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Perspectives into topical issues in society and ways to support political decision making

## Decreasing administrative burdens and deregulation in Finland by means of applying the one-in, one-out principle

Prof. Pertti Ahonen, University of Helsinki

Dr. Riikka Sievänen, KPMG Oy Ab

Lic. Pol.Sci. Petri Uusikylä, Frisky & Anjoy Oy

**The first pilots of the Finnish one-in, one-out principle and the respective regulatory impact assessment (RIA) model have taken place. By means of these pilots the suitability of the model for law drafting and the development needs of the model were examined.**

**Document analysis, personal interviews and surveys were the key methods for obtaining data from the law drafters and companies. According to the key results, the model has elements that make it suitable to the Finnish context.**

**When developing the model further, three issues are to be taken into account. First, the model needs to be supported with user guidelines and capacity building. Second, clear-cut targets, processes, resources and tools need be in place to gather and analyze the needed data. Third, coordination across the administrative sectors of the ministries need be ensured by means of one-in, one-out accounting and a one-in, one-out balance.**

According to Prime Minister Juha Sipilä's Government Programme "the legislative policy steering in Finland will be clarified with the aim of reducing the net number of regulations and increasing the use of alternative instruments. The aim is deregulation and the reduction of the administrative burden." A pilot project to test the implementation of the one-in, one-out model makes part of this endeavor. This emphasises the importance of the principles that ministries must follow in introducing proposals for regulation and deregulation in order to ensure that each new regulation is effective, targeted and proportionate, and that overall costs to businesses are kept to a minimum.

In Finland, the one-in, one-out principle is interpreted as follows. This principle requires that additional costs to companies have to be compensated by means of deregulation. The compensation shall concern regulation that exceeds the minimum level required by EU legislation.

The Finnish Ministry of Employment and the Economy has prepared a one-in, one-out model that includes a spreadsheet for the respective accounting. Making part of the Finnish government joint analysis, assessment and research activities ("TEAS"), this project, led by KPMG Oy Ab from May 2017 to February 2018, examined the model indicated. The project applied the model to the assessment of the regulatory cost implications of the proposed Working Hours Act and the proposed Food Act. International one-in, one-out models were also reviewed, national expert opinions were gathered from public servants including law drafters, and estimates on the time requirement to comply with the regulatory changes were acquired from companies.

### **What is accounted for by means of the Finnish one-in, one-out model?**

The globally widespread standard cost model (SCM) of regulatory impact assessment (RIA) is embedded in the Finnish one-in, one-out model. The following cost items may be included in the calculations:

1. *Administrative burdens.* These are costs incurred to companies because of their statutory obligations to render information to public authorities. Depending on the OIOO model, either only running administrative burdens are calculated, or in addition also the one-time only administrative burdens incurred at the stage of introducing a new or revised regulation. The Finnish model includes both two items.
2. *Regulatory fees.* It is common that companies have to pay license fees, inspection fees and other regulatory fees. All these fees are introduced in the Finnish OIOO model at least in principle.
3. *Hassle costs.* These costs to companies arise from waiting times before government authority decisions, uncertainty concerning the outcome of these decisions, and changes in regulatory legislation. These costs are included in the Finnish OIOO model in principle but excluded from international RIA models.
4. *Substantive compliance costs.* To include or to exclude substantive compliance costs comprises a foremost issue in one-in, one-out RIA. This arises from the fact that the substantive compliance costs derive from the implementation of the very purposes of regulation and the legislation behind it. In the Finnish one-in, one-out model these costs are included in principle. Actual practice will show if this will be the case in each application of the model.

**Table 1. Cost types and their accounting in one-in, one-out models**

	Cost	Description	Assessment of calculation possibilities
1.	Running administrative burdens	Incurred constantly as long as regulation is in effect	Possible to calculate by means of the international standard cost model (SCM)
2.	One-time administrative burdens	Incurred only once regulation steps into effect	Have to be calculated separately without the SCM
3.	Regulatory fees	May be one-time only or incur paid periodically	Easy to account for separately. However, excluded according to international practice.
4.	Hassle costs	Waiting times before government authority decisions, uncertainty concerning the outcome of these decisions, and changes in regulatory legislation	Difficult to calculate and therefore not calculated in OIOO international models.
5.	Substantive compliance costs	All costs incurred to companies because of regulation over and above cost items 1. to 4.	Calculation is difficult and laborious. However, at least some major ones from among these costs included in many international OIOO models.

