

ADMINISTRATIVE BURDENS MEASUREMENT AND REDUCTION

COST OF DELAYS FOR BUSINESSES

Methodology (v.1)

* Contents:

- 1 -Background
- 2 -Definition of the notions related to administrative delays
- 3 -Types of the administrative obligations with an impact on business activity
- 4 -Types of impacts and assessment of the related costs
- 5.- How to collect the relevant data

1 Background

Since September 2004, the French ministry of administrative reform has been conducting a series of measurements of the administrative burdens for businesses caused by permit regimes in France. Figures were made available for 112 permit. In late 2006, this study has been completed by the measurement of the burdens placed by a subset of these 112 regimes (30) on the administrations themselves, with a view to providing the “total cost” of these regulation and opening the way for effective and measurable simplifications.

Since the summer 2006, the ministry has decided that to provide the most accurate picture of the real burden on the economy, and especially on business, it was necessary to include in the total cost a valuation of the costs arising from “**administrative delays**”, i.e. the expenses and loss of income generated by the time companies must wait for the mandatory decision by the competent administration before they can conduct their intended operation.

A new methodology has been devised to address this question of putting a figure on the burden caused by administrative delays, which is thought to be an important component of the total burden for businesses. This methodology (version 1) is currently being applied to a number of information obligations, and will necessarily evolve as it is tested in real life. It is intended to publish adjustments and complements as required.

2 Definition of the notions related to administrative delays

The notion of “administrative delay for business” refers to the lapse of time between the moment when a demand is presented by a company to an administration and the moment when it receives an answer (notification, agreement, decision, decree or other).

But the notion of “delay” reaches beyond that and requires complementary information about the extent to which such periods are taken into account for the assessment of their impact on businesses.

2.1. Origin of the delay:

The delay starts from the moment when a demand is said to be “conform” which means that it does fulfil the requirements of the administration that is meant to deal with it (for instance it is supported by the mandatory documentary evidence). Thus, the demands that fail to fulfil all the requirements set for a given administrative procedure are excluded. Those that do not meet quality standards are also excluded. (eg: transmission of the dossier to the wrong department).

Tasks conducted by the administrative services:

*The elements written in *italics* may generate an “*administrative delay*”

1) Launching the procedure

- answering the questions of the seeker while his file is being constituted
- reception of the file
- making sure the file is conform and notifying the seeker*
- transmitting the file to services co-conducting the investigation*

2) Investigating the case

- study of the file*
- giving an opinion*
- organising a consultation*
- organising a commission/committee*
- organising a visit/ inspection of the site*
- keeping the requestor informed of the state of advancement of his dossier*
- others...*

3) Validation of the case

- *preparing the validation and validating (agreement, decision, decree...)*
- providing information of its validation (notification, publication)*

4) Follow up of the case (optional)

- following up the case

2.2. How businesses formalise a demand, and the impact it has on the administrative delay

There are several ways of formalising a demand:

- coming physically to make a demand at a counter
- from a distance: by mail, phone, through the internet...

The type of communication chosen to make a demand normally doesn't affect the delay imposed by the administration.

2.3. Unit of measurement of the delay:

The administrative delay is measured in working days; it can be said that the administrations are open 5 days a week.

2.4. Starting and ending points of the administrative delay

Companies cannot expect an immediate response to every request they place. There is, for each procedure, a minimal timeframe for studying the file from a technical and/or legal point of view, consulting other administrations and formalizing the decision. This could be called the “*normal administrative delay*.. With standard procedures, the administration can be expected to know the length of this timeframe (which is not really a “delay”) and take steps not to overstep it;

From this concept it is possible to state when an “*abnormally long administrative delay*” is incurred, and it could be imagined that this would be the subject of the study. The project would measure any significant increase beyond the normal delay, not justified by the circumstances of the case.

Unfortunately, the normal delay is not always known or published. For this reason, we have decided to investigate the “*total administrative delay*” defined as the lapse of time between the moment when the administrative department in charge has finished checking the conformity of the demand and has notified its registration to the company, and the moment when the final decision on the case is actually received by the business.

3 Typology of the information obligations having an impact on business activity

In the context of the work of the EU on measure of administrative burden, a common EU methodology for evaluating administrative costs imposed on businesses by the legislation was elaborated: it defines 11 types of information obligations (IO's) imposed on businesses:

Box 1: Types of obligation

1. Notification of (specific) activities (e.g. for transportation of dangerous cargoes)
2. Submission of (recurring) reports
3. Information labelling for third parties (e.g. energy labelling of domestic appliances)
4. Non labelling information for third parties (e.g. financial prospectus)
5. Application for individual authorisation or exemption (i.e. authorisation required each time a particular task has to be carried out; e.g. building permits)
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
9. Inspection (e.g. monitoring the conditions for employees)
10. Cooperation with audits
11. Application for subsidy or grant
12. Other

Not all these 12 types of information obligations generate administrative delays. The study of the impact of delays will only concern a subset of IO's : categories 5 to 8 and 11, where administrative delays may occur, when the company has to wait for a decision to be taken on a request it has filed.

