



**SUMMARY REPORT OF THE
BUSINESS NEW ZEALAND – KPMG COMPLIANCE COST SURVEY**

October 2008

1. INTRODUCTION

To insert

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Chief Executive
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2. AT A GLANCE – 2008 COMPLIANCE COST SURVEY

- **KIWISAVER TAKES COMPLIANCE COST GRIP ON BUSINESSES (p.4)**
 - Increase in priority ranking.
 - Now the number one compliance cost trend.
 - Governments first year handling of compliance costs associated with KiwiSaver less than satisfactory.

- **BUSINESS/POLITICAL PARTIES VIEWS ON REGULATORY OPTIONS TO LOWER COMPLIANCE COSTS (p.6)**
 - Related surveys find general support for Regulatory Responsibility Act and/or independent gate keeper of regulation from businesses, but answers from political parties more guarded.
 - General agreement amongst political parties to 'do something' to reduce compliance costs by way of improving quality of regulation, but broad consensus difficult.

- **SHAKING HANDS WITH THE GOVERNMENT (p.7)**
 - Businesses are generally happy with the outcomes of face-to-face meetings with officials, although overall helpfulness of Government agencies down from 2007.

- **MONETARY COSTS OF COMPLIANCE RISE FOR SMALLER ENTERPRISES (p.12)**
 - 0-5 and 6-9 FTE groups experience increase in overall costs, mainly due to rises in tax and employment areas.
 - Environmental compliance costs decrease, but recent legislation by way of Emissions Trading Scheme may mark this as a future cost to increase, especially for larger businesses.

3. KEY FINDINGS

3.1 KiwiSaver Takes Compliance Cost Grip on Businesses

The introduction of KiwiSaver on 1 July 2007 has led to a considerable change to New Zealand's private superannuation landscape. Latest numbers of New Zealanders who have signed up to KiwiSaver show that it now involves around one-fifth of New Zealand's eligible population, with the largest percentage of those signed up in paid employment. However, it has also created an administrative headache for many businesses, given they are the primary mechanism in which many people are currently involved with the scheme.

While the 2007 questionnaire was conducted one week after the introduction of KiwiSaver, the 2008 questionnaire has provided more time for businesses to familiarise themselves with the compliance issues associated with the scheme.

KiwiSaver – priorities and trends movement upwards

The proxy used for KiwiSaver for most of the survey (Employer Related Superannuation Schemes – ERSS) shows that as compliance cost priority, it is still lower down the list, placed 8th in terms of combined priorities for 2008. However, this compares with 10th in 2007, and 17th in 2006. At current pace, there is every chance of breaking through to the top five compliance costs issues, which have typically been entrenched since the survey began in 2003.

As a compliance cost trend, the move upwards is even stronger. For the 2008 survey, ERSS was the highest individually ranked compliance cost trend, overtaking the Holidays Act which had led the rankings in all but the first year of the survey. Although the extent of the increase was at a lower level in 2008 (a score of 3.783 in 2008 compared with 3.856 in 2007), it remains at the top end of being classified as a 'large increase'.

Digging Deeper into KiwiSaver

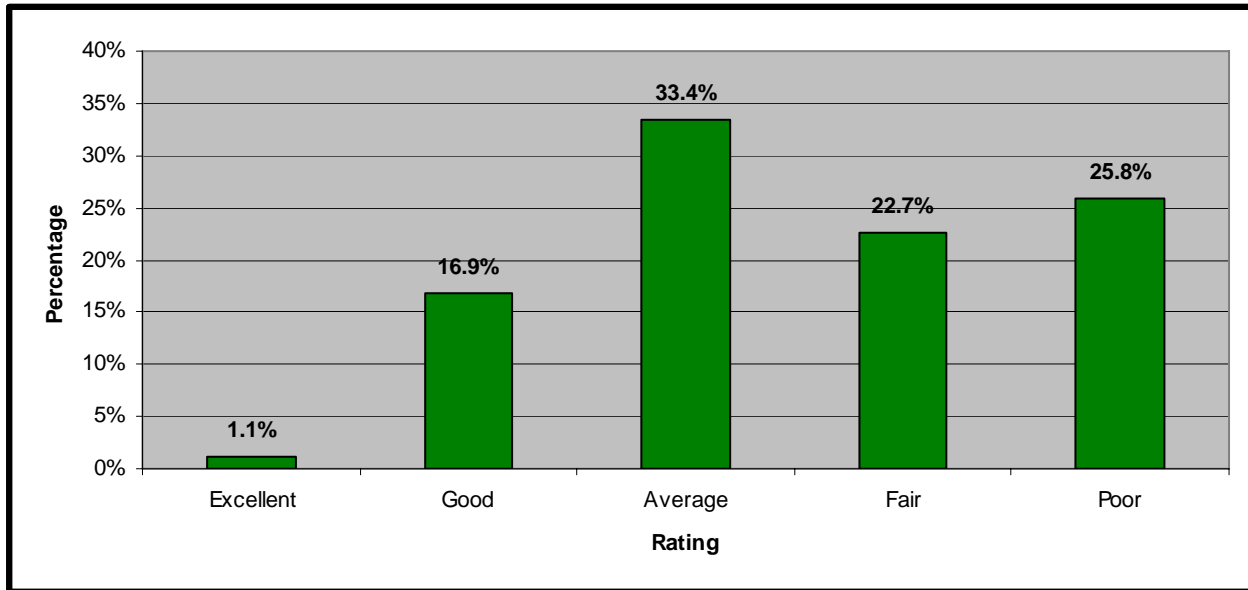
The 2008 survey also asked two specific questions relating to KiwiSaver, given its broad effect on all businesses, and currently high uptakes.

