

1 Executive summary

1.1 Introduction

The Administrative Burdens Measurement Exercise (ABME) was launched by the Government in response to the Better Regulation Task Force's report, 'Regulation: Less is More' as part of the Chancellor of the Exchequer's Better Regulation Action Plan (BRAP). The aim of the ABME is to estimate the administrative costs incurred by the private sector² as a result of all regulations imposed by central government.

The project has covered all regulations in force as of May 2005 and has involved 15 other government departments and their agencies besides the Department for Transport (DfT). A parallel project has considered the administrative costs which arise from HM Revenue & Customs' operation of the fiscal system.

The measurement work reflected in this report was based on a snapshot of the administrative costs imposed by regulation as at May 2005. Since then, notably in May 2006, a number of changes have been made to the allocation of policy responsibilities across a number of government departments which affect departmental ownership of regulations. These changes have not been reflected in the reports but they will be reflected in departmental simplification plans.

The focus of the work has been on measuring the administrative costs of regulation rather than the compliance or policy costs. These are defined as "the [recurring] costs of administrative activities that businesses are required to conduct in order to comply with the information obligations that are imposed through central government regulation³."

It is anticipated that the results of the ABME will inform the process of setting and agreeing departmental targets for year-on-year net reductions in administrative costs and burdens. In this way, the project is expected to drive improvements in productivity and, hence, economic performance. Following the Chancellor of the Exchequer's Budget in March 2006, the department is expected to prepare a detailed proposal for realising such targets as part of a more general Simplification Plan.

The Better Regulation Executive (BRE) within the Cabinet Office co-ordinated the initiative to ensure consistency across departments and each department has been responsible for estimating the costs of its own regulations. A consortium led by PricewaterhouseCoopers (PwC) and including legal experts from DLA Piper and Landwell has led the implementation of the project supported by the BRE and DfT.

1.2 Approach and methodology

The ABME has been based on the application of the Standard Cost Model (SCM). This provides a simplified but consistent framework for estimating the administrative costs imposed on business by central government regulation. The SCM was initially developed in the Netherlands and has also been extensively applied in Denmark.

The ABME was implemented between September 2005 and May 2006 in three phases:

² The private sector includes all businesses, charities and voluntary organisations.

³ Definition from the Standard Cost Model Manual S3.1.4, page 15

- Phase 1 – Preparatory analysis: this primarily involved identifying and agreeing the regulations within the scope of the project and then breaking down these regulations into their constituent parts such that the information and data that businesses are required to provide to government were identified and classified.
- Phase 2 – Time and cost data capture and standardisation: this was concerned with collecting the data needed to calculate the total administrative costs which result from each of the requirements identified in Phase 1, including the number of organisations required to comply and unit costs per organisation. The data were collected, reviewed and assessed on a continuing basis to ensure they were credible and representative of the ‘normally efficient business’.
- Phase 3 – Calculation, data submission and reporting: this focused on processing the data collected and producing this report on the administrative costs imposed by regulations on business.

1.3 Properties of the cost estimates

The estimates of administrative costs included in this report are based on the application of the Standard Cost Model (SCM) which is designed to produce consistent estimates and so enable measurements to be compared and targets for reductions to be set across government. The SCM relies on deriving estimates of the standard cost of meeting each information obligation/data requirement (IO/DR) within a regulation for a ‘normally efficient business’. Given the need to manage the overall costs of data collection while providing information about a very large number of information obligations/data requirements (IO/DRs), the SCM relies on the input of a limited number of experts and/or businesses. As such, it does not produce a statistically representative measure of costs: instead, it is a pragmatic approach to measurement that gives an indicative estimate of the magnitude of costs which provides a starting point for setting reduction targets and highlighting the areas of focus. Moreover, the nature of the estimation process means that the greater the level of disaggregation of the cost estimates, the greater the potential margins of error surrounding the cost estimate. Nonetheless, experience from Denmark and the Netherlands demonstrates that using SCM-based estimates of administrative costs can provide a useful framework within which to focus efforts to reduce burdens.

