



**Better
Regulation
Office**

Guidelines for estimating savings under the red tape reduction target

February 2012

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These Guidelines are designed to guide departments through the estimation of cost savings for the purposes of the NSW Government's \$750 million red tape reduction target.

The Guidelines supplement the *Measuring the Costs of Regulation* tool and associated policies as detailed in Premier's Memorandums 2009-20 and 2012-02 and in the *Guide to Better Regulation*.

INTRODUCTION

The NSW Government is committed to reducing regulatory costs for business and the community by 20 per cent by 30 June 2015, which has been estimated as requiring reductions in regulatory burden of \$750 million in annual terms by June 2015. The target took effect on 1 September 2011.

The red tape reduction target captures both regulatory and non-regulatory reforms and includes initiatives that have been implemented or announced by 30 June 2015. The savings delivered under the target will help achieve the Government's *NSW 2021* goal of increasing the competitiveness of doing business in NSW.

Government policy requires that all red tape reduction initiatives are costed and reported on an annual basis by Directors General. These Guidelines are intended to provide a tool to lead departments through the process of developing estimates of cost savings. It will help departments to:

- Ø decide whether an initiative falls within scope of the red tape reduction target;
- Ø decide on appropriate data and information sources to use in the estimation of savings, and the level of accuracy and effort expected; and
- Ø use appropriate methodologies to quantify savings.

The Guidelines do not assume a strong quantitative background and provide relatively simple yet robust methods to calculate cost savings. Several worked examples are included throughout to provide users with a more concrete understanding of the methods.

The Better Regulation Office is available to provide departments with assistance and advice in estimating and reporting savings. Departments working on significant initiatives should consider approaching the Better Regulation Office early in the development process. When seeking advice, departments are requested to fill out the Self Assessment Checklist (Attachment B) to the extent possible prior to contacting the Better Regulation Office.

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WHAT IS THE RED TAPE REDUCTION TARGET?

The aim of the red tape reduction target is to improve the regulatory environment in NSW and make the State more business friendly. Broadly, cost savings under the target include:

“any reduction in the costs imposed on business, not-for-profit organisations or the community arising from changes in government regulatory requirements or other government interactions that do not reduce the net benefits offered by the regulation or service”.

This includes savings from reducing the burden of meeting existing regulatory objectives or delivering existing service levels with a lower cost for the community. Accordingly, savings from the removal of obsolete or overlapping regulation are within scope of the red tape reduction target, as are the removal of regulations that are ineffective in the sense that their costs outweigh their benefits. Reducing the costs of interacting with government, for example through moving to online applications and registration, reducing waiting times for approvals or providing one-stop-shops, are also within scope.

Since business and the community may face regulatory costs from many potential sources, a broad range of initiatives and costs are considered to be within the scope of the red tape reduction target. Nonetheless, not all initiatives that reduce costs to business and the community may be counted and this section aims to provide more details on which initiatives will be considered. Whether a particular initiative falls within scope of the red tape reduction target depends on:

- i) the nature of the initiatives from which the savings will be derived;
- ii) the groups impacted by the changes; and
- iii) the categories of costs from within which the savings will be realised.

The remainder of this section clarifies these categories.

Initiatives within scope

The initiatives within scope may be generally separated into those that are regulatory and those that are non-regulatory. The section below outlines the initiatives included in each category.

Regulatory initiatives within scope

All regulatory initiatives are within scope, where regulation is defined as any compulsion, obligation, demand or prohibition placed on a business (including sole traders), not for profit organisation or individual, or their activities, by an Act, Regulation or other statutory rule. This includes ministerial orders, guidelines and planning instruments.

Examples of regulatory requirements that affect businesses or not-for-profit organisations include, but are not limited to:

- Ø compulsory licensing or registration of occupations or businesses/organisations;
- Ø prescribed qualifications, experience, or memberships of prescribed organisations;
- Ø provision of reports or information to regulators;

- Ø obligations to keep prescribed records and make them available for inspection;
- Ø the supply or display of prescribed information or notices by providers of goods and services;
- Ø the payment of a fee or charge to the Government or a third party, mandatory contribution to a trust, or the provision of a guarantee; and
- Ø obligations to obtain an approval.

Non-regulatory initiatives within scope

Non-regulatory initiatives or other transactions undertaken with government within scope include:

- Ø Procurement and grant applications – changes to the way a department engages external contractors or runs grant application processes, for example through streamlining tender procedures or raising the thresholds at which certain procurement processes are triggered.
- Ø Benefit payments – making access to benefit payments simpler. This could involve changes to the accessibility of information and simplifying application processes. Cost savings from sharing of information between government departments and changes to payment systems would also be considered.
- Ø Other government services – any other government service where there is an interaction with business or the community falls within scope of the initiative. This includes departments that:
 - Ø collect and disperse information to the public;
 - Ø are responsible for allocating licences and permits;
 - Ø provide publicly supplied services such as health centres or education institutions; and
 - Ø administer fines or other penalties.

