The One-for-One Rule

Measuring and Controlling the Growth of Administrative Burden Costs on Business in the Canadian Federal Regulatory System

Society for Benefit Cost Analysis 8th Annual Conference and Meeting
Timothy Folkins, Senior Advisor
Treasury Board of Canada Secretariat, Regulatory Affairs Sector
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1. Cost-Benefit Analysis and The One-for-One Rule

Controlling Regulatory Administrative Burden
The CDRM, the current policy directive for development of regulations in Canada, commits the Canadian government to:

- “Protect and advance the public interest by ensuring that its regulatory activities result in the greatest overall benefits to current and future generations of Canadians”
- “Advance the efficiency and effectiveness of regulation by ascertaining that the benefits of regulation justify the costs, by focusing human and financial resources where they can do the most good, and by demonstrating tangible results for Canadians”

These commitments are partially fulfilled by a long standing requirement for regulatory proposals to be supported by CBA

- Level of analysis guided by the principle of proportionality—analysis should be focused where it is most needed

This helps inform the decision of which among multiple options maximizes net benefits to Canadians, and ensures that the benefits of regulation justify the costs.
Impetus for the One-for-One Rule

• In 2011, national consultations revealed business frustration with:
  – Unnecessary administrative burden creeping into the federal regulatory system
  – Regulators not refining and focusing their demands to ensure that the information they were requesting was essential to meeting a regulation's objective

• A recommendation was made that a “One-for-One” Rule to reduce regulatory administrative burden be introduced

“Every time the government proposes a new regulation, it must eliminate at least one existing regulation as well as the equivalent costs in administrative burden so as to ensure a zero net sum approach”

- Recommendations Report - Cutting Red Tape...Freeing Business to Grow (Jan 2012)
One-for-One Rule Objective

The one-for-one rule controls administrative burden (AB) on business resulting from regulatory changes*

- Limit growth of administrative burden on business
- Eliminate unnecessary regulations

Rule implementation will not compromise public health, public safety or the Canadian economy

*A regulatory change is defined as a new regulation, an amendment to an existing regulation, or removal of an existing regulation
Description of the Rule

• History and Scope
  – Applies to federal regulatory changes imposing new incremental AB on business
  – Introduced through federal regulatory policy in April, 2012 (CDRM)
    • Cabinet Directive commits Government of Canada to “Monitor and control the administrative burden (i.e., red tape) of regulations on business and be sensitive to the burden that regulations place on small business”
  – Enshrined in Legislation by the Red-Tape Reduction Act on April 23, 2015 and supporting regulations

• Rule Requirements

1. Reduce existing AB on business equal to new burden imposed
2. Remove an existing regulation each time a new one imposing AB on business is introduced
3. Monitor & report results to the public
4. Cost estimates of Administrative Burden from the one-for-one rule must be included in the cost-benefit analysis report where applicable

Regulatory requirements under the legislation specify the manner of calculating the cost of an administrative burden, timeframe for offsetting, and conditions for exemption.

Controlling Administrative Burden Growth

How it works:

• When there is an IN, department / agency is required to offset imposed AB* with equivalent AB reduction from one or more OUTs within 24 months (can be from previously banked OUTs)

*In certain circumstances, the government of Canada can exempt a regulation from the requirement to offset. This can occur in three cases:

1. The regulation is related to tax or tax administration.
2. Canada has no discretion regarding the requirements that must be included in the regulation due to international or legal obligations.
3. The regulation is deemed to be emergency, unique or exceptional circumstances, including where compliance with the Rule would compromise public health, public safety or the Canadian economy.
Under the Rule, Administrative Burden is...

- Administrative burden means anything that is necessary to demonstrate compliance with a regulation, including the collecting, processing, reporting and retaining of information and the completing of forms. **Examples of administrative burden relief include:**

  $1.5$ million cost reduction for vehicle importers by eliminating the need to submit vehicle or engine identification numbers (VINs) and the dates they imported the vehicles as part of shipment declarations. Importers are now only required to submit one importation declaration to the Minister of Environment per year.

  Fisheries and Oceans Canada provided fishers with $152\text{ K}$ of relief by eliminating rules that require fishers to identify their fishing gear and vessels using marking devices (e.g., tags) supplied by the department. Replacing a gear tag required completing and submitting a form in person to a Fisheries and Oceans Canada office.