4 Typology of impacts and assessment of the costs of administrative delays for businesses

The administrative delays linked to the handling of a company's demand in a formal procedure (permit, derogation, registration) usually generate a number of impacts on the businesses. This section examines the different types of impacts.

4.1 Types of impacts

4.1.1. Operational impacts: increasing the overheads and decreasing the production of the business

Increased overheads:

- loans
- loss of goods
- wages
- penalties
- subcontracting

Decreased production:

- present activities
- future activities

4.1.2. Financial impacts:

-resulting from the cost of immobilization of the invested capital and bringing about a loss of profitability

4.1.3. Social impacts

Suspension or delaying or the hiring of new staff.

4.2 Assessing the impacts

In order to put a figure (in euros) on the cost of the impact of administrative delays for businesses, the various elements of costs composing each impact need to be determined:

4.2.1. Operational impacts

They are linked to an increase of the burdens for a company and/or a decrease of its production/output, both caused by the expectation of an answer from the administration.

Both are assessed by way of an analysis of the operating account of the business

4.2.1.1 Increased overheads

The operational impact of administrative delays may be caused by an increase of running costs, which can take various forms:

- Reduced business (diminished sales)

The term "commercialised goods" relates to the goods sold by the company. If the commercialisation does not take place within the life span of such goods, a loss of value may be observed, for these goods may no longer be sold or exploited (and a pure loss incurred).

- Additional subcontracting costs

These occur when a business entrusts another with carrying out part or the whole of the order. It may be the case when a business is unable to fulfil its deal because of an unexpected administrative delay.

- Payment of indemnities or penalties

They may occur as a result of delayed execution of a contract, caused by an administrative delay.

- Extra personnel costs

As part of the development of its activity, a business may have intended to hire extra personnel. Moreover, it may be prevented from putting this new task force to work until it has received the agreement from the administration. In that case, it has to bear the cost of these new employees without corresponding output.

- Additional financial costs

In order to keep its word with the customers or the suppliers, a business faced with an administrative delay may be forced to take out a loan.

The banks impose reimbursement deadlines that the business has to watch in spite of the administrative delay it is facing. The impact of the loan in terms of costs will correspond to the amount of financial burden that has weighed on the business during the delay.

The following table is a reminder of the big groups of "class 6" expenditure, in the French General Accountancy Plan:

60 purchases

61 external services

62 other external services

63 taxes and similar outlays

64 staff costs

65 other running costs

66 Financial costs

67 Exceptional costs

68 provisions for amortization
69 profit linked bonuses, taxes on the benefits

4.2.1.2 Decrease in production/output

Waiting for a decision can bring about different types of losses for a normally efficient company.

- the current activity of the business

Administrative delays may cause disturbances of the current activity of the business (and have an impact on its turnover). They may result in a direct decrease of the turnover, and on its commercial margin.

- the future activity of the business

The aim of the business is to grow within its market segment, which may imply making formal demands to the administration (for permits, general derogations...), and thereby face administrative delays.

An administrative delay may have an impact on the future turnover of a business. In that case, you may consider the loss of earnings caused by a delay as a equivalent to a loss of output.. This loss has a direct impact on the projected margin of the business and its future profitability.

4.2.2. Assessing the financial impacts

Every business requires capital, which must be invested before any return can be expected. To give a complete picture of losses caused by delays, you need to include the price of invested capital which is not generating any income, pending a decision to allow the activity to proceed. All types of assets listed in the balance sheet should be considered and priced. The delays must be valued at the going profit rate (or by default the interest rate).

4.2.3. Assessing the social impacts

These impacts may not be translated into a direct cost for the business, but must nevertheless be considered to give a full picture of the burden. They would generally take the form of a freeze on recruitments, or the non renewal of contracts for some members of the staff. Such consequences are not neutral financially and should be assessed.

5. Methods to assess the cost of administrative delays for businesses

The method for assessing the impact of administrative delays on businesses must be based on elements provided by the businesses themselves. Indicators and volumetric figures provided by professional organisations and the INSEE (National Institute of Statistics) will then be added to this information to allow the calculation at national level.

The assessment method relies on the collection of data provided by the businesses through repeated interviews with the company staff in charge of red tape (face to face or telephone interviews, according to the size of the company and the context).

This information enables the cost of administrative delays to be assessed, and a global national cost to be established. An interview guide must be prepared to assist the interviewer in gathering the necessary data for each IO.

If a company is engaged in several procedures, as many interviews must be planned.

After an interview, a report is drawn up and shared with the company.

Size of business may greatly influence the collection of data. In France, more than half of the companies had no employee, and 93% of them employ less than 10 people. (INSEE 2004)

Because of this predominance of small businesses in the French economical landscape, the quality and exhaustiveness of the information obtained from the businesses may vary greatly during the survey.

