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Department for Business and Trade

**Non-financial reporting review: simpler
corporate reporting**

Response from ICAS

Department for Business and Trade

Non-financial reporting review: simpler corporate reporting

About ICAS

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ICAS' diverse membership is made up of over 24,000 world class business professionals who work in the UK and in more than 80 countries around the globe. Members of ICAS are also known by the letters CA, an exclusive professional designation in the UK.

ICAS members operate at the forefront of ethical and sustainable business. Educated, regulated, and led by the highest standards of ethical leadership since 1854, they are at the top of their game. They are trusted professionals, who transform business and support one another for the greater good.

Acting in the public interest is the guiding principle of all that ICAS does and we continually work to maintain trust in the finance profession. That ethos is enshrined in the ICAS Code of Ethics – which applies to all members, students and member firms, and is underpinned by our Royal Charter commitment.

ICAS is a member of the Chartered Accountants Worldwide Network, a global family that brings together the members of 15 leading institutes to create a community of over 1.8 million Chartered Accountants and students in more than 190 countries.

Any enquiries should be addressed to Christine Scott, ICAS Head of Charities and Reporting via connect@icas.com.

General comments

ICAS welcomes the opportunity to respond to the Department for Business and Trade's proposals in its consultation *[Non-financial reporting review: simpler corporate reporting](#)* which was published on 16 May 2024.

We believe that DBT needs to set out a clear vision for the future of non-financial reporting by UK companies, including priorities for reform, and how any proposals it puts forward will meet this vision. Therefore, we would like to see government proposals go beyond changes of detail aimed at rationalising reporting requirements and/ or changes focusing on a specific company threshold or category. We believe a principles-based approach is a more effective and efficient approach than detailed rules changes. It is also easier to align principles with overall strategic priorities.

In 2023, we responded to *DBT's* call for evidence *Smarter regulation non-financial reporting review*. [Our response](#) to the call for evidence highlights our expectation that the review is strategic in nature and has the long-term in mind.

From our perspective, better understanding the government's vision for non-financial reporting reform would help us and other stakeholders provide a more informed response to government proposals. In addition, it would be helpful to understand how DBT's planned approach aligns with developments elsewhere in government and other relevant government priorities.

For example, a vision for non-financial reporting reform could helpfully demonstrate that it is:

- Consistent with the objective of strengthening corporate transparency so that the UK is a trusted place to conduct and attract legitimate businesses. There are risks that reducing non-financial reporting requirements without a clear case for change could undermine this objective.
- Aligned with the objective of growing the economy. The need for transparency from UK companies needs to be balanced with reporting requirements which are proportionate and have a clearly evidenced need. This balance is best assessed as part of an overall strategy for economic growth.

With regard to the specific consultation questions, we are of the view that DBT has not made a case for uplifting the employee numbers' criterion for medium-sized companies or for removing the requirement for medium-sized companies to prepare a strategic report.

The setting of a clear vision for non-financial reporting and how these proposals for medium-sized companies are aligned with this vision would make it easier for us to assess whether a case for change exists.

Our responses to the specific matters for comment are set out below.

Consultation questions

Question 1

Do you agree or disagree with the uplift of the employee threshold from 250 to 500 employees for 'medium-sized' companies? Please explain your answer.

We believe that DBT needs to set a clear vision for further proposed changes to UK company reporting thresholds in the context of a forward-looking strategy towards the future of non-financial reporting by UK companies. We would like to see government proposals go beyond changes of detail aimed at rationalising reporting requirements and/ or changes focusing on a specific category of company. Without this wider context, it is difficult to provide a properly informed response to the government's proposed changes.

Given the reservations stated above and the limitations that this places on our assessment of the DBT's proposal, on balance, we are not convinced of the merits of the proposal to uplift the employee criterion from 250 to 500 employees.

While we understand and support the aim of reducing burdens on business, we are not convinced that an increase of this magnitude in the employee numbers' criterion is justified given the importance of medium-sized enterprises to the economy, including their importance as part of supply chains. Also, a company close to or at the threshold, say a company or group with 500 full-time employees, could be a significant employer within a local community, making the success of a medium-sized company potentially relevant to the financial security of many people, including families.

We are supportive of the proposed uplift in the monetary thresholds for companies, by approximately 50%, set out by DBT in March of this year and would support a redesign of the employee numbers' criterion across the size thresholds, rather than a focus on medium-sized companies in isolation.

