



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

October 2008

1. INTRODUCTION

This report provides summary results of the sixth annual survey on business compliance costs conducted by Business New Zealand in conjunction with KPMG.

The Business NZ-KPMG compliance cost survey seeks to measure the costs of complying with legislative and regulatory requirements as well as respondents' perceptions of changes in the compliance burden and the helpfulness or otherwise of central and local government agencies.

Given its broad effect across both the business community and the general population, KiwiSaver continued to be a main area of investigation for the 2008 survey. While the 2007 questionnaire was conducted one week after the introduction of KiwiSaver, the 2008 survey has been undertaken once businesses have had more time to familiarise themselves with the compliance issues associated with the scheme. The results, while not a surprise, given the scope of change confirm the view expressed by many in the business community that the Government has some way to go before KiwiSaver is viewed as a relatively light compliance burden. Respondents indicated the KiwiSaver compliance burden being perceived as less than ideal in the scheme's first year. In addition, movements up the compliance priority ranking and trends scores (now 1st after overtaking the Holidays Act) have led to a high degree of frustration amongst businesses in trying to comply with not only the introduction of the scheme, but also changes since then.

Regarding other aspects of the 2008 survey, it is again important to note that the increased proportion of responses from micro-small businesses means the sample of respondents' quantifiable results need to be interpreted with care. Therefore, when interpreting the change in values, it is important to focus on the average FTE cost by size of enterprise, which is not as strongly influenced by the make-up of respondents from year to year. Overall, it is disappointing to see that while larger businesses have generally experienced a decrease in costs, small businesses have, in contrast, perceived an increase in their compliance costs.

Our rankings of local and central Government agencies regarding perceived helpfulness show the New Zealand Companies Office remains regarded as the most helpful Government agency, claiming the top spot for the six years the survey has been running, and continuing to push the boundaries in terms of solutions to ease compliance costs for businesses. We also note that the Intellectual Property Office of New Zealand (IPONZ) was a new addition to the list of Government agencies in 2008, with a ranking of roughly mid-table. Disappointingly, the Environmental Risk Management Authority (ERMA), which experienced a lift in helpfulness perception in 2007 dropped back in 2008 to be last.

We would like to take this opportunity to express our great appreciation to the 906 survey respondents for the valuable time they made available to complete the survey and for providing their insights on compliance issues. Also, we would like to thank the industry associations and organisations that assisted in obtaining responses from their members.

Phil O'Reilly
Chief Executive
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2. AT A GLANCE – 2008 COMPLIANCE COST SURVEY

- **KIWISAVER TAKES COMPLIANCE COST GRIP ON BUSINESSES (p.5)**
 - Increase in priority ranking.
 - Now the number one compliance cost trend.
 - Government's first year handling of compliance costs associated with KiwiSaver less than satisfactory.

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

- **MONETARY COSTS OF COMPLIANCE RISE FOR SMALLER ENTERPRISES (p.13-14)**
 - 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 the Emissions Trading Scheme may mark this as a future cost to show an 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 in New Zealand's private superannuation landscape. Latest figures for New Zealanders signing up to KiwiSaver show that the scheme now involves around one-fifth of New Zealand's eligible population, with the largest percentage of members being in paid employment. However, it has also created an administrative headache for many businesses, given they are the primary conduit through 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 more completely reflects businesses' experience 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 a 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 its current pace, there is every chance of the scheme

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 the 'large increase' classification.