Rating the Government in its First Year of KiwiSaver

The first question asked respondents to assign a rating to the Government in terms of minimising the compliance burden of KiwiSaver during its first year. Figure 1 below shows that the general view by businesses towards Government was not favourable, with only 18% saying they had done either a 'good' or 'excellent' job. One-third had thought the Government performed to an 'average' standard, while almost half (48.5%) were less complimentary, rating them either 'fair' or 'poor'. With over one-quarter of

businesses believing the Government had been 'poor' in their attempts to minimise compliance costs means there is a considerable amount of further work to be done by Government, and in particular IRD in changing perceptions.

Figure 1: Overall Rating of Government in Minimising Compliance Burden of KiwiSaver in 1st Year (2008)



Business Reaction to Improving the Scheme

The 2008 survey also asked businesses if there was one thing they would recommend to lower the compliance costs of KiwiSaver. Around 47% of respondents provided comments, with some key findings including:

- The frustration of compliance amongst many businesses towards KiwiSaver was borne out of a not insignificant group asking for it to be abolished, or at least be done solely through the employee;
- There was also a view amongst some that to significantly reduce the considerable administrative requirements, KiwiSaver should be made compulsory; and
- Relating to the second bullet point above, there was also a request to have a settling period, where no more changes are made that employers (and to an extent employees) need to understand. The recently announced change involving making the total remuneration option of KiwiSaver illegal is one such example of many employers having to change future remuneration structures and negotiations with employees because of KiwiSaver.

Business NZ/KPMG's Comment

Business NZ and KPMG believe there is still a significant way to go before KiwiSaver is at a stage where the compliance costs associated with it return to more adequate levels. As rightly pointed out in the comments received, regular changes to the scheme has created a strong sense of frustration amongst businesses, with some decisions simply being poor in terms of perceived “improvements” to the scheme. To rectify these problems, even more changes may be necessary, however, where possible, a settling period is warranted.

3.2 Link Between Quality of Regulation and Compliance Costs

Compliance costs are essentially the outcome of regulation. Therefore, decisions made in terms of introducing, amending or withdrawing any and all forms of regulation has a direct effect on compliance costs.

Business NZ and KPMG believe there is significant scope for improving the system of how regulations are made, as well as how existing regulations could be improved. As part of the wider investigation for the 2007 Compliance Cost Survey, Business NZ asked key Government Agencies what they were specifically doing to reduce compliance costs for businesses. Given 2008 is election year, Business NZ took the opportunity to ask its wider membership its views on two possible options to improve the overall quality of regulation in New Zealand as part of its Election survey¹, which was in the field roughly one month before the 2008 Compliance Cost Survey.

The first option involved whether they would support the introduction of a Regulatory Responsibility Act². 60.3% of respondents supported the introduction of such an Act, while 26.9% were ‘unsure’. Only 12.7% said ‘no’.

Respondents were also asked whether they would support the establishment of an independent regulatory gatekeeper for Government regulation. Similarly, 62.4% supported this, while 21.3% were ‘unsure’. While both options were supported by the business community, a Regulatory Responsibility Act was considered the best option in terms of a substantive change to regulatory processes, and in turn a way in which compliance costs across the board could be lowered over the medium-long term.

¹ Conducted during the fast two weeks of July, with responses from over 2100 businesses. See <http://www.businessnz.org.nz/file/1508/Business%20NZ%20Election%20Survey%202008.zip> for more information.

² A Regulatory Responsibility Bill was introduced to parliament, although the Select Committee has indicated that alternatives to the Bill be examined.

Political Parties Views on Broad Regulation Changes

The same two questions regarding broad changes to the processes by which regulation is achieved were also asked of all the main political parties as adjacent to the election survey sent out to businesses, with a summary of responses in table 1 below.

