

EU Services Directive: evaluation of administrative costs

Executive Summary

Introduction

The proposed Services Directive is intended to create a genuine Internal Market for services in the EU by delivering the Treaty freedoms of establishment and the free movement of services. Removing barriers to establishment and to the free movement of services within the EU would foster a more competitive and productive services market, while stimulating economic growth and creating jobs in all Member States. Increased competition in Services, which represent 70% of EU GDP, could help Europe to adapt to globalisation and achieve economic reform, as outlined in the Lisbon agenda.

The DTI commissioned Detica to undertake an evaluation of the administrative costs of implementing two specific measures in the proposed Directive:

- The creation of Single Points of Contact (SPCs) for EU service providers wishing to establish in the UK.
- The establishment of an IT-enabled Mutual Assistance (MA) network, allowing regulatory bodies across the EU to co-operate.

The purpose of the study was to explore implementation options for each of these measures, estimating the costs in each case and providing an indication of the potential benefits that might be achieved. The study was undertaken between October 2005 and January 2006, and the findings are therefore based on the UK Presidency text issued in November 2005 and other relevant information available during that period.

An initial review of the changes to the UK Presidency text proposed by the vote in the European Parliament on 16 February suggests that the findings of this report would not change substantially if those amendments were carried through. More specifically, the conclusions concerning Single Points of Contact would appear to be unaffected by the proposed changes. There could potentially be some reduction in Mutual Assistance costs, dependent on the final conclusions concerning measures to support the free movement of services.

Single points of contact

Requirement

The Single Point of Contact needs to be an easily accessible service for business users who will primarily be concerned with establishing in the UK. The implementation of the SPC provisions of the Directive should take account of the wider expectations and needs of businesses - from initially considering the UK as an investment location, through establishment to ongoing operations. It should also recognise that there are already a range of services available to help international and UK businesses.

Service scope

The Directive does not specify how the SPC requirement should be implemented. However, the requirement to have information and processes available electronically and at a distance points strongly to an Internet-based service. This report discusses two options for the depth of service to be provided by the SPC. These are used to inform the cost-benefit analysis:

- **Single Point of Information** (minimum depth): this type of service would provide information on applicable regulations and signposts to online processes managed elsewhere;
- **Single Point of Completion** (maximum depth): this type of service would provide a single location where all procedures, formalities and authorisations needed for access to and exercise of a service activity could be completed.

In practice these two options represent extremes and there are a range of intermediate variations that could be used to address issues at a detailed level. Although the wording in the current draft of the Directive is open to interpretation and may change, in its current form it would seem to imply more than a single point of information.

Recommendation: The SPC should initially offer a single point of *information* rather than a single point of *completion*.

By building on existing services, the single point of information is achievable for the substantially lower cost of £0.5m and delivers a higher level of benefit relative to the cost (up to £14m benefit, compared to up to £1bn benefit for the £400m cost of the single point of completion). Furthermore, the benefits of a single point of completion accrue mainly to UK businesses wishing to establish and operate in the UK. While it may therefore be a worthwhile exercise, the additional cost cannot be justified under the Directive's aim of encouraging cross-border services trade.

Service positioning

The choice of how the SPC is implemented should take account of existing government to business services. The Transformational Government strategy¹ encourages consolidation of services around customer groupings, with business support centred on *BusinessLink.gov*.

One disadvantage of BusinessLink.gov alone fulfilling the SPC service is its current focus on UK business. In order to add an international-facing element to the service and to avoid confusion with existing services, some degree of integration with UK Trade and Investment's inward investment portal *UKInvest.gov* is recommended. Two feasible options for achieving this were analysed:

- Adapt or extend the existing services
- Create a separate microsite with rebranded content

Recommendation: The SPC service should build on the existing BusinessLink.gov and UKInvest.gov services directly.

This is the most cost effective option. The microsite option should only be pursued if a more detailed investigation concludes that the requirements of an international audience cannot be satisfied within existing organisational, branding and technical constraints.

Realising the benefits

The benefits of providing a single point of information would be realised by introducing non-UK businesses to the BusinessLink.gov service. This might provide a reduction in search costs for businesses considering investing in the UK, and a reduction in administrative burden for those that do decide to establish. Our analysis indicates that **savings to international business of up to £3m a year** could be achieved. This could be seen as an incentive to inward investors, making the UK a more attractive business location.

The wider advantages to the UK of the SPC provisions of the Directive lie in the reciprocal benefits to UK businesses seeking to establish in other Member States. Our brief survey of other Member States indicates the absence of such services at present, so we can assume that UK businesses would receive benefits of a similar magnitude. This should encourage more to expand their service provision across the EU market.

Mutual assistance

The proposed mutual assistance network would be enabled by the *Internal Market Information* (IMI) system being developed by the Commission. IMI is intended as a framework for supporting a variety of existing and future administrative cooperation mechanisms by allowing direct information exchange between relevant *Competent Authorities* (CAs). A CA for the Services Directive is defined as any organisation with an official regulatory

or supervisory role in relation to service providers - this can include private organisations as well as government departments and agencies.

The provisions of the Services Directive will be supported within IMI by:

- A searchable Competent Authorities Database (CAD), allowing registered CAs to locate their equivalents in other Member States;
- A Structured Information Exchange (SIE) facility, allowing pre-defined (and pre-translated) requests for information to be transmitted between CAs;

A National Contact Point (NCP) will be established to act as a coordinator and an escalation point for disputes.

Recommendation: The UK SOLVIT team should be used as the basis for developing the National Contact Point.

While the NCP function will likely demand resources beyond the current SOLVIT team, their experience could be used to guide the establishment of a larger operation. Furthermore, their current responsibilities would complement the NCP role. By applying lessons learned from the SOLVIT network, this approach would be less risky than setting up the NCP operation from scratch and may provide opportunities for combined efficiencies.

As IMI is mandated as the technical solution for the MA provisions, and the development of IMI is the responsibility of the Commission, the only implementation options from a UK perspective concern the extent to which IMI is adopted – i.e. the number of CAs registered. Two approaches are considered:

- **Full adoption:** Every relevant CA, including national, regional and local bodies, is registered on the database. We estimate a total of around 750 CAs adopting IMI under this option;
- **Limited adoption:** The majority of national and regional bodies, but no local authorities are registered on the database. This leads to a database of around 100 CAs in the UK.

Recommendation: Limited adoption should be preferred as a lower risk approach to the early operation of the network.

Our analysis indicates that the two approaches are similar in overall costs (£6-9m over the first 5 years). Limited adoption would allow any change in business activities to be understood before incurring the potential disruption of rolling out IMI to a large number of CAs.

Recommendation: The approach should be reviewed according to evidence from the early operation of the network.

A limited approach may reduce the effectiveness of the network by preventing direct contact between CAs in many cases. The effectiveness of the approach should be reviewed frequently during the early period of operation and more extensive adoption considered if the evidence supports it.

¹ 'Transformational Government: Enabled by Technology', Cabinet Office, November 2005