In interpreting the results of the application of the SCM, it is important to recognise that the SCM provides an estimate of administrative costs of which administrative burdens are a part. The costs of some activities that business, charities and the voluntary sector would carry out regardless of regulatory requirements (business as usual costs) may be included. Equally some costs that may be regarded as associated with the underlying policy aim rather than being purely administrative may be included. Conversely, the costs of other administrative tasks, for example requirements that come from case law, are not included as they do not fit the SCM framework which is based on information obligations arising out of regulations. Looking forward, if the Government is to ensure that effort is focused on areas that business will feel the most benefit from, it will need to consider how to take into account business as usual costs in setting targets based on the estimates generated using the SCM.

1.4 Key regulatory areas in scope

The DfT’s aim is “transport that works for everyone” and its role involves managing and responding to increasing demands for travel and regulating the wide range of industries involved in the transport sector. At the time of the ABME the Department was organised into six main groups. The following table describes the policy areas responsibilities of each group and the key regulatory authorities and the affected industries. More recently, the Roads, Regional and Local Transport Group and Aviation, Logistics and Shipping Group have amalgamated into a new group, the Road Transport, Aviation and Shipping Group.

Chart 1: Summary of regulatory areas in scope

Organisational area	Policy areas	Enforcement bodies or regulatory authorities	Industries regulated
The Aviation, Logistics and Maritime Group			
Aviation Directorate	Aviation – airport policy, environment, air traffic, safety	Civil Aviation Authority	Airline and airport operators, flying and parachuting schools.
Logistics and Maritime Directorate	Shipping policy, ports. Goods vehicles - drivers and operators Radioactive Materials Transport and Dangerous Goods	Maritime and Coastguard Agency Police authorities	Ports, harbours and maritime industry. Freight industry
The Delivery and Security Group			
Transport Security and Contingencies Directorate (TRANSEC)	National and international transport security.		Aviation, maritime & railways industries (including Channel Tunnel)
The Driver, Vehicle and Operator Group			
	Driver and vehicle licensing and insurance, driver and vehicle testing; driving instruction, vehicle certification	Driver and Vehicle Licensing Agency (DVLA), Vehicle and Operator Services Agency (VOSA), Driving Standards Agency (DSA), Vehicle Certification Agency (VCA)	Drivers and vehicle owners and keepers, driving test instructors, vehicle operators and manufacturers
The Highways Agency			
	Network strategy, traffic operations, safety and standards		Freight industry
The Rail Group			
	Rail franchising, network regulation, rail policy and safety	Office of Rail Regulation (ORR)	Rail industry
The Roads, Regional and Local Transport Group			
Regional and Local Transport Policy Directorate	Private Hire Vehicles – taxis, buses	Local authorities	Local bus and taxi industries.
Road and Vehicle Safety & Standards Directorate	Transport technology and standards Street works	VCA and VOSA Local authorities	Vehicle manufacturers and retailers. Utilities
Roads: Performance and Strategy Directorate	Cleaner fuels and vehicles		Vehicle manufacturers and fuel suppliers

In total, 117 Regulations were identified as being within the scope of the ABME and these included 2,119 IO/DRs. These were spread across 32 policy teams within the Department. The policy areas with the greatest number of obligations were:

- Radioactive Materials Transport Division – 342 (16%);
- Aviation Directorate – 271 (13%);
- Shipping Policy – 204 (10%);

- Network Regulation – 152 (7%);
- Buses and Taxis Division – 138 (7%); and
- Transport Technology and Standards Division – 118 (6%).

1.4.1 Approach to the collection of unit cost data

Estimates for the time and costs involved in fulfilling the requirements of an obligation were collected as the basis for estimating unit costs using three different methods:

- Business interviews by telephone and face-to-face;
- Expert Panels⁴; and
- Assessment.

For DfT, a total of 11 Expert Panels were held covering a range of different policy areas and regulations. The table below provides details of the numbers of each of these methods used to cover the Department's 2,119 IO/DRs. It includes only those measures that have been used for the purposes of estimating the administrative cost rather than all the measures collected. Some measures collected were not subsequently used as they were incomplete or deemed not to reflect a normally efficient business.