Table 1: Political Party Responses to Regulation/Compliance Questions

Political Party	Do you support a Regulatory Responsibility Act with an aim to improve the quality of regulation in New Zealand?	Do you support the establishment of an independent regulatory body to act as a gatekeeper for government regulation?
ACT	ACT's Regulatory Responsibility Bill is currently before the House.	No. ACT is against the establishment of additional layers of bureaucracy.
Greens	Open to proposals, but not the private members Bill that went before parliament.	Would not support the imposition of an authority with power to control regulatory or legislative power of a democratically elected Government.
Labour	Currently progressing a Regulatory Improvement Bill instead.	Committed to continuously improving quality of regulatory framework & reducing compliance cost for business.
Maori Party	Yes.	A Treaty Commissioner would be preferred.
National	Supported first reading of Regulatory Responsibility Bill. Further policy to be announced.	Would be open to such bodies or processes being introduced to limit bureaucracy.
NZ First	Want to see red tape and compliance costs reduced.	Would consider proposition, but would need further details.
United Future	Yes.	Currently no such policy.

For both questions, answers from the parties tended to be more indicative rather than absolute in terms of their stance, which is partly understandable given both a Regulatory Responsibility Act and an independent regulatory body would require a significant amount of detail and rigour to ensure success in terms of improving regulation in New Zealand.

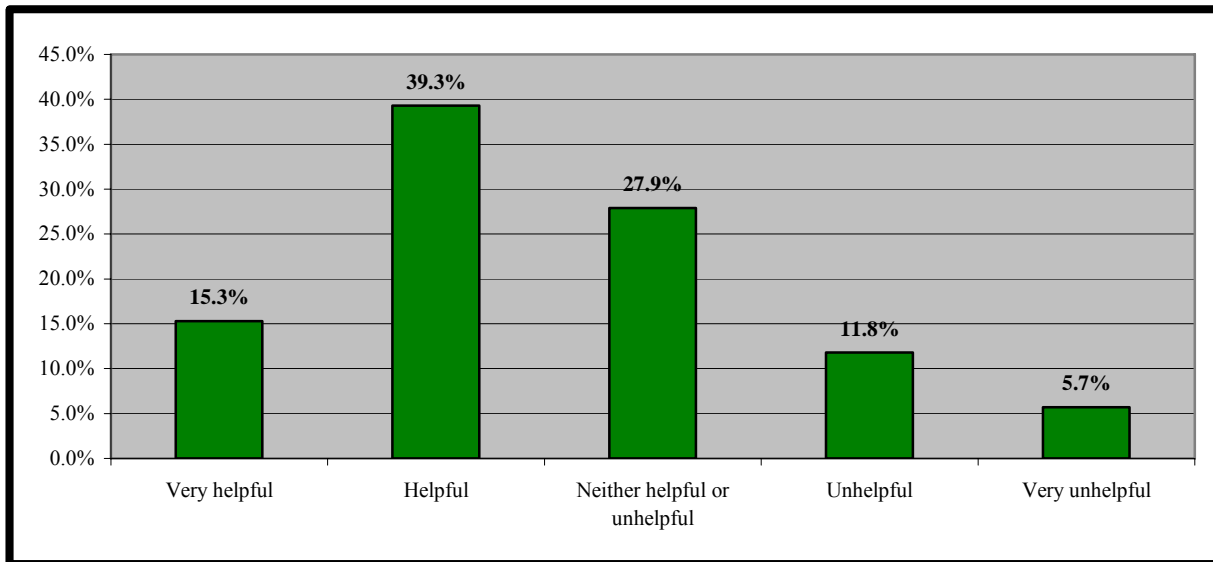
There appears to be a general agreement amongst all the parties to examine ways in which to improve the quality of regulation in New Zealand, thereby reducing compliance costs. However, any broad consensus on the best measures to introduce appear some way off.

3.3 Face-to-Face Meetings with Government Agencies

Consultation is key in terms of ensuring policies changed or introduced by the Government provide the best outcome possible in terms of regulatory outcomes. To better understand communication between Government and various businesses, a

specific communication question is asked every year that focuses on different aspects of communication between businesses and Government. The 2008 survey involved a question relating to face-to-face meetings during the last 12 months, and how helpful the agencies were during those meetings with business. Just over one-quarter of businesses had had a face-to-face meeting with a Government agency over the last 12 months. Figure 2 shows that encouragingly, over half (54.6%) found the meetings to be helpful-very helpful. Around one-quarter did not find them either helpful or unhelpful, while 17.5% did not find the meeting to be useful.

Figure 2: Overall Helpfulness of Face-to-Face Meetings with Government (2008)



Interestingly, when broken down by FTE sized group, those enterprises with 50-99 FTEs found face-to-face meetings the most productive, with 80% finding the meetings helpful-very helpful, and none finding them very unhelpful. The least impressed were micro firms (0-5 FTEs), although over three-quarters of respondents did not find the meetings unhelpful at some level. Overall, this is a good result for Government agencies, with perhaps some further work around the micro and very large enterprises to ensure meetings are not seen as unhelpful by the businesses involved.

