



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

AUGUST 2004

1. INTRODUCTION

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

The Business New Zealand-KPMG compliance cost survey attempts 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.

While the survey measures both the amount of time spent within the business and the cost of any external advice in coping with compliance requirements, it is important to emphasise that it does not measure levels or changes in the actual costs of doing business. Examples of types of costs not measured by the survey include the amount of tax the business actually paid or, in the case of the recent changes to the Holidays Act, the increased wage and salary costs incurred in meeting increased statutory minima – these are not compliance costs.

The results of the 2004 survey indicate an overall reduction in the monetary costs of compliance over 2003's results. This is good news, but it is at odds with perceptions of compliance costs. Here the news is not so good, with a strong sense of frustration evident among respondents who considered compliance costs to have increased over the preceding 12-months. Unsurprisingly, these perceptions were particularly strong in employment-related areas, such as holidays, employment relations, and health and safety in employment – all areas where major legislative changes have been either enacted or signalled over recent times.

The divergence between monetary costs and perceptions highlights an often overlooked and unmeasured burden borne by businesses: the psychic costs of compliance, or in other words the mental stress faced by businesses in complying with their many and changing regulatory obligations.

The results of this report will be critical for the ability of the business community to monitor compliance costs and trends and ensure that their views are brought to the attention of Government. Policy makers should also find the report useful in providing a snapshot of the business community's priorities for action on compliance costs and perceptions on the helpfulness, or otherwise, of government agencies.

This summary report provides the key findings of the survey. Details are contained in the full report, which is also available from Business New Zealand and KPMG.

We would like to take this opportunity to express our great appreciation to the 949 survey respondents for the valuable time they made available to complete the survey and for providing their insights on compliance issues.

Simon Carlaw
Chief Executive
Business New Zealand

Alan Isaac
National Chairman
KPMG

2. METHODOLOGY

The survey was carried out over the period 30 June – 14 July 2004 and was once again undertaken over the Internet. The survey population was primarily (95%) comprised of members of Business New Zealand's four regional associations¹, although respondents were also sourced from KPMG clients, the Business in the Community network, and the Meat Industry Association.

As in 2003, the survey respondents were asked to provide their top compliance cost priorities, their experience of the helpfulness of central and local government agencies, and their perceptions of the trend of compliance costs over the past 12 months. They were also asked for an estimate of the number of hours spent within the enterprise and the external costs they had incurred in complying with tax, employment, environmental and other compliance costs over the past 12 months.

The 2003 survey generated considerable interest among government agencies and other interested parties and a corresponding demand for even more information in 2004. Consultations and revisions in the months leading up to the 2004 survey resulted in the total number of questions increasing from 19 to 29 and several additional compliance cost areas and agencies for respondents to consider.

As in 2003, a significant number of respondents (26% in 2004) made themselves available for further in-depth analysis of compliance costs.

In both years' questionnaires we used the following definition of compliance costs:

Compliance costs are the administrative and paperwork costs businesses incur when meeting a regulatory obligation. They include the costs of:

- *Collecting taxes and rates for central and local government (but not the actual amounts of taxes or rates);*
- *Requirements to submit information to the Government.*
- *Obligations imposed on businesses to benefit others (e.g. consumer rights, health and safety, border control, etc).*

Compliance costs can be both tangible and intangible and they can also be non-monetary, e.g. time spent dealing with paperwork as well as stress and anxiety. They can also include the time and costs of any disputes, the time taken to prepare and make applications (e.g. for permits or consents) and the subsequent wait for decisions to be made on them.

It is important to note that the survey definition excludes the additional wage and salary costs from increases in minimum entitlements under employment-related legislation. This is particularly relevant for the 2004 survey, which fell shortly after major changes were made to the Holidays Act.

¹ These are the Employers' and Manufacturers' Association (Northern), the Employers' and Manufacturers' Association (Central), the Canterbury Employers' Chamber of Commerce, and the Otago Southland Employers' Association.

3 RESPONDENT PROFILE

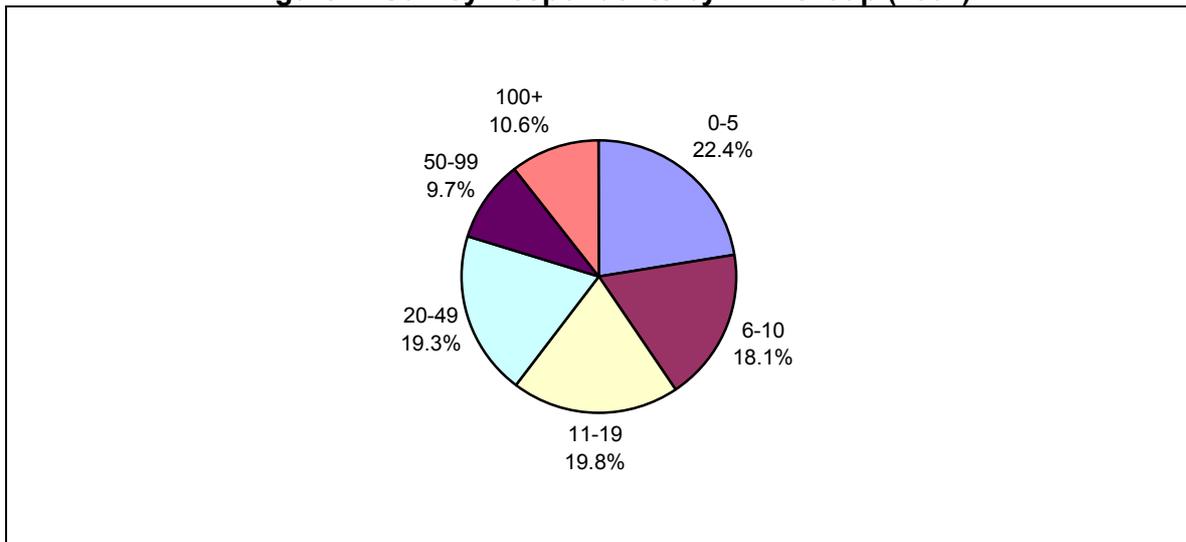
949 enterprises responded to the 2004 survey, a 25% increase on the 760 that responded to the 2003 survey.

In aggregate, the survey participants comprised a significant portion of the economy. They employed over 63,200 full-time equivalents (around 3.5% of the full-time equivalent labour force) and reported annual turnover of \$12.5 billion (9% of GDP).

As was the case in 2003, the survey respondents were skewed towards the medium-larger sized enterprises, although it is important to note that the 2004 survey had a higher proportion of smaller businesses than in 2003.

In 2003, only 33.2% of respondent enterprises employed fewer than 10 full-time equivalents (compared to 91% in the economy as a whole), while 13.2% had 100 or more full-time equivalent employees (compared to 0.5% in the economy as a whole). However, in 2004 the proportion of respondent enterprises employing fewer than 10 full-time equivalents rose to 40.5%, while the proportion that employed 100 or more dropped to 10.6%.

