

MINISTRY OF INTERIOR
OF THE CZECH REPUBLIC

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**METHODOLOGY FOR DETERMINING THE AMOUNT AND SOURCE OF
ADMINISTRATIVE BURDEN ON BUSINESSES**

Version 1.2

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1. INTRODUCTION

Administrative burden is an obstacle to a better functioning of the economy. In order to be able to comply with the applicable requirements of the state authorities, businesses must allocate funds to administrative activities instead of making investments in further growth of their business, production, or other productive activities. This fact has an adverse impact on economic growth and prosperity of the community. However, it is the duty of the state and its institutions to create the best possible conditions for business, not to hamper it.

The task of this Methodology is to serve as a practical guide in assessing administrative burden on businesses ensuing from legal regulation. The method herein described – the Standard Cost Model – is based on a method developed and used by the Ministry of Finance of the Kingdom of the Netherlands, as well as, in various modifications, by numerous other EU Member States, for example Sweden, the United Kingdom, Denmark, Sweden, Poland, Norway, Hungary, Germany, Slovenia etc. A similar model is also used by the European Union and OECD in measuring the level of administrative burden.

The Standard Cost Model (SCM) is a methodology intended for determination of the amount of administrative burden; it is eligible both for administrative burden arising from the existing regulation and for presumed administrative burden included in newly adopted regulation or amendments of existing regulation.

While determining the amount of administrative burden, it is impossible to completely avoid estimates and simplifications. It is nevertheless necessary to make such estimates on the basis of a uniform methodology so that it is possible to compare administrative burden according to various criteria (by the responsible ministry or by the regulation that causes the burden). Only thus it will be possible to determine the relative ratios by which the burden is to be reduced, or to set thresholds that should not be exceeded.

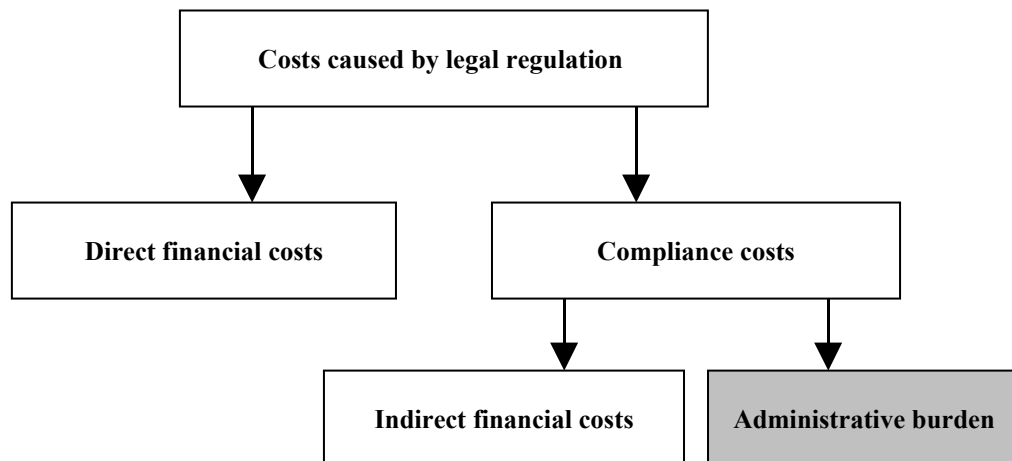
2. WHAT IS, AND WHAT IS NOT, ADMINISTRATIVE BURDEN

The “administrative burden” means the cost that natural persons or legal entities are required to incur in order to comply with their **information obligations imposed on them by the State by means of laws and other forms of regulation**. These obligations also apply to information compulsorily transferred to third parties (e.g., the trade unions, consumers etc.).

This Methodology only focuses on measuring the administrative burden on persons that are businesses within the meaning of § 2, para. 2 of the Commercial Code.

Legal regulation, by means of which the state imposes information obligations on businesses and thereby causes administrative burden, includes laws, government regulations, decrees of ministries and other administrative authorities except basic procedural codes, e. g. Administrative Procedure Code. Each legal regulation is in the competence of a central state administration authority, or the council for Radio and Television Broadcasting (hereinafter “authority”).