  A savings of $15$ million by Health Canada for pharmacists by enabling paper work to transfer prescriptions be done by pharmacy technicians rather than solely by pharmacists (savings from wage deferential).

  Aboriginal Affairs and Northern Development Canada saved mining companies a net of $618\text{ K}$ by allowing for a simplified and electronic submission of licencing application for mining in Nunavut and the Northwest Territories.

* All values are annualized measured in 2012$\$ and discounted to a base year of 2012. Costs incurred as a result of non-compliance are not considered administrative burden.
Under the Rule, Administrative Burden isn’t...

Compliance costs incurred by businesses as a direct result of actions taken to meet regulatory objectives: Up-front capital costs as well as ongoing maintenance and training costs that businesses face when complying with regulatory requirements which contribute directly to achievement of outcomes.

Example: Although reporting pollution emission would be considered administrative burden, installing a pollution control device (scrubber etc.) would instead be considered a direct compliance cost.

Taxes, fees, levies and other charges, because they constitute transfers from one group to another, are not considered to be compliance or administrative costs.

Some requirements have both administrative and compliance cost elements
• A requirement to maintain records could include:
  - compliance costs to purchase computers, software, or filing cabinets to hold records, and
  - an administrative burden costs to file, retrieve, format and report information as required.
2. The Standard Cost Model and the Regulatory Costing Calculator

• Calculating Administrative Burden Costs
The Standard Cost Model (SCM) is designed to measure the administrative consequences for businesses. It was developed in the Netherlands and has been widely used by the OECD, the World Bank and in the EU.

The SCM has been developed to provide a simplified, consistent method for estimating the administrative costs imposed on business by central government. It takes a pragmatic approach to measurement and provides estimates that are consistent across policy areas.

The SCM method is a way of breaking down regulation into a range of manageable components that can be measured. The SCM does not focus on the policy objectives of each regulation. It focuses only on the administrative activities that must be undertaken in order to comply with the regulation.

SCM – The Basic Formula

- **Price**: Price consists of:
  - **Tariff (cost of labour)**: wage costs plus overhead for administrative activities done internally or hourly cost for external service providers.
  - **Time**: the amount of time (in hours) required to complete the administrative activity.

- **Quantity**: Quantity is comprised by:
  - the **size** of the population of businesses affected and,
  - the **frequency** that the activity must be completed each year

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**KEY POINT**

The standard cost model was designed to measure an existing stock of AB. The one-for-one rule in Canada is intended to measure changes in AB and be incorporated into cost benefit analysis. This has necessitated some adjustments to the basic SCM model such as discounting and forecasting.
...the cost of the administrative burden imposed by a regulation is the sum of the cost of each activity expected to be completed during the first 10 years after the regulation is registered and is calculated in accordance with the following formula:

\[ A \times 0.142378 \div 1.07^{B-2012} \]

To allow comparisons of INs and OUTs across time, all costs are discounted to a base year of 2012.

TBS recommended discount rate of 7%

1 + Discount Rate = 1.07

Where

- A is the activity cost which is the sum of the cost for each activity for each period, calculated in accordance with the below formula
- B is the year that the regulation is registered
A = C \times D \times E \div 1.07^F \div G

Where

• C is the estimated hourly cost of labour in a period so that a business is able to complete the activity imposed by the regulation within that period;

• D is the estimated number of hours ...;

• E is the estimated number of affected businesses ...;

• F is the specific period out of the total number of periods... (times per year * number of years); and

• G is the number of times that the activity is required to be completed per year;

All costs are normalized by frequency – each activity occurs once over a period. The length of a period is adjusted according to frequency.
Consultations on Cost Parameters

- Long-standing government policy requirement for meaningful consultations with affected stakeholders & Canadians on regulatory changes that impact them

Departments are to consult regarding INs & OUTs prior to seeking approval to publish draft regulations.

This ensure stakeholders are engaged, their views are considered & there is an opportunity to challenge administrative burden estimates and underlying assumptions.

- Example: Transport Canada made amendments that required 28 federal railway companies to collect, extract, validate and submit information electronically on 15 leading indicators of railway safety.

  - Initial assumptions of the number of hours per indicator for data conversion, extraction, validation and submission were discussed with CN, CP, VIA Rail and the Railway Association of Canada. Estimates were subsequently updated in response to written submissions.