Digging Deeper into KiwiSaver

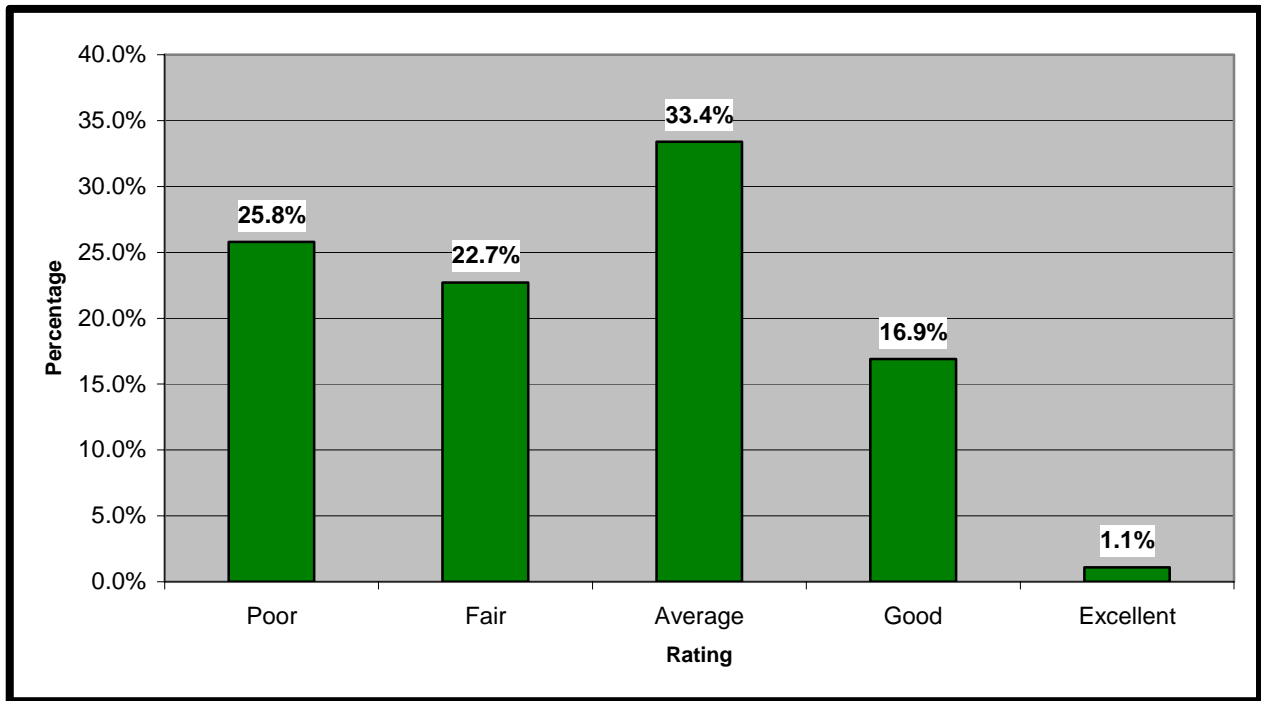
The 2008 survey also asked two specific questions relating to KiwiSaver, given its broad effect on all businesses, and currently high uptakes.

Rating the Government in its First Year of KiwiSaver

The first question asked respondents to assign a rating to the Government in terms of managing the compliance burden of KiwiSaver during its first year. Figure 1 below shows that businesses general view of Government was not favourable, with only 18% saying it 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 it either 'fair' or 'poor'. With over one-quarter of businesses believing the Government had been 'poor' in its 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.

We also recognise that significant changes were made to KiwiSaver in the 2007 Budget, with the announcement of compulsory employer contributions. We expect this has also had an impact on results.

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 common themes including:

- a not insignificant group asking for KiwiSaver to be abolished, or at least be amended to avoid impacting employers;
- a view amongst some that to significantly ease the administrative requirements, KiwiSaver should be made compulsory; and
- a request to have a “settling period”, where no more changes are made that employers (and to an extent employees) need to understand. We note that the recently announced change involving making the “total remuneration” approach to managing the employee equity issues from KiwiSaver grounds for a Personal Grievance is the antithesis of this argument. Many employers will now have to change 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 acceptable levels. The scheme itself represents significant change, and will generate compliance

costs. Subsequent amendments have themselves been significant, and are more than fine timing. As noted in the comments received, regular changes to the scheme have created a strong sense of frustration amongst businesses, with some decisions simply perceived as poor in terms of “improvements” to the scheme. To rectify these problems, even more changes may be necessary, but with a settling period warranted where possible.

