



House of Commons  
Committee of Public Accounts

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**Reducing the cost of  
complying with  
regulations: the delivery  
of the Administrative  
Burdens Reduction  
programme 2007**

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**Thirty-second Report of  
Session 2007–08**

*Report, together with formal minutes, oral and  
written evidence*

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## The Committee of Public Accounts

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### Publication

The Reports and evidence of the Committee are published by The Stationery Office by Order of the House. All publications of the Committee (including press notices) are on the Internet at <http://www.parliament.uk/pac>. A list of Reports of the Committee in the present Session is at the back of this volume.

### Committee staff

The current staff of the Committee is Mark Etherton (Clerk), Emma Sawyer (Committee Assistant), Pam Morris (Committee Assistant) and Alex Paterson (Media Officer).

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## Summary

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In 2005, the Government commenced the Administrative Burdens Reduction Programme (the Programme), with the aim of reducing the cost of the administrative activities undertaken by business to demonstrate compliance with regulations. The Government's objective is to reduce the burden of administering regulations without jeopardising policy objectives.

The Programme originated in a report by the Better Regulation Task Force, which reviewed an equivalent exercise undertaken by the Dutch Government. The rationale was that businesses could redeploy resources previously used in complying with regulation to more productive activities which, in turn, would benefit the UK economy. The Better Regulation Task Force estimated that the Programme offered the potential for an estimated increase in GDP of £16 billion for an investment of £35 million.

The Better Regulation Executive, now part of the Department for Business, Enterprise and Regulatory Reform (the Department), co-ordinated the implementation of the Programme and led the work to measure the size of the burden on businesses.

The Better Regulation Executive estimated that complying with the administrative activities imposed on businesses by regulation costs businesses some £20 billion a year. Central Government departments and regulators are implementing the Programme and have published simplification plans detailing how reductions will be achieved. Her Majesty's Revenue and Customs (HMRC) has undertaken a separate but parallel exercise, and has drawn up an equivalent plan to achieve reductions.

Under the Programme, 18 departments and regulators have committed to reducing administrative burdens by 25% by 2010. In addition, HMRC has established its own targets: to reduce the cost to business of complying with tax forms by 10%, and of audit and inspection by 15%, by 2010–11.

On the basis of a Report by the Comptroller and Auditor General,<sup>1</sup> we examined how the Better Regulation Executive and departments had introduced the Programme, progress in delivering reductions in burdens, and the long-term results of the Programme.

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<sup>1</sup> C&AG's Report, *Reducing the Cost of Complying with Regulations: The Delivery of the Administrative Burdens Reduction Programme, 2007*, HC (Session 2006–07) 615



## Conclusions and recommendations

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- 1. Regulation is not simply a burden and it can also offer benefits and protections for businesses, workers and consumers.** For example, health and safety regulation has yielded the best safety record in Europe and the number of fatalities at work fell from 1,000 a year in 1974 to 250 in 2006. In seeking to reduce the burden of regulation, departments should not lose sight of the purposes for which regulations have been introduced. When considering new regulations, or amending regulations to reduce burdens, they should assess the benefits as well as the full costs of regulation, and only consider changes in the light of a balanced assessment of both.
- 2. The Better Regulation Executive introduced the Administrative Burdens Reduction Programme on the basis of the potential benefits for business estimated in a similar exercise undertaken by the Dutch Government.** It did so before any assessment of the actual outcomes of the Dutch exercise, and evaluations of the Dutch experience now show that businesses have not noticed the full impact of changes. In considering new proposals for regulatory reform, the Better Regulation Executive should assess the likely impact of the proposed changes, including a rigorous assessment of both benefits and costs.
- 3. The Better Regulation Executive considered that the Programme offered the potential for a £16 billion increase in GDP for an initial investment of £35 million.** However, the strength of the link between the level of regulation and productivity growth is not certain. The Department for Business, Enterprise and Regulatory Reform has commissioned further research to explore the link between regulation and productivity. In taking this forward, the Better Regulation Executive should quantify the impact of administrative burdens on productivity, and test the robustness of the £16 billion estimated potential for increasing GDP.
- 4. The consultancy costs of the measurement phase were £17 million but staff costs were not recorded.** The Better Regulation Executive and departments should record the internal costs of implementing the Programme and of the regulatory reform agenda.
- 5. The £20 billion estimate of the total administrative burden is not statistically reliable.** This calculation is based on small sample sizes and non-random sample selection, and as a result cost estimates are only indicative. In addition, cost estimates do not capture the benefits of regulation. The Better Regulation Executive should not use these calculations as a baseline against which to quantify the success of the Programme or, if it does so, it should make clear the uncertainty in the estimates.
- 6. Over 60% of small businesses cited the level of regulation as an obstacle to their success.** Departments should follow the HMRC's example and assess the impact of regulations on small businesses. They should also give priority to relieving pressures on small businesses where it is practical to do so.

7. **The Better Regulation Executive set the target for most departments to reduce burdens by 25% by 2010 without assessment of what was achievable in each case, whereas HMRC's lower targets are based on what is achievable.** Credible yet demanding targets can only be set on the basis of an assessment of what is possible, and the Better Regulation Executive should move towards a system of specific, evidence-based targets for each department at the earliest opportunity.
8. **85% of businesses are not confident that Government would reduce regulatory burdens and 75% thought that burdens will increase.** This Programme will only be successful if businesses notice an impact on the ground. The Better Regulation Executive and departments should therefore tailor their communications to businesses to alert them to changes in compliance requirements resulting from the Programme.

# 1 The Introduction of the Programme

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1. The Government's policy is to reduce the burden of administering regulations without jeopardising policy objectives.<sup>2</sup> The underlying rationale is that if businesses spend fewer resources on complying with regulations, the 'saved' resources could be more productively employed in running the business. This would then contribute to the long-term goal of achieving faster productivity growth.<sup>3</sup>

2. In 2005, the Better Regulation Taskforce published a Report which set out eight recommendations for how the UK Government might reduce the cost to business of complying with regulation. Three of the eight recommendations are being implemented through the Administrative Burdens Reductions Programme, and all eight form part of the Government's long-term goal to increase the productivity of the British economy.<sup>4</sup>

3. The Taskforce considered that the Programme offered the potential for an estimated £16 billion increase in GDP for an investment of £35 million.<sup>5</sup> These numbers had come from pioneering work in Denmark and the Netherlands on the administrative cost of filling in forms.<sup>6</sup> The rationale that reducing administrative burdens would improve productivity was based on a review of an earlier equivalent exercise in the Netherlands. The estimate of potential benefits was based on an extrapolation from predictions of how the Dutch economy might respond, and at the time there had been no assessment of the outcomes or impact on the Dutch economy.<sup>7</sup> The Government accepted the Taskforce's recommendations in full and implemented all eight recommendations, including the commencement of the Programme.<sup>8</sup>

4. The Programme is unlike previous attempts to improve the regulatory environment as, for the first time, departments mapped all extant legislation in the UK and estimated the cost of complying with all related administrative activities (**Figure 1**).<sup>9</sup> The Better Regulation Executive adopted a method, known as the Standard Cost Model, to estimate the costs of the tasks that businesses undertake to provide the necessary information to comply with regulations. Using these results, the Better Regulation Executive announced that the administrative burden of regulations in the UK was just under £20 billion in May 2005.<sup>10</sup>

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2 Q 28

3 C&AG's Report, para 1.4

4 C&AG's Report, para 1.6

5 Q 9

6 Q 31

7 Q 31

8 C&AG's Report, para 1.19

9 C&AG's Report, para 2.19

10 Q 31

**Figure 1: Administrative Burdens**

Administrative burdens are the costs to business of carrying out administrative activities in order to comply with regulations that impose information obligations. The Programme seeks to reduce the cost of providing information to Government to demonstrate that, and how, businesses are complying. This also includes all legal obligations that Government puts on business to supply information to third parties, including shareholders and customers.

The Programme focuses on the reducing the *administrative* cost of complying with regulations (as identified above), and not the wider costs imposed by the objective of the regulation itself. This is illustrated by the requirement for landlords to service gas boilers. The Programme seeks to reduce the time taken to submit forms certifying that the boiler has been checked, and does not consider the actual costs of servicing the boiler.

5. The Better Regulation Executive's objective was to establish an externally validated and credible baseline of administrative burdens in the UK.<sup>11</sup> It therefore employed PricewaterhouseCoopers (PWC) to conduct interviews and hold focus groups with businesses to establish the time and resources they spent carrying out administrative activities. However, the small sample sizes and non-random sample selection mean that the results are not statistically reliable.<sup>12</sup> The Better Regulation Executive's consultants conducted 8,500 interviews for some 20,000 information obligations. The cost estimates are, therefore, approximate figures and not precise calculations.<sup>13</sup>

6. Measuring the cost of administrative burdens has been potentially beneficial for departments. For example, it has raised awareness of burdens and the areas of regulation which impose the costliest information obligations. This has improved policy officials' understanding of the costliest regulations and provided an indication of where simplification activities can have the greatest impact.<sup>14</sup>

7. The two main measurement exercises were carried out between September 2005 and May 2006. The PWC measurement exercise was a large, complex project and the consultants used up to 700 staff to complete the work. The consultants also encountered a challenge in identifying people who were able to respond knowledgeably on the time taken to comply with specific obligations.<sup>15</sup> The average cost per interview was £2,000.<sup>16</sup>

8. HMRC worked with KPMG to conduct a separate but parallel exercise to measure the administrative burdens imposed by the tax and duty system. The combined cost of the consultancy contracts were £17million, of which £7 million was incurred by HMRC. In all, up to 300 civil servants worked on the projects but staff costs incurred by departments were not recorded.<sup>17</sup>

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11 Q 2

12 Q 21

13 Qq 12, 18–22

14 C&AG's Report, para 2.18

15 Qq 40–41

16 Qq 4, 39

17 Qq 4, 9

9. Departments and regulators have committed to reducing administrative burdens by 2010.<sup>18</sup> The targets were not based on calculations of either the desirable or achievable levels of reductions, but followed the precedent set by the Dutch Government.<sup>19</sup> The Better Regulation Executive believed that the use of a common target provided a clear, simple and pragmatic approach to focus efforts within departments.<sup>20</sup>

10. Due to the specialist nature of tax regulation, the Chancellor of the Exchequer set separate targets for HMRC to reduce the cost of complying with tax forms by 10%, and to reduce the cost to compliant businesses of complying with audits and inspections by at least 15%, by 2010–11.<sup>21</sup> HMRC set its targets on the basis of consultation with its external advisory board, made up of businessmen and accountants, and after consultation with the Danish tax authority. Advice from the consultation enabled more informed target setting and a more focused approach to simplification, with particular emphasis on forms and inspection audits.<sup>22</sup>

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18 C&AG's Report, para 2.15

19 Qq 15–16

20 Qq 15, 70

21 C&AG's Report, para 9

22 Q 14

## 2 Delivering Reductions in Administrative Burdens

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11. If all departments achieved their reduction targets, the aggregate potential saving would be approximately £4 billion. This represents an average saving per business of £2,000 per annum, although the amount each firm will save will vary.<sup>23</sup> The Better Regulation Executive believes that reducing administrative burdens will provide tangible benefits for businesses, contributing to higher profits, freeing up resources and, particularly for small businesses, freeing up people's time.<sup>24</sup>

12. In December 2007, the Better Regulation Executive announced that departments had delivered some 280 reductions and claimed that these had achieved cost savings worth £800 million for businesses.<sup>25</sup> The measures include a wide range of projects across the economy and the Better Regulation Executive believes that the measures include simple, pragmatic ideas to reduce costs.<sup>26</sup>

13. The real test of the Programme is, however, the extent to which it delivers meaningful impacts for businesses.<sup>27</sup> Experience in Denmark and the Netherlands shows that businesses have not noticed the full impact of changes.<sup>28</sup> In the United Kingdom, some observers consider that progress to date is limited. In 2007, a survey of its members by the Institute of Chartered Accountants of England and Wales reported that more chartered accountants believed that the regulatory environment had deteriorated rather than improved compared with the previous year.<sup>29</sup> The NAO survey of businesses in February 2007 showed that 60% considered regulation to be a key challenge and an obstacle to their success.<sup>30</sup> The relative importance of administrative burdens is, however, not known.<sup>31</sup> Studies in Sweden have shown that they are likely to be only a small part of the total cost of regulation, but the Better Regulation Executive felt that valuable improvement had been delivered, for example, in simplifying Health and Safety forms.<sup>32</sup>

