

Annex 4: The EU 'Standard Cost Model'

In October 2005, the Commission proposed a common EU methodology for measuring administrative costs imposed by legislation - both existing and planned legislation. This methodology is based on the different variants of Standard Cost Models applied in a large number of Member States (for more detailed information on SCM developments, see the SCM network website: <http://www.administrative-burdens.com/>). An operational manual for applying the EU model has been integrated in the Commission's Impact Assessment Guidelines, and Annex 10 of these Guidelines:

http://ec.europa.eu/governance/impact/docs/sec_2005_0791_anx_10_en.pdf.

The benefits of the EU Standard Cost Model include:

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

How are administrative costs calculated?

Administrative costs are measured on the basis of the average cost of the required action (Price) multiplied by the total number of actions performed per year (Quantity).

- **Price:** The price per activity will be generally estimated by multiplying a tariff (based on average labour cost per hour including prorated overheads) and the time required per action. Where appropriate, other types of cost, such as the cost of equipment or supplies will be taken into account.
- **Quantity:** The quantity will be calculated as the frequency of required actions multiplied by the number of entities concerned.

Multiplying these elements gives the basic SCM formula:

$$\sum P \times Q$$

where P (for Price) = Tariff x Time)

and Q (for Quantity) = Number of entities concerned x Frequency

Administrative costs versus administrative burdens

A distinction should be made between information that would be collected and processed by businesses even in the absence of the legislation and information that is solely collected because of a legal obligation¹. The former are called business as usual costs, the latter administrative burdens. Added together the administrative burdens and business as usual costs are the administrative costs.

The overall purpose of the EU SCM measurement project is to measure the administrative costs and identify unnecessary administrative burdens for suppression. Administrative costs will be assessed on the basis of specific quantitative parameters (e.g. number of hours required by specific activities). As for business as usual costs, they will be expressed as a percentage of total administrative costs. In order to keep the model as simple as possible, this overall percentage will be determined on the basis of expert judgment and/or qualitative data collected during interviews with businesses². Such overall indication will be sufficient to target reduction proposals at the activities that businesses would stop carrying out in the absence of legal requirements.

In order to improve data analysis (identification and comparison of the most burdensome types of obligation across various sectors, etc.), the EU ‘Standard Cost Model’ also provides a typology on the nature of the information obligations and a typology on the nature of required actions.

Types of information obligations

1. **Notification of (specific) activities or events** (e.g. for transportation of dangerous cargoes; when an accident affects the environment)
2. **Submission of (recurring) reports** (e.g. annual accounts)
3. **Information labelling for third parties** (e.g. energy labelling of domestic appliances; price labelling)
4. **Non labelling information for third parties** (e.g. financial prospectus; disclosure obligation of employers towards employees)
5. **Application for individual authorisation or exemption**, i.e. obligation to fulfil each time a particular task has to be carried out (e.g. building permits; road transporters applying to be exempted from Sunday driving ban)
6. **Application for general authorisation or exemption** (e.g. licence granting permission to engage in an activity such as banking or liquor selling)
7. **Registration** (e.g. entry in a business register or a professional list)
8. **Certification of products or processes**, i.e. obligation to deliver a certificate (e.g. treatment facilities having to issue a certificate of destruction of a vehicle) or to get a certificate (e.g. aeronautical products and organisations involved in their design, production and maintenance must get the certification of the European Aviation Safety Agency - EASA)

¹ Most businesses would for instance continue to collect and provide information on what they sell and what they buy, or to inform their shareholders. By contrast some data required for macro-economic statistics are pure administrative burdens.

² Experience shows that quantification of *business as usual costs* is difficult and rather subjective. It is an assessment of the hypothetical situation of which business processes would be put in place in the absence of legislation.

9. **Inspection on behalf of public authorities** (e.g. businesses having to monitor conditions for employees)
10. **Cooperation with audits & inspection by public authorities** or those appointed by them (e.g. obligation for business to cooperate with working conditions inspection), **including maintenance of appropriate records** (e.g. obligation for treatment facilities to keep records of the particulars of waste electronic equipment entering and leaving the treatment facility; obligation for hotels to keep a visitor register book; these records must be presented during the inspection).
11. **Application for subsidy or grant** (e.g. to structural or cohesion funds).
12. **Other.**

Some EU legislative acts and proposals also mention the possibility for Member States to ask for additional information (i.e. "...Member States may ... require the inclusion of other statements in the annual accounts in addition to the documents referred to in the first subparagraph ..."). Such possibilities are not to be understood as EU IOs, insofar as Member States are not obliged to ask that information. Nevertheless such possibilities will be documented as they often pave the way for Member States additions (gold-plating).

Types of required actions

1. **Familiarising with the information obligation**
2. **Training members and employees about the information obligations**
3. **Retrieving relevant information from existing data**
4. **Adjusting existing data**
5. **Producing new data**
6. **Designing information material (e.g. leaflet conception)**
7. **Filling forms and tables**, including recordkeeping
8. **Holding meetings** (internal/external with an auditor, lawyer and the like)
9. **Inspecting and checking** (including assistance to inspection by public authorities)
10. **Copying** (reproducing reports, producing labels or leaflets)
11. **Submitting the information to the relevant authority** (e.g. sending it to the relevant authority)
12. **Filing the information**
13. **Buying (IT) equipment & supplies** (e.g. labelling machines, ...)
14. **Other**