  - The resulting total administrative burden to companies was estimated to have a present value of $1,279,586 over a 10-year period, which corresponds to an annualized value of $148,717.
Regulatory Costing Calculator

• Treasury Board of Canada Secretariat - Regulatory Affairs Sector (similar to Office of Information and Regulatory Affairs) developed the Calculator to enable implementation
  – Adapted from the "Regulatory Cost Model", developed by the Government of Alberta, Regulatory Review Secretariat.

• It is the required tool to estimate AB. A Microsoft Excel application using embedded formulas, forms and Visual Basic for Applications (VBA) code to:
  – automate and facilitate the calculation of AB for departments and agencies,
  – ensure AB is calculated according to required methodology, and
  – standardize the format of calculations, making it easy for central agency to perform challenge and oversight functions.

LET'S TAKE A QUICK LOOK
A regulation has been proposed to ensure safe operation of self-driving vehicles (SDV) across provincial and international boundaries.

100 Car Dealerships are expected to retail SDV.

400 Transport Companies will use SDV interprovincially and internationally.

The number of Dealerships and Transport Companies will increase at 10% per year.
Fictional

Regulation Activity 1: Register Dealerships

Each dealership must register immediately when the regulation becomes law. Registration takes 3 hours to complete, is done at a wage equal to the Canadian average, is done by 100 businesses, and occurs once for existing businesses and then every year for new entrants (Frequency = 1).

<table>
<thead>
<tr>
<th>Year</th>
<th>Period (F)</th>
<th>Cost of Labour (C)</th>
<th>Hours to Complete (D)</th>
<th>Businesses Impacted (E)</th>
<th>Cost - C x D x E</th>
<th>Discounted Cost - C x D x E ÷ 1.07^((F ÷ G)</th>
</tr>
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<tbody>
<tr>
<td>2016</td>
<td>0</td>
<td>$32</td>
<td>3</td>
<td>100</td>
<td>$9,450</td>
<td>$9,450</td>
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<td>2016</td>
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<td>$32</td>
<td>3</td>
<td>10</td>
<td>$945</td>
<td>$883</td>
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<td>2018</td>
<td>3</td>
<td>$32</td>
<td>3</td>
<td>12</td>
<td>$1,143</td>
<td>$933</td>
</tr>
<tr>
<td>2019</td>
<td>4</td>
<td>$32</td>
<td>3</td>
<td>13</td>
<td>$1,258</td>
<td>$960</td>
</tr>
<tr>
<td>2020</td>
<td>5</td>
<td>$32</td>
<td>3</td>
<td>15</td>
<td>$1,384</td>
<td>$986</td>
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<td>2021</td>
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<td>$32</td>
<td>3</td>
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<td>$1,014</td>
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<td>$32</td>
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<td>$32</td>
<td>3</td>
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<td>$1,133</td>
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<td></td>
<td>$19,484</td>
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### Regulation Activity 2: Licence Transporters

Each Transporter must apply for a licence to operate SDV to transport goods. Licenses need to be applied for every two years (Frequency = 0.5). Internal testing has determined the licencing procedure takes an hour to complete and it is assumed an average worker can complete the task.

<table>
<thead>
<tr>
<th>Year</th>
<th>Period (F)</th>
<th>Cost of Labour (C)</th>
<th>Hours to Complete (D)</th>
<th>Businesses Impacted (E)</th>
<th>Cost - C x D x E</th>
<th>Discounted Cost - C × D × E ÷ 1.07^(F ÷ G)</th>
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<td>$32</td>
<td>1</td>
<td>484</td>
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<td>$13,316</td>
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<td>$32</td>
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<td>3</td>
<td>$32</td>
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<td>$15,720</td>
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<td>$32</td>
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<td>1037</td>
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<tr>
<td>Total</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>$74,597</td>
<td></td>
</tr>
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</table>
### Transport Companies Incident Reporting

Transport companies must report every 6 months (Frequency = 2) a summary of all accidents resulting in property damage or injury where a SDV was involved. Surveyed companies have responded that they expect it will take about 4 hours to complete the report and will be done by administrative staff.