Chart 2: Overview of the pattern of Phase 2 fieldwork

Overview of the pattern of Phase 2 fieldwork ⁵												
	Business interview			Expert Panel			Virtual Expert Panels			Assessment		
	Number of IO/DRs	Number of measures	%	Number of IO/DRs	Number of measures	%	Number of IO/DRs	Number of measures	%	Number of IO/DRs	Number of measures	%
DfT Total	315	656	27	423	433	18	56	59	2	1,300	1,300	53

The number of IO/DRs indicates how many obligations were covered by each collection method and used for the purposes of estimating the administrative costs. For a small number of obligations no measures were collected. This occurred when an Expert Panel (or Virtual Expert Panel) considered that one or more obligations were actually part of another and so 'rolled up' these obligations into one. In some cases, the cost of an IO/DR has been estimated based on measurements achieved through more than one fieldwork method.

1.4.2 Approach to estimating quantity (population)

Quantity reflects either the number of businesses impacted by the regulation multiplied by the frequency of the activity undertaken to comply with the IO/DR annually or the number of individual transactions. Where an obligation was undertaken less than annually, for example some licences last for three years, the total population was divided equally over that period to give an estimate of the number affected each year. PwC worked closely with the Department to identify the quantity for each IO/DR. In many cases, it was necessary to make estimates.

1.5 Overall results

The total annual cost of the Department's 117 regulations was estimated at £692.4m.

The majority of the total estimated cost was accounted for by a small number of IO/DRs: only 42 obligations (2% of the total number) accounted for over three quarters of the Department's estimated total cost. At the other end of the scale only 5% of the cost derives from the 1,940 least costly IO/DRs.

⁴ Includes Virtual Expert Panels.

⁵ The % represents the proportion of total measurements achieved by the specified fieldwork method.

The majority of the Department's costs are covered by five main areas of the Department's responsibilities:

- Good vehicles – drivers and operators;
- Driver and vehicle licensing and insurance;
- Radioactive materials transportation and dangerous goods;
- Aviation; and
- Shipping.

Most costly regulations

The 15 regulations in the Department with the largest estimated costs account for over 80% of the total cost. Many of these regulations are closely linked.

Goods vehicles – drivers and operators

Four of the 15 most costly regulations cover a range of requirements placed primarily on the drivers and operators of heavy goods vehicles. The most significant of these is the Drivers' Hours and Tachograph Rules, which, at an estimated annual cost of £240m, accounts for almost 35% of the Department's costs. One obligation regarding the manual entry of drivers' hours on their tachograph disc accounts for nearly £185m, (27% of the DfT's total estimated cost). Taken together with the three other goods vehicle related regulations, these four regulations account for almost £300m or 43% of the Department's costs.

Driver and vehicle licensing and insurance

Three regulations relate to vehicle and driver licensing and insurance and between them were estimated to cost £80m, (11% of the DfT's total estimated cost). The Vehicle Excise and Registration Act was estimated to be the most costly of these. At just over £50m, it accounts for 7% of the overall cost. Again, much of this cost is driven by the cost of one obligation, the annual application for a vehicle licence disc which was estimated to cost £40m. The relatively high cost is because of the large number of vehicles which are covered by this obligation, at 3m.

Radioactive materials transportation and dangerous goods

Four regulations concern the transportation of radioactive materials and dangerous goods. The European Agreement concerning the International Carriage of Dangerous Goods (commonly referred to as Restructured AD/RID) and three UK regulations, the Carriage of Dangerous Goods and Use of Transportable Pressurised Equipment and amending regulations and Radioactive Materials (Road Transport) Regulations together cost £75m, almost 11% of the DfT's total estimated cost.

Whilst over 350 IO/DRs are contained in these regulations, 70% of the cost stems from only two of them. One was estimated to cost £31m and the other £23m, again largely because of the numbers affected.