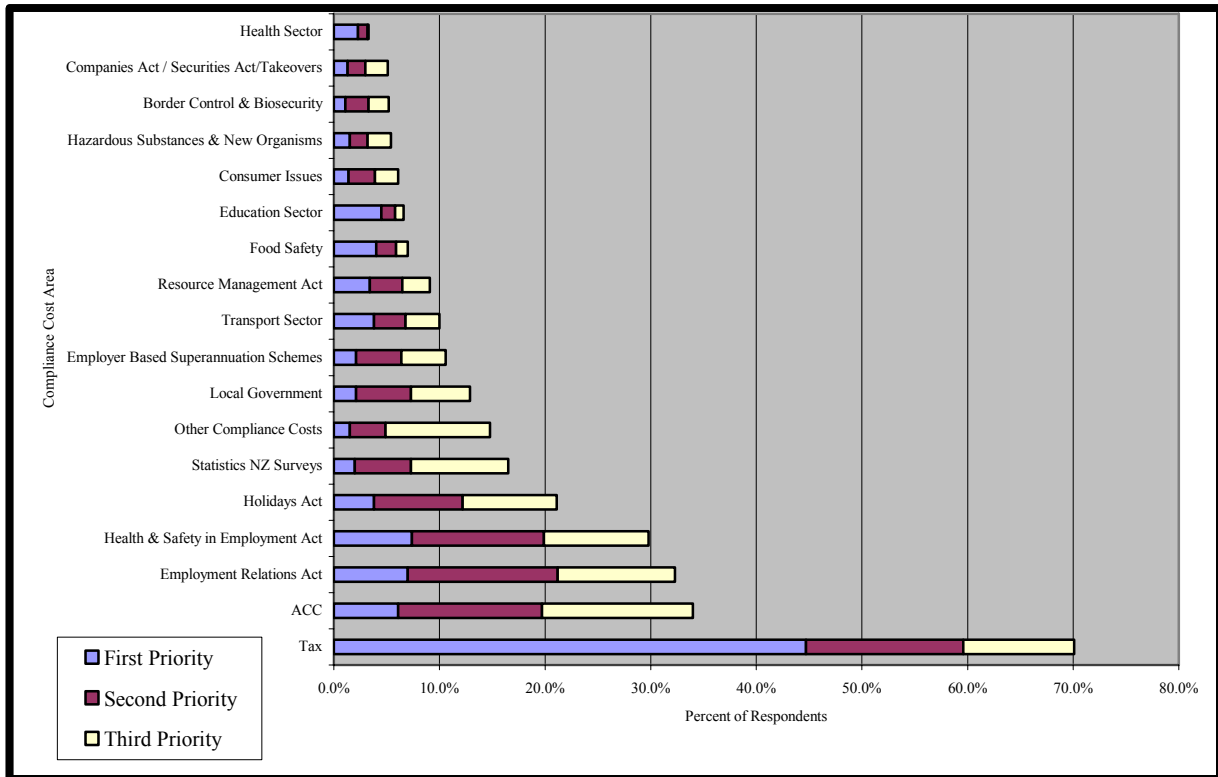
4. COMPLIANCE COST PRIORITIES

Tax Continues Dominance

As in most other years, tax clearly remains the first priority among respondents, with 44.7% selecting it as their top priority for change in 2008. A cluster of employment-related compliance cost areas continues to follow tax. Health and Safety in Employment (HSE) (7.4%) remains in second place in terms of compliance cost priority (although continuing to trend downwards from previous years), while the Employment Relations Act (ERA) also slips downwards from 8.8% in 2007 to 7.0% in 2008.

When all three priorities are taken into account as shown in figure 3 below, total tax priority stood at 70.1%, slightly up on the 69.6% recorded in 2007. The remaining groups have tended to show similar priorities to previous years, with the exception of ERSS which is discussed above. Results broken down by FTE group also show a similar pattern.