14. The Programme aims to reduce those aspects of regulation that businesses find burdensome. Yet the NAO survey showed that, at the outset of the implementation phase, businesses did not believe that Government had a good understanding of their concerns. 67% responded that Government did not understand business well enough to regulate and

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23 Q 68

24 Qq 29, 48, 73

25 Ev 13

26 Qq 5, 49

27 Q 6

28 Qq 5, 8

29 Q77; Ev 16

30 C&AG's Report, para 1.16

31 C&AG's Report, para 14

32 Q 6

68% stated that Government does not consult well with business before changes to regulations are introduced.<sup>33</sup>

15. Departments and regulators are responsible for identifying proposed actions to reduce administrative burdens. They set out their work programme in Simplification Plans, which were first published in December 2006 and are being updated annually until 2010. HMRC has also drawn up an equivalent action plan.<sup>34</sup> The first round of plans drew heavily on initiatives that were already on-going when the measurement exercise started, but also concentrated on achieving reductions in the high cost areas.<sup>35</sup> For example:

- BERR is focusing on its three areas of highest costs—company law, employment law and consumer law;<sup>36</sup>
- Communities and Local Government has sought to simplify the planning system by introducing a new planning portal;<sup>37</sup> and
- HMRC has undertaken a comprehensive review of the VAT system and worked with businesses to identify how to make changes.<sup>38</sup>

16. The NAO's 2007 survey also showed that the majority of respondents found all of the administrative tasks of complying with regulations burdensome. The two most important burdens were "having to keep up to date with changes in existing regulations" and "the length of time it takes to go through the process of compliance" (**Figure 2**). These results demonstrate the importance of improving the quality of the regulatory regime more broadly, and show that the most burdensome aspects of complying with regulations are not necessarily costly in monetary terms.<sup>39</sup>

17. Business rated the following activities as most important in reducing the burdens of regulation. They were to:

- simplify complex rules;
- improve access to information that spells out clearly which regulations apply; and
- provide guidance that clearly sets out how to comply with a regulation.<sup>40</sup>

18. Departments' 2006 simplification plans report that they are addressing the wider aspects of regulations that businesses find burdensome, and are focusing on the activities that businesses consider the most important.<sup>41</sup>

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33 C&AG's Report, para 1.15

34 C&AG's Report, paras 3.3–3.4

35 Q 12

36 Q 18

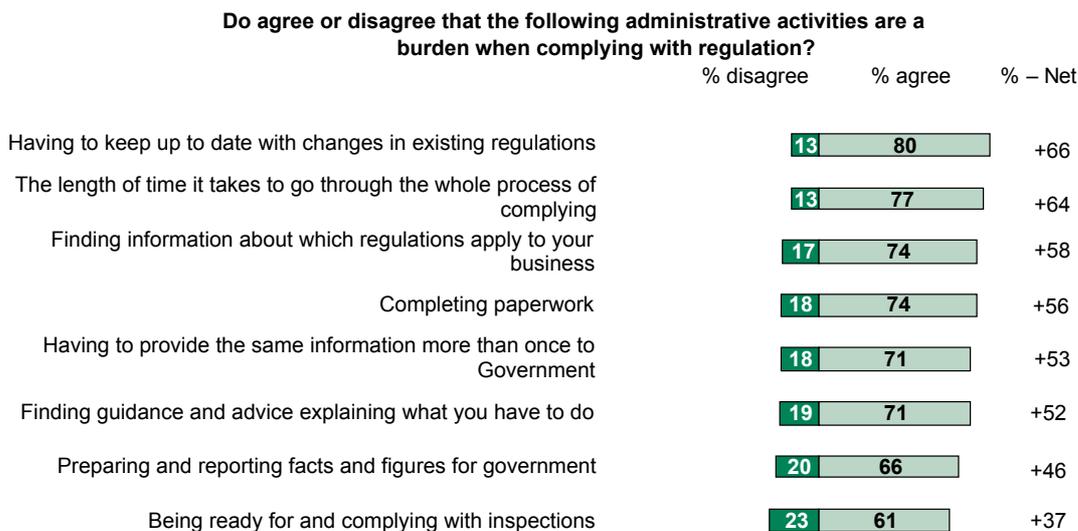
37 Q 13

38 Q 13

39 C&AG's Report, para 3.12

40 C&AG's Report, Figure 17

41 C&AG's Report, para 3.16

**Figure 2: Aspects of complying with regulation that businesses find burdensome**

Source: NAO/ Ipsos MORI survey of 2,000 businesses conducted in 2007

19. Small businesses are more likely to consider regulation as an obstacle to their success and administrative burdens are likely to be disproportionately higher for small businesses in relative terms.<sup>42</sup> Calculations of administrative burdens, except in the tax area, were carried out at an aggregate level and were not broken down between types of business.<sup>43</sup> HMRC adopted a different approach and considered the distribution of administrative burdens between different sizes of businesses.<sup>44</sup>

20. In March 2008, the Government published the Paper: *Enterprise: unlocking the UK's talent*. The Government committed to introducing a new approach to regulating small firms with its “think small first” policy. In the first instance, it will examine whether firms can be fully exempted from new regulatory requirements or be subject to simplification of enforcement. Where this is not possible, departments will seek to work with small firms to design specific approaches for them.<sup>45</sup>

21. Only one in ten businesses was aware of the Government’s initiative to reduce burdens (**Figure 3**). Furthermore, 75% of businesses thought that the burden of regulation would increase, and 85% were not confident of the Government’s ability to succeed in reducing burdens.<sup>46</sup> Communicating effectively with businesses, for example by notifying them of the aim of the Programme and the results that have been achieved, will be key to creating awareness and changing businesses’ perception.<sup>47</sup>

42 Q 45

43 Qq 6, 45–47

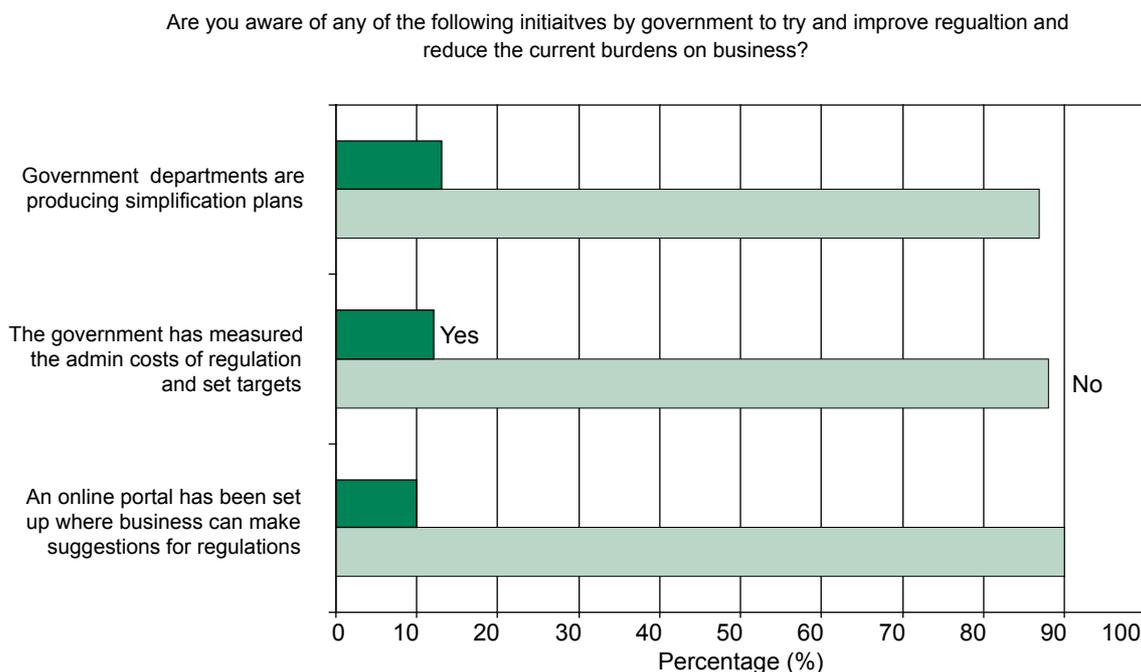
44 Q 14

45 *Enterprise: unlocking UK talent*, HM Treasury, March 2008

46 C&AG’s Report, para 4.18

47 Qq 36–37, 53

**Figure 3: Awareness of Government initiatives to reduce administrative burdens.**



Source: NAO Ipsos MORI survey of 2,000 businesses conducted in 2007

22. Departments are responsible for communicating to stakeholders the results of their initiatives to reduce burdens.<sup>48</sup> There were, however, examples of changes made by departments of which businesses were not aware. For example, the online Human Resource tool developed by BERR is designed to help save businesses time and money but it is a challenge for the Department to raise awareness of its existence amongst those businesses that would benefit.<sup>49</sup>

23. The Better Regulation Executive has recognised that they face a challenge in communicating the results to businesses and is committed to making sure that people are aware about the changes. In December 2007, the Better Regulation Executive published a summary of all the reductions that departments had delivered, providing practical examples of change from all departments. The Better Regulation Executive has also instituted a system whereby departments issue all changes to business regulations twice a year, at points known as Common Commencement Dates. The Executive hopes to reach 1 million businesses through this route.<sup>50</sup>

24. One of BERR's 2008–11 PSA targets is to deliver the conditions for business success. As part of this commitment, the BERR has specified objectives and measures relating to better regulation. The indicators relevant to this Programme include: achieving the 25% administrative burden reduction target; and improving the proportion of people who believe that "most regulation is fair and proportionate".<sup>51</sup> The NAO survey showed that 46% of businesses agreed that regulation was fair and proportionate, and 39% disagreed.

48 Q 18

49 Q 34

50 Qq 36–37

51 NAO Briefing for the Regulatory Reform Select Committee, *Regulatory Reform in the UK*

The Better Regulation Executive committed to improving business perceptions, as measured by this indicator, in 2008.<sup>52</sup>

25. Regulations can provide a number of benefits. By focusing on administrative burdens, the Better Regulation Executive sought to improve the regulatory environment without undermining the protections or benefits offered by regulation, such as helping to correct market failures, underpin competition and protect workers and consumers.<sup>53</sup> These protections are important. For example, health and safety regulation has yielded the best record on health and safety in Europe, as demonstrated by the number of fatalities at work falling from 1,000 a year in 1974 to 250 in 2006.<sup>54</sup>

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52 Qq 7, 26, 53

53 Q 52

54 Q 29

## 3 Measuring the Results of the Programme

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26. In March 2008, the Government restated its belief that reducing administrative burdens could increase GDP by 0.9%.<sup>55</sup> The Government referred to OECD research that suggests that the reform of regulation of product markets is positively correlated with faster productivity growth, with the strongest impact from reforming administrative burdens. World Bank research also found a strong negative association between regulation and growth. Academic literature is, however, divided and there is an on-going debate on the strength of the link. For example, a paper from the May 2006 Oxford Review of Economic Policy highlighted that there was no conclusive evidence on the correlation between the level of regulation and productivity growth.<sup>56</sup>

27. Assessing the longer term objective of improved productivity will be a challenging task, due to the difficulties of such measurements and because there is no conclusive empirical evidence linking regulation and productivity levels. In 2007, BERR commissioned research to explore further the link between regulation and productivity, and the impact on businesses' behaviour.<sup>57</sup>

28. The Government will measure progress towards its 25% reduction target by calculating changes against the administrative burdens baseline. Departments are responsible for delivering reductions, calculating savings and measuring progress towards their own targets. The Better Regulation Executive has released guidance that provides a framework for departments to use when calculating reductions. It also co-ordinates progress across departments and reports progress against targets annually.<sup>58</sup>

29. The limitations of the original measurement exercises mean that the claimed reductions in administrative burdens should be treated with caution and the baseline costs are approximate figures rather than accurate calculations.<sup>59</sup> However, the targets can help to focus and incentivise departments and hold them to account for delivery.<sup>60</sup>

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55 Q 11

56 C&AG's Report, para 1.5

57 Q11; C&AG's Report, para 4.15

58 C&AG's Report, para 3.25

59 Q 12

60 Qq 15, 70

# Formal Minutes

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**Monday 2 June 2008**

Members present:

Mr Edward Leigh, in the Chair

Mr Richard Bacon

Paul Burstow

Mr Philip Dunne

Mr Nigel Griffiths

Mr Austin Mitchell

Mr Don Touhig

Phil Wilson

Draft Report (*Reducing the cost of complying with regulations: The delivery of the Administrative Burdens Reduction Programme 2007*), proposed by the Chairman, brought up and read.