Indeed, a micro-company is not always able to provide detailed financial information or may need to ask for assistance from its accountant.

The interview outline aims at ensuring the interlocutor that he has not overseen anything, but it should not be understood as a compulsory list of boxes to be ticked.

The desired data falls into three groups:

-generic data on the company, leading to a categorization of the businesses, useful for future extrapolation;

-data related to the obligation under scrutiny, and how the companies can anticipate/cope with its effects;

-data related to the calculation of the cost of administrative delays, which will help assess and appreciate the impacts of the delays on the businesses (operational impact, social and financial costs)

5.1. Generic data

Gathering generic data helps to compare the data from a specific sector and extrapolate with the available national data (INSEE, BIT). In the long run, they will also serve as a basis for an analysis of the administrative delays.

These generic data about the businesses read as follows:

-name of business: for the purposes of identification

-type of location:

-small provincial town (less than 50.000 inhabitants)

-large provincial town (over 50.000 inhabitants)

-Paris or its surroundings

-status:

-(public) limited company

-independent

-date of creation of the company

-sector of activity of the company

-sub-sector of activity of the company

-activities of the company

- turnover

5.2. Data linked to the obligation under scrutiny

- company's ability to anticipate the delay:

The idea is to see whether the company had the possibility to anticipate the delay of the administration. Hence, the following points ought to be raised:

-had the administration informed the company of the normal delay for dealing with the case ?

-could the company have anticipated the delay between the moment the case was submitted and the moment when it received the decision?

- ways of filing the request

An interview with a business representative should include a description of the process and of the various ways a demand may be placed with the administration.

5.3. Data for the assessment of the costs for the company

The economical data gathered from the businesses enable the impact of delays to be quantified via its operating account (for the operational impacts) and its statement of accounts/balance sheet (for the financial impacts), as well as via non financial elements (social impacts).

-data from the profit accounts

In order to establish an exhaustive list of the burdens placed on the business by an administrative delay, each cost factor must be traced back to the type of expenditure to which it belongs according to the French General Accounts' plan.

The increased burdens for businesses ensuing from an administrative delay may concern the following expenditures:

- loss of earnings
- subcontracting fees
- indemnities/compensation for damage
- staff costs
- loans

For each cost, the following subjects will have to be studied with the company:

- the expenditure accounts concerned
- the duration of the impact
- the frequency of the impact (monthly, yearly)
- the amount in euros (part of the identified burden directly linked to the delayed answer from the administration)

Operational impacts

Increase in the overheads

impact	account concerned	description	duration	frequency	amount
Loss of goods	6.0	Purchases			
Subcontracting fees	6.1	Exterior services			
Indemnities/compensations	6.5	Other running costs			
expenses linked to the personnel	6.4	Personnel expenses			
loans	6.6	Financial burdens			
others					

The data required to put a figure on the decrease of the company's production fall into three groups:

- amount of loss of profit concerning the present activity of the company, induced by the administrative delay
- volume of business not realized in the context of the projected budget of the company, induced by the administrative delay
- profit rate on the turnover, in order to assess the lost or unrealized margin

Decrease in the production

Current	Future	% of margin on the turnover
Lost turnover	Projected lost business	

- data gathered from the statement of accounts:

The collection of data through interviews must enable the cost of the immobilized capital to be identified and calculated.

The following data is needed:

Financial impacts:

Immobilized capital	Net value	Duration of the delay	Profitability rate of the capital	Cost of the immobilized capital during the period

Other types of negative effects of burdens

The assessment of the impact of administrative delays on businesses is best approached via the amount of operational and financial costs befalling the business, but other dimensions, for instance the social impact must not be overlooked.

-Social data

The social data is to be collected in “ETP” (Full Time Equivalent” positions). The point is to determine with the interviewed person the exact duration of the “non-hiring period” and its impacts in terms of jobs.

The following points shall be tackled with the company:

- What were the extra ETP hiring projects before the abnormal delay occurred ? (expressed in number of positions)
- If the company had planned to hire: what was the duration of the non-hiring period induced by the delay of the administration? (expressed in number of days)

According to the procedure, several periods may be identified by the CEO, with an ETP evaluation of impact for each one of these periods. Listing them out will enable the total sum of impacted ETP-days to be identified.

Social impacts

period	Number of impacted ETPs	Duration of the impact (in days)	Total in ETP-days
Period 1			(a)
Period 2			(b)
Period 3			(c)
total		Total duration	=(a+b+c)

With this data, the social impact on employment of the delay may be identified.

5.4. Qualitative data

The interview must also enable the emergence of qualitative information, so that the point of view of the company on the following points may be gathered:

- how critical the delay is for the activity
- the perceived causes of the administrative delay
- the ways by which the administrative delay could be reduced.

Charles-Henri Montin
 DGME/SQS
 9 November 2006
info@regplus.eu