



**HM Revenue  
& Customs**

# **The Standard Cost Model**

Craig Richardson, Better Regulation Analysis Team, HMRC

# Overview

- Summary of the Admin burdens model and methodology
- How the data was collected
- Pros and cons of the approach



**HM Revenue  
& Customs**

# **The Model**

## Recent Developments

- Budget 2005 - Govt accepted two major reports
  - **BRTF Report** “*Less is More*”
  - **Hampton Report** “*Reducing Administrative Burdens*”
- HMRC not business regulator so not technically within the scope of either
- However, many principles and objectives apply equally to us as a tax authority
- Committed to measuring the burden of the tax system and reducing it

# The Admin Burden Exercise

- BRTF report: “The golden rule is what gets measured gets done”
- Standard Cost Model (SCM) has two main stages:
  - **Mapping burden:** identifying all regulations that impose a burden on business and the underlying activities businesses have to perform to comply
  - **Measuring burden:** using interviews with business and experts to place indicative values on those activities

# The model - simplified

- Identify information obligations
- Activity based costing...
- Value each activity required to return each piece of data:
  - Admin Burden = **P** x **Q**
    - **P = Tariff** (gross costs, wage costs and material and overhead costs) x **Time** (how long it takes to perform the activity).
    - **Q = Number of businesses** (the number of businesses that the regulation applies to) x **Frequency** (the number of times that a business delivers this each year).

# CAVEATS!

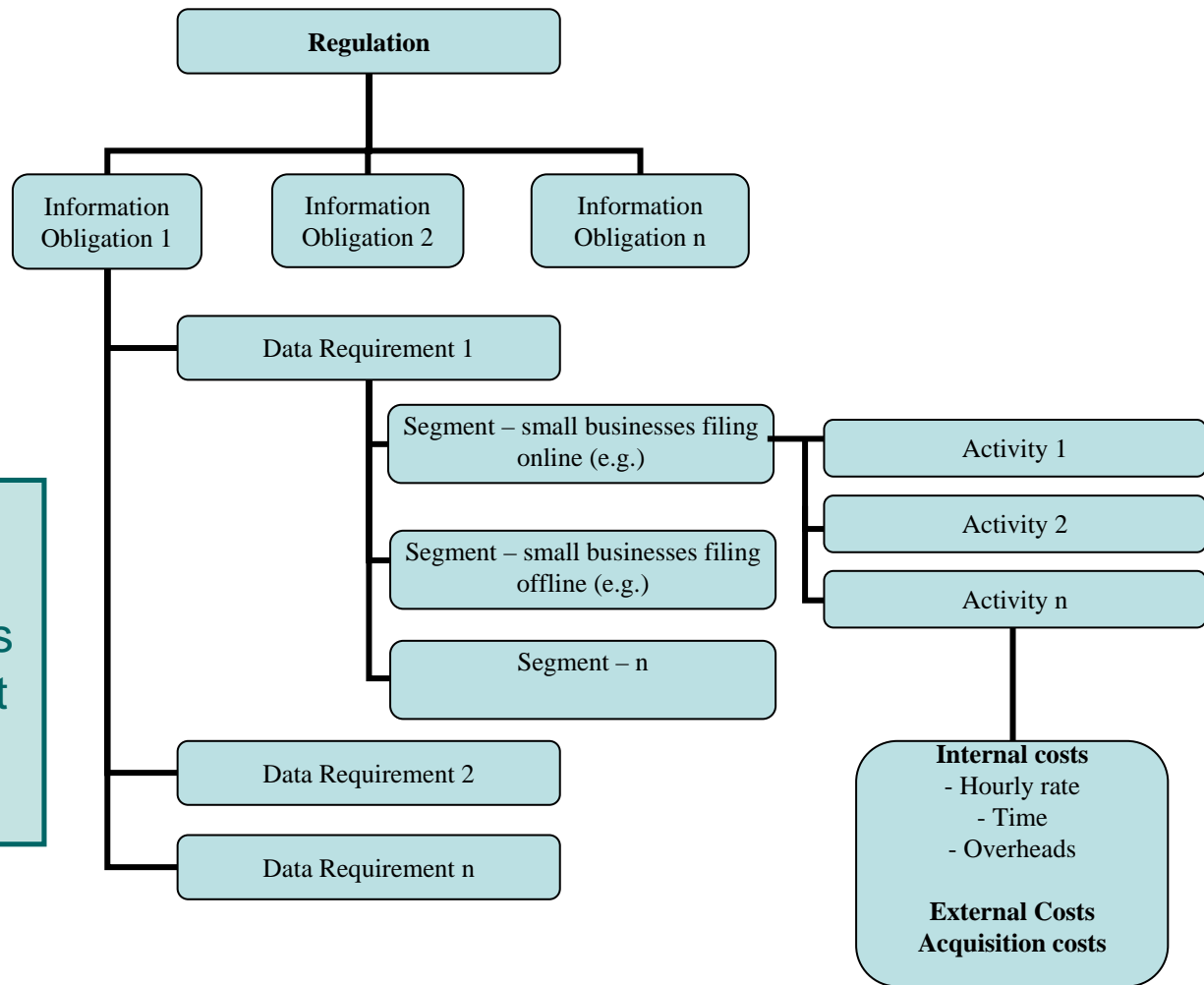
- Its designed to be indicative and consistent across the different areas of the tax system
- NOT designed to be a statistically representative process
- Admin burden is not full cost of compliance, only a subset

## Aim of the model

- To get from what government knows about
  - Regulations
- To what business knows about
  - Activities and wages
- A lot of the concepts in the model exist only to enable us to get from one to the other...