It is important to note that only reforms initiated or implemented by the State Government are within scope. Any reform that is implemented cooperatively with other jurisdictions, for example through COAG, is considered within scope (to the extent that cost savings accrue to NSW businesses or the community) along with any reforms instigated by the State Government but administered by third parties (for example local governments' role in planning). Initiatives instigated by local governments are excluded, as is Commonwealth regulation.

Groups within scope

The red tape reduction target includes savings to all business, not-for-profit organisations and individuals within NSW.

Business – entities involved in producing goods or services for profit, including State Owned Enterprises (SOEs).

Not-for-profits – organisations which are not operating for the profit or gain of individual members, whether these gains would have been direct or indirect.

Volunteers – individuals involved in voluntary activities or organisations.

Individuals – private members of the community who interact with government or are impacted by regulation. This interaction may relate to both income-generating and non-income-generating activities. For example, the time taken for an individual to apply for a licence for recreational purposes is within scope.

Costs incurred by government departments responsible for administering regulations or providing services are not within scope. The focus of the initiative is on improving the efficiency and productivity of business and the community.

EXAMPLES OF INITIATIVES WITHIN SCOPE

→ A move by TAFE to online enrolments would be considered within scope as it reduces costs to individuals. Internal process efficiencies would not be within scope as no businesses or individuals directly gain from the cost savings.

→ A local government initiative to reduce permit application costs would not fall within scope as only State Government reforms are considered. Had this initiative been initiated by the State Government but administered locally it would be within scope.

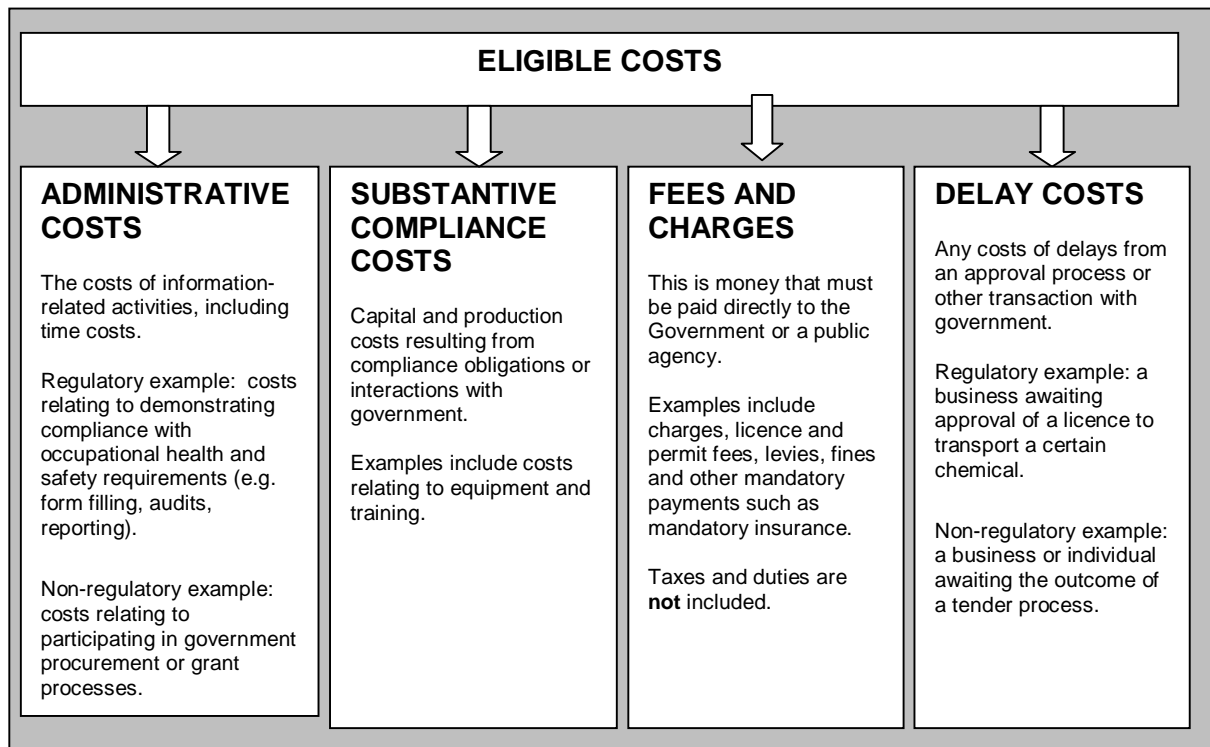
→ To reduce waiting times in a hospital's emergency room, the State Government proposes an extension of the existing hospital to accommodate more emergency patients. The time savings to patients cannot be considered a saving towards the target as this initiative relates to an increase in the level of service provision rather than a reduction in the cost of meeting existing service levels.

→ Government initiatives to improve labour skills or awareness are not within scope. Although business may benefit from a more highly skilled workforce, the savings do not relate to the costs of government-imposed compliance obligations or services.

Cost savings within scope

Cost savings within scope may be generally divided into those which relate to regulatory requirements (regulatory costs) and those which relate to interactions with government (non-regulatory costs). Both focus on the expenditure and implicit time costs involved in these interactions.

Eligible costs under the red tape reduction target include: administrative costs, substantive compliance costs, regulatory fees and charges, and delay costs. The following diagram provides an overview of the different categories of costs and provides a brief explanation of each type of cost.