<table>
<thead>
<tr>
<th>Year</th>
<th>Period (F)</th>
<th>Cost of Labour (C)</th>
<th>Hours to Complete (D)</th>
<th>Businesses Impacted (E)</th>
<th>Cost - C x D x E</th>
<th>Discounted Cost - C x D x E ÷ 1.07^(F ÷ G)</th>
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<tr>
<td>2016</td>
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<td>$5,934</td>
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<td>$6,017</td>
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<td>484</td>
<td>$6,985</td>
<td>$6,101</td>
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<td>$29</td>
<td>0.5</td>
<td>508</td>
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<td>$6,186</td>
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<td>2018</td>
<td>6</td>
<td>$29</td>
<td>0.5</td>
<td>532</td>
<td>$7,683</td>
<td>$6,272</td>
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<tr>
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<td>$11,249</td>
<td>$7,005</td>
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<td>$7,202</td>
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<td>$7,611</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td></td>
<td></td>
<td></td>
<td>$133,912</td>
<td></td>
</tr>
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</table>
### Regulatory Cost Summary

<table>
<thead>
<tr>
<th>Activity</th>
<th>Total Present Value</th>
<th>Annualized</th>
</tr>
</thead>
<tbody>
<tr>
<td>1   Register Company</td>
<td>$19,484</td>
<td>$2,774</td>
</tr>
<tr>
<td>2   Licence Application</td>
<td>$74,597</td>
<td>$10,621</td>
</tr>
<tr>
<td>3   Reporting Activities</td>
<td>$133,912</td>
<td>$19,066</td>
</tr>
<tr>
<td><strong>TOTAL - A</strong></td>
<td>$227,993</td>
<td>$32,461</td>
</tr>
<tr>
<td><strong>Discounted to 2012 (B = 2016)</strong></td>
<td>$173,935</td>
<td>$24,764</td>
</tr>
</tbody>
</table>

\[
A \times 0.142378 \div 1.07^{B-2012} \\
= 227,993 \times 0.142378 \div 1.07^{2016-2012} \\
= \$24,764
\]
Integration of the One-for-One Rule and CBA

• When identifying CBA impacts, also identify when they contain administrative burden related elements.

• All AB costs (INs) and savings (OUTs) described and assessed for the rule are included in the CBA as costs and benefits (and vice-versa).

• Values of impacts reported for the CBA and the rule can differ
  – Need for consistency across departments and requirement to offset necessitates a more prescribed approach for costing under the rule than CBA
  – However, underlying assumptions should be consistent
• 3. Controlling Growth of Regulatory Administrative Burden

Results Under The One-for-One Rule
# One-for-one rule: 2012–13 to 2014–15

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>How many regulations had one-for-one implications?</td>
<td>27</td>
<td>36</td>
<td>58</td>
<td>121</td>
</tr>
<tr>
<td>How many regulations were exempted from the rule?</td>
<td>9</td>
<td>7</td>
<td>30</td>
<td>46</td>
</tr>
<tr>
<td>How many regulations had administrative impacts on business?</td>
<td>14</td>
<td>24</td>
<td>24</td>
<td>62</td>
</tr>
<tr>
<td>Administrative burden increased ($ millions, rounded)</td>
<td>$0.5</td>
<td>$2.0</td>
<td>$0.5</td>
<td>$3.0</td>
</tr>
<tr>
<td>Administrative burden decreased ($ millions, rounded)</td>
<td>$3.5</td>
<td>$20.0</td>
<td>$3.2</td>
<td>$26.7</td>
</tr>
<tr>
<td>Total administrative burden saved annually ($ millions, rounded)</td>
<td>$3.0</td>
<td>$18.0</td>
<td>$2.7</td>
<td>$23.7</td>
</tr>
<tr>
<td>Total number of hours saved to business annually (rounded)</td>
<td>98,000</td>
<td>165,000</td>
<td>80,000</td>
<td>344,000</td>
</tr>
<tr>
<td>Net number of regulations reduced</td>
<td>5</td>
<td>14</td>
<td>1</td>
<td>20</td>
</tr>
</tbody>
</table>

In 2014–15
- **86%** Regulations reducing or not imposing new AB
- **14%** INs and Exemptions
Element-A Results Over Time

Timeline of Administrative Burden Reductions

Date | Regulation Registered | Running Sum INs | Running Sum OUTs | Running Sum Net

From 2012-2015, the one-for-one rule has resulted in nearly $24 million in annual administrative burden relief and an estimated 344,000 fewer hours spent annually dealing with regulatory red tape. There has also been a reduction of 20 net regulations under the rule.

The rule has resulted in the development and implementation of a standard method used across all departments and agencies to estimate incremental changes to costs of administrative burden from regulations.

The rule has been incorporated into the existing cost-benefit analysis frameworks. This has provided improved information in an area that previously had not been systematically assessed.