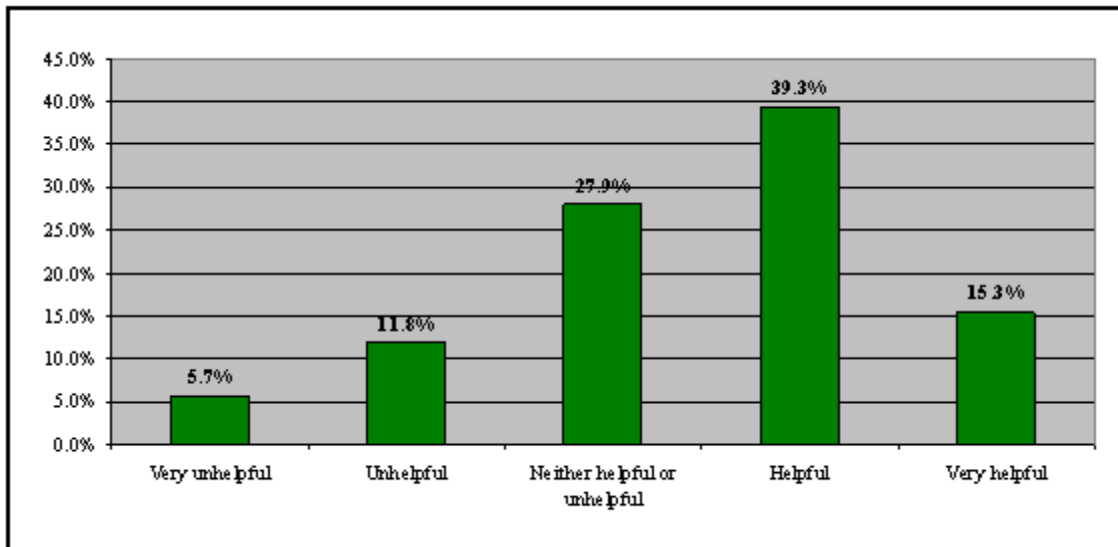
3.2 Face-to-Face Meetings with Government Agencies

Consultation is key in terms of ensuring policies changed or introduced by the Government provide the best regulatory outcome possible. To better understand communication between Government and various businesses, a specific communication question is asked every year that focuses on different aspects of business/Government communication.

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.