These cost categories are narrower than what might come under the umbrella of ‘regulatory burden’ which would also include indirect costs such as those arising from changes to market structure or levels of competition, and social and environmental costs. Such indirect costs are excluded from the calculation of savings towards the red tape reduction target.

EXAMPLE

A regulation that prohibits the sale of low efficiency refrigerators and requires labelling of energy ratings is removed as it duplicates a new national-level energy efficiency scheme. The savings to NSW businesses from no longer being required to label appliances can be counted as a cost saving towards the target. The gains to consumers from wider product choice or changes in the level of competition cannot be counted.

WHAT ARE ANNUAL SAVINGS?

The red tape reduction target is a measure of the annual, ongoing cost savings from initiatives when fully implemented. If the savings take time to be fully realised, for example through incomplete take up in initial years, the per annum cost savings once the initiative is fully implemented should be quantified, as illustrated in the example below.

Also note that:

- Savings must be offset by any additional costs to business and the community resulting from the particular initiative.
- Where cost savings are one-off or time-limited, this should be reported.
- Depending on the circumstances, it may also be useful to report costs in a different manner (for example, per business, per process) in addition to a total basis.

EXAMPLE

An initiative is approved in 2012 and will be implemented from 2013. Because of the time taken for businesses to transition to the new process, the savings from this initiative will not be fully realised until 2016. The department estimates that the savings in 2013 will be \$500,000 and these will ramp up to \$900,000 by 2016. The estimates should be reported as follows:

Year	2012	2013	2014	2015	2016
Savings	\$ -	\$500,000	\$600,000	\$750,000	\$900,000

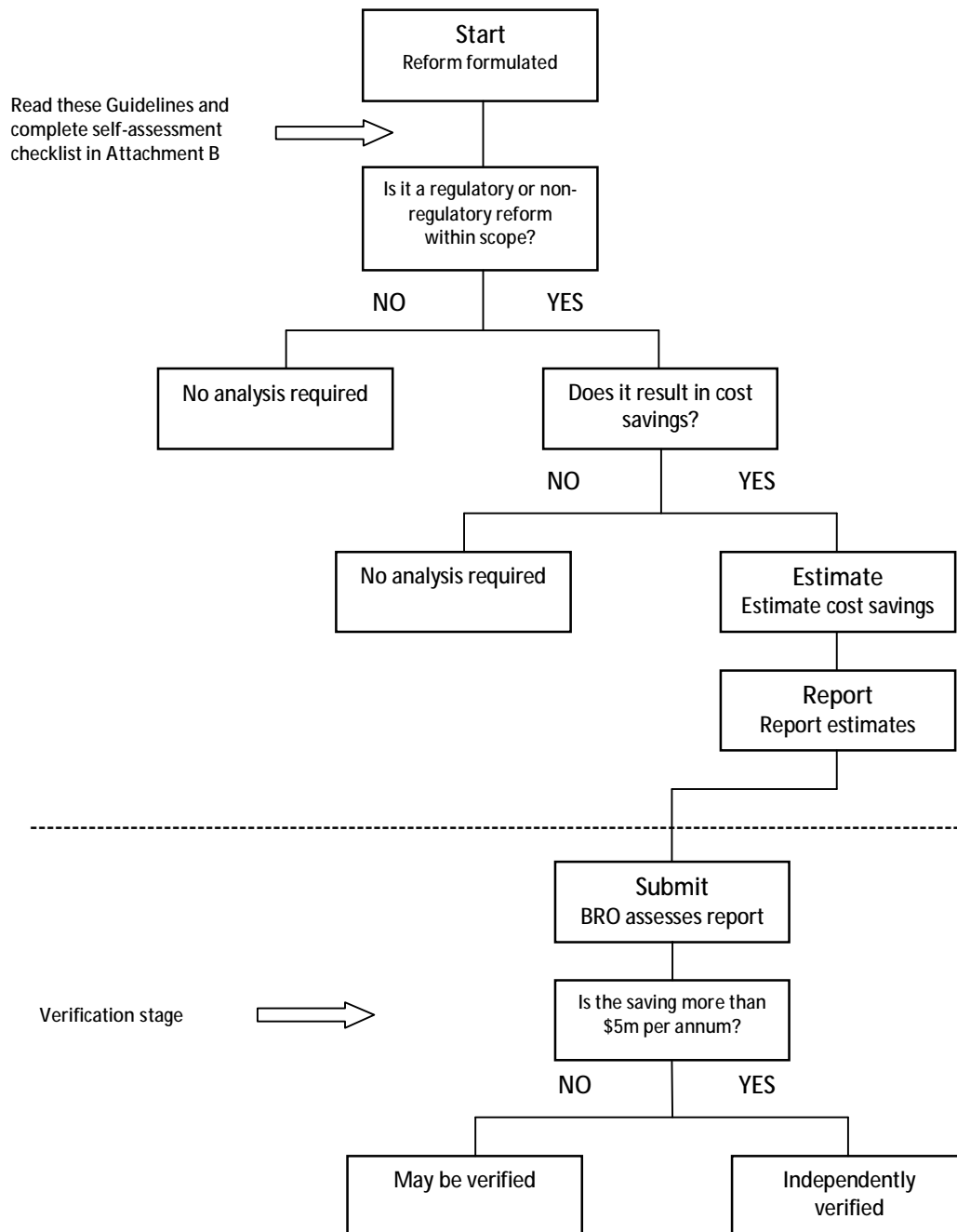
It should be clearly reported that \$900,000 is the annual cost saving once fully implemented. This is therefore the saving that should be reported for the purposes of the red tape reduction target.