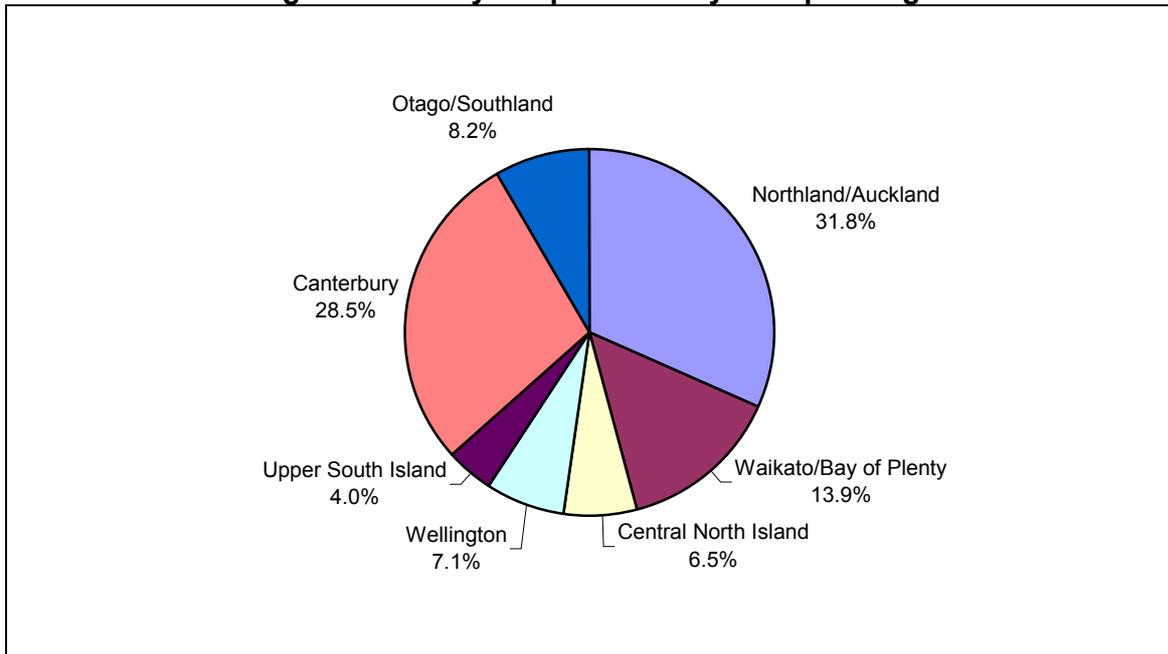
Figure 1: Survey Respondents by FTE Group (2004)



The higher proportion of smaller respondents meant that there were relatively more respondents reporting turnover of under \$1 million (35% in 2004 compared to 29% in 2003). However, a strong majority of respondents reported an increase in turnover in 2003/04 and this (as well as the 25% increase in respondents) would have been an important factor behind a doubling in the aggregate turnover of respondent enterprises to \$12.5 billion.

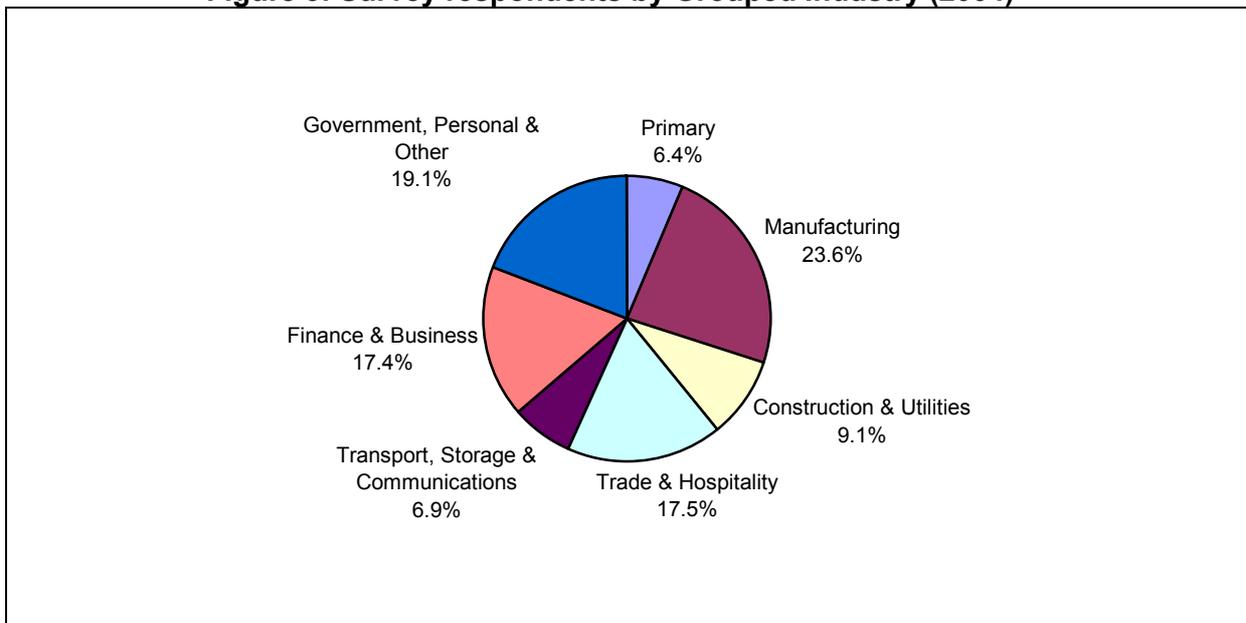
The respondents were spread throughout the country, although there were significantly more South Island representatives than might have been expected. Canterbury was particularly well represented, with 28.5% of respondents (compared to 12% of enterprises in the economy as a whole). The North Island regions were all under-represented to a greater or a lesser extent, but the North Island still accounted for 59.3% of respondents.

Figure 2: Survey Respondents by Grouped Region



There was also a wide representation of industries, although as in 2003 there was an over-representation of manufacturing and an under-representation of property and business services. Manufacturing was the largest single sector with 23.6% of respondents (compared to 7% in the economy as a whole), while property and business services had 13.7% of respondents (compared to 31% in the economy as a whole). The strong manufacturing presence is a reflection of the membership of Business New Zealand's regional associations.

Figure 3: Survey respondents by Grouped Industry (2004)



For the first time, the 2004 survey asked respondents to record the number of years they had been in operation. Only 3% of respondents had been in business for one or fewer years, while 33% had been in business for over 21 years. The survey respondents were comprised of more mature businesses than the economy as a whole.

Overall, although the 2004 survey has an improved representation of smaller enterprises, it still has a bias towards enterprises that are:

- Medium-large size,
- From the South Island;
- Involved in manufacturing; and
- More mature, in terms of the length of time in business.

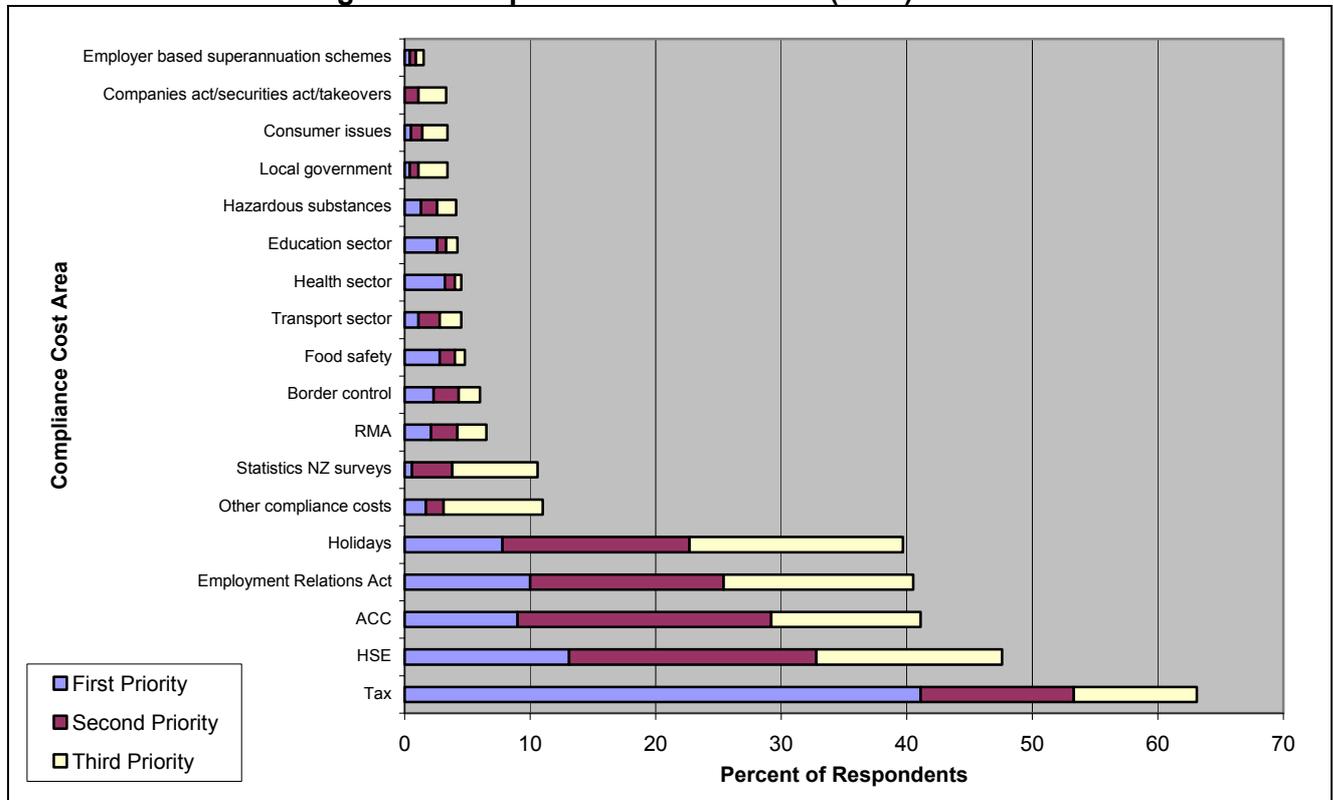
However, the breakdowns of enterprise size, industry, region, and age nevertheless provide credible data even for those areas that are relatively under-represented. For example, even though micro-enterprises (i.e. those employing 0-5 full-time equivalents) made up only 22.4% of the respondents compared to 84% of the economy as a whole, this still constituted 213 respondents.