The costs caused to businesses by administrative burden represent only a part of total costs caused by legal regulation as a whole. An overview of the costs is demonstrated by the following scheme:



The direct financial costs represent a specific obligation to pay certain financial means in favour of a responsible authority (taxes, fees, charges, levies, penalties etc.). The costs of compliance with regulatory requirements are composed of indirect financial costs (the costs that a business must incur to comply with regulatory requirements, such as the cost of compliance with material requirements, e.g. the purchase of equipment for workplaces,

environmental facilities etc.), and costs constituting **administrative burden**, i.e. **costs expended to comply with information obligations**.

The term “**information obligation**” for purposes of this Methodology means an **obligation imposed by a legal regulation**, consisting in the disclosure by a business of information to other entities (e. g. tax return, permit request, delivery of information to the Czech Trade Inspectorate, disclosure of product ingredients on the packaging, the obligation to enclose an instruction insert with medical drugs etc. – for more examples please see also Annex No. 1).

The fact whether the information obligation arises to the business on the basis of a voluntary act (request for a grant or for a building permission) is irrelevant in assessing whether such obligation constitutes an administrative burden. Whenever a business is confronted by the necessity to incur costs in connection with the provision of information and such necessity arises by the operation of a law, any such costs are considered as administrative burden.

3. STANDARD COST MODEL

So called Standard Cost Model is used for the calculation of administrative burden. It is vital that this model be applied consistently according to the instructions below. Please note that, while determining administrative burden with the use of the Standard Cost Model, it is impossible to avoid estimates. It is however important to ensure that these estimates are as qualified as possible and are made on a uniform basis so as to enable comparability.

The Standard Cost Model was designed for the purposes of quantification of administrative burden caused by a particular regulation or a set of legal standards within the remit of a particular authority during a specified time period, and for the purpose of enabling comparability between regulations and departments.

In order to meet information obligation ensuing from legal regulation, businesses are required to perform a sequence of certain activities.

Administrative burden include costs that are **obvious, objectively measurable** (e.g., the cost of work, material, services such as bookkeeping etc.). On contrary, administrative burden does not comprise lost profits, costs caused by a change of the system, regulation or type of the business, irritating costs, costs of intent (for elaboration of an analysis whether to undertake certain steps or not), costs of uncertainty or costs relating to grit in the system. Accordingly, if the business receives refunds from the state administration for the costs incurred in connection with complying with the information obligation, any such costs shall not fall under administrative burden.

One-off costs, which a business is required to expend to comply with the information obligation, should also be evenly spread over the period being analysed (one calendar year is used for the purposes of this Methodology) – e. g. purchase of a special software. There is however exception concerning one-off costs expended “once in life” (in case of a new regulation or a legislative amendment) that are included in full amount e. g. extraordinary report required by a new law.

Recurring costs should be included in administrative burden, evenly spread over the period being analysed (one calendar year).

While measuring administrative burden, it is **irrelevant** in respect of an activity that a business is required to perform as a result of a regulatory information obligation whether the business would also perform such activity in the absence of such obligation. The cost of such activity counts as administrative burden. This is because it is difficult to determine over time whether an activity would be carried out in the absence of the regulation requiring it.

While monitoring administrative burden, **we suppose that information obligations required by legal regulation are fully complied with** (although this is not true in practice).

If businesses keep track of certain data for several reasons but the obligation follows also from the information obligation imposed by regulation, the total costs of keeping track of such data will be counted as administrative burden

While describing administrative burden, a statement should be made as to whether the information obligation being analysed follows from international or EC/EU regulation transposed to the Czech law or whether it ensues exclusively from Czech national legislation.

4. DESCRIPTION OF THE MEASUREMENT PROCEDURE

The whole process of enumeration of the amount of administrative burden is composed of a number of subsequent steps. In Annex No. 2 to this Methodology, there is a **special table** designated for **documentation** of particular steps and calculation of administrative burden.

