

The costs of compliance

An idea whose time has come?

In the UK, the Government recommends that departments use cost-benefit analysis to examine proposed policy changes. The latest version of the *Green Book*, which helps them do this, was published in 2003.¹ The guidance suggests that a rounded picture of the impact of proposed policy measures should take into account the effects on the costs of those affected, if possible by giving them an equivalent monetary value. Examples include valuing the time of people affected by a change in transport policy. But the impact assessments which now have to be produced at various stages of a policy change often do not include such analysis. And even if they did, in the case of benefit and tax credit changes, detailed information about the nature and size of the costs claimants incur in fulfilling the requirements imposed on them is not currently available.

A scoping study carried out by Fran Bennett, Mike Brewer and Jonathan Shaw recently took the first steps towards filling this gap. While it was being carried out, policy measures and experiments in costing exercises initiated by the Government were also moving in the same direction. And, more widely, a group of civil servants from different countries across the European Union² started meeting regularly to discuss how to measure the 'burdens on citizens' imposed by official requirements and exchange ideas about how to reduce them.

So this seems to be an idea whose time has come. But at the moment, attempts to consider compliance costs are more advanced in policy areas other than benefits and tax credits. For example, we have become accustomed to hearing about the 'burdens on business' imposed by regulations, and there is a government target to reduce them, as well as an accepted method of calculating what costs various regulations impose on businesses. Similarly, there is discussion in the economics literature of the 'costs of compliance' involved for individuals in paying tax. Studies have been carried out, for example (including in the UK), to cost the time it takes to fill in an income tax self-assessment form, and the fee for employing an accountant is added into the total.

But similar exercises have not (yet) attempted to calculate the costs imposed by official

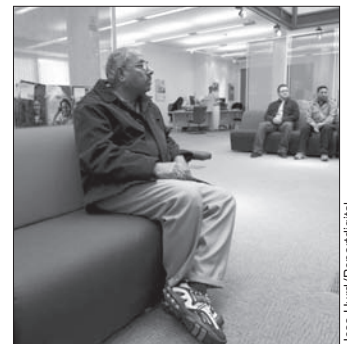
Claimants of benefits and tax credits incur a range of costs. These include financial costs, as well as the time and psychological impact associated with making a claim and meeting the various requirements imposed by the Government. Could these costs be taken into account when considering policy changes? Fran Bennett reports on a recent scoping study.

requirements on claimants of benefits and tax credits. Such costs are likely to be much more varied, and complex, than those involved in the one-off task of filling in a tax form. The researchers suggest that these costs should only count as compliance costs if they would not be incurred if the benefit or tax credit being claimed did not exist. This still means that the use of 'compliance' in this scoping study is wider than the way it is often used – meaning keeping within the law and avoiding fraudulent claiming – though it is clear that some things which claimants have to do (for example, in order to establish their identity) are required by the authorities in part to try to prevent fraud.

The nature and range of compliance costs for claimants

In order to calculate whether policy changes would increase (or decrease) the costs of compliance for claimants and, if so, by how much, it is necessary first to know something about the nature and range of these costs. So an important part of the scoping study was to carry out such an investigation. Many welfare rights advisers and others contributed their expertise.³ The study also drew on existing research.

This kind of exercise has its limits. Advisers are likely to come across the more complicated and problematic cases. In addition, limiting research to a literature review and consultation with experts misses out the most significant input – from claimants themselves. The scale of the study did not allow for research with claimants. But the need to emphasise claimants' perspectives and priorities was emphasised at every opportunity; a key recommendation is that research involving claimants should be conducted.



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Three main areas of compliance costs were identified: time, money and psychological. These may be incurred at any or all of the various stages of a claim (sometimes now called the 'customer journey' by the Department for Work and Pensions (DWP) or HM Revenue and Customs). They can also include the costs involved in terminating a claim when going into work or for another reason, or in coming off one benefit or tax credit and transferring to another (or to the same one, but with a new claim). And of course some people will incur initial costs trying to investigate which benefit or tax credit may apply to them, and whether they are eligible, but in the end fail to pursue their claim for whatever reason (including the anticipated costs of doing so):

*'... that one, I haven't even filled out the form for because again I can't work out whether ... [it's] worthwhile doing, worth the headache of spending six weeks sending the form off backwards and forwards.'*¹⁴

Time costs can include, for example, the time spent filling in forms, making telephone calls, visiting government (or local government) offices and using the internet. A common problem is that many people do not want to send valuable documents in the post,⁵ as they are worried about losing them. Yet some authorities will only accept originals of documents, which means that claimants feel obliged to travel with their documents to the relevant office.

Completing forms, making telephone calls, visiting offices or using the internet may also involve spending money. A notorious example has been the cost of mobile phone calls for claimants trying to get crisis loans from the social fund.⁶ But in addition, money costs may include fees and charges. Time and money costs can sometimes, but not always, be traded off against each other.

