



National Audit Office

**REPORT BY THE  
COMPTROLLER AND  
AUDITOR GENERAL**

**HC 1028  
SESSION 2008–2009**

**OCTOBER 2009**

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# Complying with Regulation: Business Perceptions Survey 2009

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National Audit Office

# Complying with Regulation: Business Perceptions Survey 2009

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Amyas Morse  
Comptroller and  
Auditor General

National Audit Office

20 October 2009

Since 2005 the Government has been seeking to reduce the cost to business of complying with the administrative activities required by regulations. Through the Administrative Burdens Reduction Programme, the Government set a target of reducing the annual administrative burdens imposed on private and third sectors by a net 25 per cent by 2010.

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# Summary

1 Since 2005 the Government has been seeking to reduce the cost to business of complying with the administrative activities required by regulations. Through the Administrative Burdens Reduction Programme, the Government set a target of reducing the annual administrative burdens imposed on private and third sectors by a net 25 per cent by 2010. The Programme aims to reduce the cost to business of complying with the administrative activities required by regulation, for example, by allowing companies to send out information to shareholders by e-mail rather than insisting it must be sent in writing. This Programme is part of the Government's wider approach to simplifying regulation, and is part of the broader agenda to improve the regulatory environment and provide the best possible conditions for business success. **Figure 1** shows how the Programme fits within the regulatory reform agenda and how this report relates to other National Audit Office examinations of regulatory reform.

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## Figure 1

### The Regulatory Reform Agenda and relevant National Audit Office examinations

#### The four main components of the Regulatory Reform Agenda are:

Simplify and modernise existing regulation

Change attitudes and approaches to regulation to become more risk based

Improve the design of new regulations and how they are communicated

Work across Europe to improve the quality of European regulation

#### The National Audit Office has examined initiatives in all four areas:

We have published two previous value for money reports (in 2007 and 2008) on the delivery and management of the Programme.

In July 2008 we published a report on how regulators were implementing the Hampton Report. Reviews of ten individual regulators were published in 2008 and 2009, and more are in preparation.

Since 2004 we have reported annually on the impact assessment process, most recently in January 2009.

In 2005 we published *Lost in Translation? Responding to the challenges of European law* (HC 26, 2005-06).

Source: National Audit Office

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**2** We published reports on the delivery of Administrative Burdens Reduction Programme in 2007 and 2008<sup>1</sup>. These reports set out detailed value for money assessments of the Programme by considering progress on delivery by departments, the calculation of claimed savings and programme management by the Better Regulation Executive (BRE). As part of each report, we also conducted a survey of 2,000 businesses to track businesses' perceptions of the burden of regulation, with the aim of carrying out further such surveys to track trends.

**3** The broad framework for delivering and managing the Administrative Burdens Reduction Programme and for estimating savings examined in our earlier reports remains in place, although the BRE has strengthened arrangements for validating claims of savings in response to recommendations in our 2008 report. However, the real test of the Programme is its success in delivering genuine and noticeable benefits for business as the changes being made by departments build up over the life of the Programme.

**4** Accordingly, we have focused this report primarily on a further survey of business perceptions, and have not reassessed our conclusions on the framework and savings estimates reached in 2007 and 2008. To do so we have carried out a third survey, to track perceptions and better understand the experience of businesses. We also tested the impact of specific initiatives through in-depth questions in one selected area – employment law, and conducted 50 in depth interviews with businesses to support our analysis and interpretation of the survey results.

**5** This report presents the survey results and sets out:

- an update on the savings claimed by departments as at December 2008, and on new arrangements for validating these claims (Part 1);
- what our survey shows about business perceptions of regulation and the Government's approach to regulating (Part 2), and about the impact of the Programme and lessons for improving the delivery of regulatory reform initiatives (Part 3); and
- how the Better Regulation Executive is seeking to evolve the Administrative Burdens Reduction programme (Part 4).

**6** The Appendix sets out in brief our methodology and survey approach. Detailed information on methodology and the full survey results can be found at [www.nao.org.uk](http://www.nao.org.uk).

<sup>1</sup> *Reducing the Cost of Complying with Regulations: The Delivery of the Administrative Burdens Reduction Programme, 2007*, HC 615, Session 2006-07; *The Administrative Burdens Reduction Programme, 2008*, HC 944, Session 2007-08.

## Key findings

### Reported progress in reducing administrative burdens

**7 Departments have remained active in reducing the administrative burden of regulations, but estimated savings must be treated with caution.** In December 2008 the BRE reported that departments had implemented 240 initiatives to reduce the administrative burden of complying and that, overall, the Government was on track to achieve the annual 25 per cent reduction target by 2010. Departments claimed to have saved businesses a net £1.9 billion per annum, but, as we noted in our earlier reports, such figures must be treated with caution. The imprecision inherent in the original baseline measurement methodology means that the estimates of administrative burdens are indicative in nature due to the small sample sizes used. Claimed reductions are therefore estimates of savings rather than an accurate absolute measure.

**8 The BRE has strengthened the validation of departmental burden reduction claims.** In response to a recommendation in our 2008 report, the BRE strengthened the scrutiny of departmental claims by establishing an External Validation Panel, consisting of trade associations and businesses organisations. The Panel reviewed simplification measures accounting for 80 per cent of the reported saving in 2008. It was not the intention of the Panel to revisit the baseline measurement methodology and the Panel does not substantiate the accuracy of the claimed savings. But its introduction gives greater assurance that departments have collected evidence and tested assumptions underpinning the claimed savings, and have communicated changes to businesses.

### Businesses' high level perceptions of regulation

**9 Complying with regulation is an important issue for business, and most view it as an obstacle to their success.** Complying was ranked second in a list of business concerns, behind 'attracting and retaining customers'. In 2009 just over 60 per cent of businesses stated that regulation was an obstacle, a level similar to previous years. The most common reasons were that businesses felt 'over-regulated' or that regulation was 'too time consuming'. However, not all businesses are negative about regulation, for example 42 per cent of businesses said that the government is getting right the balance of protecting people and the environment.

**10 Businesses' high level perceptions of government's approach to regulating remained generally more positive than in 2007, but were unchanged from 2008 to 2009.** Businesses were most positive about understanding the purpose of regulation, with over half agreeing that the purpose is clear. 45 per cent agreed that most regulation is fair and proportionate (the indicator used by the BRE), around the same level as in 2008. Businesses were less positive about how to comply with regulations; fewer than 40 per cent agreed that 'it is easy to comply with regulations'. In the last three years, the most negative views have focused on the quality of government engagement with business. In 2009, less than a third of businesses said that 'government understands business well enough to regulate' or that 'government consults well before new regulations are introduced'.



**11 As in 2008, very few businesses said that complying with regulation had become easier or less time consuming.** Just one per cent of businesses said that complying with regulations had become less time consuming in the last year, whereas 37 per cent said it had become more time consuming, and 60 per cent said it had stayed about the same. Only 3 per cent of businesses believed that complying with regulations had become easier.

**12 Businesses' high level perceptions of regulation are influenced by concerns over the introduction of new regulations or continuing changes to existing regulations.** Of those that said that complying with regulations was more difficult, 43 per cent said that this was due to the need to find out about new regulations. Of businesses surveyed, 95 per cent said that 'having to keep up to date with changes in existing regulation' had not improved or had become more time consuming over the last 12 months. Business perceptions appear to be driven by the impact of new regulations or change to existing regulations, and there is a risk that these factors outweigh the recognition of reductions in the time spent undertaking administrative activities.

### Business views of the impact of regulatory reform initiatives

**13 When questioned about detailed aspects of complying with regulation, businesses' views showed positive changes in perception.** We asked businesses about eight aspects of complying with regulations, such as 'being ready and complying with inspections' and 'completing paperwork', and found a positive shift since 2007 on all eight. For five of the eight indicators, the 2009 results were also better than in 2008. Perceptions on the burden of these individual activities improved despite 97 per cent of businesses reporting that they spent the same or more time complying. This indicates that departments have improved businesses' perceptions of complying with regulations, even though businesses did not feel this has led to time savings.

**14 Employment law initiatives are improving businesses' understanding of the requirements, but few respondents recognised that the changes had led to a time or cost saving.** We asked businesses more detailed questions about complying with employment law. Of those businesses that were aware of the Department for Business, Innovation and Skills's (BIS's) guidance or tools – provided on the businesslink website – 69 per cent felt they had improved their understanding of what is required, and 75 per cent believed they set out the information these businesses needed to comply. Less than one third of the businesses that were aware of BIS's changes reported that these had led to cost savings or helped them to run their business more efficiently.