The cost savings should be estimated and reported in the department's 2012 calendar year report.

As outlined in Premier's Memorandum 2012-02, the cost savings from all eligible initiatives must be quantified and reported to the Better Regulation Office on an annual basis. In addition, all proposals submitted to Cabinet or the Executive Council that include eligible cost savings must include quantification of those savings at the time they are submitted.

COST ESTIMATION PROCESS

Estimating savings for the purposes of the red tape reduction target is intended to be a simple process whereby departments quantify the regulatory and non-regulatory initiatives that have been implemented or announced over the course of a calendar year. Departments are encouraged to contact the Better Regulation Office if they are unsure whether their initiative is within scope or need clarification on any aspect of the process. In addition, Attachment B of these Guidelines provides a self-assessment checklist to assist agencies in working through the process, particularly in identifying the cost savings and to whom the savings will accrue. The figure below provides the steps involved in completing an analysis of cost savings towards the target.



All estimates reported need to provide a reasonable representation of the savings delivered by the initiative. Initiatives with estimated savings greater than \$5 million per annum will be independently verified, as will a sample of reports with estimated cost savings less than \$5 million per annum.

The next section provides general principles agencies should follow when conducting the estimation exercise.

GENERAL PRINCIPLES IN ESTIMATING SAVINGS

The red tape reduction target should lead to reasonable and reliable estimates of the cost savings to NSW business, not-for-profits and the community from implemented or announced initiatives. The exercise is not intended to impose a significant burden on departments required to undertake a saving estimation, and these Guidelines are intended to provide simple and easy-to-follow estimation methodologies. Nonetheless, departments are required to provide estimates that are defensible and provide reasonable bounds of accuracy. The degree of accuracy and effort required will depend on the particular initiative, including the size of its impacts and the availability of data with which to estimate cost savings. Larger initiatives will typically require more evidence in support of the measurements.

General principles that should be followed in estimating cost savings towards the red tape reduction target include:

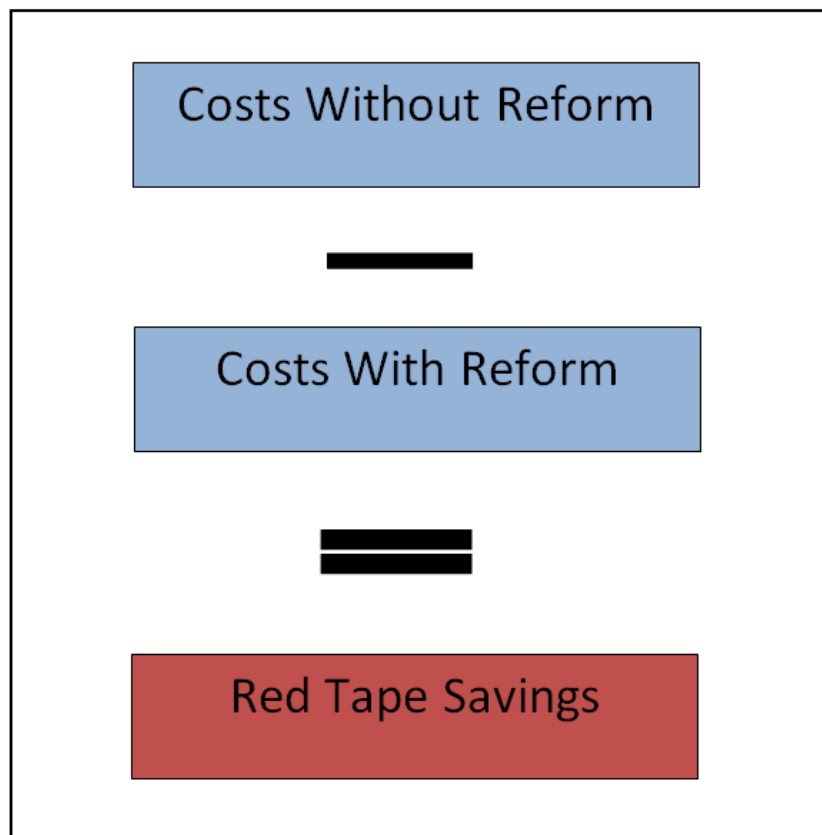
Principle	What is required of you
Cost savings are indicative estimates	Cost savings reported under the target are intended to be realistic estimates. The actual savings will never be certain and it is important that uncertainties are highlighted. Where relevant, a high-low estimate range should be presented around the central figure.
Present cost savings transparently	Recurrent savings should be presented as annual figures wherever possible: i.e. the savings that will be imposed over a full 12-month period once the initiative is fully implemented. Savings that are one-off or only apply for a limited period of time should be clearly presented as such.
Clearly state all assumptions and data sources	The assumptions and data source made in the calculations must be clearly stated. The basis for each assumption should also be explained.
Proportionality of effort	The effort and resources used to measure the cost savings should be proportional to the expected impact and scope of the savings.
Consistent methodology	The methodology should be applied consistently across all cost savings estimates.
Avoid double-counting	Care should be taken not to double-count the cost savings.
Consultation	Consultation about costs with relevant stakeholders is recommended. Where possible, a variety of sources of information should be used to ensure the claimed savings are reasonable and representative.

