

Summary – Standard Cost Model Measurement of the Danish Ministry of Justice

On behalf of the Division for Better Business Regulation within the Danish Commerce and Companies Agency, MUUSMANN Research & Consulting and COWI A/S has carried out a measurement of the administrative costs incurred by businesses, when complying with regulation from the Danish Ministry of Justice.

The measurement has been carried out in cooperation with the Danish Commerce and Companies Agency and with participation from the Danish Ministry of Justice. Legislative experts and the involved coordinators from the ministry have contributed to assuring quality in the mapping of the legislation, obtaining data on a number of affected businesses (population figures) as well as assisted with detailed information in general during the entire measuring period.

Main results

The measurement of the legislation from the Danish Ministry of Justice shows that:

- The total administrative costs amount to 806.1 million DKK as of 31 December 2004.
- From the 27 November 2001 to 31 December 2004 the administrative costs of the legislation from the Danish Ministry of Justice have increased with approximately 6.3 %.
- The ten laws and executive orders that result in the largest administrative costs to the companies represent 88% of the total administrative costs within the Danish Ministry of Justice.
- 19% of the administrative costs originate from regulation that is entirely based on EU-regulation (so-called A-regulation). 11% of the administrative costs derive from regulation that is based on international obligations (including EU-regulation), but where the concrete administrative requirements are of Danish origin (also known as B-regulation). Finally, 69% of the administrative costs originate from national regulation (also known as C-regulation).

The Standard Cost Model

The mapping of regulation and the subsequent measuring of the administrative costs related to the legislation has been carried out using the Standard Cost Model. The methodology entails a thorough examination of the legislation under examination in order to identify the relevant paragraphs describing the companies' obligations to make information available to the authorities or a third party. Each of these *information obligations* consists of a number of individual pieces of information that the companies are obliged to make available – these are described as *data requirements*. In order to be able to procure these data requirements, the companies must carry out a number of administrative activities (e.g. collection of information within the company). These activities primarily require an internal resource use in the form of the employees' time con-

sumption and occasionally an external resource use in the form of costs to accountants, external experts etc. In total, these administrative costs constitute the costs that are related to the performance of different administrative activities.

The purpose of the measurement

The purpose of the measurement is to provide data on the effects of specific pieces of legislation that may assist the ministry in its future work with legislative simplification. This will work towards realising the objective of the Danish government's growth strategy "The Danish Growth Strategy" from 2002, which is to reduce the administrative burdens by up to 25% by 2010.

The Danish Ministry of Justice

The Danish Ministry of Justice is responsible for 32 business related laws and 50 executive orders that altogether include 274 information obligations consisting of 764 data requirements

In general, the regulation within the Danish Ministry of Justice is quite sectorial. The regulation comprises different lines of businesses, such as private protection agencies, casinos, real estate agencies, debt collection agencies, auction sales, insurance companies, car dealers and bicycle manufacturers.

The Danish Ministry of Justice generally makes relatively specific demands to the companies that are affected by the legislation of the ministry. This among others means that casinos and auctions are faced with a number of information requirements that result in substantial costs to the individual companies.

The administrative costs from a societal point of view

The companies' total annual costs due to legislation of the Danish Ministry of Justice amount to 806.1 million DKK as of December 31 2004 cf. the table below. Since November 2001, the administrative costs of the ministry's regulation have increased by 6.3%.

The increase in the administrative costs is among others due to new administrative costs in connection with the implementation of executive order no 1138 of 23 November 2004 regarding registration in the Building and Dwelling Register of co-operatively owned housing. Furthermore, in 2001, law no 726 of 24 October 1986 did not establish any requirements to the insurance companies regarding the information obligations in connection with insurance agreements entered at distance selling. However, this has changed and the law now results in new administrative costs to the affected companies.

Table 1: The development in the administrative costs of the legislation of the Danish Ministry of Justice

	Development in administrative costs			
	Administrative costs in November 2001 (million DKK)	Administrative costs at the baseline measurement (million DKK)	Net effect (million DKK)	Development (%)
The Danish Ministry of Justice	758.4	806.1	47.7	6.3 %

In general, it applies to the area of the Danish Ministry of Justice that relatively few laws and executive orders contribute to the majority of the total administrative costs. Consequently, the ten laws and executive orders that cause the largest administrative costs account for 88 % of the total administrative costs, cf. the table below:

Table 2: The most burdensome laws and executive orders of the Danish Ministry of Justice (social level)

Law/Executive order	Total administrative costs	
	Societal level (million DKK)	Share of total costs (%)
Executive order no 1024 of 15 December 1993 concerning registration in the Building and Dwelling Register (property)	206.6	26 %
Executive order of law no 622 of 15 December 1986 regarding registration in the Land Registration Act.	129.1	16 %
Executive order of law no 602 of 9 September 1986 concerning international contracts of affreightment.	70.4	9 %
Law no 135 of 23 March 1948 concerning marking of bicycle frames, cf. executive order no 705 of 19 July 2001 concerning marking of bicycle frames etc.	55.0	7 %
Executive order no 1350 of 18 December 2000 regarding registration and inspection of vehicles.	53.1	7 %
Executive order no 712 of 2 August 2001 – the Road Traffic Act	48.6	6 %
Law no 191 of 9 April 1986 concerning public auction controlled by auction managers.	43.2	5 %
Law no 726 of 24 October 1986 concerning insurance agreements.	39.9	5 %
Executive order no 776 of 21 September 1993 concerning package tours.	38.5	5 %
Executive order no 304 of 10 May 1993 concerning registration in the vehicle register.	26.2	3 %
Top-10 (total)	710.5	88 %
The Danish Ministry of Justice (total)	806.1	100 %