**15 Departments have begun to place more emphasis on understanding how businesses react to and interpret regulations, in order to further develop their regulatory reform initiatives.** The Regulatory Reform Select Committee has welcomed efforts to better understand businesses' perceptions, and acknowledged work by BIS and the Health and Safety Executive (HSE) to understand how businesses interpret and react to regulations<sup>2</sup>. The Committee noted that misinterpretation can lead to over-compliance. Our survey showed that businesses commonly employed external agents as they did not believe they had sufficient knowledge of regulations and thought it worth paying for the reassurance or legal certainty that they were complying correctly.

**16 Our survey gives an insight into the information businesses seek and the way in which they prefer to receive that information. In particular:**

- only 33 per cent of businesses used the businesslink website. Our in-depth interviews indicated that businesses that had used the site were positive about it as a source of information;
- reducing the time taken to comply with regulations is important, but the results of our survey and in depth interviews show that businesses value clarity around which regulations apply and confidence that they are complying correctly; and
- views on regulation vary between different types of businesses. Medium-sized businesses were the most critical of regulation. Businesses that are changing size or entering new markets are likely to want clear information on which regulations apply. For regulations which are already part of the established practice, businesses want clear, concise information on the regulatory requirements.

How the BRE is evolving the Programme

**17 The BRE plans to continue the Programme after 2010.** In 2008 the BRE consulted on the possible introduction of regulatory budgets, which would limit the total regulatory costs of new regulations introduced by departments in any one year. After consultation, the Government decided in April 2009 that the budgets would not be implemented at this stage, but announced a package of new measures to strengthen regulatory management, and announced further action in October 2009. The measures have included the introduction of a published forward regulatory programme listing existing and possible future regulatory proposals, a new Regulatory Policy Committee to advise the government on accurate assessment of the costs and benefits of regulation, postponement of the introduction of some new regulations, and the adoption of a new simplification programme for 2010-15, with the target of reducing ongoing costs of regulation by £6.5 billion by addressing all regulatory costs on business.

<sup>2</sup> House of Commons Regulatory Reform Committee, *Themes and Trends in Regulatory Reform*, (Ninth Report of Session 2008-09, HC 329-1).

## Conclusion

**18** Departments continue to implement a wide range of initiatives within the Administrative Burdens Reduction Programme. In 2008 we found that the existence of a 25 per cent target was an important driver in incentivising departments to consider the burdens imposed by their regulations. Businesses are also reporting that individual aspects of complying with regulation have become less burdensome, indicating that departmental initiatives have delivered benefits. The strengthened validation arrangements this year have improved confidence that departments are testing the assumptions underlying their claimed reductions, although the estimated savings should still be treated with caution.

**19** However, more broadly in 2009, as in 2008, very few businesses reported that complying with regulation had become easier or less time consuming than a year before, and around a third said that it had become worse. Businesses appear to recognise some non-quantifiable benefits of initiatives, such as improved levels of clarity around what they need to do to comply. But whilst business perceptions of how government regulates are generally more positive than 2007, our survey results shows no improvement between 2008 and 2009, and most businesses continue to question whether government understands business well enough to regulate, or consults well before doing so.

**20** The limited improvement in overall business perceptions of regulation, despite the action reported by departments and the positive changes in perceptions on individual aspects of compliance, may show the effect of a continuing flow of new regulations affecting businesses that outweighs the impact of administrative burden reductions. But it may also demonstrate that the Administrative Burden Reduction Programme's approach of making a large number of incremental improvements is not enough to make a visible difference for businesses. If the government is to achieve a significant change in business perceptions, the BRE and departments must therefore look to more strategic and structural reform. The BRE is seeking to achieve this through the wider regulatory reform agenda; the evidence from our survey shows that changing business perceptions remains a very significant challenge.

## Recommendations

**21** Our recommendations focus on overall strategic direction, potentially cutting across the whole of the regulatory reform agenda; delivery of the Programme and improving initiatives within it.

### Strategic Direction

**Our 2009 survey results show that despite the efforts of departments, overall business perceptions of the overall regulatory burden are largely unchanged from 2008.** Departments and the BRE need to take action in three areas:

- a** **The results of our survey show that few businesses feel government understands or consults well with them.** Departments need to look at regulation from the perspective of the individual business, and seek to learn from businesses how best to minimise the time and cost of complying with regulation. Departments should look together at all of the regulatory demands placed on business rather than concentrating on those regulations for which each individually is responsible. Where this leads to changes that cut across departments, the BRE should take a key coordinating role in the process.
- b** **Identify more radical changes to regulatory requirements,** for example, by reviewing existing regulation to see if there is scope to remove whole requirements as well as simplifying those already in place, and considering non-regulatory means of achieving policy objectives.
- c** **Recognise the potential benefit of reducing the policy costs of regulation** as well as the administrative costs currently targeted by the Programme, for example, by ensuring that all reviews of policies imposing regulatory requirements consider the scope to simplify both administrative and non-administrative requirements.

### Programme delivery

**Our findings demonstrate the importance of understanding what matters to business.** The current measured target for the success of the Administrative Burdens Reduction Programme focuses exclusively on time and cost savings for business, and does not recognise potential broader benefits, such as improving businesses' confidence that they are complying with the requirements of regulation. The BRE should put in place mechanisms to ensure that new simplification initiatives address these broader issues:

- d** **The Government has announced that it will adopt new simplification targets for 2010-15. The BRE must take this opportunity to revise its set of indicators to incentivise departments to look beyond time and cost savings at how to improve the business experience of regulation.** The indicators should take into account qualitative benefits from the Programme, such as reducing irritants and improving businesses' confidence that they are complying fully with regulations.

- e **The BRE should ensure effective arrangements for holding departments to account against this broader set of indicators.** The BRE should consider whether the new Regulatory Policy Committee has a role in testing whether new burden reduction initiatives are based on an understanding of key business concerns.

#### Delivering initiatives

- f **The BRE and departments have been developing and implementing communication strategies over the last year, but our survey showed mixed awareness of initiatives.** Departments should ensure that initiatives address the key business concerns around complying with regulation. The results of our survey and qualitative work indicate that departments should focus on delivering initiatives and communications to businesses that:
  - raise business awareness of which regulations apply to them;
  - are tailored to the key information that different types of businesses require, for example, by considering factors such as size of business or length of time in existence; and
  - improve certainty for businesses that they have complied fully with requirements.
- g **Our qualitative interviews with business indicated that the businesslink website was an important source of information for many small businesses. The survey results show that only 33 per cent of businesses use the website as a source to help them comply.** The BRE and departments should further promote and raise awareness of [businesslink.gov.uk](http://businesslink.gov.uk) with small and medium sized enterprises. The website must provide up-to-date, clear and reliable information for business and should continue to provide information tailored a) by different stages in the business life cycle, and b) by different types of business.

# Part One

## Progress in reducing administrative burdens

**1.1** This Part sets out:

- an update of the savings claimed by departments; and
- details on the validity of the claimed savings.

### Claimed and forecast savings

**1.2** In 2005 the Government introduced the Administrative Burden Reductions Programme (the Programme) to reduce the administrative costs businesses incur when complying with regulation. It focuses on reducing the costs to business of carrying out the administrative activities that businesses would not undertake in the absence of regulation, but that they have to undertake in order to comply. For example, the Companies Act 2006 has allowed 1.2 million companies to send information to shareholders by e-mail rather than by hard copy, resulting in administrative savings related to printing and postage.

**1.3** In 2005-06 departments mapped existing legislation and estimated the administrative burden of complying. The administrative burden in the UK was estimated at just under £20 billion as at May 2005. Most departments have committed to reducing administrative burdens by 25 per cent by the end of the current programme in May 2010. The target is a net figure, calculated by measuring gross administrative savings and netting these off against administrative costs of new regulations.

**1.4** In December 2008 the Better Regulation Executive (BRE) announced that departments had implemented some 240 changes to existing regulations and, as a result, had delivered an estimated £1.9 billion in net annual administrative burden reductions since 2005.<sup>3</sup> This represents a 14 per cent saving against the original baseline costs, over half way towards the 2010 target. The claimed level of administrative savings was more than twice the level claimed in 2007, indicating continued action to deliver the Programme across departments but also the lead time required to design and implement projects (**Figure 2**).

<sup>3</sup> Details of the 240 changes can be found published in departmental Simplification Plans.

**1.5** As a taxing authority, HM Revenue and Customs (HMRC) is not part of the whole of government Programme, but it shares the aim of reducing administrative burdens imposed by regulations. It has been set separate targets by the Chancellor and report progress against them through the Budget cycle. HMRC has committed to reduce, by 2010-11, the cost of complying with tax forms and returns by 10 per cent, and reduce the cost to compliant businesses of complying with audit and inspection by 15 per cent. In April 2009, HMRC reported to have delivered savings of:

- £330 million relating to the reduction in the burden of forms and returns, a reduction just under its 10 per cent target;
- £43 million through reducing the burden of audits and inspections, which was the same as in 2007 and 2008, and represents a 31 per cent saving against the baseline; and
- £168 million from wider administrative changes.