In summary, the important point to note is that the results are indicative rather than conclusive of the economy as a whole.

4. COMPLIANCE COST PRIORITIES

As in 2003, the 2004 survey respondents were asked to assign their three highest priorities to a list of compliance cost areas. The results are shown in Figure 5 below.

Figure 5: Compliance Cost Priorities (2004)



Consistent with 2003, tax remained the most popular choice for first priority. 41.1% of respondents selected tax as their top compliance cost priority, compared to 35.5% in 2003.

A cluster of employment-related compliance cost areas followed: health and safety in employment (HSE) (13.1%), employment relations (10.0%), ACC (9.0%), and holidays (7.8%). These were in a similar order in 2003, although the respondents selecting HSE dropped while holidays increased.

When combining the respondents' top three priorities, tax still came out on top (63.1%), followed by HSE (47.6%), ACC (41.1%), employment relations (40.5%), and holidays (39.7%). The key change from 2003 is a drop in respondents concerned about HSE (and to a lesser extent employment relations) and a big increase in those concerned about requirements for holidays.

This is a continuation of a phenomenon we observed in 2003 – the angst of dealing with changed legislation. April 2003 saw the coming into force of significant amendments to the Health and Safety in Employment Act, amendments that required many businesses to make significant changes to their workplaces in the three months leading up to the 2003 compliance cost survey. As a result it came of

little surprise to us that HSE was of such a high priority for action among respondents.

We also suggested that 2003's HSE result might have been a temporary 'blip'. To some extent this would appear to have been the case, although it is important to note that in 2004 HSE fell only as far as second place. HSE is clearly still an area of ongoing concern to respondents.

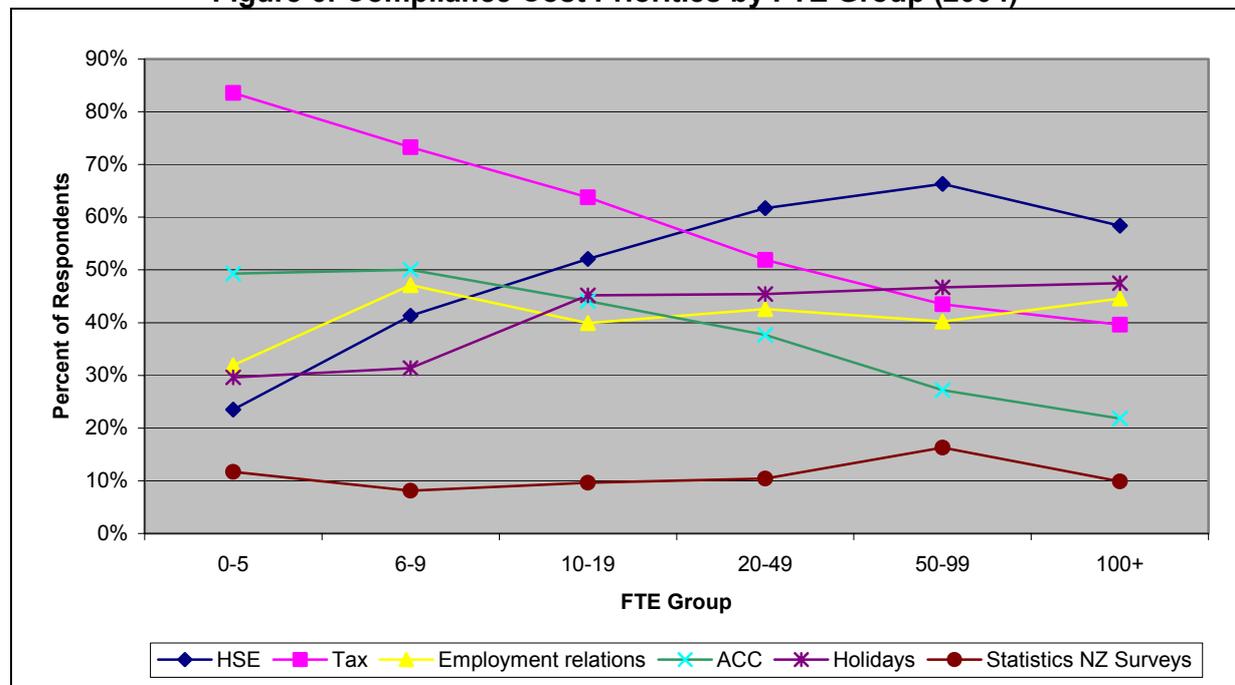
This year it was the turn of the Holidays Act to create angst within the business community. Significant changes to that Act came into force only a few months prior to the 2004 compliance cost survey.

The actual monetary compliance costs incurred by the Holidays Act (e.g., changing payroll systems) are likely to have been less than the more widespread workplace changes demanded of HSE, and this appears to have been reflected in the lower employment-related compliance costs in 2004 compared to 2003 (see section 7 of this report).

However, the Holidays Act amendments generated strong perception effects, with a great deal of uncertainty around the new regime and the well-publicised instances of large increases in holiday and sick pay (although the actual amounts paid to workers do not fall within the accepted definition of a compliance cost).

As was the case in 2003, tax compliance costs were a significantly higher priority for smaller businesses compared to larger businesses and employment-related compliance costs were a significantly higher priority for larger businesses. This is clearly illustrated in Figure 6 below.

Figure 6: Compliance Cost Priorities by FTE Group (2004)



Of the remaining compliance cost areas, the Resource Management Act (RMA) deserves further comment.

In 2003 11.3% of respondents included RMA among their top three priorities, but in 2004 only 6.5% did so. This is inconsistent with the priority placed on the RMA by the 2001 Ministerial Panel on Business Compliance Costs and even by the Government. We observed in 2003 that there were likely to be a number of reasons for its relatively low priority among respondents:

- Improved implementation of the RMA by local authorities and increased resources for the Environment Court might be helping to reduce delays and costs.
- Other issues may have become of relatively higher priority over recent years (e.g., HSE and holidays).
- RMA compliance costs usually only become apparent when an enterprise makes a resource consent application to a local authority. Most businesses will have little to do with RMA in a given year.