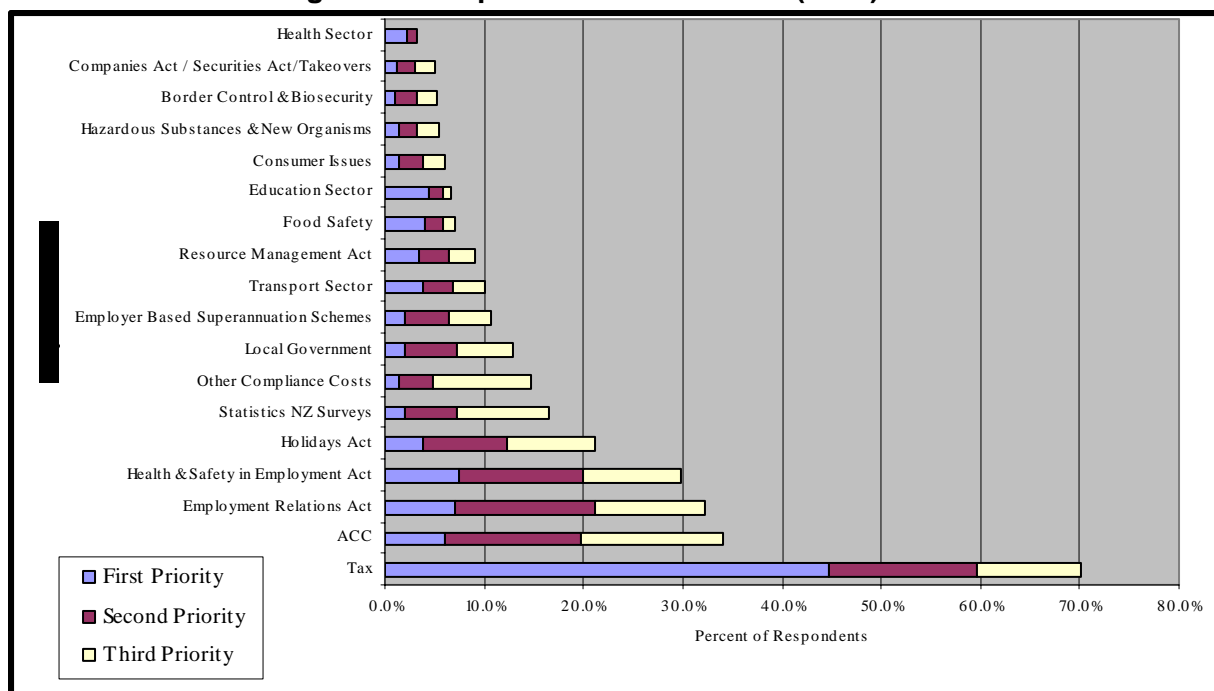
4. COMPLIANCE COST PRIORITIES

Tax Continues to Dominate

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 top 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%, only 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 in section 3 above. Results broken down by FTE group also show a similar pattern.

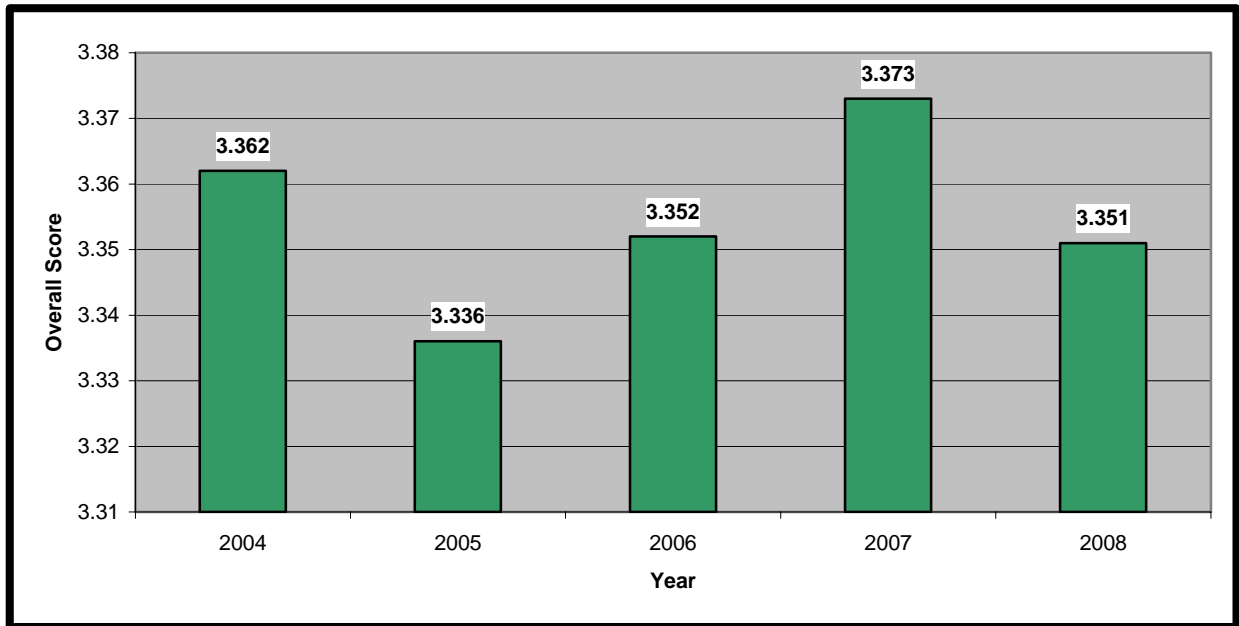
Figure 3: Compliance Cost Priorities (2008)