Psychological costs can include stigma, hassle, intrusion, stress and worry, as well as fear and uncertainty. Stigma and hassle are often associated with low take-up of entitlements.⁷ Benefit applicants themselves lay great stress on being treated with respect:⁸

*'Claimants should be treated with respect and not like children. It's a service and customers should be treated with respect. Workers may have to deal with abuse, but we're not all the same and should be given a chance.'*¹⁹

More generally, some costs are ongoing, while others can be one-off – such as setting up a

bank account when you have not previously had one. Challenging a decision or getting help, advice or advocacy may occur at any stage of a claim, and can involve costs of time and money as well as psychological costs. While these may not be relevant to every claim – and the same is true of costs incurred when things go wrong – the researchers thought that they should be included within the concept of the 'costs of compliance'.

Certain costs are associated with gaining familiarity with a new benefit or tax credit, but will be likely to decrease over time. Some groups of claimants (such as disabled people, those with literacy problems or people who have frequent changes of circumstances) are likely to incur particularly high costs compared to others.

In addition, the researchers asked advisers to focus on those costs which claimants found most burdensome. Not surprisingly, perhaps, this resulted in a list of costs associated largely with the delivery of benefits and tax credits, rather than their design. So the report also includes analysis by the authors of those features of benefits and tax credits systems which cause heavy costs of compliance. Means testing in particular, for example, usually involves significant costs in terms of the provision of proof, not only about identity and income but also often about a personal relationship; claiming some disability benefits means focusing on actions that are difficult or impossible to do, which people find especially depressing, particularly when it involves claiming on behalf of their children.

Implications of the findings

The researchers did not set out to measure the costs of compliance for claimants at this stage, but rather to explore and map them. But they did draw out several issues relevant to measurement from their findings. One important lesson is the wide range of costs incurred by claimants, which is evident even from the limited summary here. It would clearly not be helpful to use an average cost for all claimants of a specific benefit, even leaving aside the large number of different benefits and tax credits.

There was also a question about whether costs imposed by conditionality should be included. It is difficult to conceive of all conditions of entitlement as pure costs of compliance. But the burdens of conditionality have tended to increase for claimants in recent years.¹⁰ The Government might argue that these should not be counted as costs because they result from

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trying to engage claimants in activities which will work to their longer-term advantage. The researchers concluded, however, that the compliance costs of conditionality should be included, although any advantages gained from fulfilling conditions should in principle be offset against them.

The study argues that the costs to claimants of getting advice or advocacy should be included, as this is similar to the cost of hiring an accountant for someone filling in their tax form. However, including these costs may not be easy in practice, in particular when it comes to a claimant's family helping her/him to fill in a form. And, given that joint jobseeker's allowance claims and jointly owned tax credits have now been introduced, does it make sense any more to talk about 'the claimant' when it comes to couples living together? Finally, the researchers recognise that disentangling the psychological costs of living on a low income from the costs of interacting with the authorities would be a complex challenge for any measurement exercise.

The report also argues that the perceptions and priorities of claimants themselves should be seen as central. The Netherlands, which is a leader in monitoring and reducing the burdens on citizens imposed by government regulations, has found that one hour of time spent fulfilling obligations does not necessarily have the same 'cost' as another hour doing so. There is 'good time' and 'bad time'; whether you know who is dealing with your case, and when you will get a decision, can be crucial in deciding which kind it is.

Assessing measurement methods

Taking these and other issues into account, the report discusses the pros and cons of different methods which have been used to measure the 'costs of compliance' of various activities. Each has its advantages and disadvantages.

Large-scale random surveys have been used to assess the costs of paying taxes.¹¹ They are better at estimating total and average costs and the distribution of costs than at providing nuanced findings. They have often suffered from low response rates, meaning that non-response bias may be a problem.

The 'standard cost model' (SCM) is more often used to estimate administrative burdens incurred by businesses (usually assumed under the SCM to be 'normally efficient!').¹² It can provide a 'bottom-up' estimate of total compliance costs and be shaped to address policy makers'

concerns. But the precision of the estimated costs it provides is often unclear and depends on the quality of information fed in, and it does not usually include psychological costs or behavioural impacts. The Netherlands has used this model since 2003 to measure burdens on citizens (including some groups of claimants). But more recently it has put more emphasis on the 'top 10 irritations' (the worst or most irritating burdens identified by citizens themselves).

Qualitative studies, using such methods as interviews or focus groups, have been used, for example, in studies of benefit (non-)take-up. They are good at exploring perceptions and feelings,¹³ but cannot quantify their findings in a statistically robust way. Other work on take-up has used 'revealed preference' studies,¹⁴ which propose that the costs involved in getting a benefit must be no larger than the benefit itself if someone is to claim it. These tend to emphasise psychological costs, rather than examining all the compliance costs which may be involved in taking up a benefit.

General issues to be addressed in measuring compliance costs include the difficulty of valuing time (which may vary according to citizens' own perceptions), and the timing and period of measurement (which may affect the volume and quality of response to any study – for example, recall error can occur if the events being explored occurred some time ago). So far, while attempts have been made to measure psychological costs, this has also tended to be more difficult; but the scoping study showed how important such costs are to claimants themselves.