# How it fits together

**Admin Burdens** - The part of administrative costs that the businesses sustain simply because it is a requirement from regulation.





**HM Revenue  
& Customs**

# **Data collection**

# Approaching Business

- Number of approaches used:
  - face to face interviews
  - telephone interviews
  - targeted interviews
  - focus groups
  - expert assessment
- Used contacts with business organisations to drum up support

# Segmentation

- Wanted results split by business size
- Where possible interviewed the full range of business sizes
  - nano (self employed) up to large (250+ employees)
- Not always possible to reach all segments

# Face to face interviews

- Over 900 face to face interviews carried out
- Arranged by a call centre using commercial contact list
  - Very low hit rate, mainly due to our filter process
- 2 hours max - groups of obligations
- Very structured interview on the length of time that activities took business
  - high level assessment, then low level detail, then reconcile the two

<b>Salary</b>																							
Basic level																							
Medium level																							
High level																							
External level																							
<b>Employee - min. total time</b>											<b>Administrative activities (%)</b>												
	Acquisi tion	Extern al cost	Time in total	Basic	Medui m	High	Extern al time	Familia risation	Info ret	Assess m.	Calcul.	Presen tation	Check	Corr	Desc	Settl/pa y	Int. meet	Ext. meet	Insp. publ. aut	Corr. res. f. insp	Trainin g	Copy	Report
01 Returns and Reports - Annual Return to HMRC for each employee and director provided with expenses and benefits in kind																							
01 Business data - the return must show the business name and PAYE reference number																							
02 Personnel data - the return must show the employee name and National Insurance number																							
03 Description of assets transferred to employees/directors and cost/market value																							
04 Details of payments made on behalf of employees/directors																							
05 Value of vouchers provided and payments made using credit cards or tokens																							
06 Value of living accommodation provided by business to employee/director																							
07 Business mileage and passenger payments (for private cars) made to employees/directors which exceed HMRC approved rates																							

# Telephone interviews

- Smaller number, less suited to tax
- Individual obligations that did not fit well into groups
- 30 mins max

# Targeted Interviews

- For a number of taxes we know the companies involved
  - e.g. Air passenger duty, Insurance premium tax
- Direct contact from KPMG rather than call centre
- Covered a larger number of obligations than a standard interview

# Focus Groups

- Ran 4 focus groups for small firms of accountants and solicitors
- Covered some of the more obscure obligations
- Group experience, aimed to get rough time estimates
- Focused on the high burden areas within the subject area

# Standardisation

- Original approach: Rule of 3
  - not statistical. Do results look consistent with each other?
  - If not, is one not normally efficient? Carry out more interviews
- In practice: tried this, but no time for extra interviews
  - used qualitative data to assess normal efficiency
  - Did the business process need another segment?

# Standardisation

- More complex than just taking an average
  - Where you get the real benefit of having people with expertise in the area on the team
- Interaction between a normally efficient business and the segment
  - Should be an iterative process, identify a new segment, conduct additional interviews
  - Timing prevented this, so ties in with expert assessment

# Expert assessment

- Standardisation for the needle in the haystack obligations that affect a small number of businesses per year - no business data
- Just under half of the obligations covered this way
- KPMG experience, informed by business data from the other obligations
- Also dealt with missing segments in other obligations



**HM Revenue  
& Customs**

# **Pros and Cons of the Approach**

## Not statistical, but consistent

- Small sample - not statistically robust
  - 2725 obligations, roughly 1000 interviews
- Standardisation process aims to make sure estimates are consistent, informed by:
  - business data
  - experience of tax experts
  - Small team doing work adds to consistency

## Low response rate?

- 80,000 calls to arrange just 1000 interviews
  - product of our filter - segment and obligation specific
- In some areas, could have been higher if had access to HMRC customer data - used private source
- Achieved more responses than postal survey might have done, given the detail of the process?

# Coverage

- Expert assessment means we have coverage of entire tax system, not just main returns or elements
  - all of the appeals, returns, requests for authorisations, notifications etc
  - not as much detail as we would have liked in some of the areas, e.g. burden of different types of audit/inspection

# Admin burden, but not compliance costs

- Admin burden is a subset of compliance cost
  - arguably the more measurable part
  - gives us an evidence base to improve the quality of compliance costings in impact assessments
  - Other elements of compliance cost include psychological costs, cost of change, working out whether you're covered by an obligation etc

# Any questions?

Craig Richardson

Better Regulation Analysis Team

HMRC

Room 2E/13

100 Parliament Street

London, SW1A 2BQ, UK

[craig.richardson@hmrc.gsi.gov.uk](mailto:craig.richardson@hmrc.gsi.gov.uk)

0 20 7147 2955