*Ordered*, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 29 read and agreed to.

*Resolved*, That the Report be the Thirty-second Report of the Committee to the House.

*Ordered*, That the Chairman make the Report to the House.

*Ordered*, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

[Adjourned till Wednesday 4 June at 3.30 pm.]

## Witnesses

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### Wednesday 20 February 2008

Page

**Sir Brian Bender KCB**, Permanent Secretary, Department for Business, Enterprise and Regulatory Reform; **Mr William Sargent**, Executive Chair, **Mr Jitinder Kohli**, Chief Executive, Better Regulation Executive; and **Mr Stephen Banyard**, Director, Business customer Unit, HM Revenue and Customs

Ev 1

## List of written evidence

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| 2 | Memorandum from Department for Business Enterprise and Regulatory Reform (BERR)   | Ev 15 |
| 3 | Memorandum from the Institute of Chartered Accountants of England and Wales (ICAEW)   | Ev 17 |

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Second Report	Department of Health: Prescribing costs in primary care	HC 173 (Cm 7323)
Third Report	Building for the future: Sustainable construction and refurbishment on the government estate	HC 174 (Cm 7323)
Fourth Report	Environment Agency: Building and maintaining river and coastal flood defences in England	HC 175 (Cm 7323)
Fifth Report	Evasion of Vehicle Excise Duty	HC 227
Sixth Report	Department of Health: Improving Services and Support for People with Dementia	HC 228 (Cm 7323)
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Eighth Report	Tax Credits and PAYE	HC 300 (Cm 7365)
Ninth Report	Helping people from workless households into work	HC 301 (Cm 7364)
Tenth Report	Staying the course: the retention of students on higher education courses	HC 322 (Cm 7364)
Eleventh Report	The compensation scheme for former Icelandic water trawlermen	HC 71 (Cm 7364)
Twelfth Report	Coal Health Compensation Schemes	HC 305 (Cm 7364)
Thirteenth Report	Sustainable employment: supporting people to stay in work and advance	HC 131 (Cm 7364)
Fourteenth Report	The budget for the London 2012 Olympic and Paralympic Games	HC 85 (Cm 7365)
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Sixteenth Report	Government on the Internet: Progress in delivering information and services online	HC 143
Seventeenth Report	Foreign and Commonwealth Office: Managing Risk in the Overseas Territories	HC 176
Eighteenth Report	Improving corporate functions using shared services	HC 190
Nineteenth Report	BBC Procurement	HC 221
Twentieth Report	HM Revenue & Customs: Helping individuals understand and complete their tax forms	HC 47
Twenty-first Report	The Carbon Trust: Accelerating the move to a low carbon economy	HC 157
Twenty-second Report	Improving the efficiency of central government's use of office property	HC 229
Twenty-third Report	Report on the NHS Summarised Accounts, 2006–07: Achieving financial balance	HC 267
Twenty-fourth Report	The privatisation of QinetiQ	HC 151
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Twenty-seventh Report	DFID: Providing budget support to developing countries	HC 395
Twenty-eighth Report	Government preparations for digital switchover	HC 416
Twenty-ninth Report	A progress update in resolving the difficulties in administering the single payment scheme in England	HC 285
Thirtieth Report	Management of large business Corporation Tax	HC 302
Thirty-first Report	Progress in Tackling Benefit Fraud	HC 323
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First Special Report	The BBC's management of risk	HC 518
Second Special Report	Evasion of Vehicle Excise Duty	HC 557

# Oral evidence

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## Taken before the Public Accounts Committee

on Wednesday 20 February 2008

Members present

Mr Edward Leigh, in the Chair

Mr Richard Bacon  
Keith Hill  
Mr Austin Mitchell

Mr Alan Williams  
Phil Wilson

**Mr Tim Burr**, Comptroller and Auditor General, National Audit Office, and Mr Chris Shapcott, Director, National Audit Office, gave evidence.

**Ms Paula Diggle**, Treasury Officer of Accounts, HM Treasury, was in attendance.

### REPORT BY THE COMPTROLLER AND AUDITOR GENERAL

#### REDUCING THE COST OF COMPLYING WITH REGULATIONS: THE DELIVERY OF THE ADMINISTRATIVE BURDENS REDUCTION PROGRAMME, 2007

*Witnesses:* **Sir Brian Bender KCB**, Permanent Secretary, Department for Business, Enterprise and Regulatory Reform; **Mr William Sargent**, Executive Chair, and **Mr Jitinder Kohli**, Chief Executive, Better Regulation Executive; and **Mr Stephen Banyard**, Director, Business Customer Unit, HM Revenue and Customs, gave evidence.

**Q1 Chairman:** Good afternoon. We are considering the delivery of the Administrative Burdens Reduction Programme, 2007.

**Sir Brian Bender:** As the Committee knows, the Better Regulation Executive came into my new department in the summer. We thought the committee would find it useful if Stephen Banyard came, in view of the emphasis in this report on HMRC as well as my own department.

**Q2 Chairman:** By way of introduction, would you look at paragraph 8 of the report on page 6, which deals with measuring administrative burdens, particularly the last bullet point. Sir Brian, this sounds a most wonderful programme. Apparently, we are going to save £17 billion and we are only going to spend £35 million. Those figures are in the report. You have already spent £17 million just on consultancy fees, so you are not doing very well so far.

**Sir Brian Bender:** If I may, I am going to ask the BRE themselves to deal with many of these questions.

**Q3 Chairman:** Please pass the questions on. We do not mind who answers them.

**Mr Sargent:** If I can address the £17 million, that was a process by which we measured using two external consultants, PwC and KPMG, over 20,000 pieces of information that is required to be produced either to shareholders or consumers or anybody else in the community across approximately 1,500 pieces of legislation. It was an incredibly elaborate and detailed study right across the entire economy, which, given that we are hoping to achieve, as you

say, many billions of savings, it was important to start with a credible baseline and an externally validated one.

**Q4 Chairman:** It says here: "Other departmental costs were either not systematically recorded or not recorded at all". I think what leaps out of this report is that we do not actually know what all this is costing.

**Mr Sargent:** If I can put the numbers of people in context, at the height of the project, which would have been from around about the end of 2005 through to the spring of 2006, PwC had about 700 people involved and departments had about 300 people involved, who were obviously setting about the measurement work. That gives you some context. We obviously do not have the internal costs directly, but these people are normally involved with the day-to-day agenda.

**Q5 Chairman:** A lot of these ideas came from the Dutch and Danish programmes. If you read this report again, and it is mentioned also I think in paragraph 11, they do not seem to have noticed much improvement. What worries me is that if the Dutch and the Danes have not noticed much improvement, will our own businesses notice much improvement?

**Mr Sargent:** It is a totally valid and important point. We have the benefit of the fact that we have come behind the Dutch and therefore can learn from the importance of making sure that people realise what we are doing. That is something very much we are

building in now. In the 2007 plans,<sup>1</sup> which just happened a couple of months ago, was the beginning of where we told people exactly what had been delivered as opposed to what had been promised. In 2008 very much our agenda is to say to people that this is what is happening, using the business groups as well as various other techniques. If we do not successfully point out to people what we are achieving, they will not notice it but those things will have happened; the economy will have noticed.

**Q6 Chairman:** This is illustrative of the point I am making on page 19, box 2, international comparison. It is always very important: “The Board of Swedish Industry and Commerce for Better Regulation measured the total cost of regulation to a sample of businesses operating in different sectors and presented the results in three categories—administrative costs, policy costs and financial costs. These measurements demonstrated”—and that is the point I have just made to you—“that the administrative costs of complying with regulation are only a small part of the total cost of regulation, and vary depending on the business’ size and sector”. Above that in paragraph 2.21: “There is, therefore, no guarantee that 25% reduction in administrative burdens will lead to a noticeable change in the resources that businesses devote to complying with regulation”. Does this not make the point I am trying to put to you?

**Mr Sargent:** I would be disappointed if that was the case. If we take any examples that we have delivered already, the Health and Safety Executive for example have done away with half their forms. A number of things are actually already happening that specifically lead to change. The challenge for us is to make sure that people realise for example either by making sure that they do not need advisers to do it for them or they themselves discover they do not need that. I take another example: the Health and Safety Executive publishes the short documents it sends to 18 business groups at the moment—a convenience store or a small haulage company—exactly what it is that is expected of them. In the case for example when we talked to a convenience store, we were told: “Now that I realise what I have to do for health and safety, it is a lot easier than I thought and in an hour I was able to get around my shop and work out what it is I had to do”. That is the sort of way I think people are going about doing business, which hopefully will not lead to that assumption.

**Q7 Chairman:** Nobody denies that if you can make a form easier to understand, it does some good, but it may not be what businesses are primarily worried about, Mr Sargent. Read paragraph 11 where it says: “the NAO survey showed that the administrative tasks covered in the measurement exercises were not always cited by businesses as the most burdensome aspects of complying with regulation. Businesses rated the following activities

as particularly burdensome: keeping up-to-date with changes in existing regulations; the time it takes to go through the whole process of complying; the lack of information about which regulations apply; and finding information and guidance. These are aspects of complying with regulation that businesses find irritating . . .” and not necessarily what you are dealing with. I just wonder whether you are not dealing with the symptoms of the problem rather than real causes. Rather than really cutting regulations, what businesses I suspect want, you are just dealing with the symptoms of the problem.

**Mr Sargent:** The report obviously focuses on the administrative burdens of a project, which is only one element of the work we are doing. The items that you have identified in the NAO survey, which was very useful to us, just reinforce the work that we are doing. For example, with regard to keeping up to date, we made it clear to the departments that guidance is actually an incredibly valuable and valid way of simplifying things. If someone is able to get a document that says, “This is what you have to do”, that saves you time.

**Q8 Chairman:** You keep making this point but I do not think you are really getting to grips with the fundamental point that I am putting to you. What I am trying to say to you, Mr Sargent, is that it may indeed be useful to make a form easy to understand, but this is not the fundamental problem that businesses are dealing with at the moment. The Dutch and the Danish experience goes against you.

**Mr Sargent:** If we get away from the form, which is where I was heading for, just to deal with understanding the law and to be able to absorb the law as you are supposed to do is where the guidance comes in. It is a personal observation. Having two dates a year when new laws come in and having an easy way of being told what they are is what business is looking for. So they are looking for easy ways to be able to be told what is required of them and that is where the guidance comes in. The administrative burden is only one of a number of projects.

**Q9 Chairman:** I do not think we are getting very far. Other colleagues will try to chip away if they wish. Sir Brian, I want to try and get out of you where and how you are going to achieve this £17 billion. We read this in paragraph 1.7, and it says: “potential for an estimated £16 billion increase in GDP”. That is staggering. If you can indeed achieve this kind of saving by just spending £35 million, it would be an achievement which no government in history anywhere in the world has ever delivered.

**Sir Brian Bender:** As Mr Sargent said in his answer to your first question about the cost, clearly the costs have not taken into account the staff costs across departments in monitoring and applying this programme. At the end of 2007, the Better Regulation Executive published a year 1 report on implementation of this. It is a three year programme and certainly as far as my own department is concerned, we are determined we will deliver the full 25%, which is a significant part of the overall target.

<sup>1</sup> *Note by witness:* Simplification measures identified in the 2007 Simplification Plans show that savings of £3.5 billion will be delivered to business by 2010.

The BRE certainly adopts an appropriately challenging approach across all departments, including within BERR.