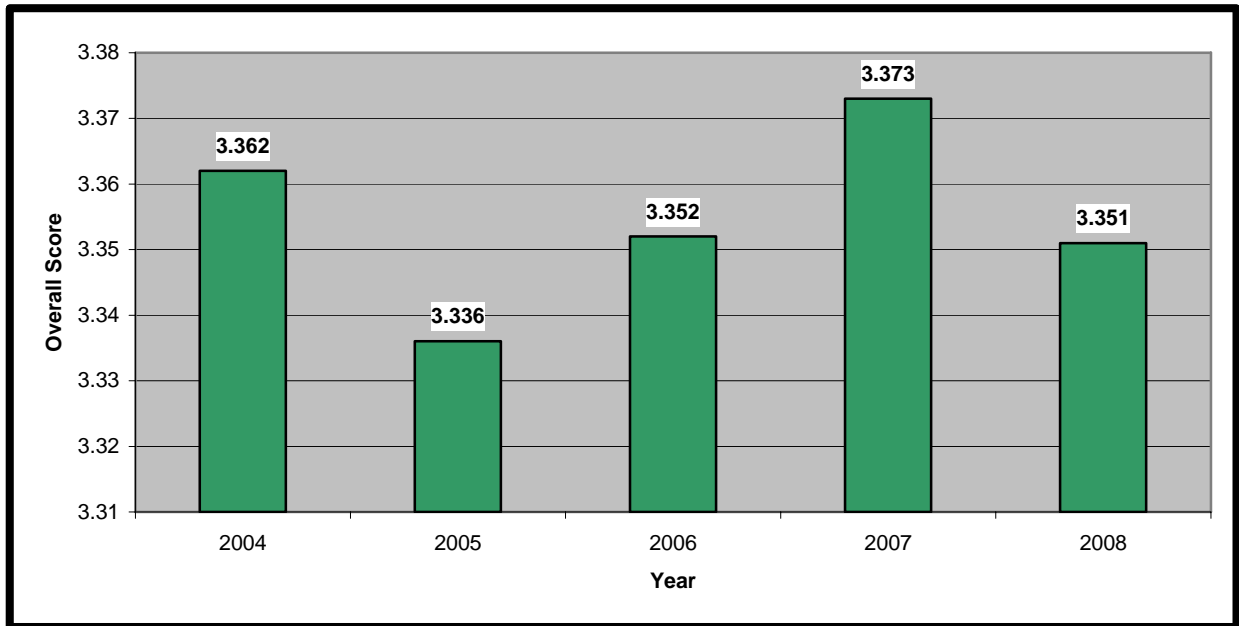
Figure 3: Compliance Cost Priorities (2008)



5. HELPFULNESS OF GOVERNMENT DEPARTMENTS

Overall, Central and Local Government agencies were found to be less helpful in 2008 compared with the peak of 2007 (see figure 4 below), returning back to levels seen in 2006. However, during these five years, the overall score has stayed in the 'fair' category in terms of the perception of all agencies.

Figure 4: Overall Helpfulness Score for All Government Agencies (2004-2008)



Companies Office Continues to be the Star

Breaking the data up into the various agencies in figure 5 below shows that the New Zealand Companies Office continues to be ranked as the most helpful agency, with its 2008 value close to that of 2004, but still not at the peak seen in 2005. It remains the only government agency to be categorised as 'excellent', and has led as the most helpful government agency since the survey began in 2003. The Companies Office continues to push boundaries in terms of ways to reduce administrative issues for companies, especially involving business solutions via new technology. For instance, the launch of a company search service for internet enabled mobile phones, which was introduced this year, highlights how many businesses view mobile technology as an integral part of their day-to-day operations.

Elsewhere, the New Zealand Customs Service (NZCS) remained in second spot, while the Ministry of Agriculture & Forestry (MAF) moved up 4 places to third spot. It was disappointing to see that the Environmental Risk Management Authority (ERMA) again slipped to last place (17th) compared with a strong improvement to 10th in 2007.