The measurement of administrative burden by means of the Standard Cost Model is realised on the basis of estimation of real costs, therefore it is not sometime possible to avoid using mere presumptions.

4.1. Preparatory phase

As the first step, **findings whether the analysed piece of legislative regulation contain information obligation** and whether it concerns businesses in the meaning of § 2, para. 2 of the Commercial Code are to be accomplished.

Furthermore, it is necessary to specify the required information obligation and **fragmentise it into particular activities** to be done by a business in order to comply with the information obligation. Additional specification of the division of the information obligation into particular activities can be made in the course of interviews with businesses. A list of examples of information obligations and their break-down into particular activities is enclosed in Annex No. 1.

Then, the **origin of regulation** is to be stipulated in order to be able to reduce the administrative burden. Therefore, it is necessary to indicate in the table the information obligation category under which the information obligation in question falls:

A – the information obligation (both its content and form) **follows fully from EC/EU legislation**;

B – the information obligation **follows, as to the content, from EC/EU legislation** but the form in which the obligation is required remains in the competence of the Czech authorities;

C – the information obligation, **both its content and the form, follows solely from national legislation**;

D – the information obligation follows **from the international legislation**.¹

If the information obligation falls into categories A, B or D, it is necessary to mention the number of the respective piece of regulation containing that information obligation, as a remark to the table.

¹ This category is newly introduced for any future measurements of administrative burden. In the measurement realised in 2005, it was not taken into account.

Subsequently, the **target group of businesses is determined** on which the information obligation is imposed – i. e. a brief description of the group and an assessment of the businesses concerned is put across.

If all or several categories of businesses are subject to the information obligation, it is essential to **classify businesses in relevant segments**, e. g. according to the size. This segmentation is important for a proper finding of expensiveness of particular activities. Supposing the costs for particular activities do not differentiate very much in distinct groups of businesses, this segmentation according the types of businesses does not need to be done.

The entry concerning the **number of businesses** indicates how many businesses are affected by the information obligation. If the information obligation is required only occasionally, the indication involves only the number of businesses that will be supposedly subject to this obligation in the given period (one calendar year). In such a case, it is possible to take use of registers of various authorities.

The last step of this stage is **determination of the frequency**. The frequency indicates how many times a year a data requirement or information obligation (or its particular activities) has to be complied with by a business. In some cases the frequency can be derived directly from the regulation, evidence of authorities etc. In case of an obligation required “only one in a life”, there should be mentioned the expression “one-off”. If the information is not required every year, it is necessary to provide a rate falling on one calendar year (e. g., in case the obligation is required once in two years, the frequency will be 0,5 and if it has to be reported every three years, then it will be stated as 0,33).

4.2. Determination of costs

In order to calculate an overall administrative burden, it is necessary to compile data concerning the **amount of the costs** of businesses expended **in relation to time demandingness** of particular activities within the information obligation.

Activities can be done **internally** (by an employee) or **externally** (e. g. by an accounting firm). The costs for those activities involve **hourly pay rate** (including payments of the employer) and **internal overhead costs** or **external hourly rate**. Overhead costs include, e. g. expenses for IT, electricity, telephones, assurance, hire etc. Along with hourly rate for particular activities it should be find the number of hours necessary for performing of respective activity, both entries divided into internal and external.

Before the costs expended for information obligation are calculated, it is necessary to decide about the **way how to obtain the data about the costs, including time demandingness**, i. e. whether to use interview with businesses, expert knowledge, statistic review (e. g. hourly rate of accountants), estimations by analogy with a similar legal regulation or a combination of these methods.

If we decide to obtain the data by means of interviews with businesses, it is necessary to select businesses for co-operation in particular information obligations, i. e. to create a representative sample of all types of businesses according to their division into target groups. Each type of business should be represented in such a sample at least by 5 respondents.