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), and 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)

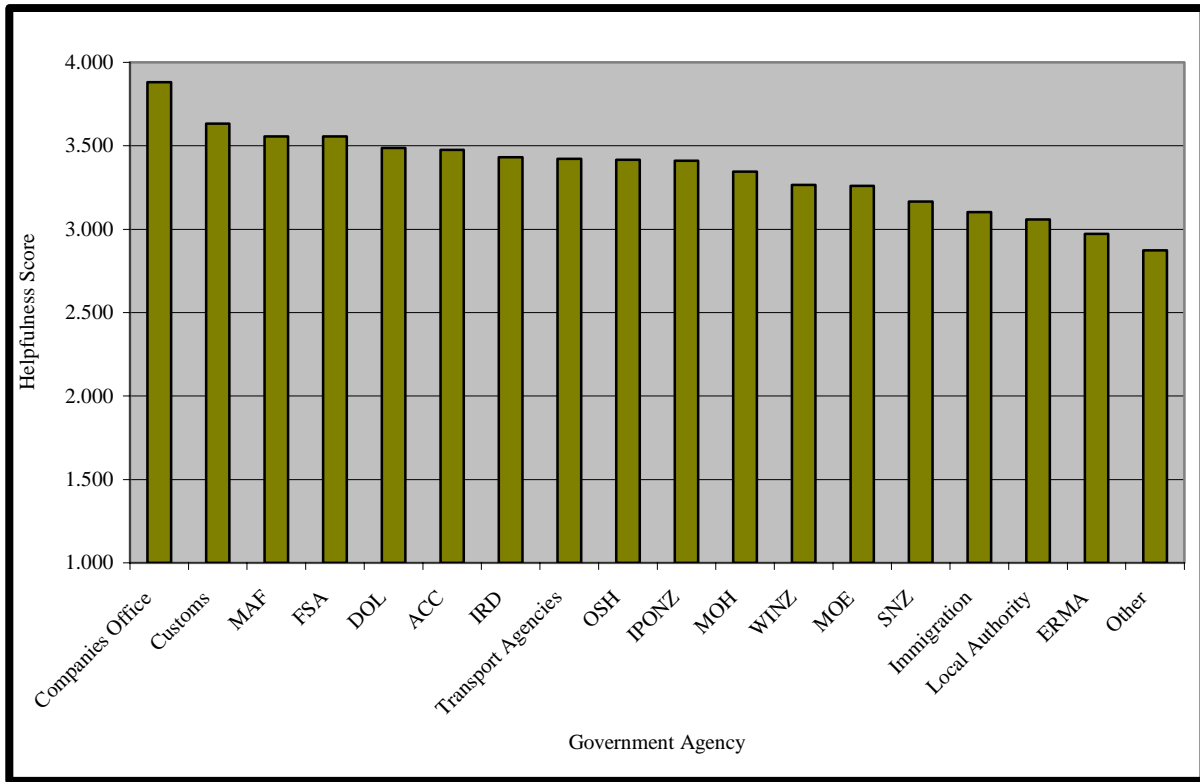


Companies Office remains the most helpful agency

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.

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.

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



A New Government Agency Added - IPONZ

The 2008 survey monitored the helpfulness of a further Government department - the Intellectual Property Office of New Zealand (IPONZ). The office was included given an increase in issues involving intellectual property, while its inclusion also provided a gauge on the level of contact businesses tend to have with the office.