**Q10 Chairman:** I think a lot of this so-called £16 billion saving or increase in GDP is due to a broad estimate for improving productivity. Indeed in paragraph 1.7 it actually mentions the Government aim of improving UK productivity, which we all share, but if you actually look at it in more detail and, say, look in paragraph 1.5, it says, “A paper for the May 2006 Oxford Review of Economic Policy also highlights that there is no conclusive evidence on the correlation between the level of regulation and productivity growth. It states, however, that if regulation has had an impact on productivity growth, it is through its ‘distorting effects on investment and innovation rather than simply administrative costs’”. I am not sure that I have had a clear answer from you yet, Sir Brian or Mr Sargent, as to how you get to this £16 billion. I suspect that it is a very broad brush estimate based on the back of an envelope estimate for improving productivity and the evidence is simply not there to back this up.

**Mr Sargent:** The £16 billion figure came from an independent group that worked this out, which was the taskforce.<sup>2</sup> That was not the Government’s calculation. That was their starting point.

**Q11 Chairman:** So nobody on this committee needs to place any credence on it. Is that right?

**Mr Sargent:** No. At the moment what we have said on the administrative burdens project is that we believe that between ourselves and Revenue and Customs and the rest of government departments we can achieve £4 billion. That is the first significant part, dealing purely and simply with administration costs which are easy to measure. There have been a number of studies, including ones that we are beginning to work on, to try to look at the link with productivity. You can look at it technically: for example, there is a recent Dutch one that identified that if we achieve the 25% in the UK, it will lead to 0.9% of GDP in the case of the UK, and if we achieve what the European Commission are looking to do with the same 25%, it will be 1.5% across the EU. That is a technical Dutch study that they have done. If I look at it from my point of view of running a business and saving an hour here or saving a policeman’s time or a nurse’s time, by definition that is an improvement in productivity, whichever end of the scale you come at it. It is significant.

**Q12 Phil Wilson:** My first question is to do with paragraph 2.10 of the report where the same sample sizes for deciding the baselines are not really statistically reliable. So how can you accurately measure reductions if the figures based on the baseline are distinctly unreliable?

**Mr Kohli:** The way the standard cost model works is that it asks a small number of businesses how much time it takes them to comply and if you get a significant discrepancy, it keeps doing observations. That is not going to give you a statistically absolutely reliable number for each information obligation you are measuring but across the board, it gives you a pretty good sense of whether something is bigger or smaller. As a result of that, we know that the two largest information obligations in the UK are the requirement to furnish employment particulars to new employees and the requirement to apply for planning permission. Whether those numbers are actually £985 million or £940 million does not really matter. What matters is that they are big numbers and that taking a quarter out or taking one-third out is a good thing to do. We could have spent a lot more money getting statistically reliable estimates on each information obligation, but that would have been an enormous amount of money and probably impossible to do, if I am really honest.

**Q13 Phil Wilson:** According to figure 9 on page 17, my understanding of it is that the Town and Country Planning Act and Value Added Tax are the two areas of regulation that have imposed the highest burden on business. What is being done to reduce burdens in these two cases?

**Mr Kohli:** I can respond on the Town and Country Planning Act. To date, there is a simple thing that that they are doing. Under the current planning system, if you apply for planning permission in different parts of the country, you have to go through a different process. Those people who are applying for planning permission have to learn that process each time. Under the new regime, under the new system, what the Department for Communities and Local Government has done in the last few months is introduce a new planning portal, which is the same across the country. It simplifies the processes by which you apply for planning permission. That single measure delivers quite significant savings, though it is not the end of the story for them. They are also, as you know, putting a Bill through Parliament or Parliament is considering a Bill which would make further simplifications to the planning regime. I leave my colleague to answer about HMRC.

**Mr Banyard:** In the case of VAT, we start with a VAT regime which in Europe is one of the most efficient or business-friendly regimes there is. For example, we have the highest VAT exemption rate there is. We have one of the simplest VAT returns with a nine-box VAT return. The nature of VAT is that because it is a transactional tax and applies at every stage in the process, it is a burdensome tax to collect. What we have tried to do is to work at every stage and try to minimise the burden as far as we can. So for example VAT voluntary disclosures is an area that businesses have told us is a burden at the moment and they ask if we could look at those. We have looked at VAT voluntary disclosures. We have looked at whether we could move from a quarterly to an annual return basis for VAT. Business have told us that actually they do not want to go for that;

<sup>2</sup> The Better Regulation Taskforce Report: Reducing Burdens, Regulation—less is more: Reducing Burdens, Improving Outcomes (<http://www.bre.gov.uk/upload/assets/www.bre.gov.uk/lessismore.pdf>).

they would prefer, in the main, to stay with quarterly. So we have done an end-to-end review of VAT and worked with our business consultative forums to see where we can take small changes.

**Q14 Phil Wilson:** I stay with you, Mr Banyard, with another question. Why are you seeking to reduce administrative burdens by just £358 million when your baseline is £5.1 billion? It is only a reduction of 7%?

**Mr Banyard:** We started from a lower baseline than, say, the Dutch, and so our administrative burden is about 0.4% of GDP against the Dutch at 0.8%. We have already done quite a lot of the things that the Dutch would have done. When we came to set our targets, we talked to our external advisory board made up of businessmen and accountants and we talked also to the Danish tax authority that was a bit further forward than we were. They both said that it would be better to look for a more focused approach to targets, and on talking to the advisory board, they said to us, "We would like you to target forms and to take a reduction there. We would like you to look at your audits and inspections and we have some irritants that we would like to bring before you and work up a list". We took two sets of targets. We have not covered the whole baseline because they wanted us to focus on those particular areas but, as it happens, we have been working on the non-targeted areas as well. So we have actually achieved very significant savings in the part of our baseline that is not targeted. Overall, we have currently achieved a 6% reduction since 2006 across our whole baseline.

**Q15 Phil Wilson:** One last question: the 25% target in that set across the board in the departments and the agencies, is this the right approach or would it be better to set different targets for each department depending on their individual circumstances?

**Mr Sargent:** The approach we took to try and do a common 25% was based on looking at experience everywhere else in the world, trying to look at some sort of constant and easy to communicate base target. The choice was made by Ministers, having looked at the evidence and experience everywhere else and felt it the best way to do it. What that then results in is that different people have different speeds at which they can travel, depending on whether the legislation or forms that need to be changed, but the 25% felt to us like the best tactic and the NAO confirmed and the World Bank with their auditing of the Dutch process have confirmed that by sticking to nice straightforward targets, it makes it much easier to focus people's minds, rather than negotiating and working your way across departments. Simplicity was what we were going for really.

**Q16 Chairman:** You referred to the target of 25% across the board, Mr Sargent. Would you look at paragraph 2.15, at the bottom of page 18, where it says: "The targets are not based on calculations of the desired or achievable level of reductions". Do they mean much?

**Mr Sargent:** They do because you have to start somewhere. You have to set some sort of benchmark and we felt that if we started with £20 billion and tried to get rid of a significant amount of that, then that is a good place to start; it means something in terms of—

**Q17 Chairman:** Yes, but they are not based on calculations that are viable to achieve a level of reductions?

**Mr Sargent:** They are based on the fact that we acknowledge and recognise that they are costs in there that probably do not need to be in there and we are going after—

**Q18 Chairman:** All this seems very vague. There is nothing wrong with it but this is the Public Accounts Committee and we really want to get to grips with the detail of actually what is the reality going on. How much does it cost? What are you recording? How much have you spent on consultants? What are you going to say? So far, I have to say, Mr Sargent, you have not filled us with confidence that you know what is going on.

**Mr Sargent:** If I can focus on the administration burdens project, we identified approximately 1400 laws, which was a very specific number, and 20,000 obligations. We measured them, came up with specific costs, have requested the departments to identify specific amounts of pound notes they have to take out of that, given them a date by which they have got to do it, asked them to publish each year what those plans are and at the end of the second year tell us what they are doing with regard to the first year. They have identified 741 in the first 18 months. They have delivered 288. The costs that they have identified so far and extracted from that is a net £800 million, which was net of anything that has been added since May 2005. I feel that is very specific.

**Sir Brian Bender:** May I chip in from the point of view of my own department? We know from both this data and from business that the areas that impose the most costs and the most irritants are the ones identified here not necessarily in this order: company law, employment law, consumer law. Those are the areas, in consultation with business, that we have focused on. In the case of the companies area, we had the major legislation that Parliament passed in 2006. In the case of employment law, we have been approaching it in two different ways. One is simplification of guidance because of the burdens that businesses tell us: the lack of clarity and simplicity imposed. And the removal of the dispute resolution process that is contained in the Bill currently before Parliament. In the case of consumer law, we are doing a review across the piece. So we are focusing via the 25% on the three areas that are of most concern to business in the dialogue we have with them.

**Q19 Keith Hill:** This is all very difficult, is it not, because I think like the Chairman and Mr Wilson, I do not really believe in the database that we have before us. I think it is all very, very dodgy. Let me

allude to I think the two paragraphs Mr Wilson drew your attention to. Firstly, I think we do need to agree that we need to be extremely careful about any cost estimates we bandy around in this discussion. If you look at the way you describe the methodology for arriving at what are imputed costs of regulation, all the time imputing costs of regulation, the key paragraph is paragraph 2.5. Mr Kohli, how many businesses were there in this small sample that you have used?

**Mr Kohli:** There were 8,500 interviews with businesses.

**Q20 Keith Hill:** There were 8,500 interviews. Were these the same interviews as are used in all of the tables that we have here? These are by Ipsos MORI?

**Mr Kohli:** No. There were two separate exercises. There was an exercise that we conducted, which delivers the estimates of the administrative burdens associated with different forms of regulation. That was the one conducted by PricewaterhouseCooper augmented by an exercise led by HMRC conducted by KPMG. On our exercise there were 8,500 interviews with businesses asking them specifically to tell us what the costs of particular legislative requirements were. In addition to that, the National Audit Office conducted an exercise to ask businesses perceptual questions about how they feel about different types of regulation, and that is the Ipsos MORI stuff that is referred to in the report.

**Q21 Keith Hill:** I want to come on to that. Let me refer again to the paragraph that Mr Wilson drew your attention to, paragraph 2.10 and specifically the observation: "The small sample sizes and non-random sample selection mean that the results should not be seen as representative in statistical terms". What does that actually mean?

**Mr Kohli:** It is impossible to say with certainty that the requirement to furnish employment particulars costs £585 million, which is what our estimate is, but it is possible to say that that estimate is indicative of the likely cost. So it is extremely unlikely to be £150 million or £200 million; it is going to be somewhere in the ballpark of £585 million. It is going to be about the same as the requirement for businesses and other employers to conduct a risk assessment on behalf of safety legislation. That estimate comes out at about £480 million. I would not feel confident saying that the employment particular requirement, which is a bit higher than the risk assessment one, is definitely 20% higher. It is not that level of confidence, but it is a level of confidence that tells you that these are both big measures that cost hundreds of millions of pounds.

**Q22 Keith Hill:** If you look at the figure of £31 billion for total administrative costs, which appears in paragraph 2.7, it would be impossible, absolutely impossible literally, to offer a breakdown in the real world of where that figure comes from. It is an extrapolation; it is absolutely not a reflection of the real world burden of the administration of regulation.

**Mr Sargent:** Let me give that breakdown. We started with the fact that we had identified by the consultants 20,000 lines in a spreadsheet, and against each line there is a specific requirement, so we get down to the particularly items: you have to do this and give this information to that person, to your employee. We then asked a group of business people, normally six, seven and eight, to do this: how long does it take you; what do you have to do; do you have to use a lawyer or can you do it yourselves? For each one of those 20,000 items, we got down to the specific item with business people, 77% of which were small firms. We asked: how long does this take you? We put a cost against that and then we multiplied that by the number of businesses that that law affects, so if that law affected employment, and take a million and a half employers, then if was £100, for example, times one and a half million employers, and that got you to a number. To get more specific than that—

**Q23 Chairman:** Mr Sargent, would you mind me just saying that I do not understand a word of what you are saying. You are just speaking in some extraordinary bureaucratic speak. Try and express the answers in laymen's terms that will make sense to us and to the public gallery behind you, unless they are all civil servants!