5. HELPFULNESS OF CENTRAL AND LOCAL GOVERNMENT AGENCIES

As in 2003, respondents were asked first to indicate whether they had had contact with a given central or local government agency. If the answer was 'yes', they were then asked to indicate the degree of helpfulness of that agency.

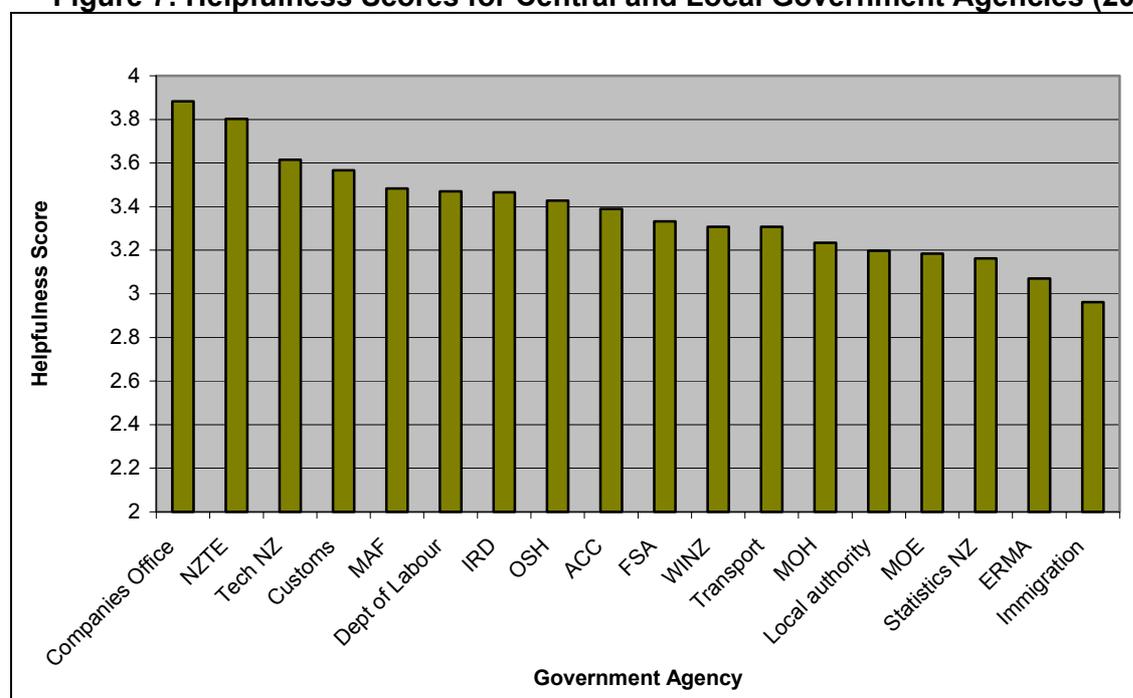
Several additional agencies were included in the 2004 survey, taking the total number of agencies from 12 to 17. Respondents were also provided with an additional neutral option, 'neither helpful nor unhelpful', which proved to be a popular option for many respondents.

Larger enterprises tended to report greater levels of contact with government agencies than smaller agencies. This was particularly pronounced for employment-related agencies.

The Inland Revenue Department (IRD) had the most contact from respondents (88.8%) with minimal variation by size of enterprise. Over half the respondents also reported contact with ACC, local authority, Statistics New Zealand and Work and Income New Zealand. At the other extreme, Technology New Zealand had the lowest degree of contact with respondents (8.6%), followed by the Food Safety Authority (12.6%).

All the agencies listed in the 2004 survey were considered by the majority of respondents to be more helpful than unhelpful, although there was considerable variability between agencies. Helpfulness scores are shown in Figure 7 below².

Figure 7: Helpfulness Scores for Central and Local Government Agencies (2004)



² The helpfulness score is a sum of the weighted average scores of each of the proportions of respondents selecting 'very helpful', 'helpful', 'neither helpful nor unhelpful', 'unhelpful', and 'very unhelpful'. The higher the score the more helpful the agency was perceived to be. The maximum possible score is 5.000 and the minimum possible score is 1.000.

Overall, larger enterprises tended to find government agencies to be more helpful than smaller enterprises. This is largely consistent with 2003's results. The 6-9 FTE group were least impressed with the helpfulness of government agencies.

The Companies Office was again considered to be the most helpful agency for all enterprise sizes, and most industries and regions. New Zealand Trade and Enterprise (NZTE), included in the survey for the first time, also scored very favourably (although one should expect that agencies providing assistance to businesses would be perceived as being more helpful than those with a regulatory and enforcement function).

The New Zealand Immigration Service (NZIS), which was also included in the survey for the first time, was considered to be the least helpful agency, across all size groups, industries and regions. NZIS was followed by last year's least helpful agency, the Environmental Risk Management Authority (ERMA).

Some agencies managed to improve their degree of helpfulness from 2003, with the biggest improvers being ERMA and the IRD. However, those that went backwards included the transport agencies, MAF, Statistics New Zealand, and local authorities.