### Validity of the claimed savings

**1.6** The claimed saving figures must be treated with caution. In our 2007 and 2008 VFM reports, we concluded that the imprecision inherent in the original measurement methodology meant that estimates of administrative burdens are indicative in nature due to the small sample sizes used. Attempting to carry out statistically representative assessment would have been more expensive and difficult to achieve. The figures of claimed reductions are therefore estimates of savings, rather than an accurate absolute measure.

**1.7** In our 2008 report, we also concluded that the claimed reductions (as at December 2007) were not calculated on a consistent basis and were subject to only limited independent validation. Whilst we recognised that the BRE were tackling the problem of greater consistency in estimating savings, we recommended that the BRE introduced further measures to ensure that the claimed savings were externally validated:

*they should validate all high claims; validation should involve representatives from businesses or business organisations to test bigger claims.*

### Figure 2

Net reductions in administrative burdens (excluding HMRC)

	Claimed reductions to May 2007	Claimed reductions to December 2008	Forecast reductions to May 2010
Gross savings	1,200	2,600	4,200
New burdens	600	700	800
<b>Net reduction</b>	<b>600</b>	<b>1,900</b>	<b>3,400</b>
<b>Percentage reduction</b>	<b>5</b>	<b>14</b>	<b>25</b>

Source: *Making your life simpler, Simplification plans: a summary, Better Regulation Executive, December 2009*

**1.8** The external validation of burden reduction initiatives should help to ensure that departments have collected robust evidence to support their claimed reductions. The BRE responded to the recommendation in our report by setting up the External Validation Panel (**Figure 3**).

**1.9** In 2008, the largest claimed savings were considered by the validation panel before being published as progress in reducing administrative burdens. The Panel examined the 24 initiatives with the highest level of claimed savings, which represented 80 per cent of the total savings. The Panel initially approved 12 of the initiatives, rejected one and requested a further detailed review of 11 cases. As a result, £1.5 billion of gross reductions were approved, and a further £200 million approved pending ongoing work. The added scrutiny of the panel led to £45 million of claimed savings being removed by departments from their claims.

**1.10** The work of the Panel is important as it ensures that:

- departments collect evidence to support their claimed saving and increasingly consult with business; and
- the key assumptions behind the claimed reductions are tested by external business representatives.

The work of the Panel does not, however, provide any more certainty that the claimed savings figures are accurate. The Panel was asked to consider the underlying assumptions on which departments based their calculation of claims, but they were not asked to consider the accuracy of the calculations or the baseline data used. It seems sensible that the Panel does not get drawn into a debate over the accuracy or precision of the estimated savings; as we have outlined, the small sample sizes used in the original baseline measurement exercise means the claimed savings can only be estimates rather than accurate absolute measures. So even with the independent validation, the figures still need to be treated with caution.

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### **Figure 3** External Validation Panel (EVP)

The Panel consists of representatives from the British Chambers of Commerce, Confederation of British Industry, the Federation of Small Business, the Institute of Directors, and the Trades Union Congress.

The terms of reference of the Panel were determined by the BRE and are:

- a** to take a view on whether departments' reported savings have been subject to adequate external scrutiny; and
- b** to test the assumptions which will underpin the reporting of delivered administrative burden reductions.

*Source: Better Regulation Executive*

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# Part Two

## Businesses' high level perceptions of regulation

**2.1** The real test of the regulatory reform agenda is the extent to which it delivers genuine and noticeable benefits for businesses. For the last two years we have surveyed businesses about their experiences of complying with regulation and, in February to March 2009, we undertook a third survey. The results in this section provide an insight into businesses' high level views on regulation and any shifts in broad perceptions between 2007, 2008 and 2009. In particular, this part sets out business views on:

- the importance of reducing the burden of regulation;
- government's approach to regulating; and
- complying with regulation.

In this part, the survey results are set out in the main body of the text and the boxes entitled 'NAO analysis' provide our interpretation of the results. Our judgements are based on detailed analysis of the survey results, supporting evidence from 50 qualitative interviews and information from our advisory network of business organisations.

### The importance of reducing the burden of regulation

**2.2** Complying with regulation is an important issue for business. When asked about the greatest challenge to their business, 'complying with regulation' ranked second out of six factors presented (**Figure 4** overleaf). Despite the current economic climate, complying with regulation was ranked higher in the challenges business face than both 'access to finance' and 'staff redundancies'. Overall, 62 per cent of businesses stated that complying with regulation was an obstacle to their success, a small but significant increase on 2008 and 2007. The most common reasons were that businesses felt 'overregulated' and that regulation was 'too time consuming'.

**2.3** The importance of regulation varies amongst different types of business. Those firms that operate in the agricultural sector or in finance are the most likely to say complying with regulation is their greatest challenge. Older, established firms in particular put regulation at the top of their list of challenges.

**2.4** Thirty per cent of businesses, however, did not believe that regulation was an obstacle to their success. These businesses in particular recognised the need for regulations, and nearly one third accepted that regulations were ‘just something they had to do’. Many businesses also recognised that regulations can provide legitimate protections. Of businesses surveyed 42 per cent stated that the Government is getting the balance right in terms of weighing up the cost of regulation against protecting people and the environment from harm.

*“the benefit [of health and safety regulation] is that you have a full work force coming in to work day in day out, week in week out, and no accidents”.*

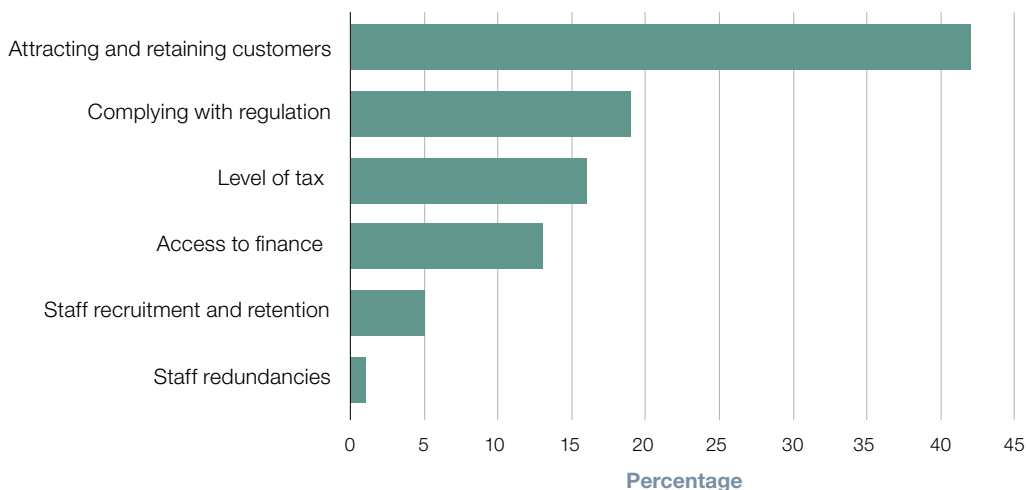
Senior manager of a medium sized business (50 – 259 employees)

Source: NAO/FDS International qualitative research 2009

**Figure 4**

Views on the most challenging aspect of running a business

Of the following six factors which may affect your business, which would you say currently presents the greatest challenge?



Source: National Audit Office/FDS International survey 2009

**NOTE**

Base: 2,037 UK businesses, surveyed Feb–March 2009.

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**NAO analysis:** The survey results indicate that the regulatory reform agenda is important for business and will remain so going forward. Departments will need to continue to reduce regulatory costs. At the same time, many businesses do recognise the need for regulation, and the lessons from the financial crisis demonstrate the importance of implementing an effective regulatory framework. The BRE should more strongly reflect this balance by promoting the benefits of regulation, and ensuring that the targets do not drive change without evidence of real benefits for business. Regulatory reform initiatives must therefore be based on a thorough understanding of how businesses interpret and react to regulations.

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## Government's approach to regulating

**2.5** For the last three years we have asked businesses a common set of questions about their experience of regulation. Responses to these questions are likely to be influenced by the overall cost imposed by regulations or, more generally, by the purpose of the regulations themselves. In 2009, business perceptions have remained at the same level as in 2008 across all seven indicators (**Figure 5** overleaf). The responses to most questions remain, however, more positive than in 2007.

**2.6** **Figure 5** shows that businesses were most positive about the purpose of regulation and whether it was 'fair and proportionate'. Businesses' views on complying with regulation were slightly less positive and remained at the same level as 2008. However, businesses were most negative about the government's approach to regulating. The highest level of concern, which was consistent across the three years, focused on how well the government consults with business before new regulations, or changes, are introduced. In more detail, the survey showed that:

- more businesses agreed than disagreed that 'the purpose of regulation is generally clear' and that 'most regulation is fair and proportionate';
- forty-four per cent of businesses agreed that it was straightforward to understand what they are required to do to comply, although 47 per cent disagreed. Thirty eight per cent of businesses agreed that 'it is easy to comply with regulations'; and
- twenty per cent of businesses believe the government consults well prior to change.