**Mr Sargent:** If I can put it in context, Mr Chairman, I have come into this from being a business person. I have not been a bureaucrat or a civil servant. The manner in which you go about looking at a problem, extracting information, taking a form, asking six to eight people how long and costing that out, is a very, very simple, unambiguous, clear way of going about doing it and it results in a number. Whether that number is 10% more or 10% less does not really matter, but what it tells you the sort of ballpark of how much that is going to cost you. That is as layman's language as I can get.

**Q24 Keith Hill:** Actually, was it really seven or eight people that you went through this exercise with?

**Mr Sargent:** It varied from item to item.

**Q25 Keith Hill:** On each of the 20,000 you had seven or eight people?

**Mr Sargent:** It depended upon particular items, whether they needed more or less, and where we could not get clarity. In other words, if you ask the same six people how much it costs and you got the same answer, it was likely that that was going to be the right number. If you asked those six people and you got six numbers that varied from £100 to £1,000, they then went in and investigated further. But quite often most businesses faced the same costs to do the same transaction, normally.

**Q26 Keith Hill:** That is perhaps rather reassuring because most of the tables that we have in this report are in the mind, are they not? They are perceptions of problems for business people. They tell us what business people think, but you are telling me that

your database actually reflects practical real time measurement of the time and resources spent, for example informally.

**Mr Sargent:** The administration burden thing is very physical and tangible and we have done exactly what we have said. The NAO survey, which I find particularly useful, then explores separate to that what it is that people are worried about. People are worrying about how complex it is, how easy it is to get a hold of.

**Q27 Keith Hill:** I find that particular aspect extremely worrying.

**Mr Sargent:** Why?

**Q28 Keith Hill:** I will tell you why. The fundamental problems is that business does not like regulation. If you look, for example, at figure 3 on page 13, it shows, apart somewhat grudging lip service to the principle of regulation, a fairly deep scepticism across the board on the part of business about regulation, and this is age old, is it not? This goes back to when all those Liberal—and we have not got any Liberal members on the committee with us at the moment—mill owners were resisting that Tory factory legislation. It was the end of the world as far as they were concerned. Is it not the instinct of business to resent really regulation of any form?

**Sir Brian Bender:** That is why this report and this exercise focuses on the costs of complying with the regulation rather than the policy intent behind it. If you look at Figure 16, then that identifies the sorts of irritants that companies have, so they are not talking about whether they like this environmental regulation or this employment regulation. They are saying the things that really they find burdensome are things like: having to keep up to date, the length of time it takes to go through it, finding information, competing the paperwork. That is what this exercise is trying to achieve.

**Q29 Keith Hill:** Sir Brian, do you really believe that? Let me take the responsibility which is cited here of your own department which has already been mentioned by Mr Sargent, which is the health and safety legislation. I declare an interest at the moment since I have a Private Member's Bill which is designed to strengthen that legislation. If you look at what the Health and Safety Executive has achieved in recent times, Mr Sargent mentioned a halving of the number of forms which need to be filled in. I have checked the HSE's website; it is an extremely accessible website, and yet you have business telling you that compiling the health and safety legislation is a burden. By the way, there has been a reduction from 1,000 fatalities a year in 1974 to 250 on the latest data in 2006 and it has yielded absolutely the best record for health and safety at work in this country or any European country. It is not a burden. If I may, Mr Chairman, let me get another bee out of my bonnet and also declare an interest as a former housing and planning officer, and that is the issue of planning and the burdens of planning. My time is nearly up, so I will do this quickly. The fact of the matter is that house builders in this country have

enough land and enough permissions to build all the houses and more that we need for at least the next five years, but they do not choose to. Why? It is because they are not offering a service; they are making a profit and it is not always convenient actually to build as many houses as they want to. What they will tell you without exception is that it is the obstacles of the planning system which prevent them, as Mr Kohli mentioned, from building these houses. Yet if you look at the spectacular record of local authorities in development control over the last four years, in 2003 only 43% of major applications were issued within the target 13 weeks. In 2006–07, the figure is 71%. The progress has been enormous. Have we seen any recognition on the part of the house builders of that progress? No: they whine, they moan and groan; they create excuses about their failure to perform and blame the planning system. My question is: are we looking at anything real here in terms of the burden of regulation or are we looking at what is convenient in the case of the house builders, convenient in the case of those who have to comply with health and safety legislation, making excuses about their failure to perform and also their resentment of regulation. I would like an answer.

**Sir Brian Bender:** I think there was a question in there. There are two points. First of all, this exercise, as several of my colleagues have said, only focuses on one aspect of regulation, which is the red tape, the administrative burden of carrying it out. It is not an exact science, as a lot of the questioning and answering has revealed so far, but to the extent that we can remove that time that it takes businesses to carry out those tasks, as Mr Sargent said earlier, that frees up time to do other things and therefore inherently to be more productive. The second point is that there is plainly a huge perception gap, as the NAO Ipsos MORI work shows, between what we think we are doing and what businesses are themselves perceiving. There is no doubt that the task for the department, for the BRE, for the Government in the period ahead is to address that perception gap and actually get to the bottom of some of the points that you are asking about.

**Q30 Mr Bacon:** Sir Brian, I am fascinated by this because you appear to have found a way to print money. I thought this was the prerogative of the Bank of England and indeed of local authorities that can issue planning consent and increase the value of an asset by 100-fold. You seem to have found a new way of doing it. You spent £35 million and you add £16 billion to GDP. This is absolutely brilliant. There are lots of clever people in the Civil Service. Why has it taken you this long to come up with this brilliant idea?

**Sir Brian Bender:** It came out from the *Better Regulation Task Force Report* chaired by David Arculus published a couple of years ago.

**Q31 Mr Bacon:** If it is that easy, why has it taken this long? The figure of £35 million is roughly 0.2% of £16 billion. If you can increase GDP by £16 billion this easily, you will obviously increase tax revenue

by somewhere between £3 billion and £5 billion; let us call it £3.5 billion because it makes the maths easy. For an investment of £35 million, you get £3.5 billion of tax revenue; you get 100 times your money back.

**Sir Brian Bender:** The Dutch and the Danes were the first to address the question of the administrative cost of filling in forms. We followed that and the numbers follow from this process. I can only repeat what Mr Sargent and Mr Kohli said earlier in this respect.

**Q32 Mr Bacon:** This is why, I think in common with other members of the committee, I have difficulty in believing them, because they do not seem at an intuitive level to make sense. You have signed off the report which includes these amazing statistics of £35 million and £16 billion. You have also signed up to the bit that says that it must be treated with caution, they are indicative, they are not statistically reliable, and the targets are not based on calculations of the desired or achievable levels of reductions. The whole thing is a fantasy, is it not?

**Mr Kohli:** Can I give you an example? I mentioned before that there is a requirement in British law, and indeed a requirement in European law, for every new employee to be furnished with employment particulars when they arrive in a job. That is a perfectly reasonable requirement and we have no qualms with the policy. When we asked businesses how much money it costs them to comply with this requirement, they told us that the answer was £158 per individual, per employee. We were surprised at that number. That seems like a very high number to us and so we went and asked more businesses, or indeed we asked our contractors to ask more businesses, and the average number came back at roughly that number, so it comes out high. If we explore a bit why that is happening, it is happening because it appears businesses do not know what they have to do under that legal requirement. To an extent, they go to a lawyer and seek legal advice and very quickly £158 gets spent.

**Q33 Mr Bacon:** Every time a business employs a new person they have to go to a lawyer?

**Mr Kohli:** I do know that in the House of Commons, as I talked to a Minister about this previously, there is the mechanism by which you go to the central House of Commons HR department and you get a form that you fill in. Lots of employers do not have that kind of process. Many employers go and get legal advice and maybe try to write an entire contract when they do not need to do that.

**Q34 Mr Bacon:** You mean rather than go to their own HR department?

**Mr Kohli:** Small companies will not have an HR department. Because they are not clear what the law really requires, they spend more money than they need to. My colleagues in the employment part of the new department have put on the internet a tool which allows employers to follow this process almost at no cost. The challenge is getting employers to know that they can just do this rather than that they have to do what they used to do. If we can get

take-up on that particular tool up, business will save money. Designing that tool does not cost very much money.

**Q35 Mr Bacon:** That is different from the portal mentioned in Figure 15, is it, the on-line portal in 3.11?

**Mr Kohli:** That is different to the on-line portal.

**Q36 Mr Bacon:** While we are on the subject of the internet and portals, why do I not ask about that because it was one of the things I wanted to know? This is a chart that talks about the awareness of government initiatives to reduce administrative burdens. The question is: "Are you aware of any of the following initiatives by Government to try and improve regulation and reduce the current burdens on business? Government departments are producing simplification plans". "Yes" is about 13% and "No" appears to be about 87%. "The Government has measured the administrative costs of regulation and set targets for reducing them". This appears to be about 12% or less and 88% for "no", and so it goes on. "An online portal has been set up where business can make suggestions . . ." It appears that 90% do not know about that. There is an awful long way to go, is there not, to increase the awareness of the ways that businesses can supposedly offer advice to you to make things simpler.

**Mr Sargent:** You are absolutely right. This is the challenge. Improving something and then making sure that the people for whom you are creating the benefit know about it is a big challenge. Let me give an example of one of the ways we are dealing with this. Common commencement dates we feel is one of the most effective tools to let people to know the changes in the new regulations—

**Q37 Mr Bacon:** You are saying common commencement dates?

**Mr Sargent:** Yes. There are two dates in a year, 6 April and 1 October, when a number of departments bring into effect new laws, and it makes it easier for a smaller firm in particular to manage it. They know that if something is going to change, it is going to change on those dates ideally. If we go back one or two years, the amount of people who were aware of this was quite small. If you signed up, for example, to Business Link, which was one of the Government's way of communicating, the numbers were small. Ideally we think in the coming couple of months when the next one comes up we will be able to get through the one million businesses. That is up from probably a couple of hundred thousand this time last year. This survey was done around about a year ago now, if I recall correctly, at a point at which this was all being launched and so (a) it would not surprise me that people were unaware of it and (b) as a business person myself, I do not necessarily go looking in the newspapers for what it is that the Government is doing.

**Q38 Mr Bacon:** No. I am sure you are too busy running the business. Mr Kohli, you mentioned 8,500 interviews. Is that right?

**Mr Kohli:** Yes.

**Q39 Mr Bacon:** In paragraph 8 it talks about this survey between September 2005 and May 2006, so that is a period of nine months, and 8,500 and £17 million, which was the cost. I do not know what the relationship is one to the other; it sounds like £2,000 per interview. Is that right?

**Mr Kohli:** First of all, the £17 million number includes the exercise that my colleagues at HMRC were responsible for. I can only speak for the exercise that we were responsible for. A great deal of the challenge was finding the person to interview rather than interviewing them. If I could give you an example, I went to Belfast to go and visit the call centre which was doing a great deal of the interviewing. On that day they were trying to find out the cost of the requirement in law for a registered care home owner to notify CSCI, their regulator, when a care home owner passed away and a new care home owner arrived. Finding the care home where this had happened was quite a challenge.

**Q40 Mr Bacon:** Most of the time most of the cost is incurred in trying to find the person to interview?

**Mr Kohli:** That is correct.

**Q41 Mr Bacon:** When I first saw *Yes, Minister*—and by the way you can get the whole set at a Virgin Megastore for £25 for the boxed set of all six series, which is very worthwhile—Hacker says to the Permanent Secretary in the first episode: “Ah, yes, we came across each other in the Public Accounts Committee and I gave you a pretty tough time and you answered the questions”. The Permanent Secretary replies, “I am glad you thought so”! I am now working my way through from episode one just to see where I have gone wrong. When I first heard that it was called the Department of Administrative Affairs, and this was years ago, I thought it was a joke. Of course I realised that there was then a Civil Service Department. You are saying you spent a lot of money on expensive consultants trying to hunt down recently dead care home owners so that you could talk to their successors?

**Mr Kohli:** No. We spent time trying to find out for the key obligations, for the ones that were likely to be the most expensive, and in this particular case I think they abandoned that search and they decided that it would be sensible to ask CSCI to do an estimate, which felt like a sensible way forward.