Aviation

The Air Navigation Order contains over 200 obligations and generates an estimated total cost of £36m. Again, the majority of the cost of this regulation (73%) is accounted for by only a small number of obligations. The most costly of these relates to the carrying of specified documentation on flights and was estimated to give rise to an annual cost of just over £15m. This obligation is actually a combination of a number of IO/DRs which have been measured together as one because the Expert Panel which considered them felt that the activities were so closely connected that it was difficult to provide a time for each separate obligation.

Shipping

Shipping policy is one of the policy areas with the highest number of regulations and IO/DRs included in the ABME, with 16 regulations and 204 IO/DRs. However, only one of these regulations is in the

Department's most costly 15 regulations. At an estimated annual cost of £14m the Merchant Shipping (Vessel Traffic Monitoring and Reporting) Regulations 2004 account for just over 2% of the total cost. Only three of the other 16 shipping regulations had an estimated cost of over £1m.

Administrative Costs by IO type and administrative activity

The largest proportion of the Department's costs was generated by obligations which related to keeping records; these account for half of the Department's total estimated costs. The next highest cost was associated with applications for permissions or exemptions from, though they only accounted for 14% of the costs.

Chart 3: Summary of administrative costs by IO type

IO type	Number of IO/DRs		Total cost	
	Number of IO/DRs	% of total number of IO/DRs	Total cost by IO type £ (million)	% of total department cost
Keeping records	221	10%	£354.6	51%
Applications for permission for or exemption from...	325	15%	£98.8	14%
Other	1,573	75%	£239.0	35%
Total	2,119	100%	£692.4	100%

Footnote: The costs shown in this table are indicative estimates. They have been prepared on a consistent basis in accordance with the SCM but still need to be interpreted with caution given the nature of the SCM (see Section 2.3 for further details).

Of the total estimated costs just under two thirds are related to internal costs (including overheads) with the remaining third relating to the purchase of external goods and services. Of the internal costs the two activities which accounted for the highest costs were gathering and assessing relevant information, which accounted for just over £100m of estimated costs, and reporting (including written descriptions, copying, filing distributing or submitting information / reports) which was estimated at just under £75m.

Breakdown by type and origin

All IO/DRs were classified as 'third party' (i.e. the information is provided to someone other than the Government or a related body) or 'non third party'. Around 70% of the obligations were non-third party, but these accounted for 80% of the total estimated cost.

Almost two-thirds of the DfT's estimated total cost burden was accounted for by internal costs (i.e. staff time to fulfil the obligation) with the rest comprising the cost of the purchase of external goods and services by organisations.

In estimating the cost of each IO/DR costs were recorded as 'internal', that is the time associated with the organisation's own staff carrying out activities, and 'external', the costs associated with the purchase of goods and services from others. The significance of external costs varied between non-third party obligations and third party ones. For non-third party obligations external costs accounted for around 45% of the total cost of those obligations. However, for third party information obligations, they accounted for less than 10%.

Chart 4: Summary of administrative costs by third-party/non-third party

	Third party			Non-third Party			Total administrative costs		
	Internal cost %	External cost %	Total £ (million)	Internal cost %	External cost %	Total £ (million)	Internal cost %	External cost %	Total £ (million)
DfT Total	90%	10%	£125.5	56%	44%	£566.9	62%	38%	£692.4

The IO/DRs were also categorised according to their origin, being classified as either:

- A – international, no domestic discretion;
- B – international, domestic discretion; or
- C – domestic.

Just over 40% of the Department's IO/DRs have an international origin (A or B). However, in terms of costs, international obligations are even more significant, accounting for over half of the Department's total estimated costs, with 49% being category A obligations.

Chart 5: Summary of administrative costs by origin

Reporting unit	International, no domestic discretion (A)		International, domestic discretion (B)		Domestic (C)		Total £ (million)
	£ (million)	% of Reporting unit total	£ (million)	% of Reporting unit total	£ (million)	% of Reporting unit total	
DfT Total	£340.6	49%	£41.7	6%	£310.2	45%	£692.4

Two pieces of European Union legislation have a significant impact on the Department's costs. These are the EU drivers' hours and tachographs rules, which underpins almost 35% of the Department's estimated total cost, and the European Agreement concerning the International Carriage of Dangerous Goods, which accounts for around 11% of the costs.