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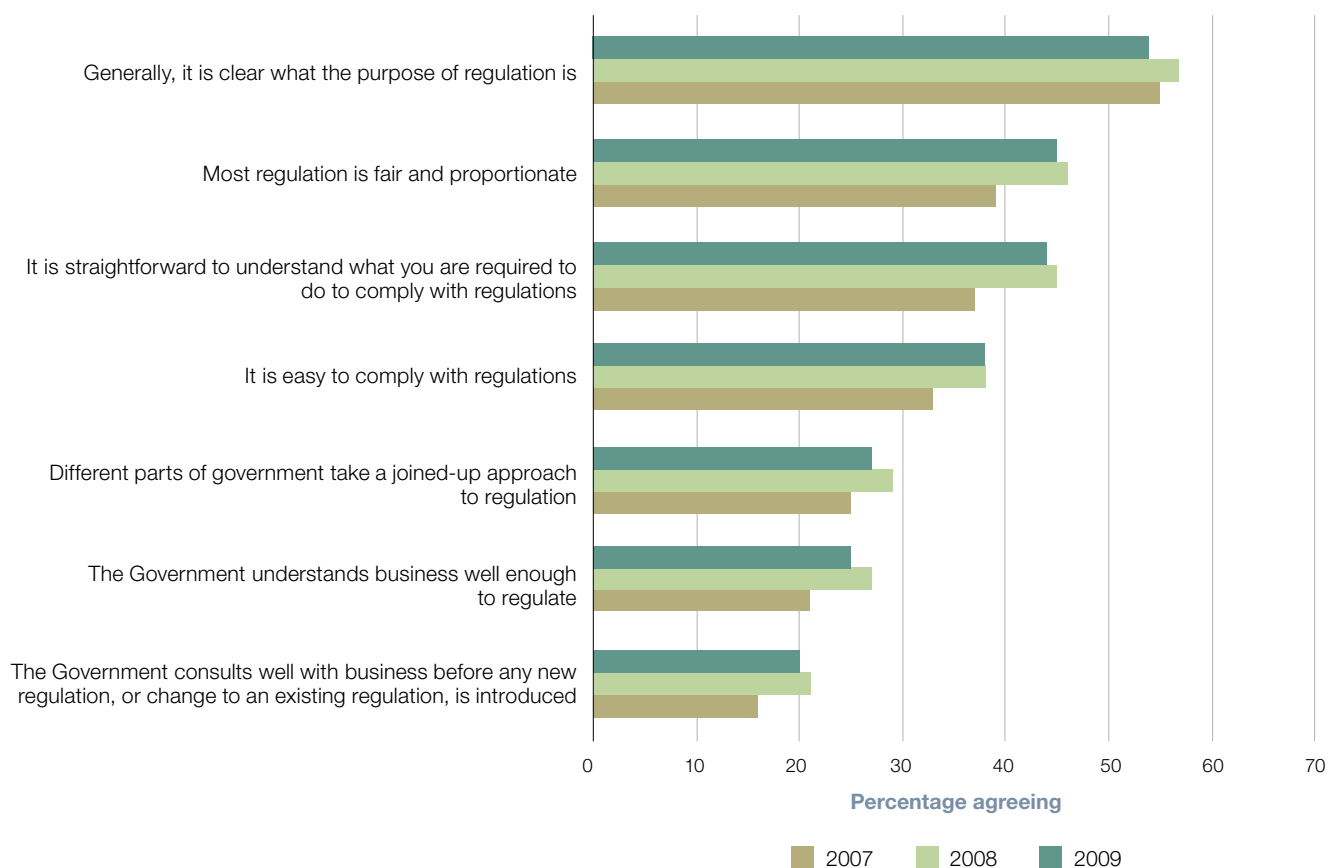
**NAO analysis:** Businesses were more positive about regulation in 2009 than they were in 2007, although the 2009 results remained at about the same level as in 2008. The results show that the majority of businesses understand the need for regulation, but are less confident on what they need to do to comply. Raising businesses' awareness and understanding of regulation is likely to improve perceptions of government's approach.

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**Figure 5**

## Business perception of Government's approach to regulating

Do you agree or disagree with the following statements about the governments approach to regulating in this area?



Source: National Audit Office business survey

**NOTE**

Base: 2,000 UK businesses surveyed Jan–March 2007, 2,000 UK businesses surveyed Jan–March 2008, and 2,037 UK businesses surveyed Feb–March 2009.

**Complying with regulation**

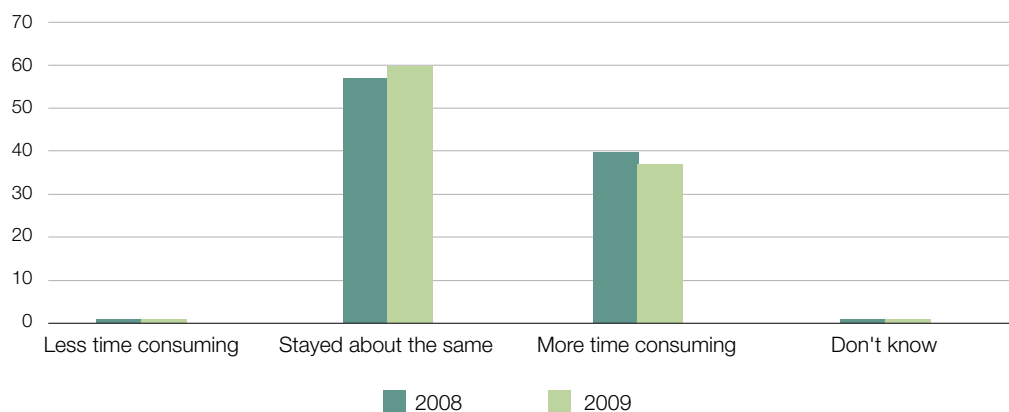
**2.7** Most businesses perceive that complying with regulation has not become less time consuming or easier in the last 12 months. Only one per cent of businesses believe regulation has become less time consuming over the last 12 months, 37 per cent stated that it took longer and 60 per cent stated it had stayed about the same (**Figure 6**). Similarly, just three per cent believed that complying with regulation has become easier, whereas 30 per cent stated it had become more difficult and 65 per cent stated that it had stayed the same (**Figure 7**). These results are similar to the 2008 figures.

**Figure 6**

## Businesses' views on the time taken to comply with regulation

Overall, has complying with regulation become less time consuming, more time consuming, or stayed about the same over the last 12 months?

Percentage



Source: National Audit Office Business survey

**NOTE**

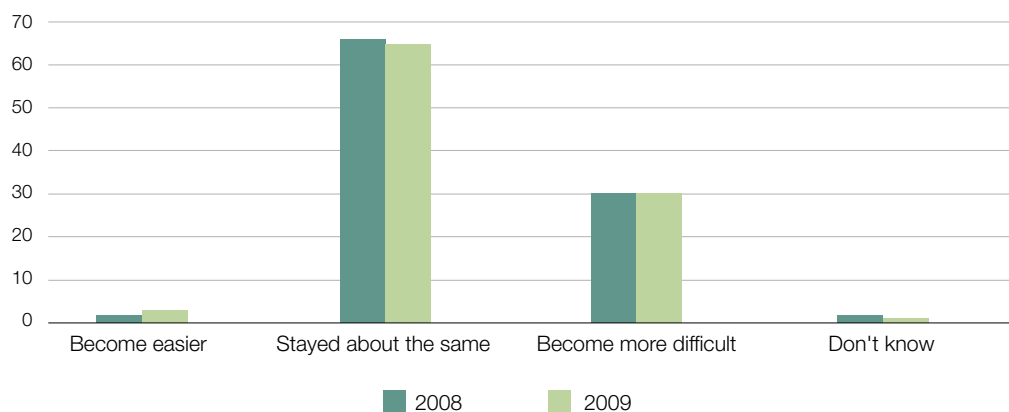
Base: 2,000 UK businesses surveyed Jan-March 2008, and 2,037 UK businesses surveyed Feb-March 2009.

**Figure 7**

## Businesses' views on the ease of complying with regulation

In the course of your business operations, has complying with regulation become easier, more difficult, or stayed about the same over the last 12 months?

Percentage



Source: National Audit Office Business survey

**NOTE**

Base: 2,000 UK businesses surveyed Jan-March 2008, and 2,037 businesses surveyed Feb-March 2009.

**2.8** The fact that very few businesses feel that complying with regulation has become easier or less time consuming reflects difficulties created by ongoing change to the regulations that affect them. The most common reasons that businesses gave were:

- forty-three per cent of the businesses that felt regulation had become more difficult over the last 12 months stated there are ‘too many regulations’ and that ‘new regulations keep being introduced’; and
- keeping up to date with changes in existing regulation was felt to be generally one of the most burdensome aspects of complying; 69 per cent of businesses agreed such changes were a burden.