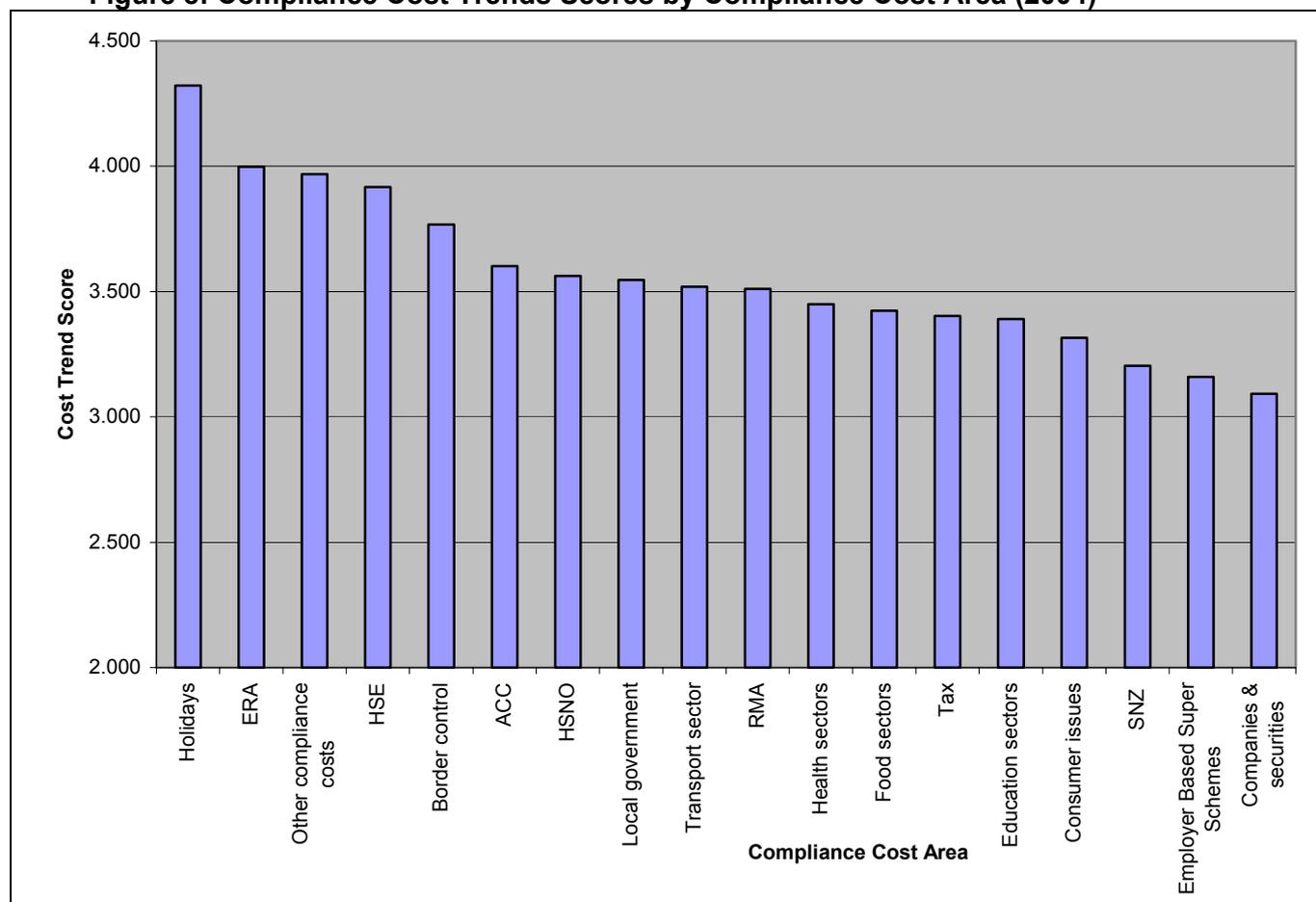
6. COMPLIANCE COST TRENDS

In this section, respondents were asked to indicate the degree they perceived compliance costs to have increased or decreased over the preceding 12 months.

As in 2003, almost all respondents to the 2004 survey considered that there had been either an increase in compliance costs or no change in compliance costs over the past 12 months. However, there was an increase (albeit very modest) in the proportion of respondents that considered compliance costs to have fallen in each compliance cost area.

The compliance cost trend scores for each of the compliance cost areas are shown in Figure 8 below³.

Figure 8: Compliance Cost Trends Scores by Compliance Cost Area (2004)



Unsurprisingly, considering the observations made in the discussion on Compliance Cost Priorities about the recently enacted Holidays Act, 87.4% of respondents perceived holidays-related compliance costs to have increased and holidays

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 were perceived to have increased. The maximum possible score is 5.000 and the minimum possible score is 1.000. The cost trend score does not attempt to assign a monetary amount.

received a trend score of 4.322. Employment relations (74.8%) and HSE (70.4%) followed. Last year, it was HSE that was the clear 'winner' with 83.3% perceiving compliance costs to have increased and a trend score of 4.264.

Border control also had a high compliance trend score of 3.767, particularly compared to 2003 when it had one of the lower scores of 3.221. This is probably a reflection of controversy over Government decisions to recover the costs of Customs' goods clearances services.

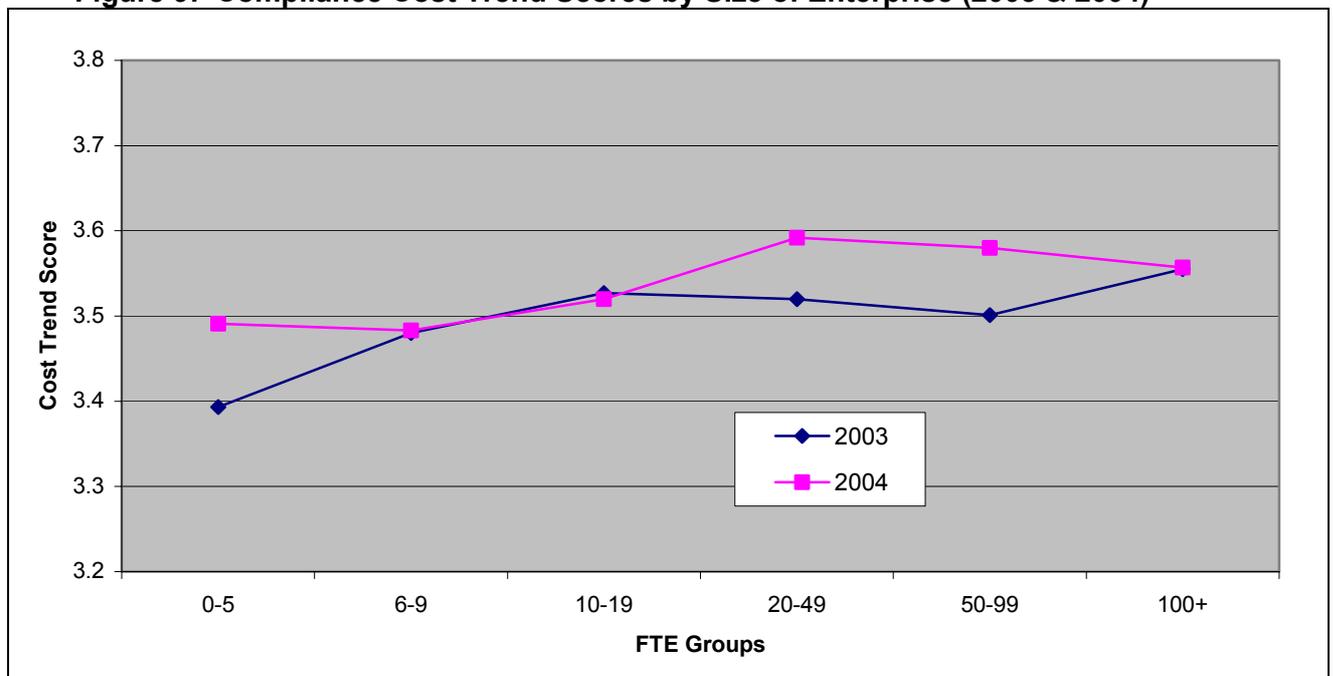
The area that respondents perceived to have experienced the least change in compliance costs was companies and securities, where 85.3% of respondents considered there had been no change. Employer-based Superannuation Schemes (83.4%) and Statistics New Zealand (78.1%) followed.

The numbers of respondents who considered that compliance costs had fallen over the previous 12 months improved on last year, but remained very small across every area. In fact, seven out of 21 specific compliance cost areas did not record a single respondent that considered compliance costs to have experienced a 'large fall'.

Companies and securities (7.2%) recorded the most respondents who considered costs to have fallen (either modestly or by a large amount), followed by GST and ACC (both at 3.4%).

The 2004 survey results suggest that smaller enterprises (i.e. those in the 0-5 and the 6-9 FTE groups) had more modest perceptions about the increase in compliance costs than larger enterprises. This is similar to 2003, although 2004's variability by size group was somewhat less pronounced. This is illustrated in Figure 9 below.

Figure 9: Compliance Cost Trend Scores by Size of Enterprise (2003 & 2004)



7. ESTIMATING TOTAL COMPLIANCE COSTS

As in 2003, respondents were asked to estimate the compliance costs they incurred over the past 12 months across four broad areas:

- Tax-related compliance costs (e.g., PAYE, GST, fringe benefit tax, provisional tax, etc);
- Employment-related compliance costs (e.g., employment relations, HSE, holidays, ACC, etc);
- Environment-related compliance costs (e.g., RMA, local authority requirements, hazardous substances, border control and biosecurity, etc); and
- Other compliance costs (e.g., Statistics New Zealand surveys, transport sector, consumer issues, companies and securities, health sector, education sector, etc).

Respondents were asked first to quantify the total hours spent internally within the enterprise on each of the compliance cost areas. The average enterprise spent 1,028 hours per annum on all compliance cost requirements, equating to around 15.4 hours per FTE employee. This is somewhat lower than in 2003, when the corresponding amounts were 1,312 hours per annum and 20 hours per FTE.

The internal cost is not the only factor as many enterprises also use and pay for external advice. For example, 77% of respondents reported using external advice on tax compliance costs and 53% used external advice on employment-related compliance requirements.

In 2004, the survey found that the average respondent's annual compliance burden came to a total \$43,876 per annum. This total cost was made up of two components:

- The average hours per annum spent within the enterprise on compliance issues, charged at a uniform rate of \$19.69 per hour⁴ (19.04 in 2003).
- The cost of out-of-house advisers used for compliance issues.