Relevant policy developments

Recent developments in the UK are largely helpful to those wanting to ensure that the costs of compliance for claimants are recognised as an issue. And current welfare reforms are simultaneously adding to conditionality requirements for many claimants and extending them to many more – which may also result in increased awareness.

While the study was being carried out, the 'costs of compliance' for claimants did appear to become more visible as an issue, even if not always labelled in this way. For example, the service transformation agenda¹⁵ has resulted in more emphasis on the views and activities of service users. 'Customer insight' and 'journey mapping' are being used to find out more about claimants and their experiences (although other priorities may compete, and there are mixed views about the application of these business

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concepts to public services). The claimant experience and user responsiveness have been put forward as key to measuring quality as part of productivity in the DWP, following the Atkinson review of public sector productivity, and customer satisfaction is becoming more important in performance measurement.

More specifically, a focus on benefit simplification in recent years¹⁶ seemed to shift over time towards more emphasis on burdens on claimants. 'Tell Us Once', which reduces the number of times claimants have to report changes in circumstances, and the In and Out of Work project, aiming to smooth transitions into work, were piloted. HM Revenue and Customs started on an exercise called 'Total Cost to Serve', to estimate the costs to its 'customers', as well as itself, of the interactions it has with them. Of most relevance to this study is the survey being conducted by the DWP of recent jobseeker's allowance claimants, to find out about the costs they incurred in claiming.

Conclusions

Costs of compliance are clearly relevant to each of these areas, and measurement of such costs would be valuable in following through their objectives. But there is more emphasis on reducing 'avoidable contact' than on the costs of compliance *per se*, and attempts to measure claimants' costs of compliance are few and far between, though they are beginning. The difficulties involved in measuring these costs should not be underestimated. But there is a strong case for pursuing further work to try to do so.

None of the existing measurement methods is ideal. But each can make a contribution to our understanding and knowledge. In terms of large-scale surveys, for example, HM Revenue and Customs could use its current panel survey of child benefit recipients to ask questions about the costs of complying with the tax credits system. Using diaries could also be investigated as one element of a survey, as they may pick up frequent changes of circumstances better than other methods.

The standard cost model can set a baseline against which policy changes can be measured. But it tends not to include all relevant costs. If this model is to be used, it must allow for variations in costs between claimants and include costs caused by things going wrong. Qualitative research should also be commissioned by the Government, to discover more about claimants' experiences and perceptions, and what they find most irritating or burdensome about their

dealings with the authorities (including local councils which administer benefits, as well as central government departments).

A combination of measurement methods is probably required, for both policy and political reasons. The researchers hope that the scoping study described in this article will help to inform the debates about how best to measure claimants' costs of compliance, and also strengthen the case for taking them into account when policy or operational changes in benefits or tax credits are being considered. ■

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<http://www.ifs.org.uk/publications/4558>. The report resulted from a scoping study funded by the Nuffield Foundation.

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- 2 European Public Administration Network, *Learning Team Administrative Burdens for Citizens: report on national approaches*, available at www.whatarelief.eu
- 3 Through, for example, the National Association of Welfare Rights Advisers, Citizens Advice Bureaux and the Tax Credits Consultation Group which liaises with HM Revenue and Customs, as well as at a consultative seminar held during the course of the project.
- 4 Quoted in C Turley and A Thomas, *Housing Benefit and Council Tax Benefit as In-work Benefits: claimants' and advisors' knowledge, attitudes and experiences*, Department for Work and Pensions Research Report 383, Corporate Document Services, 2006
- 5 S Royston, *Benefits Simplification and the Customer*, Department for Work and Pensions, 2007
- 6 Social Security Advisory Committee, *Telephony in DWP and its Agencies: call costs and equality of customer access*, Occasional Paper 3, SSAC, 2007
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- 10 See, for example, J Griggs and F Bennett, *Rights and Responsibilities in the Social Security System*, Occasional Paper 6, Social Security Advisory Committee, 2009
- 11 C Evans, 'Counting the Costs of Taxation: an exploration of recent developments', mimeo, 2006
- 12 Discussed in National Audit Office, *Reducing the Cost of Complying with Regulations: the delivery of the administrative burdens reduction programme, 2007*, HC 615, The Stationery Office, 2007
- 13 See, for example, K Bunt, L Adams and C Leo, *Understanding the Relationship Between the Barriers and Triggers to Claiming Pension Credit*, Department for Work and Pensions Research Report 336, Corporate Document Services, 2006
- 14 See, for example, M Hernandez, S Pudney and R Hancock, 'The Welfare Cost of Means-testing: pensioner participation in income support', Working Paper 06-12, Institute of Social and Economic Research, University of Essex, 2006
- 15 HM Government, *Service Transformation Agreement*, 2007
- 16 See S Royston, *Benefits Simplification and the Customer*, Department for Work and Pensions, 2007

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