

# The Companies (Non-Financial Reporting) (Amendment) Regulations 2024

<b>Lead department</b>	Department for Business and Trade
<b>Summary of proposal</b>	The proposal is to reduce non-financial reporting (NFR) requirements on business, in particular through uplifting the Companies Act 2006 business size thresholds determining the level of reporting requirements.
<b>Submission type</b>	Impact assessment (IA) – 30 May 2024
<b>Legislation type</b>	Secondary legislation
<b>Implementation date</b>	July 2024
<b>Policy stage</b>	Final
<b>RPC reference</b>	RPC-DBT-5328(1)
<b>Opinion type</b>	Formal
<b>Date of issue</b>	18 June 2024

## RPC opinion

<b>Rating<sup>1</sup></b>	<b>RPC opinion</b>
<b>Fit for purpose</b>	The IA provides sufficient level and quality of evidence and data to support the estimated direct impact on business. The assessment of impacts on small and micro businesses is sufficient and the IA provides a good plan for monitoring and evaluation. There are some areas of the IA that could be strengthened, particularly in its assessment of wider impacts.

## Business impact target assessment

	<b>Department assessment</b>	<b>RPC validated</b>
<b>Classification</b>	Qualifying regulatory provision (OUT)	Qualifying regulatory provision (OUT)
<b>Equivalent annual net direct cost to business (EANDCB)</b>	-£240.2 million	-£240.2 million <i>(2019 prices, 2020 pv)</i>
<b>Business impact target (BIT) score</b>	-£1,200.8 million	-£1,201.0 million
<b>Business net present value</b>	£2,067.3 million	
<b>Overall net present value</b>	£2,067.3 million	

<sup>1</sup> The RPC opinion rating is based only on the robustness of the EANDCB and quality of the SaMBA, as set out in the [Better Regulation Framework](#). RPC ratings are fit for purpose or not fit for purpose.

## RPC summary

<b>Category</b>	<b>Quality<sup>2</sup></b>	<b>RPC comments</b>
EANDCB	<b>Green</b>	The EANDCB figure appears to be based upon a suitable level of evidence and analysis, and business benefits are correctly assessed as direct impacts. The IA would benefit from considering more explicitly whether there are more up-to-date sources in some areas.
Small and micro business assessment (SaMBA)	<b>Green</b>	The IA explains how the streamlining of reporting requirements will benefit business, particularly micro, small and medium-sized businesses.
Rationale and options	<b>Satisfactory</b>	The IA presents satisfactory evidence that existing regulatory requirements are unnecessarily burdensome. The IA usefully considers different options, but this area could be improved, in particular the definition of the 'do minimum' option.
Cost-benefit analysis	<b>Satisfactory</b>	Overall, the IA uses a sufficient level and quality of evidence. This includes PIRs, research reports and stakeholder engagement. The IA acknowledges limitations in its evidence base and would benefit from addressing further whether there is more up-to-date evidence in some areas.
Wider impacts	<b>Weak</b>	The IA discusses potential environmental impacts and briefly discusses innovation, competition and trade impacts. These assessments could usefully be expanded significantly.
Monitoring and evaluation plan	<b>Good</b>	The IA usefully sets out a logic model, indicators of success and discusses what research methods are likely to be used.

<sup>2</sup> The RPC quality ratings are used to indicate the quality and robustness of the evidence used to support different analytical areas. Please find the definitions of the RPC quality ratings [here](#).

## Background

An earlier version of this IA was green-rated, i.e. fit-for-purpose, by the RPC on 29 February 2024. The Department submitted a revised IA for RPC scrutiny in late May 2024, to account for the following changes:

- i) Removal of a proposal to allow digital sharing of companies' accounts (this proposal is now being considered for further public consultation later in 2024).
- ii) Updating of estimates of the companies in scope of directors' and remuneration reporting requirements, to take account of findings of a Financial Reporting Council review.
- iii) Revision of the method to estimate the number of companies likely to benefit from raised company size definition thresholds.

As part of these updates, the Department has also refreshed the FAME (Financial Analysis Made Easy) data used for the count of companies in scope.

Change i) above has no impact on the EANDCB figure as the impact of this proposal was not monetised. Change ii) has resulted in a small change in the EANDCB figure for this individual proposal, from -£0.8 million to -£0.9 million. The impact of iii) is substantial, increasing the equivalent annual net direct benefit to business by around £88 million. This change is explained further in the 'EANDCB' section below. Overall, the EANDCB figure has been revised from -£152.1 million to -£240.2 million.