There are three ways of interviewing businesses:

- **personal interview** of a representative of the authority with businesses is a preferred method for identifying the administrative costs of regulation concerning higher number of information obligations or activities; the interview should last at least 1 – 2 hours;
- **telephonic interview combined with electronic communication** – this type of interview can be used if only the costs of isolated information obligations or activities have to be identified;
- **focus group interviews** of the representatives of the authority with a small number of businesses and relevant experts – this way may be an option in the case of highly complex legislation, if we want to be sure whether the break-down of information obligations into particular activities was optimal, or if we want to save some time that would be necessary for individual interviews.

After the interviews are finished, we compare the data collected (see the example below). If there are significantly different data concerning more than 1 business, it is desirable to organise further interviews.

Example No. 1 – Determination of time consumption for particular activities

<i>Activity 1</i>			<i>Activity 2</i>		
<i>Company 1</i>	<i>10 minutes</i>		<i>Company 1</i>	<i>10 minutes</i>	
<i>Company 1</i>	<i>10 minutes</i>		<i>Company 1</i>	<i>20 minutes</i>	
<i>Company 1</i>	<i>10 minutes</i>	<i>10 minutes</i>	<i>Company 1</i>	<i>10 minutes</i>	<i>15 minutes</i>
<i>Company 1</i>	<i>10 minutes</i>		<i>Company 1</i>	<i>20 minutes</i>	
<i>Company 1</i>	<i>30 minutes</i>		<i>Company 1</i>	<i>15 minutes</i>	

Activity 3

<i>Company 1</i>	<i>10 minutes</i>	
<i>Company 2</i>	<i>20 minutes</i>	
<i>Company 3</i>	<i>50 minutes</i>	
<i>Company 4</i>	<i>2 minutes</i>	
<i>Company 5</i>	<i>5 minutes</i>	<i>Further interviews</i>

As far as Activity 1 is concerned in the above mentioned example, business 5 is clearly different from others and therefore should not be counted into account, but there is no need to carry out further interviews though. In case of Activity 2, the data can be accepted and an average used as a result. Further interview probably should be conducted with regard to Activity 3, as the answers given by the businesses vary too much.

4.3. Calculation of administrative burden

The **overall administrative burden** per one information obligation will be calculated as the sum of the costs of all activities necessary to meet the obligation multiplied by the number of repetitions of such activities during the given period.

However, before that several partial calculations should be done. First, **costs of particular activities** (P) should be calculated from the collected data concerning hourly costs for particular activities and the number of hours necessary for executing of these activities, on the basis of the following formula:

$$P = P_I + P_E$$

$$P_I = \text{hourly costs}_I \times \text{number of hours}_I$$

$$P_E = \text{hourly costs}_E \times \text{number of}_E$$

I - internal

Example No. 2 – calculation of P

A typical business fills in a form internally. Internal hourly costs for execution of this activity are 120 CZK and filling in lasts 30 minutes.

P_I is then calculated as follows: 120 x 0,5 = 60 CZK

$$P: 60 + 0 = 60.$$

Costs for this activity then amount 60 CZK.

In order that we could calculate the costs of one information obligation, we have to aggregate P for all activities falling into this information obligation and Q (the number of activities carried out during a given period, i. e. one calendar year); it is calculated as follows:

$$Q = \text{number of businesses} \times \text{frequency}$$

Example3 – calculation of Q:

Activity that consists in filling form affects 1.000 companies, four times in a year.

Thus, Q totals:

$$1.000 \times 4 = 4.000$$

Overall costs for the exercised activity, with regard to the frequency, are to be calculated in accordance with the following formula:

$$P \times Q$$

Example 4 – calculation of overall costs of the exercised activity:

Costs for filling in the form for a typical company were amounted at CZK 60,- and Q counts 4.000.

Thus, P x Q is calculated $60 \times 4.000 = 240.000$ CZK

The total annual costs for filling in the form for 1.000 businesses amounts CZK 240.000,-

The costs for one information obligation are to be calculated as a summation of overall costs for all exercised activities falling under this information obligation.

Total administrative burden of the given piece of regulation is to be calculated as a summation of costs for all information obligations falling under this regulation.

4.4. Presentation of the measurement results

As an integral part of the completed tables (Annex No. 2), a **final report** must be carried out in which the measurement of the administrative burden of a respective regulation is described in detail.

