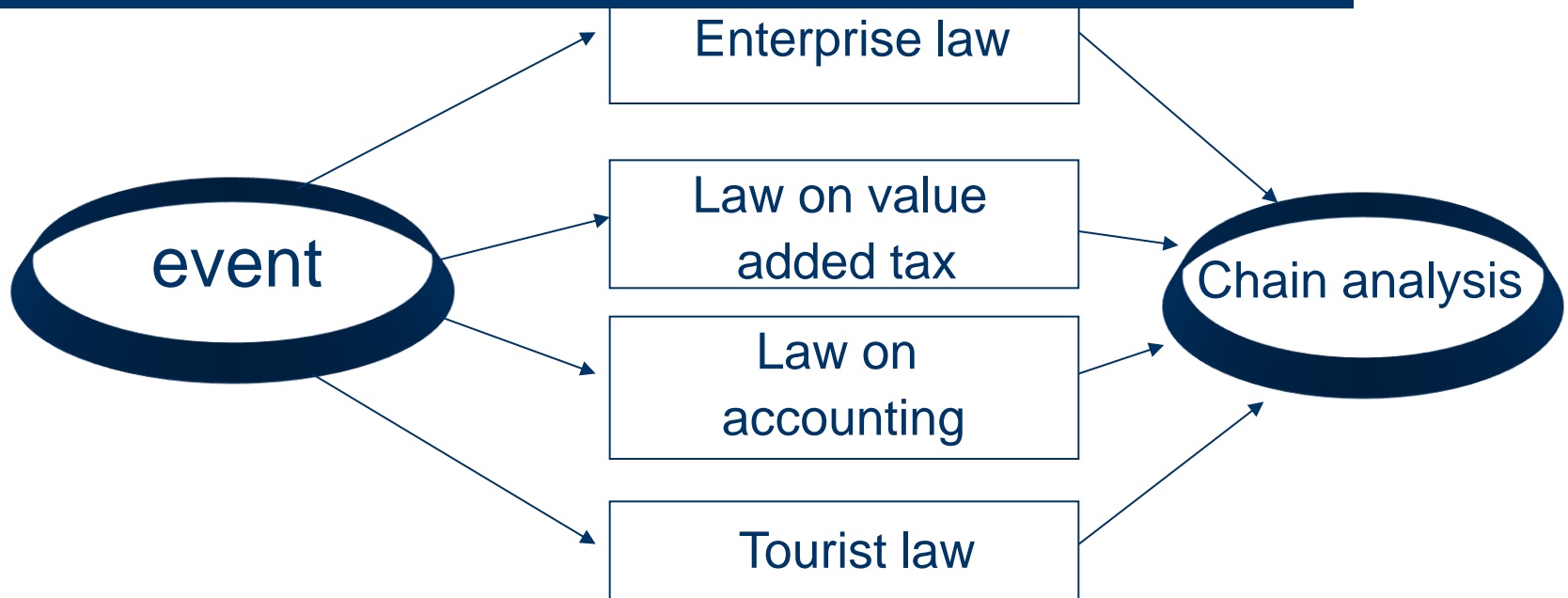
- Event driven
- More than one law is concerned
- Relations between the laws