These principles will also be applied when independently verifying cost savings. Agencies should contact the Better Regulation Office if they are uncertain about how these principles apply to an initiative.

SAVING ESTIMATION METHODOLOGIES

This section outlines methodologies that departments can use to estimate savings under each category of cost savings. The approach used is standard to valuation processes used for cost-benefit analysis or regulatory impact assessment exercises. It involves considering two scenarios: the costs businesses and individuals face without the reform (the baseline scenario) and the costs that would

be faced with the reform in place. The difference in costs between the two scenarios is the cost saving.



In practice, this will not usually mean estimating all costs that businesses face, as many of these will be incurred both with and without the reform. Hence, it will generally only be necessary to identify the areas of the business that will be affected by the initiative and place dollar values on the changes to those activities, disregarding the other activities of the business not affected.

Regardless of the cost type, the simple formula '*Cost Savings = Unit Cost Savings x Frequency x Population*' can generally be used. This involves estimating a 'unit cost savings' which is the cost saving per activity under consideration (e.g. per data collection or training exercise). This is then scaled up by the 'frequency' (the number of times per year the activity is undertaken per business or individual) and the 'population' (the number of businesses or individuals affected).

The following four steps outline the basic process:

- Ø Step 1 – identify all activities that will be affected by the initiative;
- Ø Step 2 – estimate the cost savings within each activity;
- Ø Step 3 – identify the size of the population affected; and
- Ø Step 4 – sum the cost savings of all activities across all affected businesses or individuals.

The sections below outline this process for the different cost groups and provide some worked examples.

Administrative costs

Administrative costs are also known as paperwork costs. They are incurred when demonstrating compliance with a regulation (e.g. by providing information to a regulator or making and keeping certain prescribed records) and through information-related activities such as completing and lodging forms and applications. Administrative costs may apply to either businesses or individual members of the community. The costs of making a payment transaction (e.g. the cost of the time required to complete an over-the-counter payment transaction at the office of a regulator) but not the payment's value should be included as an administrative cost. The payment's value is a regulatory charge cost.

Administrative costs also include circumstances where a reporting obligation is legislated that directly requires the provision of information to a third party, e.g. the provision of an annual compliance report to a standard setting body external to the NSW Government (e.g. Food Standards Australia New Zealand).

Administrative cost savings to business and the community may be realised through reforms which:

- Ø move from paper to electronic applications or information collection;
- Ø consolidate separate administrative tasks into a single task; or
- Ø place the administrative burden on the regulator.

Effective consultation should make the measurement of administrative cost savings relatively straight-forward since business, not-for-profit organisations, government departments, and individuals can provide information on appropriate wage rates and the time it takes to perform the various tasks necessary to comply with regulation or interact with government.

When estimating the cost savings for a particular initiative, agencies should as a first step identify all tasks which will be affected or removed after the initiative is in place. The next step would be to place a time and dollar value on each of these tasks to identify the cost savings that will flow to the business. A total per annum cost saving once the reform is fully implemented should be presented for all proposals.

Cost savings element	Definition
Annual Administrative Cost Savings	Unit Cost Savings x Quantity (where Unit Cost Savings = inputs x time saving and Quantity = population x frequency)
Inputs	wages costs, overheads and non-wage costs or the cost of an external service provider (hourly)
Time saving	Difference in the time required to complete the activity (in hours) with or without the reform
Population	The number of businesses/individuals affected
Frequency	The number of times the activity is completed each year

In the absence of more specific information, departments may wish to use the default NSW economy-wide hourly labour rates / value of time costs detailed in Attachment A. These rates include detailed hourly time costs that are also suitable for calculations involving leisure time, volunteers and unemployed people. The rates are suitable for use in the 2011-12 financial year and will continue to be updated in July each year. It should be noted that the default rates exclude overheads. Departments should also endeavour to consult with businesses where possible to collect specific information regarding the hourly wage of the staff that undertake relevant administrative activities.

EXAMPLE

A regulator currently requires businesses to report their prices, sales and employment information semi-annually. In addition, reporting is required once a year to a separate standards-setting agency on details of the products sold. The relevant Department decides that the regulator only requires data relating to price and that the information submitted to the regulator and standards-setting agency could be merged into a single lodgement.

A sample of 20 businesses were consulted to inform the following data assumptions.

Data and assumptions

- Departmental data indicates there are 100 businesses within the industry across NSW.
- Removal of the requirement to report sales and employment data will save around 10 hours per annum for administrative staff.
- Consolidating the reporting into a single exercise will save a further 5 hours per annum.
- The hourly wage of an administrative worker is \$27.70 and the employment on-cost multiplier is 1.75 (based on default values in Attachment A).