2004's average total cost was 16.8% less than the corresponding amount in 2003 (\$52,724). This can also be expressed as \$659 per FTE (\$813 in 2003) or 0.32% of turnover (0.65% in 2003).

In 2004, total compliance costs were broken up into four categories, as follows:

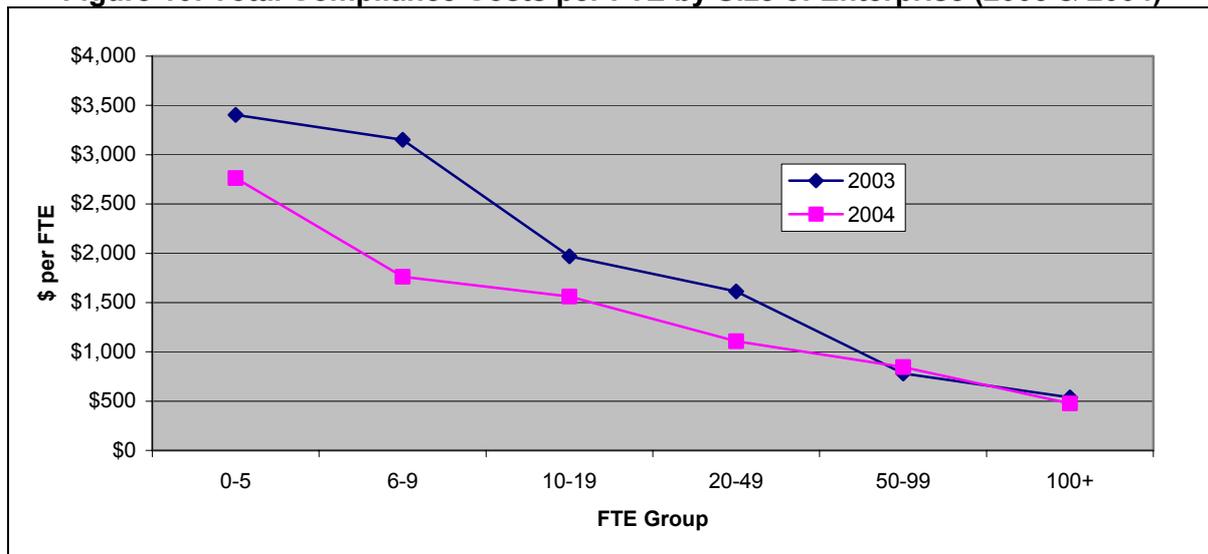
- 34% tax-related compliance costs made (30% in 2003);
- 26% employment-related compliance costs (29% in 2003);
- 18% environment-related compliance costs (25% in 2003); and
- 22% other compliance costs (16% in 2003).

⁴ This amount is the average hourly earnings from the Quarterly Employment Survey for the year ended March 2004. It is a very conservative estimate in that it is likely to significantly underestimate the value of the time spent by managers and owners.

As will be explained further below, the main reason behind the 17% fall in total average costs were the large falls in the compliance costs reported for both employment-related and environment-related compliance costs.

Figure 10 shows that small enterprises continued to have much higher compliance costs per employee compared to larger enterprises. On a per-FTE basis, compliance costs were 5.8 times higher for the 0-5 FTE group than for the 100+ FTE group.

Figure 10: Total Compliance Costs per FTE by Size of Enterprise (2003 & 2004)



On an industry basis, the primary industry and the construction and utilities industry reported the highest compliance costs for the 2004 survey. Respondents from the Upper South Island reported relatively high compliance costs, while Northland/Auckland and Waikato/Bay of Plenty both reported relatively low compliance costs.

Tax- Related Compliance Costs

In 2004, 34.0% of total compliance costs were for tax-related issues, compared with 30.1% in 2003.

On average, 323 hours per annum were consumed within each respondent enterprise on tax-related compliance issues, a slight increase on 2003's 316 hours. In 2004, the maximum hours spent by an enterprise on tax-related compliance requirements was 110,000, compared to 40,000 in 2003.

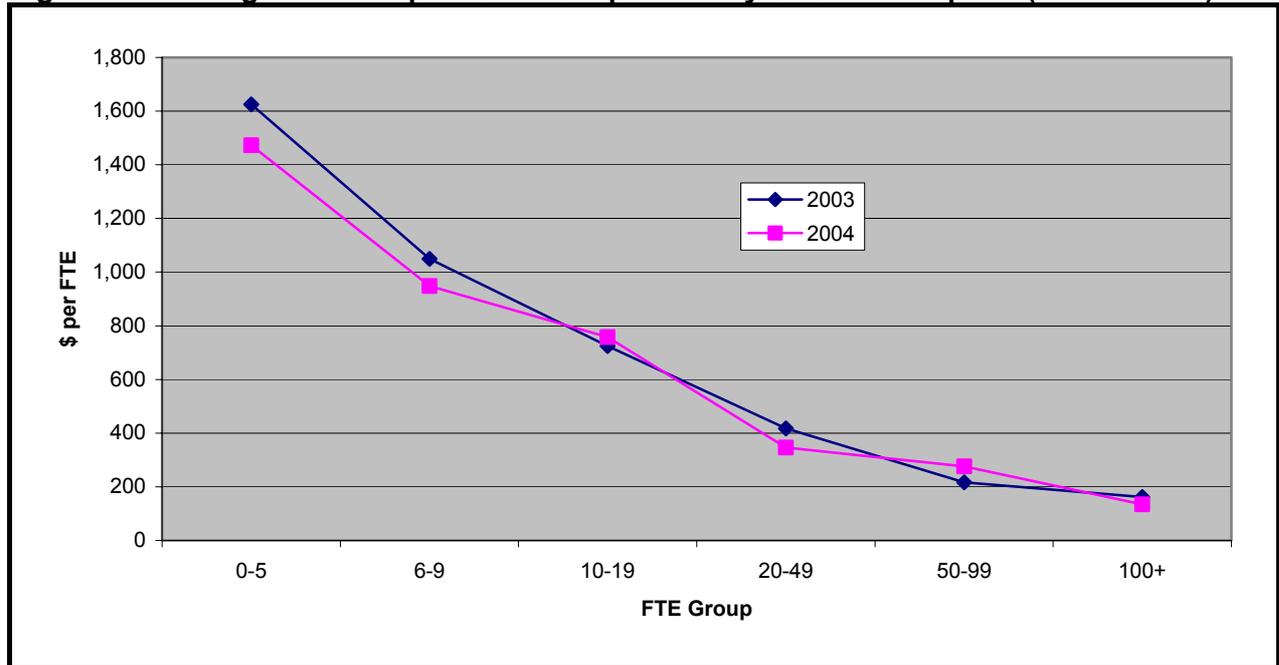
In addition, 77% of respondents used out-of-house advisers on tax-related compliance issues (compared to 78% in 2003). These respondents on average spent \$11,296 per annum for this advice, down from \$11,836 in 2003. The maximum amount spent by an enterprise on external advice was also down, from \$550,000 in 2003 to \$500,000 in 2004.

Respondents had average total tax-related compliance costs of \$14,909 in 2004, a decrease of 5.7% on 2003's amount of \$15,881. On a per FTE basis, total tax-related compliance costs fell from \$245 to \$224.

While 72% of all respondents sought information from IRD, only 34% consulted tax legislation. Both percentages were down on 2003 (78% and 42% respectively).

As in 2003, the burden of tax-related compliance costs fell disproportionately on smaller enterprises.

Figure 11: Average Tax Compliance Costs per FTE by Size of Enterprise (2003 & 2004)



Employment-Related Compliance Costs

In 2004, 25.9% of total compliance costs were for employment-related issues, compared with 29.4% in 2003.