# SCM in the simplification process (4b) Chain

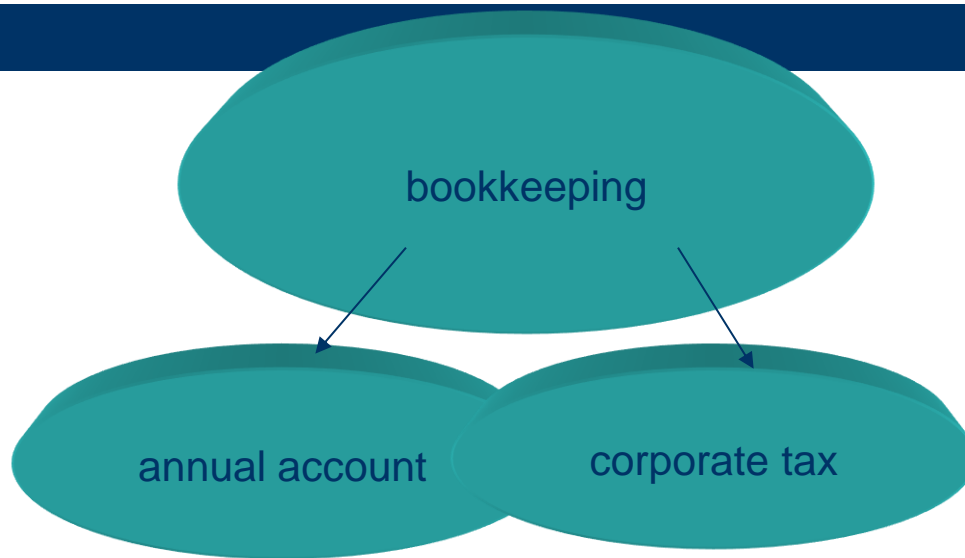


# SCM in the simplification process (4c)

## Connection between laws



# SCM in the simplification process (4d) Concurrence



# SCM in the simplification process (5)

## Q-knot: reduce regulations and forms

- Remove the regulation: be aware of safeguarding public goal
- Use alternatives to regulation, e.g. voluntary code of practice
- Remove the information obligation from the regulation
- Exempt groups or sectors of stakeholders from the obligation, e.g. small businesses
- Consolidate/merge secondary legislation and requirements
- Remove unnecessary forms, inspections or data requests

# SCM in the simplification process (6)

## P-knot: simplify process

- Simplify the terminology of the regulation and reduce its complexity
- Reduce the time taken to fill out forms, e.g. by improving their design, clarity etc.
- Prioritise resources, e.g. less inspection of stakeholders with a good record (risk based inspection).
- Reduce the frequency of information requests
- Harmonise requests for information with other information obligations: reengineering government processes

# SCM in the simplification process (7)

## P- and Q-knot: improve data collection

- Collect the data from other government bodies rather than from businesses: reengineering government processes
- Collect the data directly from businesses' ICT-systems
- Set up one-stop-shop systems for businesses, where all filing and relevant information is available: reengineering government processes
- Develop standard definitions in legislation

# SCM in the simplification process (8)

## P- and Q-knot: more ICT solutions

- Make forms and other data requests available on the internet
- Pre-populate forms
- Make forms interactive/”intelligent” so that they do not request irrelevant data
- Make all ICT-solutions available at a one-stop-shop

# SCM in the simplification process (9)

## P- and Q-knot: better information

- Develop better and more accessible guidance, e.g. by making guidance available on the internet
- Rewrite guidance in simpler language.
- Separate compulsory from voluntary requirements in guidance
- Make regulations available on-line at the one-stop-shop

# Summary

- We discussed:
  - \* **background of SCM:** history, institutional and methodological aspects
  - \* **what does SCM measure?** AB of IO->DR->AA
  - \* **implementation SCM:** examples of IOs, DRs, AAs and phases of SCM: start-up, preparatory analysis, data capture, calculation and reports
  - \* **SCM in simplification process:** ex-ante and ex-post, impacts of reforms, types of results, how to start, reducing regulations, simplifying process, improving data collection, ICT-solutions, better information

# Conclusions

- SCM is a popular and proven instrument to help simplifying regulations
- Implementation of SCM is not that easy as it looks at first glance. Good preparation is extremely important
- Political support from the highest level is a *conditio sine qua non* for the implementation of the SCM
- Adequate financial and human resources are necessary
- Don't take the time frame too narrow
- **Keep it simple when starting the SCM for the first time!!!!**

# Closure

- I thank you all for your attention
- It was my pleasure to have an audience like you
- Thanks to Margo and her team for inviting me