Calculations

- Time savings: $100 \text{ businesses} \times (10+5) \text{ hours per year} \times \$27.70 \text{ hourly wage} \times 1.75 \text{ employee on-cost multiplier} = \$72,713$

Total savings towards the red tape reduction target = \$72,713 per annum

Substantive compliance costs

Substantive compliance costs are largely related to the capital and production costs that are required by a regulation or to interact with government. These costs can be associated with specific requirements for business, the community or the not-for-profit sector to buy new equipment, maintain equipment, produce goods or services to particular standards and undertake specific training in order to meet government regulations. This category would also include the costs of producing publications for third parties that are required by regulation.

Substantive compliance cost savings to business and the community may result from initiatives where:

- Ø certain equipment is no longer required to be purchased;
- Ø the Government provides the training required to meet new standards; or
- Ø the Government removes restrictions on the particular goods sold in an industry, for example by moving from mandatory product standards to product efficiency labelling.

Consultation with relevant stakeholders should make estimating cost savings reasonably straight-forward. For example, estimates of the amount of equipment or training costs that will be saved under an initiative can be sought directly from business. However, departments should also be able to research the likely costs of attending training or buying the relevant equipment. These costs may be one-off or ongoing costs.

Cost savings element	Definition
Annual Substantive Compliance Cost Savings	Unit Cost Savings x Quantity (where Quantity = population x frequency)
Unit Cost Savings	Difference in cost of training, equipment or other expenditure with and without the reform
Population	Number of businesses/individuals affected
Frequency	Amount of training or equipment required each year

It is important to note that capital investments will often have a life of several years meaning that the annual depreciation cost needs to be accounted for. The straight-line method of depreciation should be used, whereby the total cost of the asset should be divided by its useful life to arrive at a constant annual depreciation cost. As a rough guide, effective lives of most assets can be obtained from the Australian Taxation Office website (www.ato.gov.au).

EXAMPLE

A food standards regulation is reformed to remove the requirement that farmers spray all root vegetables to remove harmful bacteria prior to sale and instead require that spraying be done by wholesalers. The reform transfers the burden of a particular regulatory requirement from farmers to wholesalers.

Data and assumptions

- Departmental data indicates there are 200 farms across NSW producing root vegetables commercially.
- The required spraying equipment typically costs in the range of \$16,000 to \$20,000 (based on desk-top research) so an average cost of \$18,000 is assumed.
- The average lifespan of the equipment is 3 years (based on consultation with farmers) so the annual depreciation cost using the straight-line method is $\$18,000/3 = \$6,000$.
- The cost of spray and other necessary expenses is around \$500 per farm per year (based on consultation with farmers).
- It is assumed that spraying by farms and wholesalers takes on average 1 hour per 2 tonnes of product.
- Each farm produces 200 tonnes of product per year and the same amount of product is consumed in NSW as is produced (40,000 tonnes).
- There are around 10 wholesalers in NSW that will be affected by the new requirement. The capital costs for new equipment will be around \$60,000 per business per year, so the annual depreciation cost using the straight-line method is $\$60,000/3 = \$20,000$. The cost of spray and other necessary expenses is around \$5,000 per wholesaler per year (based on consultation with business).

- The hourly wage rate is \$24.60 and the employment on-cost multiplier is 1.75 (based on default values in Attachment A).

Calculations

Savings to farmers:

- Substantive compliance costs: 200 farms x (\$6,000 depreciation cost + \$500 spray and other expenses) = \$1,300,000
- Time savings: 200 farms x 100 hours (1 hour per 2 tonnes x 200 tonnes of product) x \$24.60 hourly wage x 1.75 employee on-cost multiplier = \$861,000
- Total cost savings to farmers = \$1,300,000 + \$861,000 = \$2,161,000 per annum

Additional costs to wholesalers:

- Substantive compliance costs: 10 wholesalers x (\$20,000 depreciation cost + \$5,000 spray and other expenses) = \$250,000
- Time costs: 1 hour per 2 tonnes x 40,000 tonnes of product x \$24.60 hourly wage x 1.75 employee on-cost multiplier = \$861,000
- Total additional costs to wholesalers = \$250,000 + \$861,000 = \$1,111,000 per annum

Total savings towards the red tape reduction target: \$2,161,000 - \$1,111,000 = \$1,050,000 per annum

Note: Farms may also differ in size and therefore the amount of equipment needed. Where this difference is substantial, the calculation could divide the 200 farms into cost groups to increase the accuracy of the estimate.

Fees and charges

These are charges which allow departments and regulators to recover the costs they incur in administering and enforcing regulations. While government costs are excluded from scope, to the extent that they are passed on to business and individuals in this manner they may be counted as cost savings towards the red tape reduction target.

Reductions in fees and charges are the easiest type of costs to calculate as they are known to government, and departments are likely to have access to data to provide reasonably reliable estimates of the number of individuals, businesses or not-for-profit organisations that would be liable for the fee or charge (since this information is required in setting the initial fee or charge).