Administrative costs vs administrative burdens

The ABME has focused on deriving an estimate of the administrative costs incurred by businesses as they comply with the IO/DRs within the Department's regulations. As the SCM recognises, not all of these costs represent an administrative burden (that is they reflect the cost of those administrative activities that businesses sustain simply because it is a requirement of regulation). There may be some activities which organisations would carry out anyway, even in the absence of the regulation for example for safety and security or as a matter of efficient business operation. Evidence gathered from the business interviews for the DfT suggest that on average around 30% of activities would still be carried out, at least to some extent, even in the absence of the regulation.

These responses need to be treated with some caution as the interviews covered only a small proportion of the IO/DRs which are within scope of the exercise (just under 15%) and in most cases only one or two businesses were interviewed on each of those IO/DRs, in most cases reflecting only a very small proportion of the affected business population. However, these responses do provide an insight into the extent to which the costs which have been measured represent an administrative burden, rather than 'business as usual' costs and may be a useful starting point for the Department in considering this issue.

Other findings

The businesses interviewed also generated qualitative comments about regulation and the obligations covered by the ABME. The most common responses concerned the volume and complexity of the regulations interviewees felt they faced. In particular two themes emerged:

- Europe – both the fact that many of the obligations originate from EU legislation and a perception that the UK applies more EU regulations than other European countries; and
- the disproportionate impact of regulations on small business.

However, some respondents recognised the need for a certain level of regulation to ensure safety and security. A number of interviewees also suggested ways in which the perceived or actual impact of some regulations could be reduced. Common themes were:

- keeping requirements simple;
- maintaining regulatory stability, for example not changing the regulations frequently;
- using plain English to make requirements more easy to understand;
- using e-mail or on-line mechanisms for filing returns or booking tests/services; and
- enabling licences to last for longer.

1.6 Conclusions

The key task now is to identify those areas where simplification activities can deliver savings in the administrative costs incurred by business. The first step will be to capture the baseline for the Department and identify those areas where there is scope to improve the implementation of regulations by discussing with relevant industry sectors which regulations cause the greatest concern for business.

Not all of the costs associated with the Department's obligations are additional to 'business as usual' costs. The Department may now wish to consider how it can gain a more detailed understanding about which of the costs estimated by the ABME represent a real additional burden.

Whilst the Department's regulations cover a wide and varied range of sectors and businesses, the highest estimated costs are concentrated in a relatively small number of regulations and obligations. This suggests that the Department will need to consider a relatively small number of areas to deliver either quick wins or substantial savings. In some of these areas, particularly the Road Transport (Working Time) Regulations, plans are already in place for review.

The Department may, however, benefit from considering opportunities for quick wins on regulations which, although modest in cost, impose a significant cost on a small number of businesses or give rise to a relatively low cost but are seen by business as a particular irritant. The qualitative comments may give some indication of those areas.

In considering how the DfT might take steps to reduce the administrative costs and burden associated with its regulations it will need to consider a number of questions, including:

- How do the types of obligations arising from the DfT's regulations affect the potential way forward? The estimates from the ABME suggest that more than half of the costs are associated with keeping records. This implies that the DfT may wish to think about how it can reduce the amount of information businesses are required to record and retain and whether there are ways the Department can access this information.
- Are there ways in which the costs, especially the burdens, of meeting an obligation can be reduced through altering the way in which the information is collected or reported, for example through greater use of on-line processes?
- Can the frequency with which businesses are required to comply with certain obligations be reduced? 15% of obligations related to the applications for permissions or exemptions many of which are applications for a licence. DfT may wish to consider the frequency with which some of these licences need to be applied for.
- Can the number of businesses or transactions affected by the regulation be reduced? Many of the highest costing obligations are driven by significant populations – often in excess of 1m. The Department may want to consider how the affected populations might be reduced – perhaps through the introduction of thresholds for some obligations.

The DfT has already started to consider how the information generated by the ABME can be used to inform its Simplification Plan and has begun to arrange and hold a series of workshops with policy officers and key industry representatives to consider the early results.