**Q42 Mr Bacon:** Which is indicative and not statistically reliable.

**Mr Kohli:** Exactly, but first of all we had to work out what the different regulatory requirements were. There were 20,000 of them, as my colleagues have said. Establishing that list in itself was a challenge. Then finding businesses affected by each of those requirements was a challenge. Then asking them how much it cost them, particularly as some of this work was being done over the Christmas period, was

also a challenge. I am fairly confident that they did an enormous amount of work to come up with indicative estimates.

**Q43 Mr Bacon:** The £17 million for these consultants was the money that was spent on PwC and KPMG, was it? How much was spent on each?

**Mr Sargent:** It was a little over £10 million on PwC and £7 million on KPMG.

**Q44 Mr Bacon:** That was over the period of those nine months? I just want to focus on the costs. It was roughly £2 million a month or slightly under in total, divided between the two in the ratio 10:7?

**Mr Sargent:** What you have to do is remember that there were 700 people on this project. You will remember earlier I mentioned that there were 700 in the consultancy phase and about 300 in the government.

**Q45 Mr Bacon:** I would like to know how much time was spent on it. I would like a detailed breakdown of the £17 million and where it went.<sup>3</sup> One of the things you said, Mr Sargent, struck me as very interesting. You said that most businesses face the same costs to do the same kind of action. It strikes me that that is true for the same kinds of business but it is fundamentally not true for small businesses compared with large business, which is presumably why KPMG broke down the results for each area by business size. It says in 2.13 on page 18: “. . . administrative burdens are likely to be higher for smaller businesses in relative terms, when compared to the resources available. The Standard Cost Model allows for such segmentation but such differences were not taken into account in the BRE/PwC measurement exercise . . .” Why not when it is so fundamental?

**Mr Sargent:** First of all, let me say this. When you go from sector to sector, there are businesses which are generally within a certain size. If you are in the nuclear industry, by definition—

**Q46 Mr Bacon:** My question is about small businesses.

**Mr Sargent:** What I am trying to say is that 77% of businesses that were interviewed were small businesses. That is the first answer, and so by definition most of the people when asked what it cost them fell within that category. Therefore, the indication of where the costs were going to come from came from that part of the business community.

**Q47 Mr Bacon:** What do you call small for these purposes?

**Mr Sargent:** That is 50 or less.

**Q48 Mr Bacon:** Nevertheless, there is a big difference. I have a hotel owner in my constituency who complained to me once that he could be spending two days a week filling in paperwork. He is a member of the Federation of Small Businesses. We

<sup>3</sup> Ev 15

all understand that for a large business, even a business of 40 or 50 employees, it is a cost to the business; it is a bore; and you make less profit. You could employ several people full time on all this paperwork and the faffage they have to deal with. You do it, and it is a cost of doing business and you get on with it. For a business of 12 people, eight of whom spend most of their time cleaning hotel rooms and the other guy is running the bar, it is down to the business owner. He is in there at midnight on a Friday night trying to keep up with all this. There is an enormous difference, is there not?

**Mr Sargent:** Absolutely, and this is why I believe that the process we have gone through for administration costs, which is a very tangible area, means that if we can strip a quarter of his or her time, by definition that person will be able to sell the hotel rooms better or improve the service or something like that. I think you have highlighted the fact that the benefit we can achieve is normally in time; most of the cost is in people's time. Sometimes it is external advisers but normally it is people's time.

**Q49 Mr Bacon:** And repetition, being asked for the same information repeatedly.

**Mr Sargent:** Yes. Again, if you look across at the 700 initiatives or measures that have come out of departments, quite a lot of them are using very simple pragmatic ideas: "can we do away with this" or "have we already got the information". This is generally the process. This is why I quite like the administration burdens project because it is incredibly tangible and it is about people's time generally and the most valuable time tends to be that of the owner-manager.

**Q50 Mr Mitchell:** I become confused. I get the feeling we are venturing in other land of fairy tales and mythology and abnormal psychology. Would you agree, Mr Sargent, that whatever the regulatory framework, business would complain about it?

**Mr Sargent:** The instinct is to worry about the fact that if something is taking you away from the job you are doing, it is not necessarily adding value to either your business or the economy, so you start with that instinct.

**Q51 Mr Mitchell:** Anything, and that includes the wife, the family, the bicycle or the car?

**Mr Sargent:** I think I would want to spend my time with the wife.

**Q52 Mr Mitchell:** They are all burdens, are they not? The point is here you have an unverified enormous cloud of perpetual complaints which could never be satisfied because business would have to face either the trial lawyers in the States or proper regulation, and Government wants to show that it is doing something and so we invent this taskforce and this procedure and then it conjures up targets and gains out of the air. So it is all mythology.

**Mr Sargent:** Can I give you a different perspective which I personally believe in? We all want to live in a regulated society. None of us wants to go and get food poisoning or none of us want to have

competitors who have advantages which we are not able to compete against and so forth. So we did 16 or 19 focus groups using Ipsos MORI again, funnily enough, to get under the skin of red tape. The instinct people start with is: if I did not have red tape, my life would be easier. You then say, "Let us get specific about it. Do you not want to have a situation where your consumers are confident in your product and therefore will buy it as opposed to shying away from it?" As soon as you get under the skin, there are virtually no businesses that have a problem with regulation. They generally have a problem with the manner in which it is being implemented and sometimes they do not understand why it is the way it is or what they have to fill out the forms, et cetera.

**Q53 Mr Mitchell:** Two points arise from that. Table 15 on page 23 shows that whatever you have done, business does not understand it and does not know you have done it. There you are. So you are obviously not getting through and you are not producing any great effect or any gratitude on the part of business.

**Mr Sargent:** We did not get through at the point because we had just started. I would like to feel that when the NAO does a survey this year, which presumably they are in the process of doing at the moment, those numbers will look better. Then when they do it next year and the year after, people will become more and more aware. My job in this particular environment I am in is to make sure that they know because we know from the Dutch that people do not find out unless you try to help to point it out. You are quite correct in highlighting the fact that that is a challenge.

**Q54 Mr Mitchell:** You are labouring away to no great effect in terms of the notice point, which is always hovering around 10% or below. Let me put another point. One man's burdens and regulations is another person's consumer protection or employee protection, or whatever. What evidence to you take to evaluate the effects of removing regulations or implementing them more gently or softly on consumer protection and worker protection?

**Mr Sargent:** We have a very good rapport, and we have done a joint study recently with the National Consumer Council in which there are many products. Let me take financial products. If you buy a financial product, you will get quite a few pieces of paper that come with it when you buy an insurance policy or a mortgage or anything. Few people can understand and absorb those five or 10 pages that come with it. It does not necessary protect you. The law is there to protect you but the manner in which it is being implemented does not necessarily get you there. Where we are coming from is: is there a more effective way of communicating to the vulnerable and the people who could be exploited? We think there is. Quite a lot of our work will result in two things: a less costly way of achieving giving people those protections—

**Q55 Mr Mitchell:** But reducing the degree of paperwork?

**Mr Sargent:** Absolutely.

**Q56 Mr Mitchell:** Let me move on to Europe. As a devout Euro-sceptic—it is a matter of religion really rather than anything else—I believe that most of the regulations that business complains about come from Europe of course and malevolently are implemented here and brass plated or copper plated, whatever you call it, whereas in Europe they are not implemented at all. Could you give us an assessment of what proportion of regulations complained of come from European and are therefore inevitable forced on us?

**Mr Sargent:** I have not got a specific example of the number or the amount. Let me talk you through what we did look at and what was looked at through a review which was completed about a year and a half ago and that was the concept of gold plating. One of the things that emerged was, and this was not the first time that this had been noted, that the amount of gold plating, so to speak, was not significant. There was some gold plating; in about 10 areas which were identified. Recommendations were made on this in the report and they are currently working their way through the system now. I would like to feel that if we were talking this time next year, most of the recommendations of that report to take away the gold plating will have been done.

**Q57 Mr Mitchell:** Do departments consult with you? If you are going to be effective, you need to know what is being done before it is done and to say: “this is going to work”, “that is not going to work”, “business is not going to accept that”. Does that process happen and does it happen on European competition?

**Mr Sargent:** Consultation?

**Q58 Mr Mitchell:** Yes, with the department?

**Mr Sargent:** It does. The big change that has happened in Europe in this past 12 months is that they fundamentally are following the agenda we have now put in place.

**Q59 Mr Mitchell:** They are just being nice to us so that we will pass the Treaty, are they not?

**Mr Sargent:** They have found 90 things in the past 12 months which they can simplify and make easier. They have established a 25% target just like we have and are setting about using the impact assessment tools like we are. I would like to feel that we are getting Europe to be in a better place as a result of the example we have set them.

**Chairman:** I am afraid we have to stop there for a division.

*The Committee suspended from  
4.29 pm to 4.35 pm for a division in the House*

**Q60 Mr Mitchell:** Mr Sargent, you just got me worked up into such an anti-European frenzy that I went and voted against the government. I would like to put it to you that this shift in emphasis to what we are talking about today which is the actual delivery of administrative burdens is an attempt to evade the

main issue. You were not being very successful. Sir Brian, you are nodding vigorously. Shall I address the question to you? I hope that was an agreement.

**Sir Brian Bender:** Part of the frustration maybe the Committee has had with this hearing is the NAO Report is only focusing on one aspect of the Better Regulation Executive role. Another and crucial aspect is to work with Departments to police the system of Regulatory Impact Assessment, so every bit of regulation, legislation, whether it stems from Europe or whether it is produced by a government department nationally, is subject to an Impact Assessment. That is placed before Parliament and that looks at the cost of the regulation. That is not the subject of this Report or this hearing.

**Q61 Mr Mitchell:** Nor is the subject of this Report the real things that business is complaining about. The most burdensome aspects are having to keep up to date with changes, the length of time it takes to go through complying, the need to simplify complex rules, clear information etc., so this is not the real issue so far as business is concerned. That is why not many of them realise what has been done.

**Mr Sargent:** It is part of the issue. Obviously the NAO chose to focus on the bit that was incredibly tangible but you are quite correct. We find it very helpful that the NAO in its survey has highlighted the fact that there are other issues which we, in the rest of the work we do, are addressing.

**Q62 Mr Mitchell:** Why cannot anybody explain to me why there are such wide variations in performance? That follows from the memorandum, bringing performance up to date as well. I keep thinking of the DTI. I do not know what BERR means. It sounds like butter in French or something. 1% of baseline. Communities and local government which have always been dedicated to the ruination of both, 9%. Health and Safety Executive, 3%. Why are there these wide variations in performance?

**Sir Brian Bender:** This is the programme for a three year period and, in the case of my own Department, the changes have to be delivered in almost every case through changes in legislation. If you take the Companies Act, by the time we have finally implemented the Companies Act, that will have delivered on this arithmetic 300 million of savings, but in the year ending in December we had not implemented very much at all. So I am advised and—I stick my neck out here—I confidently predict on present plans that we will have achieved around 50% of our target by the end 08 Report.

**Q63 Mr Mitchell:** Will the Companies Act be easy to comply with? I notice with astonishment that 59% thought it was difficult to comply with. That amazes me.

**Sir Brian Bender:** It is I think the longest bit of legislation that has been through Parliament.

**Q64 Mr Mitchell:** Yes, but the basic requirements are fairly simple, are they not?

**Sir Brian Bender:** What it did was bring everything into one place, simplify and produce quite a lot of administrative simplification, including for small firms including electronic transmission and so on. We do believe that it has very real benefits for business in terms of administrative simplification.

**Q65 Mr Mitchell:** I notice that while the departments are putting more emphasis on on-line tools, business rates these as the least important in fact. Is that just because on-line is convenient to departments but more difficult for businesses?

**Mr Sargent:** I am just trying to work out what you are referring to. If we take the planning example, we have one example, one practice, one planning practice, which does about 400 applications per year. It had identified that they were saving each of them £100 each time they did it. One practice said to us, "Instead of taking a whole day to prepare all the planning stuff and send it off, it is now taking us an hour". It is very much something that the business community wants, particularly those who have to send documentation to people, to be able to deliver them electronically.

**Q66 Mr Mitchell:** Which small business presumably finds more difficult?

**Mr Sargent:** Not necessarily. There are very few people these days who do not have access to a computer and cannot in turn get on-line access.