Cost savings element	Definition
Annual Fees and Charges Savings	Unit Cost Savings x Quantity (where Quantity = population x frequency)
Unit Cost Savings	Difference in the cost of the fee/licence/permit with and without the reform
Population	Number of businesses/individuals affected
Frequency	Number of times the fee or charge is required to be paid each year

EXAMPLE

As a result of reforms in the water industry, water connection charges for new premises have been reduced.

Data and assumptions

- Data from the regulator reveals that 9,000 businesses and 30,000 households will be affected by the new pricing.
- Business connection fees will reduce from \$100 to \$85.
- Household connection fees will reduce from \$75 to \$65.

Calculations

- Business savings: $(\$100 - \$85) \times 9,000 = \$135,000$
- Household savings : $(\$75 - \$65) \times 30,000 = \$300,000$

Total savings towards the red tape reduction target: $\$135,000 + \$300,000 = \$435,000$ per annum

Note: changes in regulatory charges may result in changing levels of activity as individuals or businesses increase consumption due to a lower price. Where this is likely to occur, the calculations should be based on the initial level of activity, prior to the price reduction.

Delay costs

Regulatory or administrative delays can impose significant costs on businesses and individuals through lost revenue and other costs. An example of this cost would be the capital holding costs incurred by a business associated with delays in gaining approval. Where an application for a permit takes time to approve, there is a holding cost on the amount of money already invested in the project.

Streamlining and harmonisation have been a particular focus of governments in recent years and may result in reduced delay costs where:

- Ø departments are required to process applications within a set period;
- Ø the quantity of material required for an application is reduced, allowing faster processing; or
- Ø there is significant change to an approval process, for example to the process for handling objections.

Cost savings element	Definition
Annual Delay Costs Saving	Unit Cost Savings x Quantity x Population
Unit Cost Savings	Average value of assets (land, capital, labour) to which holding costs apply x (annual interest rate/365)
Quantity	Average difference in delay (in days) to process or gain approvals with or without the reform
Population	Number of businesses/individuals affected

Departments should endeavour to decide the most appropriate interest rate to apply in each case. Consultation with stakeholders may reveal the borrowing costs they face. As a default, a rate of 7% should be applied.

EXAMPLE

A State-level working group on investment identifies the time taken on processing development approvals (DAs) by local governments as a potential disincentive for investment in NSW. It decides that a limit should be placed on councils setting a maximum assessment time for DAs of 20 days. This is a vast improvement over the 70 day average which councils currently take to process applications.

Data and assumptions

- Average processing time will be reduced from 70 days to 20 days (savings: 70 – 20 = 50 days).
- Local government data indicates that the average value of a development for which approval is sought is \$1 million.
- Local government data indicates that around 1,000 DAs are lodged each year.
- The default discount rate of 7% is applied.

Calculations

Delay cost savings: $(50/365 \text{ days}) \times \$1,000,000 \text{ average development value} \times 7\% \text{ default discount rate} \times 1,000 \text{ DA's lodged per year} = \$9.6 \text{ million per annum}$

Total savings towards the red tape reduction target = \$9.6 million per annum

Note: although this initiative is implemented by local governments, it was initiated at the State government level and hence is within scope of the red tape reduction target.

USEFUL DATA SOURCES

Although the cost saving estimation procedures discussed above are relatively simple, they may be data intensive. Departments undertaking cost savings estimates must source data to populate the calculations and this data may come from several sources, including:

- Ø Australian Bureau of Statistics (ABS) – useful data from the ABS includes information on the numbers of businesses (by size) in different industries and salaries and capital expenditure.
- Ø Internal data – departments and regulators will typically collect relevant information, such as the number of businesses affected by regulation and their characteristics. Relevant information may also be taken from a regulatory impact assessment, business case or related exercises.
- Ø Desktop research – a quick desktop search exercise may reveal similar activities undertaken in other jurisdictions or can be used to find appropriate parameters to use for the case at hand.
- Ø Stakeholder consultations – often it will be necessary to consult with stakeholders to assess the extent and burden of their compliance activities.

- Ø Time-and-motion studies – for larger initiatives it may be useful to conduct a time-and-motion study to more accurately estimate the actual costs involved in conducting tasks covered by the initiative. Such a study would ask a sample of a business' staff to record the time spent on particular tasks that would no longer be required under the reform.

In addition, Attachment A provides some useful initial parameter values, including average hourly labour cost rates across occupations and for leisure time, volunteers and unemployed people, together with on-costs. Where departments want to tailor these estimates to more closely reflect the industry under consideration they are encouraged to do so, providing these estimates can be supported by evidence.

While consultation is often useful, it may not be necessary for all estimates and is not mandatory. Nonetheless, departments are encouraged to seek stakeholder support for an initiative and assistance in verifying estimates before they are reported.

ATTACHMENT A - DEFAULT VALUES FOR LABOUR COSTS AND TIME

This attachment provides some standard values that agencies might find useful in costing savings. It also provides information on on-cost, leisure time and unemployed time assumptions.

Departments are encouraged to use separate values to what is presented below if doing so would improve the accuracy of the estimates produced. Stakeholders are likely to be good sources of accurate data and have the most up-to-date information related to their business.