**2.9** The large majority of businesses feel that regulatory ‘change’ is not improving or is even getting worse. Ninety five per cent of respondents believe ‘having to keep up to date with changes in existing regulation’ has become more time consuming or stayed the same over the last 12 months. Ninety six per cent believe ‘having to keep up to date with the introduction of new regulations’ has become more time consuming or stayed the same.

*“there has been so much legislation brought in over the last decade and it’s kind of like ‘no more, stop giving us any more, and if possible take them away.’”*

Senior manager of a large business (250+ employees)

*Source: NAO/FDS International qualitative fieldwork 2009*

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**NAO analysis:** The near unanimity of businesses’ views that complying with regulation has not become easier demonstrates that more needs to be done if the Programme is to make a noticeable difference for businesses. A more strategic and structural approach would help the Programme achieve greater impact in doing so.

Business concerns about the total burden of regulation have an influence on their general perceptions. Businesses’ views are influenced by the introduction of new regulations and changes to existing regulations, which they feel are adding to the burden of complying. Businesses perceive that there is a high cost of finding out what regulations apply and interpreting the implications of any new regulations. There is a risk, therefore, that the cost of ‘change’ outweighs reductions in time spent undertaking administrative activities.

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# Part Three

## The impact of regulatory reform initiatives

**3.1** In December 2008 the BRE published an update showing that, in total, departments were over half way towards the target of a 25 per cent reduction in the administrative burden of complying with regulations. This part sets out business views on complying with specific aspects of regulation and the impact of departments' initiatives to reduce the burden of complying. We have presented survey results on:

- businesses' views on the extent to which they are noticing change in the burden of specific aspects of complying, using a case example of employment law initiatives;
- the key factors that influence business perceptions on the ease of compliance; and
- suggestions for improving delivery of the Programme.

In this section, the survey results are set out in the main body of the text and the boxes entitled 'NAO analysis' provide our interpretation of the results. Our judgements are based on detailed analysis of the survey results, supporting evidence from 50 qualitative interviews and information from our advisory network of business organisations.

### Business recognition of change

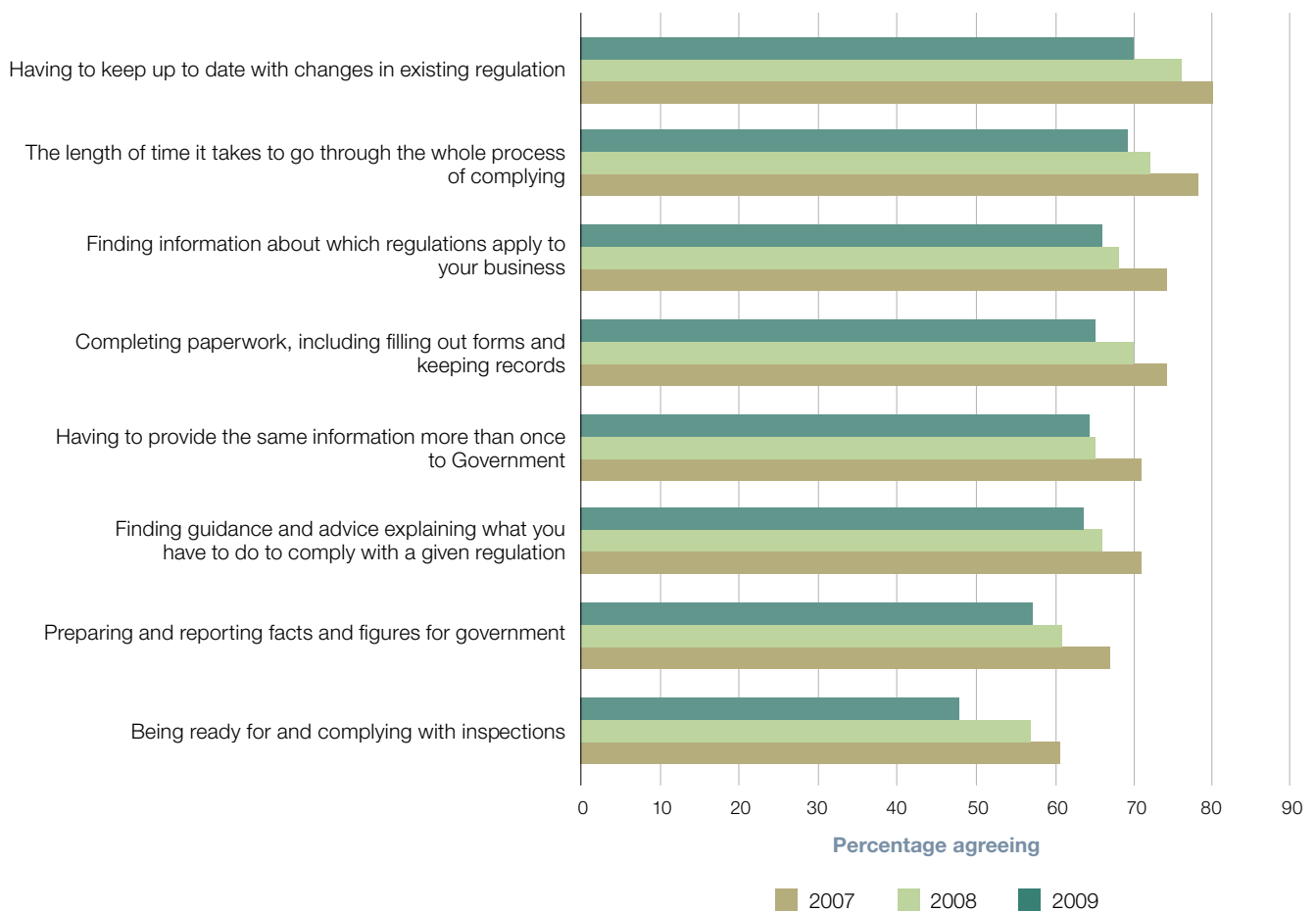
**3.2** Businesses are noticing an improvement in terms of how burdensome they find individual activities relating to regulation (**Figure 8** overleaf). Over the last three years, we have asked businesses whether they find eight specific business activities related to regulation a burden; across all eight of these activities the 2008 results were significantly more positive statistically than 2007. For five of the eight indicators, this positive trend continues when comparing the 2008 and 2009 figures. For example, 74 per cent of business found completing paperwork a burden in 2007 and that figure has fallen to 65 per cent in 2009. Similarly, 64 per cent of businesses found finding guidance and advice a burden in 2009, a 7 per cent fall from the 2007 result.

**3.3** Perceptions on the burden of these individual activities have improved despite the fact businesses are reporting that they spend the same or more time complying (**Figure 9**). Across the individual activities, most businesses feel they have become ‘more time consuming’ or ‘stayed the same’ over the last 12 months. For example, 94 per cent of businesses believe that completing paperwork has become more time consuming or not changed; this is despite a five per cent drop in the number of businesses that believe this activity is a burden when compared with the 2008 results.

**3.4** Businesses are also not recognising a reduction in the administrative costs they incur when complying with regulation. Sixty six per cent of those surveyed recognise no change to their administrative costs over the last two years, and 27 per cent actually felt these costs had increased.

**Figure 8**  
Aspects of complying with regulations that businesses find burdensome

Do you agree or disagree that the following activities are a burden when complying with regulation?



