BIS | Department for Business Innovation & Skills

# Consultation response form: The Future of Narrative Reporting

A copy of the consultation available at: http://www.bis.gov.uk/consultations.

Responses to the Consultation by be received by 19 October 2010

**Name: Joanne Roberts**

**Organisation (if applicable): Serco Group plc**

**Address: Serco House, 16 Bartley Wood Business Park, Bartley Way, Hook, Hants RG27 9UY**

**Email:**

**Return completed forms to:**
Jane Leavens
Corporate Law & Governance Directorate
Department for Business, Innovation and Skills
1 Victoria Street
London
SW1H 0ET

Tel: 020 7215 1686
Narrativereporting@bis.gsi.gov.uk

**Please tick the box from the following list of options that best describes you:**

| | |
|---|---|
| ✓ | **Quoted company** |
| | **Other company** |
| | **Investor or investment manager** |
| | **Business representative organisation** |
| | **Investor representative organisation** |
| | **Non governmental organisation (NGO)** |
| | **Trade Union** |
| | **Lawyer or accountant** |
| | **Other (e.g. consultant or private individual)** |

## Value of narrative reporting

**Question 1: Are company directors providing useful and relevant information on the company's:**

**i) forward-looking strategy and**
**ii) principal risks and opportunities?**

| Comments |
| --- |
| **Within the confines of ensuring that profit forecasts are not inadvertently made there is currently useful and relevant information produced as part of the statutory reporting including IMSs, Annual Reports and Accounts and Half Year reports. However, this naturally tends to focus on past events and marketing descriptions. New disclosure requirements around segmental reporting will help with transparency and insight but there is currently inconsistency in the extent of disclosure making cross sector and industry comparatives quite difficult.** |

**Question 2: What are the constraints on companies providing information on these issues?**

| Comments |
| --- |
| **As noted above forward looking statements are restricted by concern over making forecasts as well as disclosure of commercially sensitive information.**<br><br>**Disclosure requirements relating to risks and opportunities does not include the reflection of the relative likelihood or materiality of these items which themselves can be difficult to quantify in a succinct way. The reader of the information further needs to be "educated" in interpreting the information appropriately.** |

**Question 3: Does the information provided reflect the issues discussed by the directors in board meetings?**

| Comments |
| --- |
| **Broadly it does but clearly it is unrealistic to expect any disclosure of commercially sensitive matters.** |

**<u>Question 4</u>: Does the information help shareholders to press directors on key issues relating to strategy and risk, or inform their business decisions?**

| Comments |
| --- |
| **N/A** |

**<u>Question 5</u>: If a company does not provide sufficient or material information to you, do you challenge it? Is there anything which could help you to do so?**

| Comments |
| --- |
| **N/A** |

**<u>Question 6:</u> What other sources of company information do you use and how valuable are they (e.g. information provided on the website, analysts' briefings, dialogue with the company, corporate social responsibility report)?**

| Comments |
| --- |
| **N/A** |

**<u>Question 7:</u> Is there scope to reduce or simplify the requirements on which companies report?**

| Comments |
| --- |
| **There is some duplication between financial disclosures and corporate governance but generally statutory reporting requirements are well balanced. Areas which can tend to lengthen Annual Reports are the business review narrative, which would benefit from focused KPIs.** |

**<u>Question 8:</u> Is there scope to arrange the information in a more useful way?**

| Comments |
| --- |
| **See above.** |

## Business Review

**Question 9: Looking at an Operating & Financial Review and the existing business review (see Annex D), do you see value in reinstating elements of an OFR and if so what would they be? In particular, would a statutory reporting standard help to improve the quality of reporting?**

| Comments |
| --- |
| **There is little or no merit in this for listed companies, when the Business Review requirements of the Companies Act 2006 are viewed alongside the reporting requirements of the DTRs (and to a lesser extent the Listing Rules).** |

**Question 10: The business review provisions require quoted companies to report, to the extent necessary, on:**

- **main trends and factors likely to affect the future development, performance and position of the company's business**
- **information on environmental matters**
- **information on employees**
- **information on social and community matters**
- **persons with whom the company has essential contractual and other relationships**
  - **i) is this information useful to you? How do you use it?**
  - **ii) Could disclosure be improved? If so, how?**
  - **iii) Are there key issues which are missing? If so, please explain?**

| Comments |
| --- |
| **Reporting in this area could and, no doubt, will be improved; however, we do not believe there is anything missing in terms of the reporting requirements or the areas on which (listed) companies are required to report.**<br><br>**With respect to contractual matters, disclosure requirements in this respect should be no more onerous than present; commercial sensitivities should be capable of protection without any fear of non-compliance.** |

**Question 11:** **Would more guidance be helpful? If so, what form should this take? For example, best practice example, sample Key Performance Indicators, etc?**

| Comments |
| --- |
| **It is difficult to be prescriptive on this, but more guidance would help if it were helpful guidance! Guidance as to the minimum required/acceptable would be useful, and also sample KPIs would certainly be of assistance to those preparing reports (again incl. the acceptable minima).** |

**Question 12:** **Should there be a shareholder's advisory vote on the Business Review?**

| Comments |
| --- |
| **No. Advisory votes achieve little, and we would certainly hope that we were more engaged with our investor community than to require and advisory vote to alert us to any shortcomings. It may also be misleading, due to the wide ranging subject matter contained within the BR, the vote could be used because of a specific aspect or, conversely, not used (abstained on), providing no insight.**<br><br>**The advisory vote on the remuneration report, whilst more specific as a subject area, does little to improve dialogue and reporting, although it does create (adverse) publicity. Again, we would expect to be aligned with our shareholders (at least the major ones) on factors in this arena, such that the voting outcome is positive.** |

**Question 13:** **Are there non-regulatory solutions to increasing quality through better guidance or publicising excellence in business reports? If so, what?**

| Comments |
| --- |
| **Existing commentaries on business reports such as Futurevalue and, to a lesser extent, those produced by RREV/IVIS, provide some useful guidance and commentary, however some form of award scheme that highlighted/encouraged/recognised best practice might have some merit.** |

## Directors' Remuneration Report

**Question 14: Do the current disclosure requirements provide clear and usable information about:**

- **the total remuneration paid to directors, and how this is made up;**
- **the performance criteria for payments to directors, and how these relate to the company's strategic objectives;**
- **company performance against these criteria, so that there is a demonstrable link between pay and performance.;**
- **the process by which directors' remuneration is decided?**

| Comments |
| --- |
| **As noted above there is some degree of duplication.**<br><br>**No more is required in this area.** |

## Costs

**Question 15:**
**If you can provide any information on costs associated either with the existing narrative reporting requirements eg preparing your business review or your views on potential costs and benefits in relation to any of the ideas in this consultation, please give details**

| Comments |
| --- |
| **Additional, onerous requirements could lead to increased costs, which would not be welcomed. Further, there is more work to do at a consultation stage; this could perhaps incorporate some sort of economic impact assessment.**<br>**Cos of ours is in the region of £135-145k.**<br>**The ARA has to be carefully balanced to ensure value; focused to enable the reader to understand and assess performance; KPIs should be more widespread, however, these must reflect the business and not be overly burdensome and costly to produce and of little value (to the reader). The business should select relevant KPIs, but may benefit from some guidance on the range hat investors and analysts deem important.** |