* In February 2005, this regulation was transferred from the Danish Ministry of Justice to the Ministry of Taxation. This will be adjusted in connection with the update of the two ministries' baseline measurements

The three laws/executive orders within the area of the Danish Ministry of Justice that result in the largest administrative costs to the companies are:

- Executive order no 1024 of 15 December 1993 concerning registration in the Building and Dwelling Register (property) that deals with requirements and content of mortgage deeds, indemnity bonds, identification papers, enclosures, evidence etc. related to property. The executive order results in yearly administrative costs of more than 206 million DKK on a social level. Thus, this executive order represents 26% of the total administrative costs of the legislation of the Danish Ministry of Justice to the companies. The individual registration is not particularly costly (app. 80 DKK per registration), however, the number of effected registrations is significant. The administrative costs of this executive order are based entirely on national regulation (C-regulation).
- Consolidated Act no 622 of 15 September 1986 regarding general requirements to registration and the documents being registered. In the executive orders that have been issued according to the law, requirements are specified to different types of documents, e.g. cf. the regulation on registration in the Building and Dwelling Register concerning property above. The law results in yearly administrative costs of 129.1 million DKK on a societal level, which is equal to approximately 16 % of the administrative costs within the area of the Danish Ministry of Justice. The individual registration is not particularly costly (app. 70 DKK per registration), however, the number of effected registrations is significant. The administrative costs of this law are based entirely on national regulation (C-regulation).
- Executive order by law no 602 of 9 September 1986 concerning international affreightment contracts regulates what information has to appear from the international freight bills attached to the conveyance of goods across borders. The law results in yearly administrative costs of approximately 70 million DKK on a societal level – equal to 9 % of the ministry's total costs. To the individually affected company, the executive order results in yearly administrative costs of approximately 22,600 DKK. The administrative costs of the law are particularly due to the companies' obligation to establish a freight bill that more or less accounts for every aspect of an affreightment.

The administrative costs on business level

The administrative costs are both estimated on societal level as well as on business level. One of the laws that result in the largest administrative costs to the companies is law no 861 of 10 October 1994 concerning casinos. With administrative cost of 1.5 million DKK per year for each of the affected businesses, this law is the most burdensome at business level. The law among others establishes that a casino must register

information on every single visitor. This information obligation results in approximately 80% of the administrative costs of the law. However, the Danish Ministry of Justice emphasise that even if there were no requirements to the casinos of having to register the visitors, they would probably still have to have personnel at the entrance, who could welcome the visitors, ensure that they follow the dress code, pay their entrance fee etc.

The origin of the administrative costs – the ABC-categorisation

Within the area of the Danish Ministry of Justice, the Standard Cost Measurement shows that 19 % of the administrative costs stem from regulation that originates directly from international regulation (so-called A-regulation). For instance, all the administrative costs of executive order of law no 602 of 9 September 1986 regarding international contract of affreightment is a direct consequence of international regulation.

11 % of the administrative costs can be attributed to regulation that originates from international regulation, but where the administrative obligations have been formulated by Denmark (so-called B-regulation). The most essential example of an executive order based on B-regulation is executive order no 1350 of 18 December 2000 regarding registration and inspection of vehicles. In this way, the administrative costs of the executive order may be attributed to a EU-directive.

69 % of the administrative costs can be attributed to regulation that only originates from nationally determined information obligations (so-called C-regulation). All the administrative costs of the three protocols regarding registration (executive order no 1024 of 15 December 1993, executive order no 304 of 10 May 1993 and executive order no 622 of 15 December 1986) as well as law no 135 of 23 March 1948 regarding marking of bicycle frames are based on C-regulation.

Irritation burdens and suggestion for simplification of rules

During the interviews, the companies were asked whether there were any specific points of irritation or annoyance when dealing with the regulation, or whether they had any suggestions as to how the regulation could be simplified. The following general areas of irritation were aired by businesses:

- According to the companies, the extent of control with casino businesses does not compare with the output. In other words, according to the companies, a number of information and data requirements are unnecessary. At the same time, the companies are of the opinion that the legislation is not always being observed.
- Administrative costs in connection with registration of vehicles represent a significant irritation burden. The main reasons hereto are first of all that the car dealer has to appear personally in order to procure license plates and, secondly, the processing of the registration takes too long. A digital solution that is combined with the access to printing license plates at authorised companies could reduce the irritation bur-

dens considerably as well as it would result in a significant simplification of rules within this area.

- Lack of IT-support of dialogue, reporting etc between companies and authorities. For instance, within the area of registration in the Building and Dwelling Register among real estate agents, a digital solution is in demand. The current procedure represents an irritation burden, as it appears ineffective as opposed to the solutions that a digitalisation of the processes might be able to create.