The report should contain following information:

- whether there is an interconnection with another regulation coherent to information obligations in question;
- reference to provisions (numbers of the paragraphs) of the regulation from which the information obligations follows, if it is not already mentioned in the table;
- description of the way how the target group of businesses was selected (and eventually division of this group into smaller fragments) and how the number of businesses affected was determined (e. g. from the evidence of respective authorities);
- a detailed description of the process of data collection, i. e. what method was used (interview with businesses, experts knowledge, statistical reviews, estimation by analogy with similar regulation etc.), description of the method (number of the data sources, characteristics of the source), the way of measurement of time demandingness, the way how the estimations were done etc.;
- if there are information obligations of the type “once in life” in the table, it is necessary to mention it explicitly and add descriptive details;
- description of the problems encountered and the way of their solution, e. g. whether the regulation contained an information obligation relating to another authority than the competent one and how the finding of costs data was organised in this case;
- if the regulation causes an enormous administrative burden, specification of the most burdensome part(s) and the reasons for it;
- analysis of the proportion concerning the origin of the information obligations, i. e. the percentage by which is each category represented within the given regulation.

5. PROCEDURE FOR PREPARATION OF LEGISLATIVE PROPOSALS

Evaluation of administrative burden through the use of the Standard Cost Model is carried out for existing regulation or for newly proposed regulation including amendments, if it can be presumed that they will contain some administrative burden.

5.1. Using of the Standard Cost Model

When measuring administrative burden ensuing from new legislative proposals and legislative amendments, we generally proceed according to the Chapter 4, with several variations described further in the text.

For the measurement of administrative burden following from the new legislative proposals, we use costs estimations in a greater extent, including the data concerning time demandingness. We can also utilize statistical data or exploit data from previous measurements of administrative burden of already existing regulation.

As regards to administrative burden of legislative amendments, the way how to obtain the data is in some respect easier – the existing regulation that is amended serves as a source in this case, or we can employ the data from the previous measurement of administrative burden concerning this regulation.

5.2. Procedure for submitting of legislative proposals

The obligation to **evaluate administrative burden (costs) of businesses is given by the Legislative Rules of the Government**. If the legislative proposal presumes administrative burden (costs) of businesses, the evaluation of such administrative burden (including

calculation) is to be carried out according to the rules mentioned in the Chapter 4 of this Methodology.

The evaluation carried out in connection with a new legislative proposal or an amendment has to be **complemented by a table** (within the inter-ministerial comment procedure) according to the rules mentioned in this Methodology, and **by a report** comprising (aside the items stated under 4.4.) also a statement about the **impact of the new proposals to the overall administrative burden ensuing from already existing regulation** in the competence of the respective authority submitting the proposal. Thus, it is necessary to state whether, after approving the proposal, the overall administrative burden:

- **remains the same**; this supposition has to be substantiated and supported by a financial analysis (e. g. there is a new proposal containing 2 information obligations, whose overall administrative burden was calculated at 1.000.000,- CZK, and at the same time it is proposed to cancel another regulation containing 3 information obligations, whose overall administrative burden amounts also 1.000.000,- CZK);
- **increases**; this supposition has to be justified (e. g. the information obligations concerning the regulation follows merely from requirement enacted by EC/EU legislation) and a financial calculation of the amount of increasing has to be added;
- **decreases**; this supposition has to be sustained and supported by a financial analysis (e. g. existing regulation contains 3 information obligation and its overall administrative burden amounts CZK 500.000,-, while after adopting the amendment the number of information obligations will be cut to one and consequently the overall administrative burden will be reduced to CZK 100.000,-).

In regard to **evaluation of administrative burden for an amendment of existing regulation**, enclosures have to involve also a table worked out for the existing regulation. **In the report, comment has to be included comparing** the administrative burden concerning the current state and the administrative burden for the case of adoption of the amendment (e. g. whether the number of information obligations remains the same, whether the overall administrative burden changes, in what extent and why etc.).