**Q67 Mr Mitchell:** Why at tables 18 to 22 is business rate the least important means of delivering what you are supposed to?

**Mr Sargent:** The items that are there are items that the business community would like. The fact that it is at the bottom does not mean that it considers it less important or less useful. Starting at the top, if we take employment or simplification, one of the ways of achieving simplification is to have a place where someone can go to, download a single form that they can fill out and give to their employees. That is an example of where the on-line tools are the way by which you achieve the most important item which is simplification. It tends to be the manner by which you achieve some of the higher ones.

**Mr Mitchell:** I obviously misunderstood the table.

**Q68 Mr Williams:** In paragraph 2.20 under the heading, "The challenge of delivery", it says, "The Government has committed to making a real difference to businesses by reducing the burden of complying with regulation". It then goes on to talk about the reductions and points out that these are calculated at an aggregate level. We are talking of a £4 billion reduction. With over two million firms, it is peanuts, is it not? It is less than £2,000 a year on average.

**Mr Sargent:** The amount that each firm will save will vary, depending upon—

**Q69 Mr Williams:** That is right, but the average will be less than £2,000 and that is at the end of the project.

**Mr Sargent:** Do not forget, if you took an average—that will vary from company to company—if you as a company were making £5,000 profit and you could bring that up to £7,000 on a permanent basis, because this is not a one off exercise; this means that you have permanently taken it out of the equation, that is not a bad day's work surely?

**Q70 Mr Williams:** If you are down at that level you are probably not going to make even the 2,000, are you, if you are going to be that small? This is a medium sized business so, at the end of the day, I am not knocking achieving it but what I am saying is, if anything, we are under-achieving and under targeting.

*The Committee suspended from  
4.43 pm to 4.51 pm for a division in the House*

At the end of the day, to say much ado about nothing is silly because money is money as far as businesses are concerned but it really is a matter of mirrors and smoke screens, trying to make it look as if we are doing much more than we are actually achieving. If we look at paragraph 2.15 it says: "In deciding on reduction targets, the government followed the precedent set by the Dutch and Danish Governments . . .". They adopted reduction targets of 25%. Their targets were based on political decisions. That is a strange way of arriving at a statistical, accounting way of setting targets, is it not? It is even funnier for us to base our political decision—assuming it was—on their political decision. It really shows that it is a very nebulous operation, is it not?

**Mr Sargent:** I would be disappointed if you felt that the £4 billion was not worth having and the 25% target is a very good cultural way of focusing people's minds. The NAO I think summed it up. By setting the target and setting one that was clear, simple and unambiguous, it focused everybody's minds. For me, that is the benefit of doing that and that is the experience we learned elsewhere, that it was a target that was worth setting and it was going to generate something good.

**Q71 Mr Williams:** The next sentence is interesting in National Audit Office terms. It says: "The UK Government adopted targets that it believes will support a pragmatic approach . . .". These are agreed reports. Normally in one of our reports, if it says, "The UK Government believes", it normally means that the NAO does not believe them or does not agree with them. Is that the case? Is this their assessment but not one you are able to go along with?

**Mr Burr:** It is not one we are not able to go along with, but we were recording it as the government's view rather than our view.

**Q72 Mr Williams:** That is not quite how, after 17 years on this Committee, I would read that. That is a measure of considerable reservation on the part of the National Audit Office. "The targets are not based on calculations of the desired or achievable level of reductions". Again, that is smoke and

mirrors. If we move to page 33, it says there in paragraph 4.13 that our examination—that is the NAO’s examination—identified two factors which raised doubts over the extent to which it would be possible to measure accurately the impact of initiatives. Here again the National Audit Office is saying that this is what you are saying but it is not what they are saying. They have reservations there as well. Does that not cause your some concern?

**Mr Sargent:** Before I answer, could I just clarify which item you are referring to?

**Q73 Mr Williams:** Paragraph 4.13. “. . . our examination”—the NAO’s examination—“identified two factors that raise doubts over the extent to which it will be possible to measure accurately the impact of initiatives . . .” and then it deals with those subsequently.

**Mr Sargent:** When you sit down and try to analyse something which is very tangible and the administration cost is something quite tangible that you can look at, you have to make a decision. First you have to identify the laws; then you have to identify how many items come out of those laws which we have done. Then you have to identify a reasonable number of businesses that will give you some indication as to whether this is big or small. That is what we have done and I am struggling obviously to be convincing, clearly, but that is very tangible. When you go back five years later and you look at it, you say that this clearly used to take someone five hours five years ago and it is clearly taking an hour now, what might vary is that £30 or £10 an hour. That might be a debatable point, but there is a tangible improvement.

**Q74 Mr Williams:** You heard the comments from my colleagues and it is quite clear we all have the same feeling. There is nothing very tangible here.

**Mr Banyard:** Could I give you an example? We have been working in a small, tangible area to try and improve the ease with which you complete tax returns, whether they are income tax returns, VAT returns or Pay As You Earn payroll returns. Each year we survey business and one of the questions we ask is, “How easy do you find it to complete tax returns?” The work that we have been doing has shown a three year, year on year improvement in the percentages of people who say that it is easy to complete tax returns. If you do focus on an area, I think it is sometimes noticed. If you ask a specific question—was this particular thing easy to do?—then I think people may notice it; whereas if you ask the general question, “Is there more or less regulation?” I think it is much more difficult for somebody to say, “It is easier”.

**Q75 Mr Williams:** It is better to come out and admit that right at the beginning instead of trying to give the impression it is much more statistically economics and audit based than it actually is. If you look at 4.14 it refers to the *Less is More* report. It says that that report recommended that government

should consider how the total cumulative impact of regulation on business could be assessed. That was their recommendation. The next sentence says: “This work has not been a top priority . . .”. When was the *Less is More* report? I have forgotten the date of it.

**Mr Sargent:** 2005.

**Q76 Mr Williams:** Here we are in 2008. The work that was stated in 2005 as something you should be doing still has not been done. Why?

**Mr Sargent:** Let me put it in context. There is no recognised methodology that we have been able to identify looking both internally and externally, so that you can say the cost of regulation overall is this. You can look at specific areas. You can look at a piece of employment law and track that but how do you measure competition law, for example? That is the reason why. The answer is there is work going on and indeed the Department has been having work streams which resulted in a seminar only a few weeks ago and reports which will be out imminently. What you have not seen is the tangible summation or conclusions because it is a pretty difficult area in which to try to come to conclusions.

**Mr Williams:** The reality is that, as politicians, we know and, as long serving civil servants, you know, business always moans about rules and regulations. I was in the Department of Industry for quite a while. Before that, in 1964, I took the Consumer Credit Act through Parliament and one of the things I did there was to insist that the Credit Reference Agencies, which used to rely literally on gossip; they decided whether you got credit or you did not, but they would collect information from the local shopkeeper, from the milkman, from the newspaper shop and so on. I inserted into it, under massive protest, the provision that they would be subject to the law of libel. I was asked to meet with them. They told me it would destroy them. They were at the risk of destroying people so they had to face their responsibility. They are now highly prosperous businesses because they were forced by regulation and by the fear of libel action. They had to look at their activities again, transform the whole nature of a credit reference agency and they are now very, very profitable, so sometimes regulations which are moaned about most can achieve things that are valuable. We ought to have more guts as politicians and stand up to business more often and say, “Well, moan if you like. It is in the public interest. It is in the consumer interest and we are going ahead with it”. That is my sermon for the day.

**Q77 Chairman:** I think that concludes our hearing. Everything that Mr Williams says about the attitude of industry is right but it is just a bit depressing, despite your best efforts, Sir Brian, that in the brief provided to us by the Institute of Chartered Accountants this afternoon their survey shows that

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20 February 2008 Department for Business, Enterprise and Regulatory Reform and HM Revenue and Customs

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more chartered accountants believe the regulatory environment has deteriorated rather than improved since 2006. It is depressing, is it not?

**Sir Brian Bender:** It is depressing and it brings me back to some of the conversations earlier and Mr Sargent's point. We have a lot of work to do to engage with business about what we are doing and trying to do in this area.

**Mr Sargent:** The Institute of Chartered Accountants sets standards by which companies prepare their accounts. The amount of paper required to prepare the accounts has trebled in the past 15 years. That has nothing to do with government regulation or Parliament. That has to do with the standards that are set by accountants for themselves, which is an interesting space to go into.

**Chairman:** Thank you very much, gentlemen. That concludes our hearing.

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## 1. Letter and memorandum from Sir Brian Bender, Permanent Secretary, Department for Business Enterprise and Regulatory Reform (BERR)

MEMORANDUM FOR THE PUBLIC ACCOUNTS COMMITTEE HEARING ON 20 FEBRUARY: THE DELIVERY OF THE ADMINISTRATIVE BURDENS REDUCTION PROGRAMME

In advance of the hearing before the Public Accounts Committee on 20 February 2008, I thought it might be helpful to draw the Committee's attention to the attached memorandum, which updates the Committee on the progress that has been made since the publication of the Report on "The Delivery of the Administrative Burdens Reduction Programme" in December 2006.

6 February 2008

### PROGRESS IN REDUCING ADMINISTRATIVE BURDENS

The NAO's report reviews the first year of the Administrative Burden Reductions Programme and the first Departmental Simplification Plans published in December 2006. Since that time significant progress has been made.

In December 2007, 19 Simplification Plans were published,<sup>1</sup> showing more than 700 initiatives to reduce administrative burdens, policy savings and regulatory irritants (over 280 of these measures have already been delivered). Across Government, net savings in annual administrative burdens of £3.5 billion by 2010 have been identified (this is 26% of the May 2005 baseline of £13.4 billion). Of this, over £800 million of net annual administrative burden savings have already been delivered.

The table below updates the progress made by departments that were featured in Box 13 of the NAO report, as well as the overall position across Government, based on Simplification Plans published in December 2007.

### ADMINISTRATIVE BURDENS: PROGRESS BY INDIVIDUAL DEPARTMENT AND AGENCIES

Department	Baseline	Identified Net		Net savings	
	May 2005	reductions by	2010	delivered	
	£m	£m	% of	£m	% of
			baseline		baseline
Department for Business Enterprise and Regulatory Reform	4,188	1,049	25%	57	1%
Communities and Local Government	2,487	685	28%	220	9%
Health and Safety Executive	2,038	455	22%	62	3%
Cross-Government	13,401	3,485	26%	819	6%

<sup>1</sup> <http://bre.berr.gov.uk/regulation/reform/simplifying/plans.asp>

HM Revenue & Customs publishes updates on its progress at each Budget. The figures below reflect those published in Budget 2007.

**ADMINISTRATIVE BURDENS: PROGRESS BY INDIVIDUAL  
DEPARTMENT AND AGENCIES**

<i>Department</i>	<i>Baseline</i>	<i>Targeted</i>		<i>Net savings</i>	
	<i>May 2005</i>	<i>reduction by</i>	<i>2010–11</i>	<i>delivered</i>	
	<i>£m</i>	<i>£m</i>	<i>% of</i>	<i>£m</i>	<i>% of</i>
			<i>baseline</i>		<i>baseline</i>
HM Revenue & Customs (Forms & Returns target of 10% reduction)	3,370	337	10%	130	4%
HM Revenue & Customs (Audits & Inspection target of 10% in three years and 15% in five years)	140	21	15%	43	31%

Simplification plans also set out progress in addressing burdens facing the public sector. In the Pre-Budget Report 2007, the Government committed to a 30% reduction in the number of data request made by central Government to the front-line.

2007 Simplification Plans have also outlined how Government is addressing policy burdens associated with regulations. Policy burdens are the costs inherent in meeting the aims of regulation. This could be direct cash costs, such as installing a pollution filter on a factory chimney as required by legislation, to indirect costs, for instance through necessary changes in working practices.

#### SCRUTINY OF SIMPLIFICATION PLANS

The Better Regulation Commission (BRC) played a role in the external scrutiny of the first round of Simplification Plans in 2006. However, following the Machinery of Government changes at the end of June 2007, the Prime Minister asked the BRC to consider how best to manage public risk. The BRC therefore took the decision not to scrutinise the second round of Simplification Plans in 2007.

