International best practice regarding business regulation:

The concept of regulatory burdens and different ways to measure them.

Workshop on simpler and more effective business regulation
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Content

1. Regulatory Burdens
2. Why should we reduce Regulatory Burdens?
3. How to measure?
4. Reducing burdens?
1. Regulatory burdens…
Regulatory burdens…

- As part of Company Costs

Turnover (100%) - Company Costs (98%) = EBIT 2%

- The Company Costs (98%):
  - Material Costs (35%)
  - Production Costs (63%)

- The Production Costs (63%):
  - Other Costs (50%)
  - Regulatory Burden (12.5%)
Regulatory burdens...

- Laws and regulations are necessary...
  So regulating a society and an economy, imposes costs on the industry.

<table>
<thead>
<tr>
<th>Laws &amp; regulations</th>
<th>Financial Costs</th>
<th>Regulatory burden</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>- Taxes</td>
<td>- Administrative burden</td>
</tr>
<tr>
<td></td>
<td>- Contributions</td>
<td>- Compliance Costs</td>
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<tr>
<td></td>
<td>- Fines</td>
<td>- Inspection Costs</td>
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</tbody>
</table>

(No regulatory burden: e.g. Interest rates, raw material costs)
Regulatory burdens…

- **Administrative burdens**
  - Information Obligations in government regulations.
  - Administrative activities have to be carried out,
    (eg. permits, soil investigations, annual reporting, etc.)

- **Compliance costs**
  - Other obligations in government regulations.
  - Investments have to be carried out.
    (eg. safety materials, soil protection systems, air filters, etc.)

- **Inspection costs**
  - Obligation to cooperate with inspections.
  - Accompany inspectors and provide information.
    (e.g. tax office, environment agency, fire authority, etc.)
2. Why should we reduce RB…
Why?

- Because regulatory burden are a significant part of the Net Company Costs.

<table>
<thead>
<tr>
<th></th>
<th>Net Company Costs</th>
<th>AB</th>
<th>CC</th>
<th>IN</th>
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<tbody>
<tr>
<td>AB</td>
<td></td>
<td>0.6%</td>
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<tr>
<td>CC</td>
<td></td>
<td>12.5%</td>
<td></td>
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<tr>
<td>IN</td>
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<td>10.9%</td>
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<tr>
<td>1.0%</td>
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<tr>
<td>87.5%</td>
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</table>
Why?

- Because it frustrates innovation.
Benefits of RB reduction…

- **RB reduction results for the industry:**
  - Increase in GDP (25% less AB = 1.7% growth GDP)
  - Increased labour productivity
  - Country and regions become more attractive to industry

- **RB reduction results for the government:**
  - Less paperwork and Institutional Administrative Burden for Gvmt
  - Regulations of better quality
  - Improved compliance
  - Professional satisfaction and improved quality of work
Benefits of RB reduction…

- Shared benefits
  - Improved transparency of regulations
  - Better interfacing between Government and Industry

- No political discussion because fits left and right wing in the parliament no party political issue
3. How to measure…

“We cut through all the red tape, but a new shipment came in this morning.”
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Law or Regulation

(Information) Obligations

(Administrative) activities / investments

Man-hours * Internal Tariff

Man-hours * External Tariff

Out of Pocket Costs

Number of companies * Yearly frequency of the license

Number of new license applications per year

\[ \text{Regulatory Burden (AB)} = P \times Q \]
How to measure…

- Standard Cost Model (SCM)
- Total RB Legislation
- Iceland National Regulatory Burden Reduction Program
- Cost driven Approach to Regulatory burden (CAR)
4. Reducing burdens…
The 5 necessary elements for an RB Reduction Program

1. Content
   - Inventory and analysis of origin and amount of RB
   - Possibilities for the reduction of RB

2. Process
   - Communicating with the stakeholders: “owners” and industry
   - Reaching consensus and commitment

3. Instruments
   - Standard Cost Model (SCM)
   - Cost driven Approach to Regulatory burden (CAR)
The 5 necessary elements for an AB Reduction Program

4. Organisation and planning
   - Who is doing what with whom (tasks, responsibilities, authorities)
   - Time frame and allocation of resources

5. Motivation
   - How to move the stakeholders:
     - Owners: parliament and government
     - Industry
Ways to move the stakeholders?

- SCM / CAR:
  - Hidden costs transparent
  - Systematic approach for identifying RB reductions

- +/- 25% net reduction target

- Budgeting AB creates scarcity

- Compensation required

- Interministerial framework

- Independent advisory board
6. Questions?
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