We are not against increasing in the employee numbers' criterion in principle, but we would prefer it to reflect full time equivalent employees rather than average numbers, and we cannot wholeheartedly support the uplift to 500 (or a 100% increase).

We set out our position on this matter in our response to last summer's non-financial reporting consultation:

"As a general point, we believe that the employee numbers' criterion, which forms part of the Companies Act thresholds, should be revised to define employee numbers as relating to full-time equivalents rather than headcount.

This would better reflect current working practices, such as the increase in part-time working and people working flexibly on zero hours contracts. Currently, someone working one day a month for a company would have the same impact on how the size of a company is assessed as someone working full-time. This means that applying the employee numbers' criterion doesn't provide a consistent assessment of whether a company is small.

If it's decided that it would be too complex to calculate full-time equivalents, an alternative could be to consider increasing the employee numbers' criterion to reflect the flexibility which now exists within the labour market."

We also recognise that for some companies, reliance on off payroll working has become significant and this is another factor we would like to see considered in a review of the third criterion (i.e. employee numbers) for assessing company size.

Taking into consideration the proposed increase in the turnover criteria for micro, small and medium-sized companies, the number of employees will be more relevant to determining the size of micro and small companies than has been the case more recently under the current turnover criteria, and by design more relevant to whether an audit is required. In contrast, an uplift to 500 employees for a medium-sized company will reduce the importance of the employee numbers' criterion to determining company size. We believe this supports our call for wider consideration of the employee numbers' criterion, including the design of the criterion.

The above point is illustrated in the table below which shows turnover per employee by company size, comparing the current criteria to the proposed criteria.

	Micro		Small		Medium	
	Current	Proposed	Current	Proposed	Current	Proposed
Turnover	Not more than £632k	Not more than £1m	Not more than £10.2m	Not more than £15m	Not more than £36m	Not more than £54m
Employee numbers	Not more than 10	Not more than 10	Not more than 50	Not more than 50	Not more than 250	Not more than 500
Turnover per employee	Not more than £63.2k	Not more than £100k	Not more than £204k	Not more than £300k	Not more than £144k	Not more than £108k

On balance, we believe that the proposed size criteria for a medium-sized company, including the uplift in employee numbers, could result in companies becoming small companies where transparency and accountability to stakeholders would be better served by the Companies Act reporting regime for medium-sized companies.

Question 2

Do you agree or disagree with exempting medium-sized private companies from having to prepare a Strategic Report (including companies that would be medium-sized except for the fact that they are a member of an ineligible group)? Please explain your answer.

We are not convinced by the merits of the arguments presented that medium-sized private companies should be exempt from preparing a strategic report, apart from medium-sized companies that are members of an ineligible group where the parent company's strategic report encompasses all companies within the group.

It should not be overly burdensome for well-run medium-sized companies to prepare a strategic report and, for a company that is less well run, the preparation of a strategic report could be a useful exercise for the business. Medium-sized companies have stakeholders beyond their owner managers, including employees, suppliers, customers and local communities and we believe that it is in their interests for medium-sized companies to continue to prepare a strategic report.

We agree that companies should report in a way that is proportionate to their size and we support the rationalisation of requirements, for example, where there is clear duplication between the directors' report requirements and strategic report requirements.

However, we believe that a more forward-looking and holistic approach is needed to developing requirements across the corporate reporting landscape for companies of all sizes.

For example, more companies are likely to start preparing sustainability reports on either a voluntary or mandatory basis in the not-too-distant future. They will be looking for information from companies in their supply chains to assist in the preparation of their sustainability reports. Therefore, for example, the unlisted sector will be impacted and will need to be able to supply the listed sector with the relevant information in a timely manner.

We acknowledge that strategic reports have increased significantly in length in recent years to the point that they can no longer be considered strategic so we would support a more fundamental review of the content of the strategic report requirements more generally.

In our response to last summer's call for evidence on non-financial reporting we made the following point about the strategic report:

"Since the strategic report was first introduced by company law, it has unfortunately evolved into a report which is no longer strategic. We therefore support 'business model reporting', linked to the stakeholder assessment directors must undertake under the Companies Act 2006, (section 172 on the duty to report the success of the company). This should result in reports which are genuinely strategic, more succinct and of greater value to users."

It may be appropriate given the pace of change for government to be required to revisit the non-financial reporting requirements and the company size thresholds on a regular basis, for example, every three years.

Question 3

Please provide any evidence you have regarding the usefulness of the information medium-sized private companies provide to their shareholders or other stakeholders in their Strategic Reports.

We have no comments to add in response to this question.



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