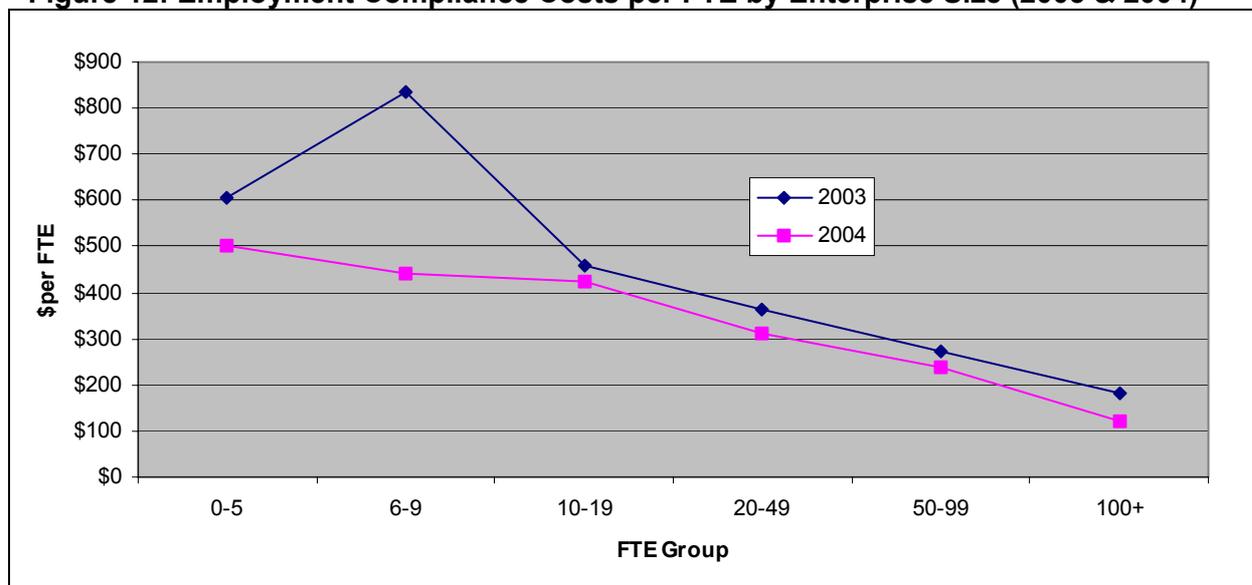
On average, 392 hours per annum were consumed within the enterprise on employment-related compliance issues (down from 550 in 2003). In 2004, the maximum hours spent by an enterprise on employment-related compliance requirements was 40,000, compared to 32,000 in 2003.

In addition, 53% of respondents used out-of-house advisers on employment-related compliance issues (down from 56% in 2003), and these respondents on average spent \$6,921 per annum on advice, down from \$8,625 in 2003. The maximum annual amount spent by an enterprise on external advice for employment-related compliance requirements was \$200,000, down from \$400,000 in 2003.

Respondents had average total employment-related compliance costs of \$11,372 in 2004, a decrease of 26.7% on 2003's amount of \$15,514. On a per FTE basis, total employment-related compliance costs fell from \$239 to \$171.

As in 2003, employment-related compliance costs per FTE were higher for smaller businesses than larger businesses, although the relationship is not nearly as clear-cut as it is for tax-related compliance costs. This is likely to be due to many small businesses not having formal employment relationships meaning that they can more easily avoid associated compliance costs. The most notable feature of figure 12 is the disappearance of 2003's spike in compliance costs for the 6-9 FTE group.

Figure 12: Employment Compliance Costs per FTE by Enterprise Size (2003 & 2004)



2004's large drop in employment-related compliance costs is at first glance inconsistent with the strong perceptions of survey respondents that their costs had increased by a large amount.

However, there are several possible explanations:

- 2003's amendments to the Health and Safety in Employment Act would have required businesses to make significant one-off changes to workplace practices, resulting in 2003 being a particularly costly year.
- 2004's amendments to the Holidays Act would have required comparatively fewer changes to the workplace and would therefore have imposed less in the way of additional compliance costs as they are defined by the survey.
- The costs of employment associated with the Holidays Act will have been substantial through increased wage and salary entitlements, but these employment costs are excluded from the survey's definition of compliance costs.
- Unlike the situation with respect to Health and Safety in Employment, there are aspects of the new Holidays Act that may only become apparent later in the year. The current review of the Holidays Act, focusing on its unintended consequences, is an indication of the uncertainty of several of its provisions, and survey respondents would therefore not have been able to comment definitively on the Act's costs while the survey was in the field. 2005's survey will capture a full 12-month's experience with the new Holidays Act.

- The uncertainty and frustration ('psychic costs') associated with the changes to the Holidays Act have been accurately reflected in the perception sections earlier in the report but they are impossible to quantify in dollar terms under this section of the report.
- A reduction in compliance costs is not in itself evidence that the level of compliance costs has become acceptable. A high base-level of compliance costs will still be negatively perceived by businesses even if those costs are less than in the previous year.

Further information will be needed from future years' surveys before any firm conclusions can be made on the change in compliance costs between 2003 and 2004.

Environment-Related Compliance Costs

In 2004, 17.9% of total compliance costs were for environment-related issues, down from 24.5% in 2003.

On average, 145 hours per annum were spent within the enterprise on environment-related compliance issues, down from 185 hours in 2003. The maximum annual hours spent by an enterprise on environment-related compliance requirements was 10,400, up slightly on 2003's maximum of 10,000.

In addition, 17% of respondents used out-of-house advisers on environment-related compliance issues, down from 24% in 2003. These respondents on average spent \$28,964 per annum on advice, down from \$39,871 in 2003. The maximum amount spent by an enterprise on external advice for environment-related compliance requirements was \$800,000, compared with \$1.8 million in 2003.

Respondents had average total environment-related compliance costs of \$7,855 in 2004, a decrease of 39.2% on 2003's amount of \$12,928. On a per FTE basis, total employment-related compliance costs fell from \$199 to \$118.

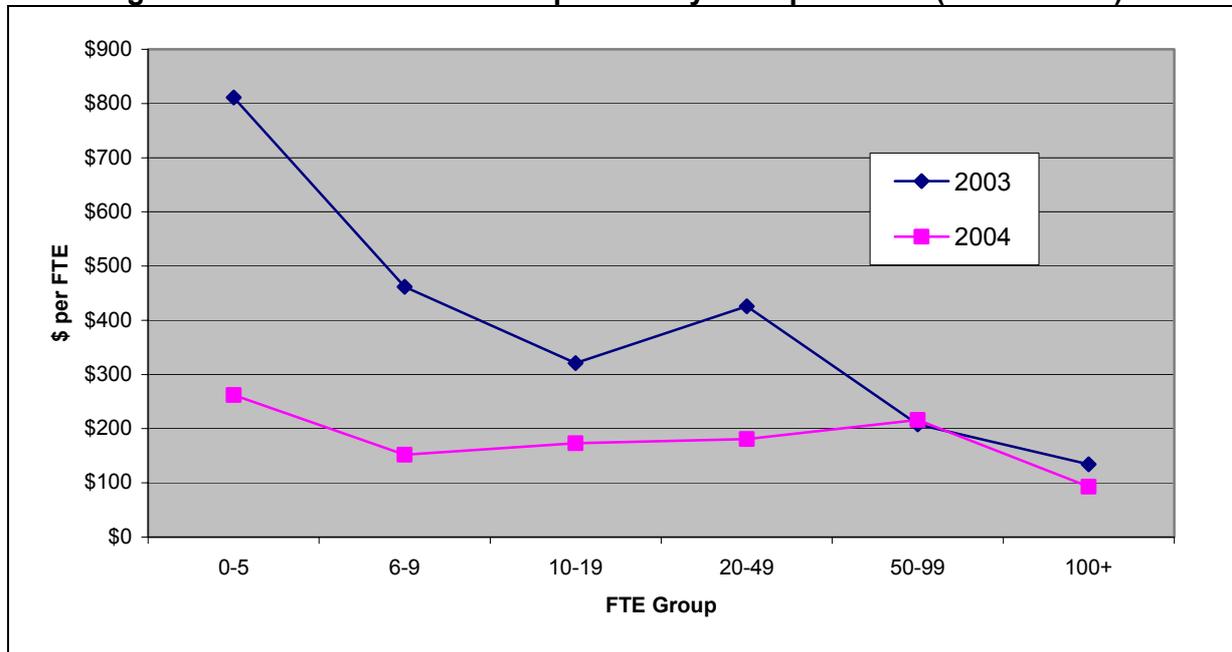
As with employment-related compliance costs, there is a seeming inconsistency between lower reported monetary costs but a perception of higher costs. Again, the definition of compliance costs is critical. As with the Holidays Act much of the increased costs associated with border security will not fall within our strict definition of compliance costs, despite being perceived as such by some businesses.