Source: National Audit Office survey

**NOTE**

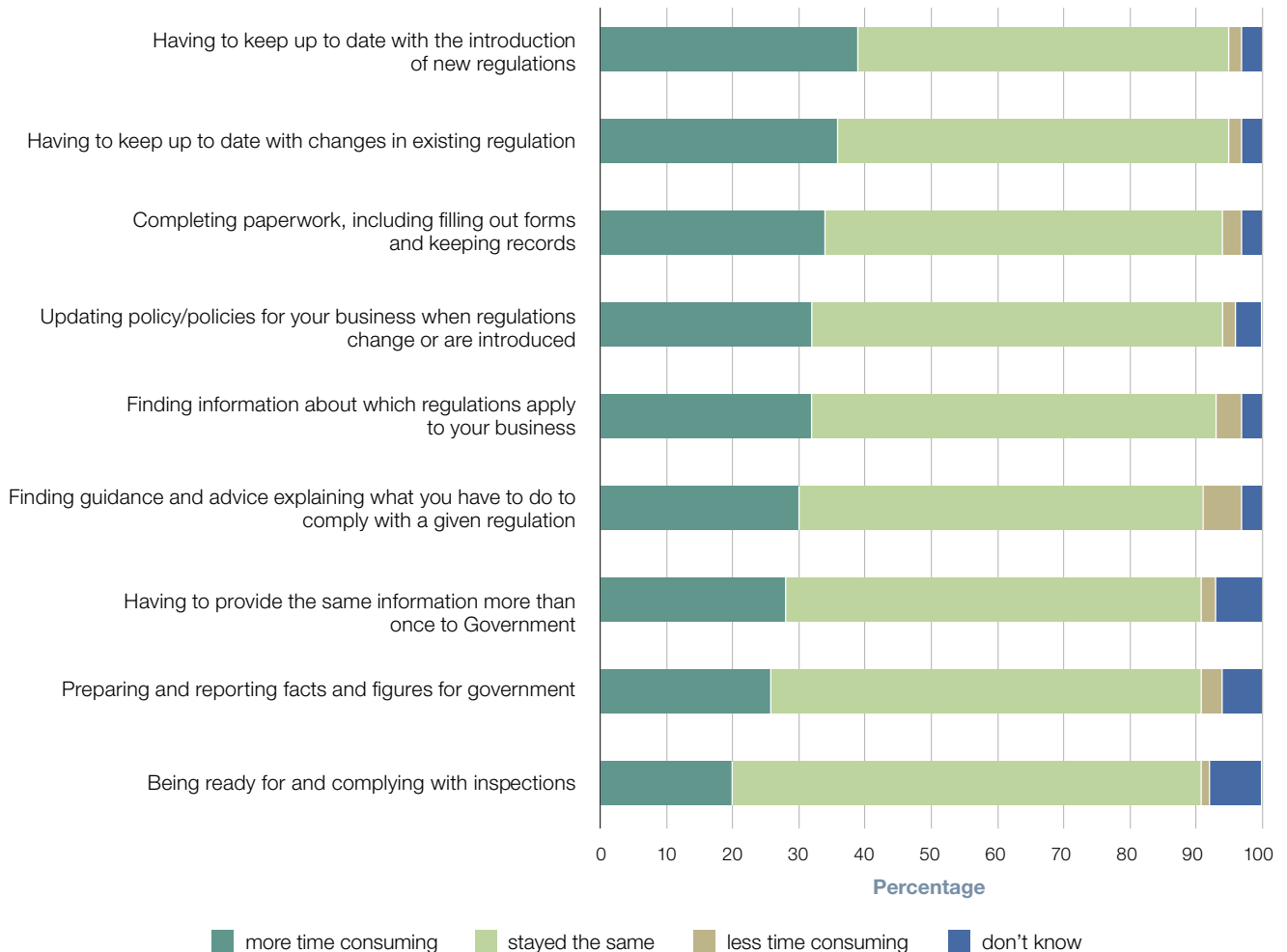
Base: 2,000 UK businesses surveyed Jan-March 2007, 2,000 UK businesses surveyed Jan-March 2008, and 2,037 UK businesses surveyed Feb-March 2009.



**NAO analysis:** Departmental initiatives have had a beneficial impact for some businesses, and have led to different elements of complying with regulation becoming less burdensome. Despite this, the large majority have not perceived time or cost savings. It is important therefore that departments better understand what businesses find burdensome, and which aspects of the regulatory reform programme are driving business perceptions.

**Figure 9**  
Change in time spent on aspects of complying with regulation

Have the following aspects of regulation become less time consuming, more time consuming or stayed about the same over the last 12 months?



Source: National Audit Office survey 2009

**NOTE**  
Base: 2,037 UK businesses, surveyed Feb-March 2009.

### Case example: Employment Law

**3.5** To understand in more depth the impact of initiatives, we conducted an additional short survey with a selection of 500 businesses. These questions focused on employment law guidance initiatives, introduced by the Department for Business, Innovation and Skills (BIS) (**Figure 10**).

**3.6** We found varying awareness of the initiatives amongst business, between 30 per cent and 45 per cent depending on type of initiative. Most businesses had heard of at least one initiative (64 per cent), but very few (14 per cent) were aware of all four.

**3.7** Medium sized and larger companies are more likely to be aware of the new initiatives than small firms (see **Figure 11**). Employment law guidance initiatives are, however, aimed at small and medium sized firms and so are not yet fully reaching their target audience. Small firms are the most numerous and diverse and therefore this result is not unexpected, but it does emphasise that BIS need continuing efforts to promote their administrative burden reduction work with small UK firms.

**3.8** One type of benefit from the initiatives was an improved level of clarity around how to comply with employment law regulations. On average, across all four initiatives, 75 per cent of businesses believed they provided the information the businesses needed to comply, and 69 per cent felt they provided a better understanding of what was required (**Figure 12**). Online tools and guidance in relation to employment particulars proved most popular, with 77 per cent of businesses feeling they provide a better understanding of what is required.

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### **Figure 10** The Employment Law Guidance Programme

BIS has claimed to deliver annual savings for business through initiatives designed to support businesses to comply with employment law. The department has produced and promoted free-to-use guidance and legally compliant tools that are accessible via the government online business portal, [businesslink.gov.uk](http://businesslink.gov.uk).

We selected four of these initiatives to test with business:

- 1 Employment particulars** – online tools have been introduced to enable employers to produce these employee particulars quickly and easily.
- 2 Redundancy** – an online calculator is available on [businesslink.gov.uk](http://businesslink.gov.uk) to help businesses calculate redundancy payments.
- 3 Flexible working** – guidance and proformas are available to help support businesses comply with flexible working regulations.
- 4 Working time** – introduction of guidance and proformas designed to help support businesses comply with working time regulations.

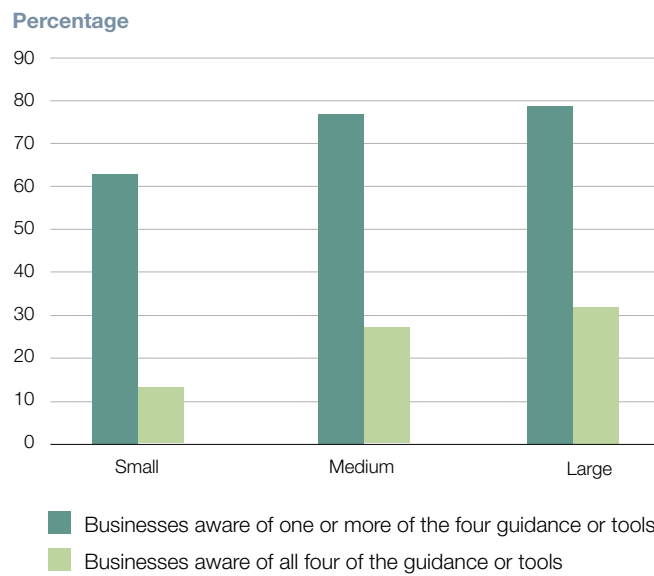
*Source: Simplification plan 2008: Supporting business through better regulation, Department for Business, Enterprise and Regulatory Reform, December 2008*

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**Figure 11**

Business awareness of employment law guidance and tools

Are you aware of any of the following guidance or tools that the Government has produced to help businesses comply with employment legislation?



Source: National Audit Office survey 2009

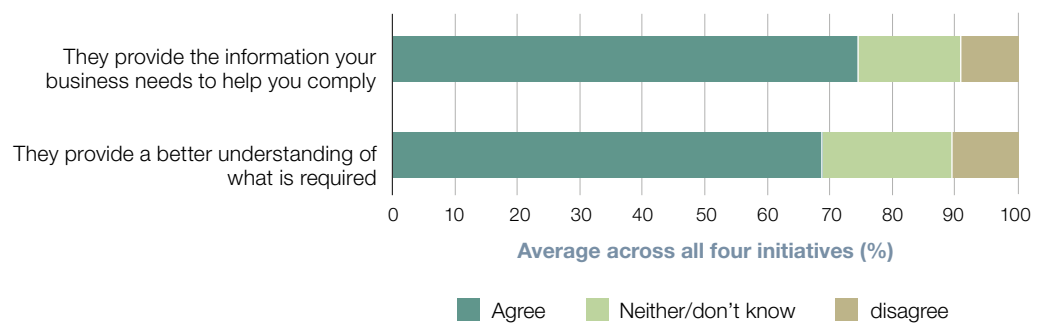
**NOTE**

Base: 500 UK businesses surveyed Feb-March 2009.

**Figure 12**

The impact of employment law guidance and tools

To what extent would you agree or disagree with the following statements about the impact guidance or tools on employment particulars have had on your business?



Source: National Audit Office survey 2009

**NOTE**

Base: 330 UK businesses, surveyed Feb-March 2009.