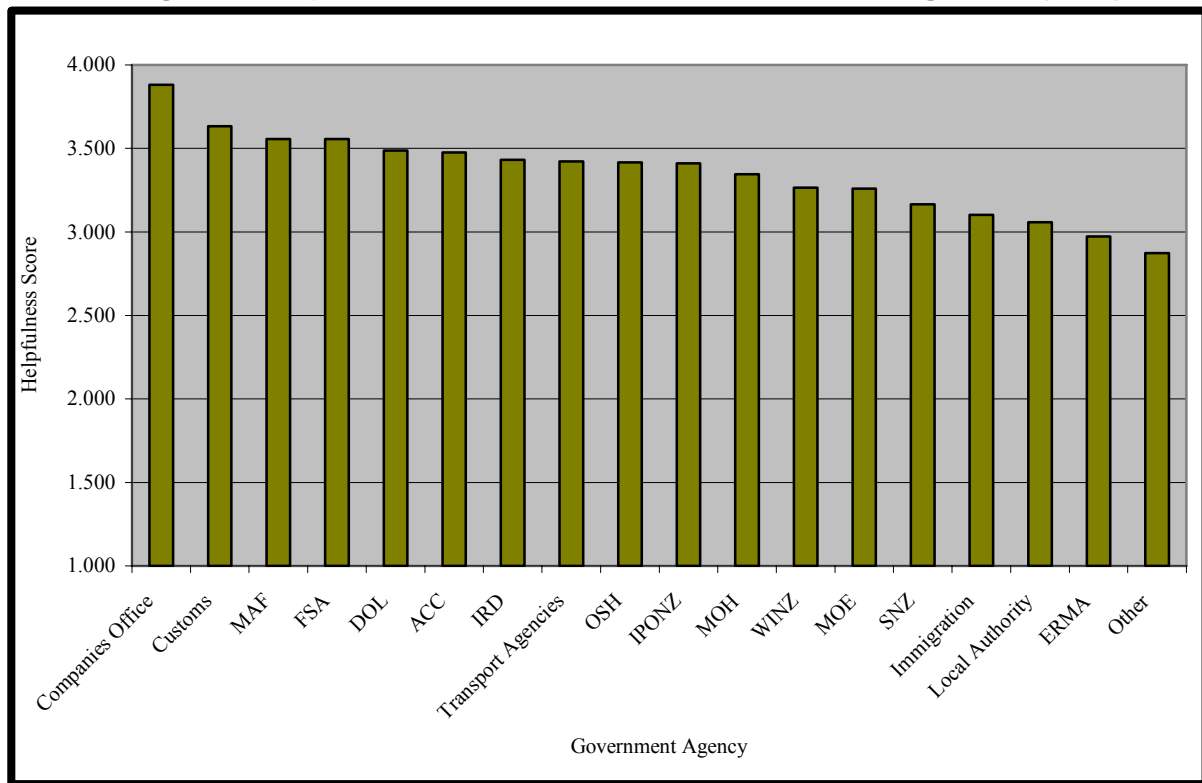
A New Government Agency Added - IPONZ

The 2008 survey included an additional Government department to monitor the helpfulness of - the Intellectual Property Office of New Zealand (IPONZ). The office was included given the increasing issues involved with intellectual property, as well as providing a gauge on the level of contact business tend to have with the office.

Overall, IPONZ was roughly mid-table (10/17 for specific Government Agencies) in terms of helpfulness, in between the Ministry of Health and Occupational Safety & Health.

Lastly, all the agencies listed in the 2008 survey were again considered by the majority of respondents to be more helpful than unhelpful.

Figure 5: Helpfulness Scores for Selected Government Agencies (2008)



6. COMPLIANCE COSTS TRENDS

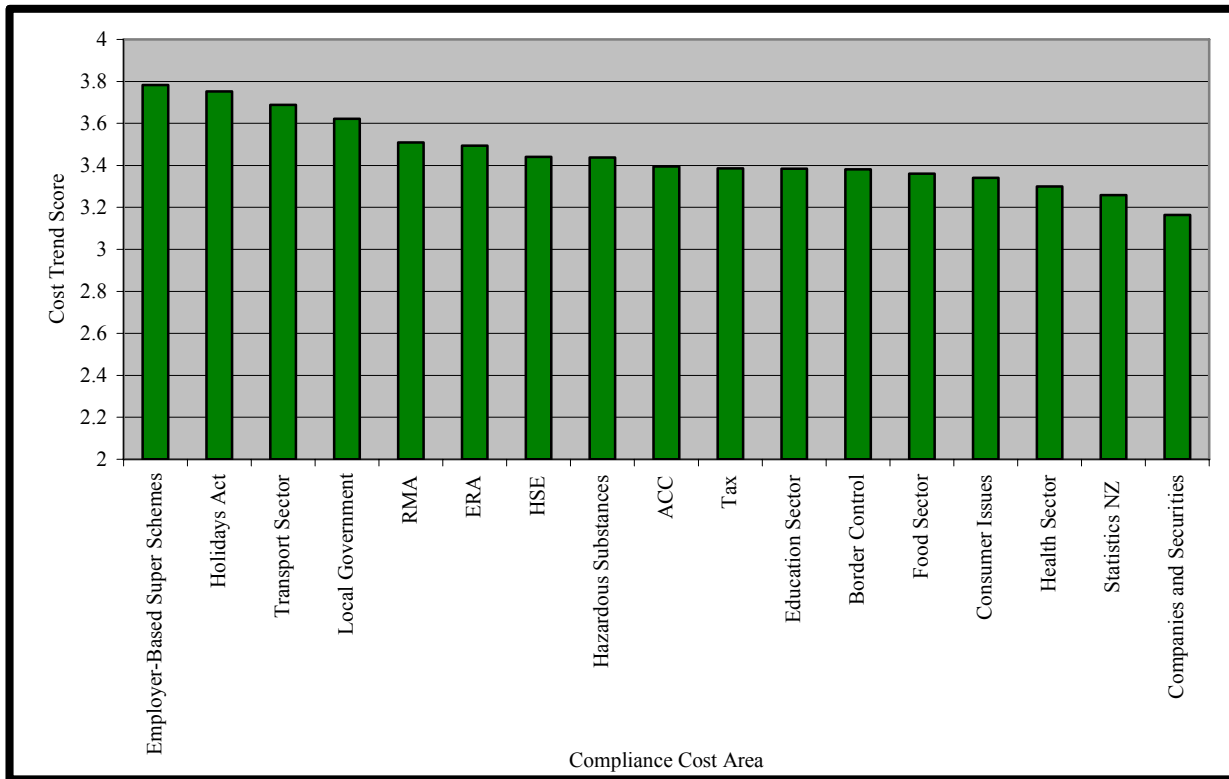
The overall score for all compliance costs areas continued to fall to 3.457 for 2008, which was the fourth consecutive fall after a strong increase in the overall trend score from 2003 to 2004. This means the overall score remains a ‘modest rise’, compared to a ‘large rise’ for 2004-2006. While this is trending in the right direction (i.e. downwards), there is still a significant way to go before there is a true decrease in compliance costs overall.