Default hourly labour and time cost rates (2011-12, excluding on-costs)

The wage data below is based on the most recent rates published by the ABS.

Economy-wide default rate for NSW \$32.20/hr

By Occupation¹

- Managers	\$42.70
- Professionals	\$41.50
- Technicians and trade workers	\$30.70
- Community and personal service workers	\$28.40
- Clerical and administrative workers	\$27.70
- Sales Workers	\$26.40
- Machinery operators and drivers	\$30.10
- Labourers	\$24.60

Employee on-cost multiplier

The costs of staff are their hourly wage scaled up by the overheads and other costs that their employment entails. The default employee on-cost multiplier of 1.75 should be used. That is, a staff member with an hourly wage of \$32.20 would have an effective cost of $32.20 \times 1.75 = \$56.35$ per hour once the adjustment for overheads and other costs is made.

The value of leisure and unemployed time

Individuals place a value on their time even if they are not directly paid for it. Where initiatives result in time savings to individuals not in the course of their employment, or to unemployed individuals, this leisure time or unemployed time saving should be valued at half of their hourly wage. The employee on-cost multiplier should not be included. For example, an employed technician applying for a recreational boating licence should have their leisure time valued at $0.5 \times \$32.20 = \16.10 . For unemployed people, half of the economy-wide default rate for NSW should be applied.

¹ Hourly labour cost rates by occupation are based on national averages from ABS Cat. No. 6306 *Employee Earnings and Hours*, 10. Average weekly cash earnings and hours paid for: Full-time non-managerial adult employees, Ordinary Time, Persons, by occupation, <http://abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/6306.0May%202010?OpenDocument>.

ATTACHMENT B - SELF-ASSESSMENT CHECKLIST

COST SAVINGS – SELF-ASSESSMENT CHECKLIST

Step 1 - Is the initiative within scope?

Is this initiative a regulatory change.....Yes No

Is this initiative a valid non-regulatory change.....Yes No
(i.e. is the initiative reducing the cost of interacting with government?)

If you ticked 'Yes' you will need to estimate the cost savings in accordance with the Guidelines.

Step 2 – When should the measurement be undertaken?

Will the initiative be submitted to either Cabinet or the Executive CouncilYes No

If you ticked 'Yes' you will need to estimate the cost savings at the time of submission. You will also need to report the cost savings in the annual report to the Better Regulation Office.

If the initiative has not been submitted to either Cabinet or the Executive Council, has it otherwise been approved by the GovernmentYes No

If you ticked 'Yes' you will need to estimate and report on the cost savings in the annual report to the Better Regulation Office for that calendar year.

Step 3 - Who will be affected?

Will businesses and not-for-profit organisations face lower costs as a result of this initiative.....Yes No

Identify how many businesses will be impacted

Businesses: _____

Not-for-profits: _____

Will individuals face lower costs as a result of this initiative.....Yes No

Identify how many individuals will be impacted

Individuals (volunteers): _____

Individuals (revenue generating): _____

Individuals (leisure activities): _____

Step 4 - How will businesses and/or individuals be affected?

(Answer all questions below)

Will the initiative result in time-savingsYes No

If you ticked 'Yes' you will need to measure the administrative cost savings – see Step 5

Will businesses/individuals save on capital expenditureYes No

If you ticked 'Yes' you will need to measure the substantive compliance cost savings – see Step 6

Will businesses/individuals pay reduced fees or chargesYes No
If you ticked 'Yes' you will need to measure the fees and charges cost savings – see Step 7

Will businesses/individuals face reduced delays in their activitiesYes No
If you ticked 'Yes' you will need to measure the delay cost savings – see Step 8

Step 5 – Measuring administrative cost savings

Population: Identify the number of businesses/individuals impacted _____ (from Step 3)

Frequency: Identify the number of times per annum the activity is undertaken _____

Inputs: Consider if default value for labour cost is appropriate or identify appropriate rates _____

Time: Estimate the amount of time savings achieved by the initiative _____

Per annum administrative cost savings: Calculate per annum cost savings = (inputs x time saving) x (population x frequency) _____

Step 6 – Measuring substantive compliance cost savings

Population: Identify the number of businesses/individuals impacted _____ (from Step 3)

Frequency: Identify the training /equipment required per annum _____

Unit cost savings: Estimate the reduction in cost of training/capital/other relevant expenditure _____

Per annum substantive compliance cost savings: Calculate per annum cost savings = (unit cost savings) x (population x frequency) _____

Step 7 – Measuring fees and charges cost savings

Population: Identify the number of businesses/individuals impacted _____ (from Step 3)

Frequency: Identify the number of times the fee is charged per annum _____

Unit cost savings: Identify the reduction in cost of the fee/licence/permit _____

Per annum fees and charges cost savings: Calculate per annum cost savings = (unit cost savings) x (population x frequency) _____

Step 8 – Measuring delay cost savings

Population: Identify the number of businesses/individuals impacted _____ (from Step 3)

Quantity: Identify the average reduction in delay (in days) _____

Unit cost savings: Estimate the average value of assets affected by the delay _____

Per annum delay cost saving: Calculate per annum delay cost savings = (unit cost) x (population) x (quantity/365) x annual interest rate _____