



UK Regulatory Burden Index Proposal

A Proposal for the Creation of the UK Regulatory Burden Index

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Background

The British Chambers of Commerce (BCC) estimate in their ‘Burdens Barometer (2008)’ that the cumulative cost to business of new regulation since 1998 is £65.99 billion. In a 1997 MORI poll of 2,000 businesspeople – “The Rise and Rise of Red Tape” – only 7% of Britain’s top executives identified regulation as a significant problem. By 2003 that had increased to 34%. In the September 2008 Global Financial Centres Index (GFCI 4), regulation-related instrumental factors played a statistically significant role in determining a city’s position for global rankings.

While studies reinforce the finding that the UK regulatory burden is climbing, Z/Yen have been unable to find a methodology that indexes specific regulations against evolving perceptions of their efficacy, value, and impact. Further, with a new UK system of (Regulatory) Impact Assessments RIAs coming into place in 2008, a quantitative baseline index will provide UK businesspeople with additional data and influence when seeking to improve the business environment by engaging with policy-makers.

Introduction to the RBI

The RBI would provide **ratings** of regulations calculated by a ‘factor assessment model’ built using two distinct sets of input:

- ◆ **instrumental factors** - drawn from external sources. For example, time needed to respond to regulation forms and submissions could be indicated by person-hours necessary to maintain compliance, length of regulation, or external consultations necessary. Not all compliance criteria will have data for all instrumental factors and the statistical model would take account of these gaps;
- ◆ **compliance assessments** – to construct the first set of RBI ratings we would use assessments drawn from respondents to an online survey. Respondents would assess the burden of the regulations which they had direct experience completing for their business. The online survey would run continuously to keep the RBI up-to-date with people’s changing experiences and perceptions.

When new assessments arrive, or instrumental factors change, the index can be updated, allowing for updates to the RBI to be issued regularly, say half-yearly.

Approach and Methodology

Overall Approach

The compliance assessments and instrumental factors are used to build a predictive model of regulatory burden using support vector machine (SVM) mathematics. The SVM used for the building of the RBI would be PropheZy – Z/Yen’s risk/reward prediction system. SVMs are based upon statistical techniques that classify and model complex historic data in order to make predictions on new data. The SVM used for the RBI would provide

information about the confidence with which each specific classification is made and the likelihood of other possible classifications. The predictive model provides the overall index by answering questions such as:

If a Birmingham-based executive in manufacturing with over 2,500 employees gives the 'Working Time Regulations (1999)' and the 'Vehicles Excise Duty Regulation (2000)' certain assessments, then, based on the instrumental factors for 'Employment', 'Transport' and 'Audit', how would that person likely assess the 'Money Laundering Regulations (2003)'?

Specific functions, capacity, scope, and outputs will depend upon available datasets and volume of survey response.

A few features of building the RBI using both instrumental factors and compliance assessments are worth noting:

- ◆ a strong national group of 'raters' can be developed as the RBI progresses;
- ◆ sub-indices would make it possible to rate regulations differentially, the 'Data Protection Act (1998)' as overly burdensome in compliance (for instance), while well-understood to be necessary (for instance);
- ◆ over time, as confidence in the RBI builds, the factor assessment model could be queried in a 'what if' mode - "how much would the amount of time needed to complete the 'Flexible Working (Procedural Requirements) Regulations (2002)' have to change for it to move from being considered *severely* burdensome to *moderately* burdensome?"

Instrumental Factors

Z/Yen will identify additional research, ratings/indices, and datasets relevant to identified compliance criteria for UK regulation, and use their rankings further to illuminate and check responses to the RBI. A list of possible factors includes:

- ◆ awareness of regulation;
- ◆ clarity of regulation;
- ◆ time necessary to comply with regulation;
- ◆ cost (non-personnel) of regulation;
- ◆ responsiveness of regulatory agencies;
- ◆ necessity of regulation.

Potential sources of additional instrumental factors and other information might include:

- ◆ British Chamber of Commerce (BCC);
- ◆ National Audit Office (NAO);
- ◆ Department for Business, Enterprise & Regulatory Reform (BERR);
- ◆ Better Regulation Executive (BRE);
- ◆ UK Parliament – Regulatory Reform Committee;
- ◆ Industry-specific trade and professional associations.

At the outset of this project, we would agree a number of guidelines. These guidelines would ensure that assessments and instrumental factors were selected and used in a way that will generate a credible, dynamic rating of regulatory burden. Where indices are already in the public domain, the relevant organisation will be credited as the source of the data. There may also be organisations that have conducted relevant research, but not publish their

data, in which case it may be obtained at cost should its quality and applicability be deemed sufficiently valuable.

Creating the RBI would not involve totaling or averaging instrumental factors. An approach involving totaling and averaging would involve a number of difficulties:

- ◆ indices are published in a variety of different forms: an average or base point of 100 with scores above and below this; a simple ranking; actual values; a composite 'score';
- ◆ indices would have to be normalized, e.g., in some indices a high score is positive while in others a low score is positive;
- ◆ not all criteria are included in all indices;
- ◆ the indices would have to be weighted.

Assessments

The guidelines for assessments by respondents might be:

- ◆ responses are collected via an online survey which runs continuously. A link to this survey would be emailed to a target list at regular intervals;
- ◆ assessments would be included in the RBI model for 36 months after they have been received and given a reduced time weighting on a log scale;
- ◆ initially all responses would be included in the RBI model. As the RBI is established, a semi-stable list or 'club' of regular respondents (at the CEO/MD or Director of Finance level) would be developed;
- ◆ the number of assessments from any region would be regulated to ensure good representation of all regions in the RBI. The number of assessments might reflect the following guidelines:
 - 50% of the assessments from the top ten jurisdictions;
 - no more than 5% of assessments from any other single region.

Online survey

The survey should be brief to encourage a good response rate. It would be conducted continuously, but with a 'recruitment drive' twice a year, with a goal of at least 500 responses each time.

Next Steps

This note is designed to initiate conversation. Z/Yen is interested in exploring these issues further with all parties. Please contact Michael Mainelli, Director, Z/Yen Group Limited, Michael.Mainelli@zyen.com