The compliance cost trend scores for each of the compliance cost areas are shown in Figure 6 below³. Of these 21 specific compliance areas, 12 showed a decrease in their overall compliance cost trend score, compared with 18 in 2007.

³ The compliance cost trend score is a sum of the weighted average scores of each of the proportions of respondents selecting ‘large rise’, ‘modest rise’, ‘no change’, ‘modest fall’, and ‘large fall’. The higher the score the more costs are perceived to have increased. The maximum possible score is 5.000 and the minimum possible score 1.000. The cost trend score does not attempt to assign a monetary amount.

As discussed above, the recording of KiwiSaver via the proxy of ERSS shows ERSS as the compliance cost area perceived to have increased the most for the 2008 survey, despite its score value actually decreasing from 2007 (3.856) to 2008 (3.783). The Holidays Act moved into second place, with a trend score (3.753) at its lowest since before major changes were introduced to the Act in 2003.

Figure 6: Compliance Cost Trends Scores by Compliance Cost Area (2008)



7. THE KEY AREAS OF COMPLIANCE COSTS

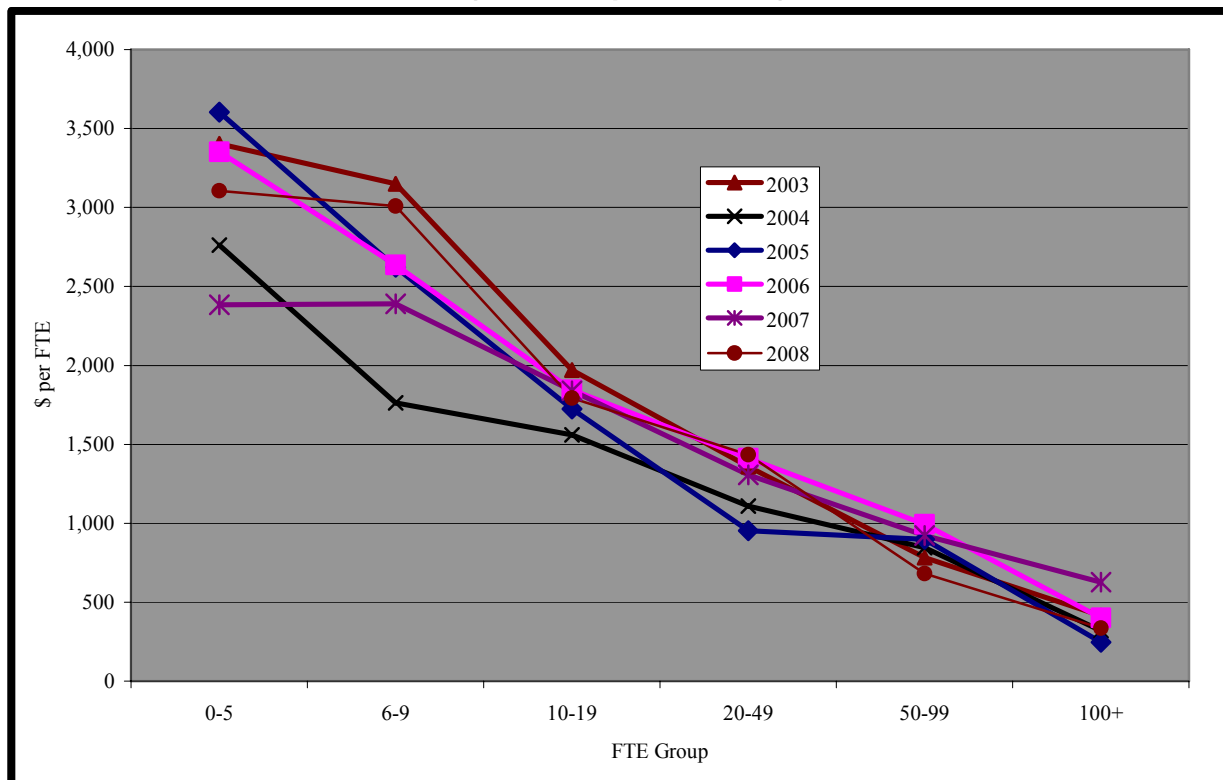
As in previous years, the quantitative costs of compliance surveyed asked for costs associated with the following areas:

- Tax
- Employment
- Environment
- Other

Figure 7 provides the most accurate way of portraying a time series of data relating to the cost of compliance for businesses. The breakdown by total compliance costs per employee by FTE size of enterprise continues to show the wide dispersion of results for micro-small firms, compared with medium-large sized enterprises.