**3.9** The redundancy tool in particular provides certainty to business that they have complied correctly and 70 per cent of businesses aware of the tool felt it provided the information they needed to help them comply. The online calculator gives business an instant and accurate calculation of redundancy payment owed to an individual and the level of certainty provided is popular with business:

*“we followed their calculations...and then you know that you are giving the required amount of notice and redundancy for the age and your service. So that’s a really good tool”*

Senior manager of medium-sized business (between 50 and 250 employees)

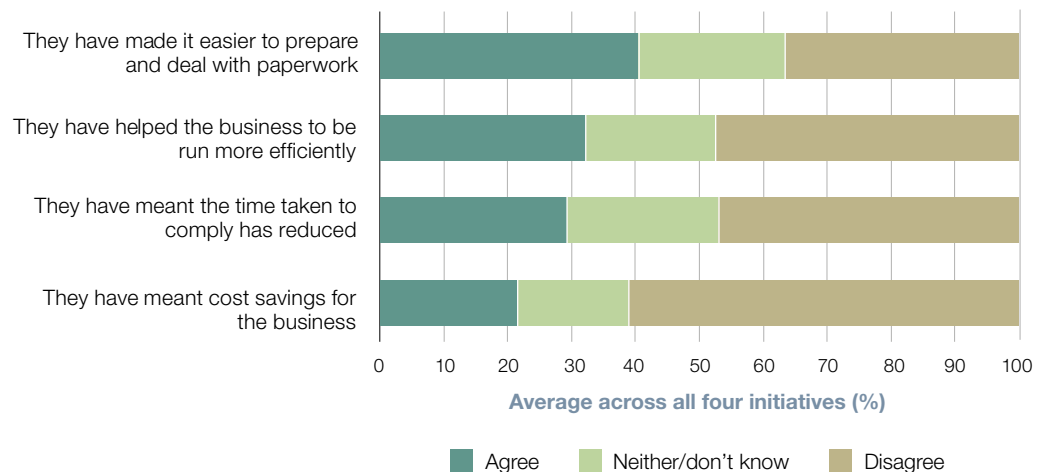
Source: NAO/FDS International qualitative fieldwork 2009

**3.10** We found that few businesses actually recognised a benefit of time or cost savings from the initiatives (**Figure 13**). Taking the example of employment particulars again, only 26 per cent of the businesses aware of the revisions / changes felt they actually meant time taken to comply had reduced and just 14 per cent felt the initiative had produced cost savings for their business.

**Figure 13**

The impact of employment law guidance and tools

To what extent would you agree or disagree with the following statements about the impact the revised/new guidance or tools has had on your business?



Source: National Audit Office survey 2009

**NOTE**

Base: 226 UK businesses, surveyed Feb-March 2009.

**NAO analysis:** Businesses reported that they have benefited from employment law guidance initiatives. In particular, the guidance provides businesses with a better understanding of what they need to do to comply. Whilst businesses felt informed of regulatory requirements, very few felt the initiatives had led to time or cost savings. Therefore, by targeting and measuring cost savings, there is a risk that the BRE are not recognising other real benefits that the Programme can deliver for business.

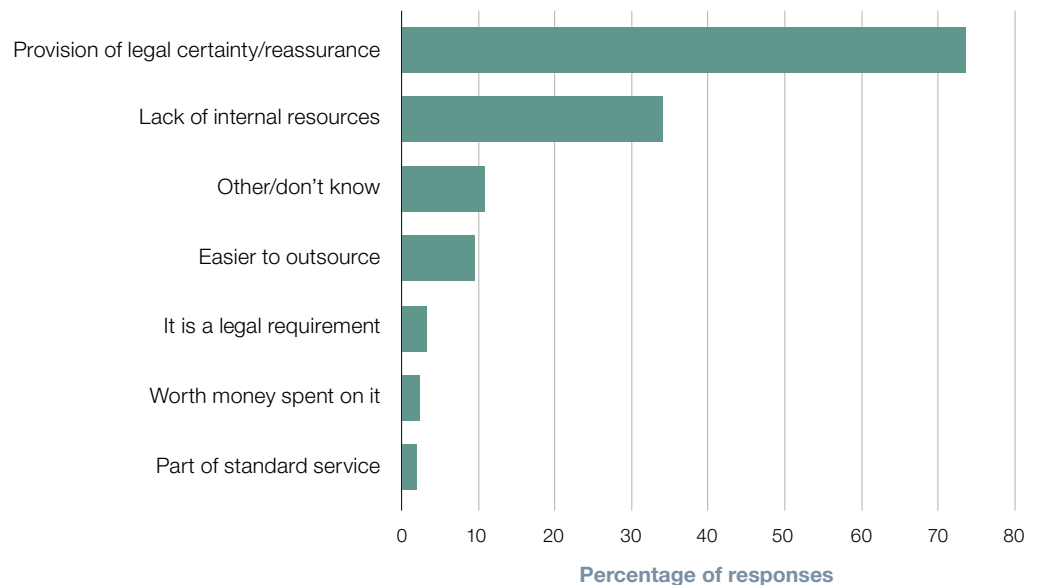
## The drivers of business perceptions

**3.11** We found that the issues of confidence and clarity around how to comply were important themes throughout our survey and the qualitative work undertaken to support it. Less than half of all our surveyed businesses found it straightforward to understand what they are required to do to comply with regulation and this is reflected in the level of external support used to help them. Seventy one per cent of businesses we surveyed use at least one non-governmental external agent to help them comply. Businesses told us that the main reason they use these agents is to address a lack of confidence around complying; external agents are seen to offer reassurance and legal certainty (**Figure 14**).

**Figure 14**

Reasons why businesses use an external agent

Why does your business use an external agent to help with complying?



Source: National Audit Office Business survey 2009

**NOTES**

Businesses were able to give more than one reason for use of an external agent.  
Base: 1,495 UK businesses, surveyed Feb-March 2009.

**3.12** Many businesses are also uncertain about which regulations apply to them; in particular, companies that are entering the marketplace or are looking to expand can find navigating the system to find information a problem. Sixty six per cent of survey respondents agree that finding information about which regulations applied to their business is burdensome.

*“well this is actually a major question, what do I need. And I find it quite difficult to find a single straightforward list of things that are basic but are extremely important.”*

Senior manager of a small business (less than 50 employees)

*Source: NAO/FDS International qualitative fieldwork 2009*

**3.13** The BRE and departments have undertaken research to improve their understanding of how businesses react to and interpret regulations. They have used this research to implement projects to improve businesses knowledge and understanding of how to comply. BIS’s employment law guidance programme is one example of a department introducing initiatives to address business confidence around how to comply and therefore reduce any unnecessary and costly over-compliance.

**3.14** The Regulatory Reform Select Committee in their recent report welcomed efforts to better understand business perceptions and acknowledged work by BIS and the Health and Safety Executive (HSE) to better understand how business interpret and react to regulations. The report highlighted that a lack of clarity around compliance can lead to the misinterpretation of regulations by business and the creation of regulatory ‘myths’.<sup>4</sup> In addition to the costs this can create for business through the use of external agents, there is also a risk that businesses may over comply with the rules or stifle their own growth in order to avoid perceived complicated regulations.

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**NAO analysis:** the results indicate that understanding how businesses react to and interpret regulations is important in designing initiatives that will deliver a noticeable benefit. Business confidence is a key driver of perceptions. Departments can improve the regulatory environment by: a) raising business awareness of which regulations apply to them; and b) improving certainty for businesses that they have complied fully with requirements.

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<sup>4</sup> House of Commons Regulatory Reform Committee, Themes and Trends in Regulatory Reform, (Ninth Report of Session 2008-09, HC 329-1).

## Improving delivery

**3.15** The survey results show that confidence and clarity around how to comply are important issues for business. Our research indicates that there are specific ways departments can address these issues and continue to strengthen or improve their regulatory reform work:

- through effective communication with business;
- by promotion of the business information portal; and
- by increased targeting and tailoring of information.

## Communication

**3.16** The BRE and departments have been developing and implementing communication strategies over the last year. The BRE's administrative burden reduction communication work forms part of an overall stakeholder contact programme, which includes working with business groups, trade associations and professional bodies, the media, departments, regulators and other intermediaries such as lawyers and accountants. The BRE has set out to conduct face-to-face work with business; one example is ongoing regional visits, during which members of the BRE speak to and visit local businesses and intermediaries both to communicate their work and also to gather local feedback and opinions. This has been supported by the development of a range of case studies that show how real businesses are benefiting from the simplifications delivered under the Programme.

**3.17** There is clearly a high degree of work being put into communication efforts by the BRE and departments, and the results of our survey indicate that their communication strategies are focusing on important areas. For example, we know that many businesses believe the government does not consult sufficiently with them (see Figure 5); by increasing face-to-face meetings and discussions the BRE are attempting to address this. Also, by expanding their work with trade associations and business organisations, the BRE and departments are accessing important routes through to business; our survey shows that trade associations and business organisations are used by 46 per cent of businesses to help them comply with regulation.

## Businesslink

**3.18** Businesslink is a free government support and advice service offered to small businesses, available online and through local advisors. Businesslink.gov.uk is the online element of the service, for example, all guidance and tools offered through BIS's employment law guidance programme are available on this site (**Figure 15** overleaf).