### **What is excluded from the Finnish one-in, one-out model**

According to the 2007 Finnish Ministry of Justice guidelines for the ex ante assessment of the impact of legislation, all positive and negative impacts should be accounted for. The guidelines also presuppose that all social and private costs, the side effects of legislation and the risks that may arise should be accounted for.

The Finnish one-in, one-out model does not take into account the commercial benefits arising from regulation to companies. These benefits may have to be accounted for separately, as has been done at least in the United Kingdom. The Finnish model does not cover all costs incurred to companies because of regulation, either. Although substantive compliance costs and even hassle costs are covered at least in principle, the model excludes all indirect costs.

### **Critical technicalities**

One of the foremost technical challenges of one-in, one-out models comprises the compensation to companies for additional costs that incur them because of regulation. Instruments serving this compensation include, for instance, periodic such as annual balances of cost increases and cost reductions arising from regulation, and periodic such as biannual or less frequent balancing of the increases and reductions. Another question is how to compensate for the typical low quality of the input data in one-in, one-out models. Examples of complementary measures include surveys and cost analyses by individual business sectors (the Netherlands), and compulsory stakeholder panels to validate the results of spreadsheet calculations (the UK and Canada).

### **Further development of the one-in, one-out model**

The results of this project indicate that the one-in, one-out model of the Finnish Ministry of Employment and the Economy indeed offers opportunities but also poses challenges for further elaboration and fine-tuning. A continuation project is well motivated. Other ministries than the two ministries involved thus far, meaning the Ministry of Agriculture and Forestry in addition to the ministry indicated, should be included. The Ministry of Justice and the Ministry of Finance should be strong candidates for the inclusion.

## Clear user guidelines and capacity building needed

The interviews and the survey made to civil servants in this project indicate that the one-in, one-out principle and the draft one-in, one-out model are generally perceived positively. However, as the model has only been in the piloting stage thus far and is new to many of the respondents, its use was not projected to be easy. Table 2 lists the key findings.

**Table 2. Key findings in an empirical survey of civil servants including law drafters<sup>1</sup>.**

One-in One-out principle	Interviews (N=12) and survey (N=17) of civil servants including law drafters
The one-in, one-out principle is well-known	✓
The one-in, one-out principle is a useful add-on to law drafting	✓
The one-in, one-out principle should be applied to selected government proposals only	✓
The one-in, one-out principle is not sufficiently known in the ministries and other government administration	✓
across ministries and their administrative sectors of administration is feasible	✓
One-in One-out model	Survey (N=17) of civil servants including law drafters*
The technical characteristics of the one-in, one-out model make its use challenging	✓
Lack of time influences the application of the one-in, one-out model	✓
Limited know-how of law drafters influences the application of the one-in, one-out model	✓
Lack of interest in the decision makers' side towards assessing the impacts of government legal proposals aggravates the utilization of the one-in, one-out model	✓
Lack of coordination between the ministries and their administrative sectors aggravates the utilization of the one-in, one-out model	✓

\* Includes the Ministry of Employment and the Economy, in which the Finnish one-in, one out model was developed.

The overall attitude climate in the Finnish ministries and the Finnish business generally supports the application of the one-in, one-out principle and the one-in, one-out model. Concise guidelines that in alignment with other law drafting guidelines are, however, needed. When preparing the one-in, one-out guidelines it is recommendable to pay attention to the following aspects:

Guidelines for the one-in, one-out model
1. Indicate which cost types are included in calculations
2. Point out for which government proposals the one-in, one-out model is to be applied
3. Take a clear stance as to how the one-in, one-out accounting is used to calculate the one-in, one-out balance

In addition to the one-in, one-out accounting and assessment guidelines, sufficient advisory resources are needed to ensure the law drafters the capacity to implement the one-in, one-out principle and model.

<sup>1</sup> This analysis is based on 12 civil servant interviews and 17 responses received to the electronic survey sent to law drafters.

## Clear guidelines needed for data collection and data analysis

Clear guidelines constitute the basis for the application of the one-in, one-out model. Practical points need consideration, too (Figure 1). Sound modeling requires sound background work, including data collection by means of appropriate methods such as the reuse of official statistical data, interview and questionnaire surveys, and stakeholder panels.