## Summary of proposal

The IA states that non-financial information comprises quantitative and qualitative data on company operations and principal risks, giving companies an opportunity to describe broader information relating to the business that allows stakeholders to understand how a wide range of factors may affect the company's performance. This information is usually contained in the company's annual report, mainly in the Strategic and Directors' Reports. The level of information that needs to be included depends on the size and/or type of the company. The Government propose amendments to regulation to streamline reporting requirements, including:

- a. reducing duplication between the Strategic and Directors' Reports to provide greater clarity within UK legislation and remove requirements for information deemed to be of low value from both the Directors' and Remuneration Report; and
- b. uplifting the Companies Act 2006 business size thresholds to reflect historic and future inflation and reduce regulatory burdens on business.

The proposal also involves making technical corrections to the audit regulatory framework, in particular to The Statutory Auditors and Third Country Auditors Regulations.

The proposal is estimated to have an EANDCB of around -£240 million and a business and societal NPV of around £2.1 billion. Nearly all of the estimated impacts come from the cost reductions to business from the raising of thresholds in b) above. In particular, this is expected to result in significant savings in respect of widening access to small company audit exemptions and lower strategic reporting and less-detailed accounts requirements.

## EANDCB

The IA provides a generally clear estimation of direct impacts on business. This involves using the well-established FAME database to estimate the number of companies affected beneficially by the threshold increases and estimates of the associated cost savings per business. The latter are based on either estimates in the original or other previous IAs, or through desk research to directly calculate the current cost of complying with existing reporting requirements. Some of the previous IAs are quite old and the IA would benefit from discussing further their continued validity, drawing upon post-implementation evidence where available. The IA assumes that companies will take advantage of the reduced requirements but acknowledges that some may continue with existing practices. The IA would benefit from discussing any evidence on company intentions.

### Non-monetised impacts

The IA does not monetise familiarisation costs for the measures, other than those relating to the technical amendments. The IA considers these costs to be negligible and this appears to have some support from stakeholders. The inclusion of one-off familiarisation costs would have little effect on the EANDCB figure, but the IA could discuss further the proportionality of not monetising these costs.

### Counterfactual and business impact accounting

The business size thresholds (relating to annual turnover, balance sheet total and average number of employees) determining type and level of financial and non-financial reporting and audit appear to have been introduced under the Companies Act 2006. The financial thresholds appear to have been last changed in around 2013-2016. The thresholds are being uplifted by 50 per cent, half of which reflects historical inflation over the last decade or so and half 'future proofing' the regulations against future inflation. Although legislation implementing the most recent change to the thresholds appears to have been introduced prior to business impact target reporting (although within the 'One-in, One/Two-out' period), the IA would benefit from explaining how the thresholds were treated in the IA on those changes. It would seem likely that they were assumed to remain constant in nominal terms and, therefore, the uplifts now represent a genuine change on that. However, it should be noted that half of the impact from the present change compensates purely for inflation and, therefore, simply removes a real-terms tightening of the regulations over time, rather than a real-terms reduction in burden on business. The IA would benefit from discussing this area; in particular, it would be helpful to additionally present separate estimates relating to the two 25 per cent uplifts.

### Direct/indirect impacts

The IA treats the cost reductions from proposal a) above as direct benefits to business. This measure directly reduces regulatory requirements on business, and the Department's assessment is in line with RPC guidance on classifying business impacts.<sup>3</sup>

### Changes since previous IA

The change to the total EANDCB figure comes almost entirely from the revised method of estimating the number of companies likely to benefit from raised company size definition thresholds ('change iii' above). The original IA assessed the benefit of threshold changes using the net population change in each company size band. This accounted for the combined effect of inflows and outflows to and from the various size bands. However, further investigation and analysis by the Department has shown this method to significantly under-count the number of businesses likely to benefit from the threshold changes. This is because the net approach effectively assumes an increase in 'per company' audit cost on companies flowing into a company size band that is equivalent to that saved by companies flowing out, i.e., it incorrectly reduces or offsets the benefit by this amount. To avoid this, the present IA uses a 'gross' approach of the outflow of companies into the next, smaller size band. The revised approach appears to provide a more accurate estimate of the number of businesses benefitting from the proposed change in thresholds. The IA would benefit from including a technical annex explaining the two approaches and why the 'gross approach' is appropriate here.

## **SaMBA**

The SaMBA is short but sufficient for a deregulatory measure that benefits SMBs. The IA estimates that the uplift of the thresholds would redefine around 100,000 small companies as micro companies, with associated reduced reporting requirements. The IA also notes that removing the requirement to disclose information on the company policy on the employment, training, career, development and promotion of disabled persons will reduce the reporting burden for around 120 small companies who qualify as small under the gross assets and turnover criteria but have more than 250 employees.