As discussed last year, the dispersion is likely to reflect the business capability of small firms versus large firms in terms of dealing with compliance issues. Given the regulatory changes businesses have incurred over the last six years, any compliance jolts introduced are more likely to be heavily felt amongst smaller firms, as their ability to deal with new or changed regulation is relatively lesser than that of large businesses, since the latter often have staff that can be allocated the task of understanding how and when compliance is required. These results highlight how policies that minimise compliance costs for smaller firms can help to minimise any deadweight cost to the economy.

Figure 7: Total Compliance Costs per Employee by Size of Enterprise (FTE Group 2003-2008)



No Dip below the Line in the Sand for Compliance Costs

In addition, six years worth of data now provides a lengthy time series in which to draw an accurate “line in the sand” in terms of what the actual monetary costs of compliance are, and where they are heading. From KPMG and Business NZ’s point of view, it is disappointing that overall, there is still no clear indication that compliance costs are actually coming down. In fact, while total costs per FTE for the 50-99 and 100+ sized enterprises has remained relatively stable, 2004 still remains the year in which costs for micro to small firms was lower per FTE than the years after that time.

The reasons for 2008 showing an overall cost can be explained once costs are broken down into the four main areas, which is summarised in tables 2 and 3 below.

Table 2: Summary of Compliance Costs by FTE Group (2006-2008)

	0-5	6-9	10-19	20-49	50-99	100+	All Sizes
Tax							
2006	\$1,928	\$1,656	\$776	\$608	\$373	\$133	\$284
2007	\$1,253	\$1,040	\$762	\$432	\$276	\$249	\$402
2008	\$1,586	\$1,405	\$818	\$514	\$248	\$138	\$310
Employment							
2006	\$457	\$459	\$372	\$304	\$242	\$109	\$158
2007	\$407	\$415	\$407	\$313	\$277	\$132	\$223
2008	\$454	\$501	\$416	\$325	\$195	\$124	\$188
Environment							
2006	\$382	\$252	\$234	\$229	\$165	\$55	\$94
2007	\$464	\$599	\$215	\$343	\$104	\$100	\$191
2008	\$321	\$591	\$214	\$281	\$172	\$40	\$110
Other							
2006	\$586	\$269	\$463	\$271	\$213	\$104	\$155
2007	\$260	\$335	\$455	\$220	\$265	\$146	\$211
2008	\$745	\$511	\$344	\$315	\$66	\$33	\$120
Four Areas Combined							
2006	\$3,353	\$2,636	\$1,845	\$1,412	\$993	\$401	\$691
2007	\$2,384	\$2,389	\$1,839	\$1,307	\$922	\$627	\$1,026
2008	\$3,106	\$3,008	\$1,792	\$1,435	\$681	\$335	\$728

While table 2 provides the actual costs associated with compliance costs on a per FTE basis, table 3 shows the summary of movements from 2007 to 2008 for the various FTE groups. In terms of increases from 2007 to 2008, the most prevalent has been for the 0-5 and 6-9 FTE group. In comparison, the 50-99 and 100+ FTE groups have seen an overall decrease.

Table 3: Summary of Quantitative Compliance Cost Movements (2007-2008)

Per FTE Change from 2007-2008	Tax	Employment	Environment	Other	Up/Down/No Change
0-5	↑	↑	↓	↑	U= 3, D=1, NC=0
6-9	↑	↑	↔	↑	U= 3, D=0, NC=1
10-19	↑	↔	↔	↓	U= 1, D=1, NC=2
20-49	↑	↔	↓	↑	U= 2, D=1, NC=1
50-99	↓	↓	↑	↓	U= 1, D=3, NC=0
100+	↓	↔	↓	↓	U= 0, D=3, NC=1
Total	U= 4 D=2 NC=0	U= 2 D=1 NC=3	U= 1 D=3 NC=2	U= 3 D=3 NC=0	U= 10 D=9 NC=5

The compliance area of 'Other' is difficult to explore further, given its role of incorporating all other areas of compliance beyond the other three areas. However, both tax and employment show a consistent increase for smaller enterprises, while environmental costs tend to show a general decrease from 2007. This is somewhat surprising given the focus on sustainability and climate change issues that have been

prevalent over the last 1-2 years. However, this may be the “calm before the storm”, as costs associated with environmental compliance are much more likely to increase given the passing of the Emissions Trading Scheme via legislation this year.

Total Costs of Compliance for all Enterprises Down – But at Expense of Small Enterprises

Overall, the change from 2007 to 2008 in terms of costs per FTE have roughly evened out with 10 increases and 9 decreases. One positive aspect from this is that if we were to look at all sizes combined, the cost per FTE has decreased from \$1,026 in 2007 to \$728 in 2008. However, this is largely due to lower costs for larger enterprises at the expense of smaller enterprises, which given New Zealand’s business demography is not an outcome that provides the best opportunity to get the majority of businesses in New Zealand focussing on growing their business, rather than compliance with existing regulation.