The BRC's subsequent report, "Public Risk: The Next Frontier for Better Regulation" identified improved public risk as a prerequisite to delivering better regulation. The report also identified the need to establish a new organisation to take this work forward. This resulted in the disbanding of the BRC, with the Prime Minister establishing the Risk and Regulation Advisory Council (RRAC) on 16 January 2008, which will focus on public risk.

The BRE will continue to support and challenge departments to improve the regulatory environment in the UK, including on the Administrative Burdens Reduction Programme. Departments will continue to publish their annual Simplification Plans, enabling external stakeholder assessment against regulatory performance. The Government also values the NAO's scrutiny of this programme.

#### CONCLUSION

The Government is clear that despite the considerable progress on regulatory reform, more still needs to be done, including meeting our commitments to deliver a 25% reduction in administrative burdens. The Government will continue, year-by-year, to review regulation and to report transparently on its progress. And it is committed to continuing to listen to business, charities, consumers and frontline staff in the public sector, to understand their priorities for regulatory reform.

The Government also believes that it is vital that impacts of regulatory reform are communicated effectively to businesses and other stakeholders so that they understand and take full advantage of the benefits of them. This is an important priority for Government in 2008 and beyond.

## 2. Submission from Department for Business Enterprise and Regulatory Reform (BERR)

Question 45 (Mr Richard Bacon): *on how much time was spent on the procurement of consultants to undertake the measurement of administrative burdens . . . and a detailed breakdown of the £17 million and where it went*

### CENTRAL ADMINISTRATIVE BURDENS MEASUREMENT EXERCISE

The Better Regulation Executive were tasked with coordinating the procurement of consultants to undertake the measurement of administrative burdens on behalf of Government. After a competitive tendering exercise the contract was awarded in September 2005 to PricewaterhouseCoopers (PwC) at a total cost of £10.4 million. This cost was split between participating Departments according to the number of regulations they were responsible for. A major consideration in awarding the contract to PwC was the quality and knowledge of both their workforce and DLA Piper, their legal partner.

Between September 2005 and May 2006 PwC worked with departments and DLA Piper, to produce a comprehensive list of all administrative burdens—ie each requirement in law for businesses and third sector organisations to provide information to the state or a third party. Requirements which only affected the public sector were outside the scope of the exercise. There were around 1,400 regulations which were broken down into 20,000 separate obligations.

Next PwC identified businesses affected by these obligations and interviewed staff to establish how long it took them to comply with each requirement, as well as any other costs involved. In more complex cases, PwC facilitated workshops of those affected by the law with those implementing it to establish the costs. There were around 8,500 interviews and more than 200 such workshops. For some minor requirements, PwC extrapolated an estimate by looking at similar requirements. 90% of baseline was measured with direct business involvement, with 77% of these being small (1–9 staff) or medium (10–49 staff) in size.

At its peak over 700 PwC or DLA Piper staff were working on the delivery of this programme.

Once measurements had been gathered, PwC multiplied the costs of complying with each obligation by the number of business affected by them (eg the number of times a form was submitted). This information was then quality assured by PwC before being submitted to Government for approval. Each of the 19 departments received a report that provided an overview of its administrative burden and how PwC had measured this.<sup>2</sup> The Better Regulation Executive received a database containing all of the data PwC had gathered during the programme, which has now been developed into the central system used to record Government's progress towards its administrative burden reductions targets. The data set generated by the Admin Burdens Measurement Exercise is the largest and most sophisticated of its type in the world. Since the successful completion, many European countries and the European Union itself have emulated our approach.

### HMRC ADMINISTRATIVE BURDENS MEASUREMENT EXERCISE

HMRC appointed KPMG to do the work after a competitive tendering exercise. The work cost £7.5 million and took place between September 2005 and March 2006.

KPMG were able to quickly mobilise a large knowledgeable workforce with the necessary tax and accountancy skills to do the work quickly. They also partnered with a Danish company that had done parallel exercises in Denmark, Sweden and other parts of Europe.

The exercise produced a 2.5 million data point model mapping UK legislation to the activities that businesses actually have to do to comply. This gave the UK, for the first time, a consistent model of the burdens imposed by tax legislation on business and a clear understanding of what drives tax related red tape. Not only this but KPMG went into detail in segmenting businesses by size, whether they employed an accountant and whether they file returns electronically or not.

Throughout the project HMRC worked closely with the Better Regulation Executive using the same Standard Cost Model as the rest of government and the Dutch.

28 March 2008

<sup>2</sup> [http://www.scmtraining.berr.gov.uk/course/resources/pwc\\_technical\\_summary.pdf](http://www.scmtraining.berr.gov.uk/course/resources/pwc_technical_summary.pdf)

### Memorandum from the Institute of Chartered Accountants of England and Wales (ICAEW)

Business opinion should be the central consideration in measuring the effectiveness of the Administrative Burdens Reductions Programme. ICAEW research indicates that businesses do not yet perceive significant savings from this programme.

#### 1. ICAEW

The ICAEW has over 130,000 members worldwide, including over 50,000 who work in a direct business capacity. Our membership includes Financial Directors and Chief Executives across all sectors of the UK economy, from large multinationals to SMEs, including micro businesses. Working as employers, investment specialists and business advisers, our members possess a unique understanding of the impact and extent of the UK regulatory burden. The ICAEW 2007 Enterprise Survey, which polled over 1,000 respondents from businesses across every sector of the economy, provides an authoritative basis for research and presents several insights into business opinion on the delivery of the administration burdens reduction programme.

#### 2. BACKGROUND

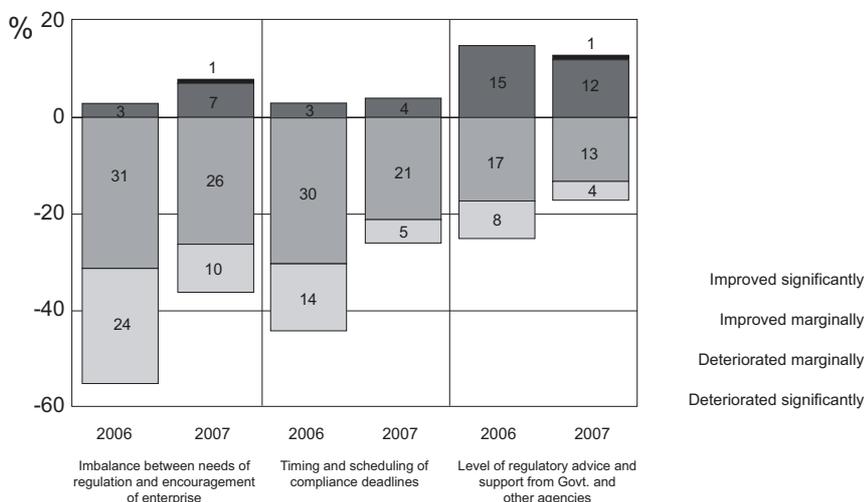
The government is currently committed to reducing the net administrative burdens faced by business and the third sector by £3.5 billion by 2010 and reducing public sector data burdens by 30% during the same period. Against this target, the ICAEW 2007 Enterprise Survey indicated that the cost of new administrative burdens from July 2006 to June 2007 totalled £10.2 billion, a significant increase on the previous years.<sup>3</sup>

In his evidence to the Regulatory Reform Committee on 29 January 2008, William Sargeant, Executive Chair of the BRE, suggested that the progress of the Departmental Simplification Plans demonstrated the impact of the effort to reduce administration burdens. Government has identified over 700 different simplification measures across 19 different government departments and agencies. It claims to have already delivered on over 270, reducing costs faced by business and charities by over £800 million a year.<sup>4</sup> In addition, a new Impact Assessment (IA) form has been introduced which, for the first time, commits departments to post implementation reviews of the actual impact on business. The Institute welcomes these measures and looks forward to both public and Parliamentary scrutiny of the first of the new reviews of "actual cost".

#### 3. BUSINESS OPINION

The ICAEW believes that genuine measurement of the success of the Administration Burdens Reduction Programme must include reference to business satisfaction levels. Chart 37 (below), from the 2007 Enterprise Survey, shows that more Chartered Accountants believe the regulatory environment has deteriorated rather than improved since 2006. However, the extent and scale of that negative feeling has decreased since 2006. These findings suggest that the programme is not yet fulfilling its full potential, but is delivering modest positive impact.

Chart 37: Perceived Change in Regulatory Burdens Over the Past Year



<sup>3</sup> 2007 Enterprise Survey Report: link <http://www.icaew.com/index.cfm?route=152108>; p 37.

<sup>4</sup> Delivery simplification plans, HM Government, December 2007.

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#### 4. ICAEW KEY CONCERNS

##### (i) *Inconsistency of Impact Assessment quality*

The ICAEW believes that the quality and scope of IAs is currently too variable. We support the use of thorough independent academic analysis, as displayed in the Pensions Bill IA. However, IAs too often fail to identify the full costs of a proposal and more specifically where the major impact will fall across the business spectrum. In addition, full IAs often take place too late in the legislative process. For example, the core principle behind the Community Infrastructure Levy (CIL) proposal was never costed or subject to an adequate impact assessment. The CIL IA states that “the details of the proposal are subject to consultation with stakeholders and will be set out in secondary legislation. A further fully costed impact assessment will be carried out as the details are settled”.

##### (ii) *Greater clarity needed in administration reductions reporting*

The BERR Delivering simplification plans report published in December 2007 identified a total administrative burdens savings for SMEs of £139.1 million of which £97.2 million related to simplification of the licensing regime following a measurement exercise. Excluding this one sector specific measure, the saving is only £42 million, less than 1% of the £9.1 billion burden falling on SMEs as measured by the 2007 Enterprise survey, although the saving is significantly higher for larger businesses.

##### (iii) *EU administration burdens and “Gold-plating”*

Analysis varies as to the exact proportion of the total regulatory burden on business accounted for by EU directives introduced into UK law. However, the consensus is that the proportion lies between 40% and 50% of total UK burdens. In parallel to the necessary enactment of directives, the UK business environment has suffered from the gold-plating of legislation. We would recommend that a system of greater transparency and scrutiny be considered to highlight gold-plating where it exists.

#### 5. ICAEW RECOMMENDATIONS TO INCREASE PROGRAMME EFFECTIVENESS

The ICAEW supports the better regulation agenda, predicated on a number of beliefs based upon our member research and the expertise of our members and staff. At principles level the Institute believes that:

- (i) reducing the annual cost of new regulation impacting on business should be a priority of the better regulation agenda;
- (ii) reducing the impact on the smallest businesses should be the primary focus within that priority;
- (iii) better regulation for small business will also invariably lead to better regulation for other sizes of business; and
- (iv) the flux of new regulation is often more troubling for a business than the stock of old regulation as they will already have coping strategies for old regulation.<sup>5</sup>

##### (i) *Departmental administrative burden targets reporting*

The government has published the administrative burdens targets for each department to 2010. Greater focus on departments’ achievements of targets is required. Part of this focus should be more regular and public publication and departmental comparison of progress in achieving targets.

##### (ii) *Continuity of exemptions*

There is a need for greater consistency in the use of exemptions across government. For example, to be exempted from the stakeholder pensions legislation a business needs less than 5 employees. In other cases legislation provides for differing or no exemptions at all, forcing business to analyse legislation individually for specific and unique exemptions. Greater consistency is required. In an initial consultation, as part of the EU administration burdens programme, the European Commission has suggested that micro-entities (basically business with less than 10 employees which meet turnover and assets tests) should be exempted from the application of accounting directives. The ICAEW recommends that a “Micro-entities Test” be applied to all new UK legislation, demanding that departments describe why micro-entities should not be exempted from administrative burdens, if such is the case.

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<sup>5</sup> ICAEW research and policy papers available at [www.icaew.com/enterprise](http://www.icaew.com/enterprise)

(iii) *Coordination with EU simplification*

The government should commit to adopting EU simplification measures. The EU has committed to reducing regulatory burdens on business as part of its commitment to the Lisbon competitive agenda. The European Commission is currently measuring the administrative burden across the EU in 13 priority areas. The study will also look at how member states have implemented directives, whether there has been any unnecessary “gold plating”. The UK should commit to giving serious consideration to implementing the key simplification proposals as well as the conclusions of the report regarding the extent of UK gold-plating.

*February 2008*

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