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### Figure 15

#### Businesslink.gov.uk

Businesslink.gov.uk aims to provide the information, advice and support small businesses need to start, maintain and grow. The website is set out into key areas for small businesses, including sections on 'starting up', 'employing people' and 'growing your business'. In each of these areas the relevant information includes guidance and tools to help businesses comply with regulatory aspects. Businesses can also register with the site to receive relevant e-mail updates, to create a user profile, and to save and store information.

*Source: businesslink.gov.uk*

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**3.19** There is fairly low awareness and use of businesslink.gov.uk. Our survey shows that only 33 per cent of businesses use the site as a source of information to help them comply with regulation. Businesslink.gov.uk was popular with businesses that we interviewed, and some SMEs were reliant on the site for finding information. Many businesses that we interviewed that were unaware of the website felt it should be more widely advertised.

*“they [BusinessLink] have got a fantastic website where you can basically, if you knew anything about running a business, you could look at their information and... you would be quite knowledgeable at the end”*

Senior manager of a small business (less than 50 employees)

*Source: NAO/FDS International qualitative fieldwork 2009*

### Targeting and tailoring

**3.20** Analysis of our survey results has shown that the characteristics of a business, for example, size and age, can have an impact on its experience of regulation. We found that certain groups of businesses tend to share similar attitudes around the purpose and burden of regulation. For example:

- New businesses, those that have been in existence for less than one year, are significantly more positive about the purpose and burden of regulation than older, established businesses, in particular those over 20 years in age. Despite this, older businesses tend to feel more informed about the regulations that affect their business; 67 per cent of businesses that have been in existence for more 20 years or more feel informed about the regulations that impact their business, compared with 52 per cent of those in existence less than one year.
- Sole traders and large businesses (over 250 staff members) are the two other groups most likely to understand the purpose of regulation and be most positive about the burden of complying. Small to mid-sized businesses, in particular those with between 5 and 20 employees, are significantly more negative about complying with regulation. Our follow-up interviews suggest that businesses that are growing in size or entering new markets are concerned about the impact of new regulations that will affect their business, and in particular the implications of employment law.



*“I’m not going to go out and expand and say bring on three or four new people... I’ve heard some horror stories – I think it would just drag me down.”*

Senior manager of a small business (less than 50 employees)

*Source: NAO/FDS International qualitative research 2009*

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**NAO analysis:** Departments and the BRE have put greater effort into communicating with businesses, but the survey results illustrate the importance of identifying what key information businesses require and tailoring communications accordingly. Businesses of different sizes or stages of their life cycle will have different obligations, and these will change as the firm evolves. Raising awareness of regulatory requirements and improving businesses’ understanding of compliance would help improve businesses’ confidence. The BRE and departments should communicate clear, concise information on the requirements of regulations – the businesslink website has begun to tailor information to different types of business and there is scope to make better use of this service and improve use of the website.

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# Part Four

## The forward agenda

**4.1** The Programme was introduced in 2005 and forms a key part of the BRE led broader agenda of reform to improve the regulatory environment. The current Programme is due to finish in May 2010 and therefore it is important at this stage to consider the impact the programme on business and to consider the forward agenda. In this part of the report we therefore address:

- the BRE's plans for the future of the regulatory reform agenda;
- how other countries are taking the agenda forward; and
- key lessons from our survey of business.

### The BRE's plans to evolve the agenda

**4.2** In 2008 and 2009 the BRE considered how to evolve the regulatory reform agenda via the possible introduction of a system of regulatory budgets, designed to limit the cost of new regulation. However, after a consultation period, the Government announced in April 2009 that it would not implement the budgets at this stage and would instead focus on measures 'tailored to the exceptional economic climate'.<sup>5</sup>

**4.3** Since the April announcement, the Government has established a better regulation subcommittee of the National Economic Council to scrutinise planned regulation and proposals for new regulation. The Committee is chaired by the Chancellor of the Exchequer and reports to the National Economic Council. The Government is also in the process of setting up a new external Regulatory Policy Committee, the Chair of which has recently been announced. The role of this committee will be to advise government on the accurate assessment of costs and benefits of regulation.<sup>6</sup>

**4.4** The new committees will consider key issues for business. We know from our survey that the primary concerns of business are the sheer volume of regulation and the number of new regulations and changes to the existing level of regulation. The scrutiny by these committees of departmental impact assessments will form an important control on the costs of new regulations going forward.

<sup>5</sup> HC WS, 2 April 2009, Col. 74WS.

<sup>6</sup> HC WS, 2 April 2009, Col. 74WS.

**4.5** In addition to added measures to scrutinise new regulations, the Government has published a forward regulatory programme, containing details of existing and possible future regulatory proposals. The programme is designed to enable businesses to plan better for new regulations. The Government has also outlined plans to postpone 26 planned regulations in order to defer costs for business.

**4.6** The current administrative burdens programme ends in May 2010 and the BRE are currently developing plans to take the Programme forward. The announcement in April 2009 confirmed that the Government will adopt new simplification targets for 2010-15, which will address all regulatory costs on business.<sup>7</sup> Further to this, the Government announced in October 2009 that their forward target is to cut the ongoing costs of regulation by a further £6.5 billion in total by 2015.

### How other countries are taking the agenda forward

**4.7** Other European countries have also implemented programmes to reduce administrative burdens on business. The Netherlands designed and applied the standard cost model in 2003, and Denmark adopted this approach in 2004. Consequently these countries are a few years ahead of the UK in their efforts to reduce administrative burdens, and have already sought to adapt and evolve their forward programme.

**4.8** In 2008, the Dutch government significantly revised its approach to targeting, measuring and assessing the programme. The Cabinet has expanded and specifically defined its programme objectives into 12 measurable targets, of which 25 per cent administrative burden reduction forms just one. The Dutch have included measures that test whether initiatives are delivering ‘tangible’ benefits for business and collect feedback through their annual business sentiment survey.

**4.9** The Danish government is introducing projects to ensure businesses are really aware of, and benefiting from, their work to reduce administrative burdens. In particular the government:

- is currently initiating a strategic communication campaign linked to and branded by a ‘*LET administrative*’ (EASY administration) label which will be applied to all communications with businesses concerning administrative simplifications;
- has supplemented its core administrative burdens programme with an exercise to gather working evidence from business to help in developing meaningful initiatives; and
- is planning to increase the user personalisation of its online business portal.

### Lessons from the business survey

**4.10** Our survey results have significant messages on the priorities of business and the factors that influence perceptions; these will be important to consider in developing, adapting and evolving the forward agenda.

<sup>7</sup> HC WS, 2 April 2009, Col. 74WS.

**4.11** The results of our survey in particular indicate that the current targeting and measurement of success for the administrative programme does not fully assess the range of benefits simplification initiatives can offer. In our 2007 report we recommended that the BRE should:

*Supplement their estimates of reductions in administrative burdens with a broader suite of indicators to evaluate non-quantifiable improvements in the regulation environment.*

The BRE has not yet used broader measures specifically in relation to the Programme. The results of our survey in the current year show that the benefits businesses are recognising from initiatives are not necessarily time or cost measurable, and therefore we would reinforce our recommendation for the forward Programme. There may be important lessons to learn from the Dutch approach.

# Appendix One

## Summary of methodology

Method <sup>8</sup>	Purpose
Perceptions survey of 2,037 businesses <sup>9</sup>	The survey has been carried out annually and is intended to track if, and how, businesses' experience of regulation changes as a result of initiatives to reduce the cost to business of complying with regulation. This survey follows similar surveys in 2007 and 2008.
Employment law survey of 500 businesses	This additional element of the survey was designed to understand in more detail the impact of specific initiatives. We questioned 500 businesses on four initiatives by BIS affecting employment law.
In-depth interviews with individual members of senior management from 50 different businesses	The interviews were designed to explore the impact of government initiatives in more depth and to better understand the experiences of business when complying with regulation. Thirty interviews were conducted prior to the survey to inform its development. Twenty interviews were carried out after the survey to provide further analysis on areas of interest.
Review of departmental and BRE documentation	We reviewed the published documentation of individual departments and the BRE in order to set out an update of the claimed savings as at December 2008. We also reviewed relevant internal documentation setting out the terms of reference and results of the External Validation Panel.
Consultation with an advisory network of business organisations	The business representatives in the network offer important advice on the wider business community's views on government initiatives. This year we conducted a discussion session to test the results and analysis of our 2009 survey of business. In addition we met individually with those members that had sat on the BRE's External Validation Panel.

<sup>8</sup> Further details can be found in Appendix two: Scope and Methodology, available at [www.nao.org.uk](http://www.nao.org.uk).

<sup>9</sup> The full set of results are set out in Appendix three: Survey Results, and can be found at [www.nao.org.uk](http://www.nao.org.uk).



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