Regarding the RMA and hazardous substances, these issues will affect relatively few businesses in a given year, although the costs are extremely large for those exposed to them. Generally negative perceptions are therefore understandable.

As noted previously, a reduction in compliance costs is not in itself evidence that the level of compliance costs has become acceptable. A high base-level of compliance costs will still be negatively perceived by businesses even if those costs are less than in the previous year.

Figure 13 shows a fairly similar level of environment-related compliance costs per FTE regardless of enterprise size. This is quite a contrast to 2003, where smaller enterprises had a much higher compliance burden.

Figure 13: Environmental Costs per FTE by Enterprise Size (2003 & 2004)



Other Compliance Costs

In 2004, 22.2% of total compliance costs were for 'other' issues (i.e., those that were non tax, employment, or environment-related issues), up from 16.0% in 2003.

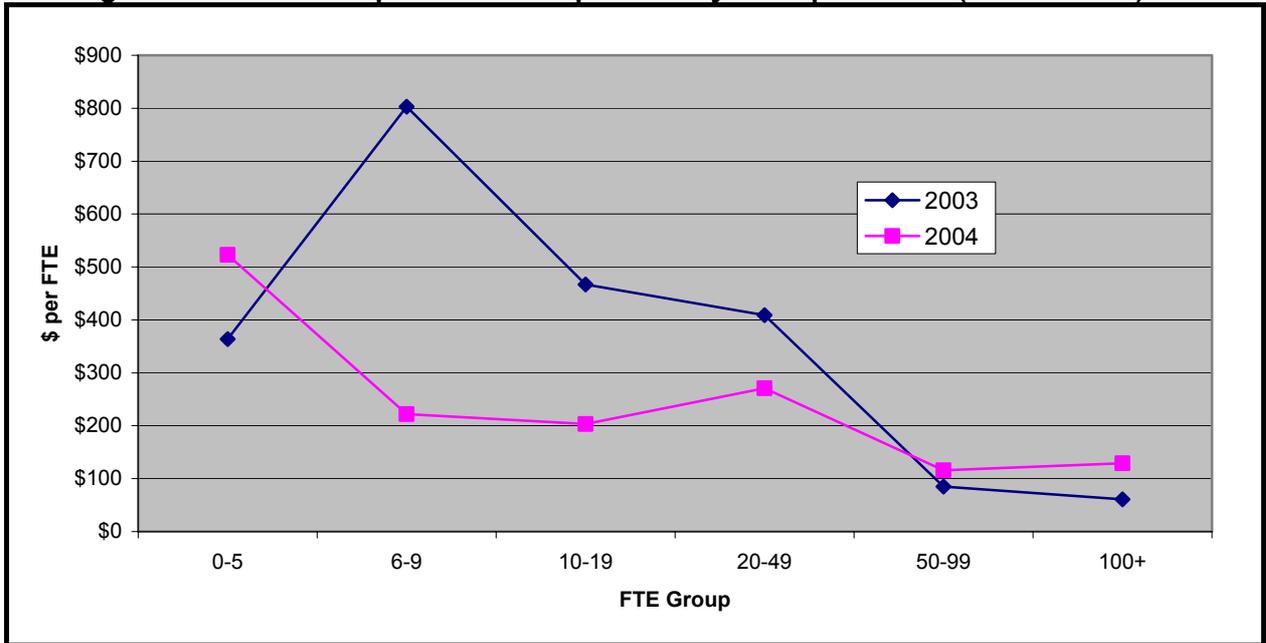
On average, 167 hours per annum were spent within the enterprise on other compliance issues, down from 261 hours in 2003. The maximum annual hours spent by an enterprise on other-related compliance requirements was 11,000, also down on 2003's maximum of 20,000 hours.

In addition, 18.7% of respondents used out-of-house advisers on other compliance issues, down from 19.5% in 2003. These respondents on average spent \$35,303 per annum on advice, almost double 2003's average of \$17,954. The maximum amount spent by an enterprise on external advice for other compliance requirements was a huge \$3.8 million, compared with \$800,000 million in 2003. This significant outlier enterprise is likely to have upwardly influenced the average costs.

Respondents had average other compliance costs of \$9,741 in 2004, an increase of 14.9% on 2003's amount of \$8,475. On a per FTE basis, other compliance costs rose from \$131 to \$146.

Figure 14 shows a trend of falling costs per FTE. As with employment-related compliance costs, the most notable result was the disappearance of 2003's spike in other compliance costs recorded for the 6-9 FTE group. Instead, 2004 saw a slight rise in other costs per FTE for the 20-49 FTE group.

Figure 14: Other Compliance Costs per FTE by Enterprise Size (2003 & 2004)



8. COMPARISONS WITH DOMESTIC AND INTERNATIONAL SURVEYS

Domestic Surveys

As well as the Business New Zealand – KPMG Compliance Cost Survey there have been three other significant domestic surveys on compliance costs in New Zealand that have been published over the past 12 months.

- *The Quantifying Compliance Costs of Small Business in New Zealand*, undertaken by researchers from the University of Otago School of Business;
- *The Impact of Business Compliance: Perceptions of New Zealand Firms*, undertaken by Massey University's New Zealand Centre for Small & Medium Enterprise Research; and
- *Auckland Chamber of Commerce Red Tape Survey* undertaken by the Auckland Chamber of Commerce.

The KPMG – Business NZ Compliance Cost Survey and the surveys listed above all offered differing results, which can be explained largely by their different methodologies and survey populations. However, there were still a number of areas where all the surveys highlighted consistent compliance cost issues. An example was the high degree of concern and frustration respondents had with employment-related compliance costs.

The National Bank also publishes a quarterly *Small Business Monitor*, which among other things, tracks the main constraints for small businesses. In the 2002 and 2003 surveys 'regulation' was the largest single issue, but in 2004 it has been overtaken by the 'lack of skilled employees'.

International Surveys

For the international compliance cost surveys, last year's survey report discussed the 2001 OECD study *Business Views on Red Tape – Administrative Burdens on Small and Medium-sized Enterprises*. In 2004, the report also considered the following reports:

- *Doing Business – Benchmarking Business Regulations*, a study by the World Bank attempts to benchmark business regulation.
- *Economic Freedom of the World*, an annual survey of economic freedom by the Fraser Institute, a Canadian based think tank.
- *Global Competitiveness Report*, an annual survey of competitiveness by the World Economic Forum.

New Zealand compares relatively favourably in most of the international surveys, but it is difficult to draw many firm conclusions when comparing compliance cost levels cross different countries, simply because every country has a different regulatory environment whether for tax, employment, environment, or other compliance cost areas. In any event, international comparisons are often redundant given the inability of most small-medium sized businesses in New Zealand to up and move their business to another country.

The important point is that New Zealand should not be complacent. If the Government is serious about improving productivity and economic growth, then it should always be seeking to actively improve the New Zealand business environment. Continued attention to compliance cost reduction must be a critical element of any such strategy.