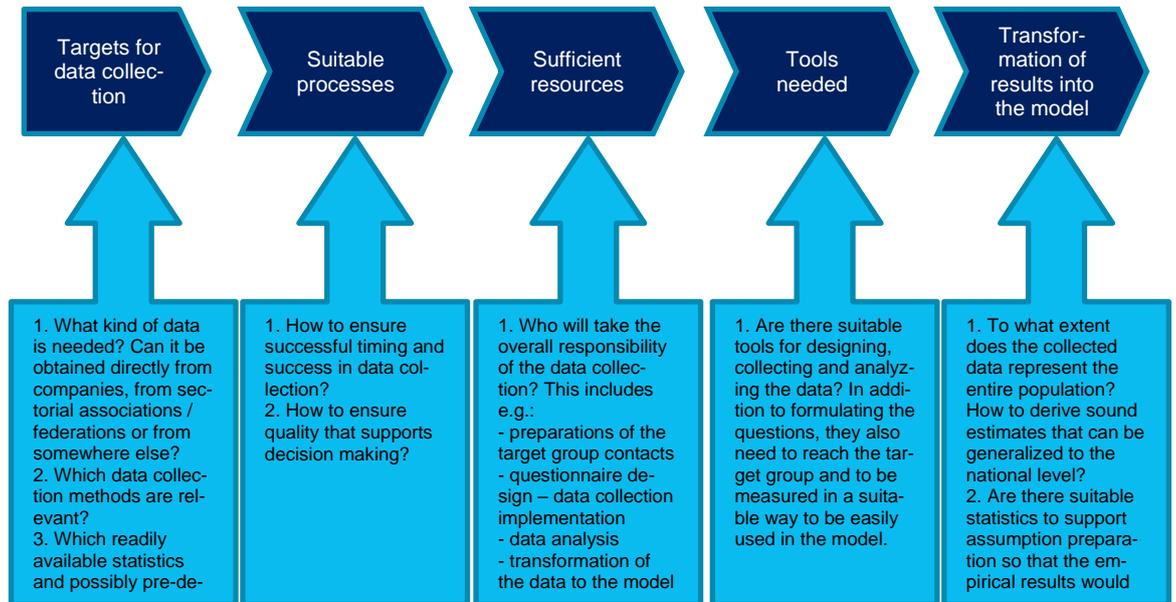


Figure 1. Key topics of data collection and analysis

## Suggested policy measures in nutshell

1. Only the first pilots of the one-in, one-out principle and the one-in, one-out model have taken place thus far. This work should continue with more comprehensive and more detailed elaboration.
2. The inclusion of sufficiently many of the Finnish government ministries in the further elaboration of the one-in, one-out model is essential. Open issues include, for instance, (a) each ministry's role in the one-in, one-out accounting, (b) the preparation of the periodic one-in, one-out balance, and (c) steps to compensate companies for cost increases by means of deregulation measures.
3. The one-in, one-out model is still new to the majority of its potential users. It is necessary to provide the law drafters with clear and concise guidelines indicating which costs are calculated and which costs are excluded in each lawmaking project. The guidelines shall also have to define in which law-making projects the one-in, one-out model shall be used. These projects may include, for instance, socially significant projects or projects with substantial business effects.
4. The limitations of the one-in, one-out model have to be clearly explicated in the guidelines, and the application of these guidelines must be coordinated with other valid guidelines of legal preparation. It is also relevant to include to the guidelines advice on assumptions statistics to be used. By using statistics provided by Statistics Finland, the number, size and sector of companies are relevant to take into account, as well as number of personnel at each employee level. Importantly, the application of the one-in, one-out model has to

be supplemented with accounts of the positive effects of regulation, its social costs, its risks, and its unprecedented side effects. All these other aspects have to be aligned with the Finnish Ministry of Justice 2007 legal preparation guidelines.

5. The one-in, one-out data collection requires resources and time. It is necessary to support the law drafters with e.g. robust data collection planning, data collection, its analysis and transformation of the results into the model to ensure sound data.

## **Suggested reading**

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## Additional information:

**Professor Pertti Ahonen.** University of Helsinki. Vantage Consulting Oy. [pertti.ahonen@helsinki.fi](mailto:pertti.ahonen@helsinki.fi). Further information: <http://blogs.helsinki.fi/peahonen/>

**Advisor, Dr. Riikka Sievänen.** KPMG Oy Ab. [riikka.sievanen@kpmg.fi](mailto:riikka.sievanen@kpmg.fi)

**Lic. Pol.Sci. Petri Uusikylä.** Frisky & Anjoy Oy. [petri.uusikyla@gmail.com](mailto:petri.uusikyla@gmail.com)

**Decreasing administrative burdens and deregulation in Finland by means of applying the one-in, one-out principle has been implemented as part of Government's analysis, assessment and research activities in 2017.**

## The chairman of the steering committee:

Senior Ministerial Adviser, Legislative Affairs Susanna Paakkola  
Ministry of Agriculture and Forestry, [susanna.paakkola@mmm.fi](mailto:susanna.paakkola@mmm.fi)



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