If a new legislative proposal is changed in the course of inter-ministerial comment procedure or after government discussions in such a way that it influences the size of administrative burden of businesses, the submitter evaluates the administrative burden in respect of the new, modified version of the proposal.

ANNEX 1 – TYPES OF INFORMATION OBLIGATIONS AND RELATED ACTIVITIES

The items shown in this list serve as examples, are not to be interpreted as a complete and exhaustive list, and are not binding!

- Report, message (relating to all types of reports, e. g. tax return)
 - Collecting information
 - Preparing the report
 - Submitting the report to the responsible authority
 - Archiving of the report

- Request for permit / exemption (relating to all such types of requests, e. g. licence request)
 - Obtaining of the application form
 - Notification of the intent to file the request
 - Collecting information
 - Completing the form
 - Filing the request
 - Receipt of the request

- Announcements (relating to the obligation to notify certain activities, e. g. announcement of production and import of danger substances)
 - Collecting information
 - Completing the announcement
 - Submitting the announcement to the responsible authority

- Enregistration (relating to the duty of business to be registered, e. g. in the Register of Companies)
 - Obtaining of the application form
 - Collecting information and requested documents
 - Filing the form
 - Submitting the form and requested documents to the responsible authority
- Processing documents and their updating (relating to the duty of businesses to create certain documents and to update them, e. g. emergency plans)
 - Preparation and working out of the document
 - Discussion and approval of the document
 - Updating of the document
 - Evidence of the document
 - Presentation (publication) of the document
- Labelling for the needs of third parties (relating to the duty of the businesses to label products or devices for the needs of customers, e. g. with a label)
 - Collecting information for labelling purposes
 - Designing a label
 - Labelling
- Providing information for the needs of third parties (relating to the duty of the businesses to provide information to third parties, different from labelling , e. g. attachment of leaflets)
 - Collecting information
 - Working out of the document
 - Providing the third parties with information in question
- Request for a subsidy (relating to a possibility of businesses to submit a subsidy request)
Collecting information for labelling purposes
 - Obtaining of the application form
 - Collecting information
 - Collecting or acquiring of the required documents
 - Filing the application form
 - Submitting the form and requested documents to the responsible authority

ANNEX 2 – TABLE FOR THE CALCULATION OF ADMINISTRATIVE

Analyzed legal regulation

Authority in charge

Information obligation/activity (1)	Origin of information obligation				Target group (3)	Number of companies (4)	Hourly costs		Number of hours		Frequency (7)	P (8)	Q (9)	P x Q (10)
	A	B	C	D			I	E	I	E				
	(2)													
Information obligation 1														
Activity 1.1.														
Activity 1.2.														
Activity 1.3.														
Information obligation 2														
Activity 2.1.														
Activity 2.2.														
Activity 2.3.														
Activity 2.4.														

Overall administrative burden*

Explanatory notes:

- (1) Description of all information obligations and their activities ensuing from the given legal regulation.
- (2) The origin of the information obligation should be indicated by putting a cross into a respective column.
- (3) Description of a group of businesses affected by a given information obligation, in case of further segmentation of companies according to various types, description of these sub-groups should be also involved.
- (4) Estimation of the number of businesses concerned, in case of further segmentation of companies according to various types, estimation of numbers concerning these sub-groups should be also involved.
- (5) Hourly costs for execution of a given activity (performed internally or externally) in CZK, in case of need also divided according to the sub-groups of businesses..
- (6) Number of hours necessary for completing a given activity (internally or externally), in case of need also divided according to the sub-groups of businesses..
- (7) How often within a calendar year is a given activity performed; in case the activity is executed "once in life", the should be mentioned "one-off".
- (8) $P = (\text{hourly costs}_I \times \text{number of hours}_I) + (\text{hourly costs}_E \times \text{number of hours}_E)$

(9) $Q = \text{number of businesses} \times \text{frequency}$

(10) Overall costs of a given activity should be calculated as $P \times Q$ and total costs of information obligation should be calculated as a summation of $P \times Q$ for all activities falling under the information obligation..

*) Overall administrative burden is composed of summation of costs for all information obligations following from the legal regulation.