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

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

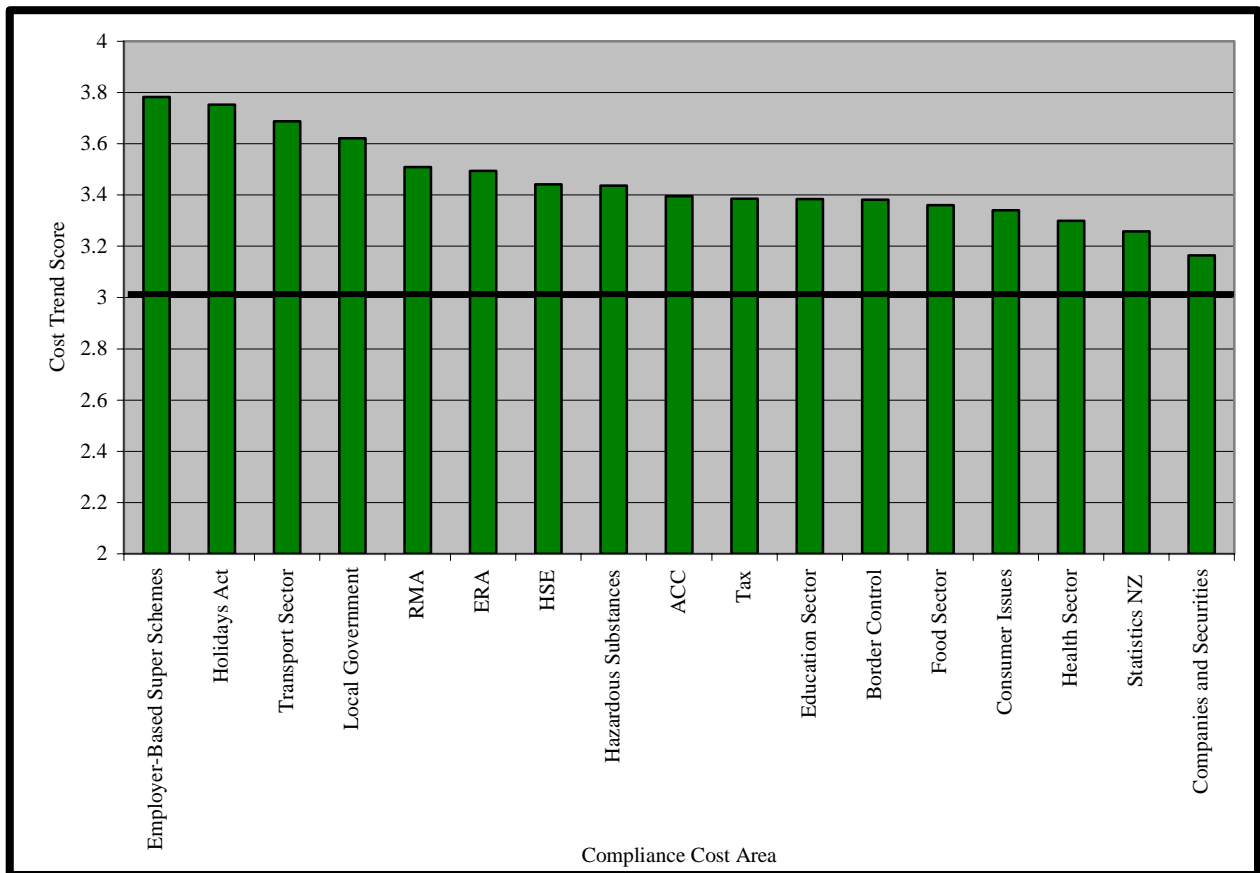
6. COMPLIANCE COST TRENDS

The overall score for all compliance cost 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 (any score above 3.0 indicates an 'increase', with a score above 3.5 showing a 'large increase'). This means the overall score for 2008 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 below¹. Of these 21 specific compliance areas, 12 showed a decrease in their overall compliance cost trend score, compared with 18 in 2007.