### *Medium-sized business considerations*

The IA reports that medium-sized companies will also benefit from the changes streamlining NFR requirements across company size bands, and that exempting small or medium-sized businesses would prevent the removal of unnecessary regulatory burdens.

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<sup>3</sup> <https://www.gov.uk/government/publications/rpc-case-histories-direct-and-indirect-impacts-march-2019>

## Rationale and options

The IA presents satisfactory evidence that existing regulatory requirements are unnecessarily burdensome, including a report from the *Quoted Companies Alliance* and research by *PricewaterhouseCoopers* on stakeholder perceptions on NFR.

The IA's consideration of options is satisfactory but with areas for improvement. The IA presents a do nothing, do minimum and preferred option. It also provides discussion of variations that were considered within the preferred option, such as alternative options in removing duplication within strategic reports. It is not obvious why the 'do minimum' is defined as all proposed changes except the threshold uplifts; it would seem more appropriate that this would be the technical corrections only. This would then leave space for more options, bringing in the different parts of the overall package. The IA could also be improved by discussing variations in the 'future proofing' of the thresholds. In particular, the IA could address the potential option of having an automatic adjustment of thresholds for inflation each year.

The IA reports that non-financial reporting requirements on companies have, in part, been a response to stakeholder and investor demand. The IA would, therefore, benefit from discussing the extent to which companies would provide this information without being required to do so.

## Cost-benefit analysis

### Evidence and data

Overall, the IA uses a sufficient level and quality of evidence. This includes PIR covering NFR regulations in 2022. Following comments in the RPC's opinion<sup>4</sup> on this PIR, the Department strengthened its evidence base by commissioning research to understand better the value that investors place on non-financial information. The IA also uses stakeholder information from a call for evidence and roundtable discussions, and existing datasets, in particular FAME on business size. In estimating the potential savings to business, the IA uses information in previous IAs on unit costs to business of existing reporting requirements or desk research to make new calculations. There appears to be good supporting evidence for existing reporting requirements not currently adding significant value.

### Uncertainty, risks and assumptions

The IA acknowledges some limitations in its evidence and data, in particular the lack of a full, public consultation on the proposal, the difficulties in getting unit cost data from businesses and the limited size of its sample of businesses from FAME that informs some of the desk research. However, overall, the evidence and data used appear to be proportionate. There are some areas where figures from previous IAs, which are quite old, are used; as noted above, the IA would benefit from discussing further their continued validity. The IA provides a useful section on risk and

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<sup>4</sup> RPC-BEIS-5179(1) 'Non-Financial Reporting Regulations', 16 May 2022

uncertainty. This addresses the risk that lighter-touch requirements could lead to a loss of high-quality corporate reporting information, increase reporting inaccuracies and the potential for corporate opacity and illicit activity (such as fraud or money laundering), although the IA would benefit from discussing this further.

## Wider impacts

The Department provides an assessment of wider impacts but there are areas for significant improvement. The IA discusses potential environmental impacts and explains why no negative innovation and competition impacts are expected. The IA could discuss any expected positive impacts. The assessment of wider impacts could address the impact of the current requirements on business, both in terms of compliance cost and the behaviours that the requirements are intended to drive. The IA could be clearer on the type of companies (for example, listed vs private or private equity-backed companies) affected by the different reporting requirements and discuss any impacts on competition between companies subject and not subject to requirements. The Department's assessment of trade impacts could be improved by discussing any significance of potential divergence with the EU, given that the current thresholds reflected implementation of the EU Accounting Directive 2013.

## Monitoring and evaluation plan

The IA provides a good M&E plan. The intention is to treat the measure as a 'high-impact' one, with commensurate evidence and analysis requirements. The plan sets out a logic model, indicators of success and discusses what research methods might be used. The PIR should aim to evaluate the level of business benefits, in particular the extent to which businesses take advantage of, and benefit from, the reduced regulatory requirements.

### Regulatory Policy Committee

For further information, please contact [regulatoryenquiries@rpc.gov.uk](mailto:regulatoryenquiries@rpc.gov.uk). Follow us on Twitter [@RPC\\_Gov\\_UK](https://twitter.com/RPC_Gov_UK), [LinkedIn](#) or consult our website [www.gov.uk/rpc](http://www.gov.uk/rpc). To keep informed and hear our views on live regulatory issues, subscribe to our [blog](#).