



National Audit Office

**REPORT BY THE  
COMPTROLLER AND  
AUDITOR GENERAL**

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# Complying with Regulation: Business Perceptions Survey 2009

# 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.

## 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

**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 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.