As discussed above, the recording of KiwiSaver via the proxy of EBSS shows EBSS as the compliance cost area perceived to have increased the most in 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

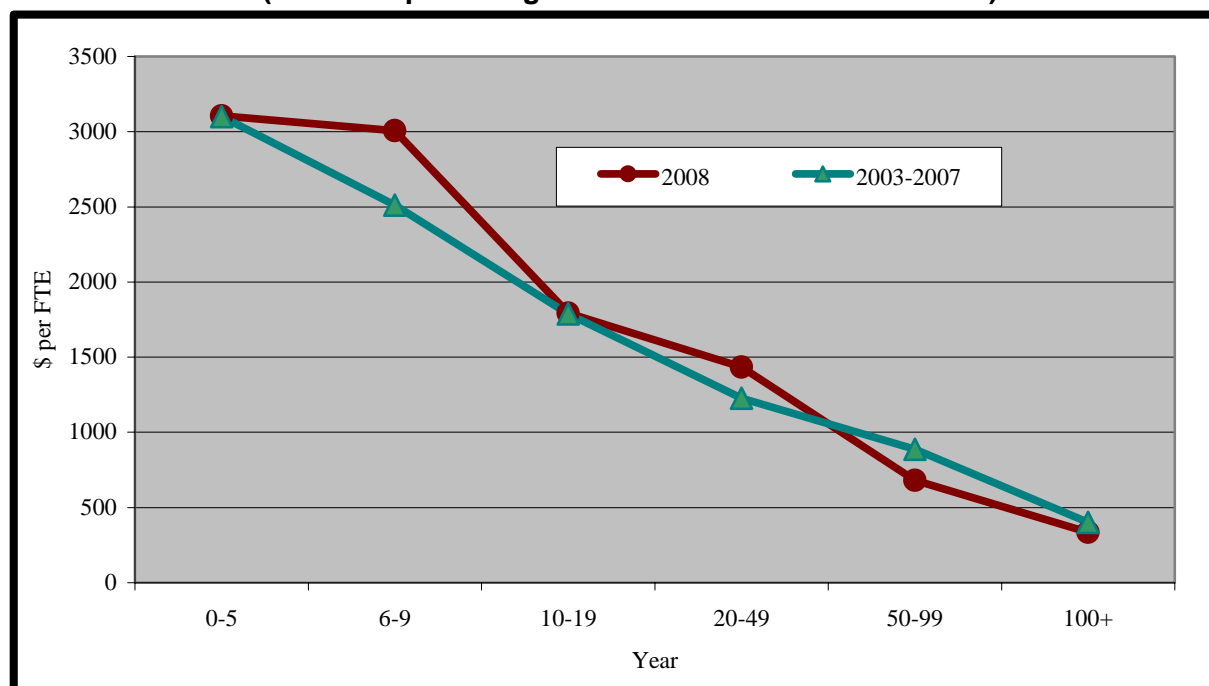
¹ The compliance cost trend score is a sum of the weighted average scores of each of the proportions of respondents selecting 'large rise', 'modest rise', 'no change', 'modest fall', and 'large fall'. The higher the score the more costs are perceived to have increased. The maximum possible score is 5.000 and the minimum possible score 1.000. The cost trend score does not attempt to assign a monetary amount.

- Environment
- Other

Figure 7 shows the average of the compliance cost measures results for the years 2003-2007, as well as the results for 2008.

At a broad level, the breakdown by total compliance costs per employee by FTE size of enterprise continues to show much higher costs for micro-small firms, compared with medium-large sized enterprises. In terms of direct comparisons between the average of 2003-2007 with 2008, compliance costs for 2008 are generally similar to previous years, although there has been a noticeable lift in costs for the 6-9 FTE group (due to a lift in tax, employment and 'other' costs). The only time when the average cost for the 6-9 FTE group was higher was in 2003.

Figure 7: Total Compliance Costs per Employee by Size of Enterprise (FTE Group: Average of 2003-2007 and 2008 Results)



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 a “line in the sand” in terms of what the actual monetary costs of compliance are, and where they are heading. From KPMG’s 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 have remained relatively stable, 2004 is still 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 decrease 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 noticeable have 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

The compliance area of 'Other' is difficult to explore further, given its role of incorporating all other areas of compliance beyond those of tax, employment and environment. 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 has prevailed 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 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 has 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. Given New Zealand's business demography, this is not an outcome that provides the best opportunity for most firms to focus on growing their business, rather than on complying with Government regulation.