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Non-Financial Reporting Consultation - Call for Evidence

techUK's submission to the Department for Business and Trade's Call for Evidence

About techUK

techUK is a membership organisation launched in 2013 to champion the technology sector and prepare and empower the UK for what comes next, delivering a better future for people, society, the economy, and the planet.

It is the UK's leading technology membership organisation, with more than 950 members spread across the UK. We are a network that enables our members to learn from each other and grow in a way which contributes to the country both socially and economically.

By working collaboratively with government and others, we provide expert guidance and insight for our members and stakeholders about how to prepare for the future, anticipate change and realise the positive potential of technology in a fast-moving world.

Opening Remarks

techUK would like to thank the Department for Business and Trade for the opportunity to provide evidence on the UK's Regime for Non-Financial Reporting (NFR). We agree reforms are necessary to adapt to the new global regime for non-financial/sustainability reporting, and that consolidation and centralisation is the right approach to take to reduce burden on companies, as well as if non-financial reporting be extended to include SMEs.

Though the UK's departure from the EU can provide opportunities for the UK to take leadership in its approach to non-financial reporting, we urge the UK Government to consider that divergence and fragmentation from reporting internationally aligned regimes will not reduce the compliance burden on companies operating in both the UK and abroad. Alignment and interoperability with EU/Global approaches is considered by our membership to be the most desirable outcome of reforms to the UK non-financial reporting regime. We would encourage the government to explore opportunities for the UK to lead efforts to create greater alignment of non-financial reporting requirements internationally.

We are keen to provide high-level responses to each question in this call for evidence, given that our industry is presented with unique supply risks and sustainability challenges which must be considered if the UK is to remain a tech leader.

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Finally, we would like to state our commitment as a sector to addressing the carbon, human rights, and resource impact of our activities.

The Value of Non-Financial Information to the Sector

The provision of non-financial information is highly important for our sector. As stated by a member during our evidence gathering exercises "what you can't measure, you can't manage". Reporting provides regulators, customers, and investors transparent information and can give assurances that a firm is well run and investable.

Existing non-financial reporting requirements have driven a greater awareness of the social issues that pervade the sector, predominantly in the upstream supply chain. The incentive to gather and disclose sustainability-related information is driving improvements in supply chain transparency, and as a result companies can leverage their business relationships to improve working conditions for firms who are not included in scope. This not only improves supply chain performance on ESG for UK companies, but also for companies operating out of other jurisdictions, a sign of UK leadership on sustainability issues.

Existing NFR requirements also support companies to address workplace culture and the wellbeing and opportunities of their staff in the UK. As a sector, we endorse the principles which underpin the provision of non-financial information. Historically, holding ourselves and our competitors to account on a level playing field has proved material to improving the prospects of workers, UK PLC, and the environment.

The benefit this brings is through gaining and retaining trust with stakeholders (shareholders, customers, current and future employees – who are all demanding more. The reporting and subsequent analysis has also shifted the level of internal support with greater ownership and support by boards and finance functions as companies more towards alignment of financial and NFR.

Challenges and Costs

The main challenge in non-financial reporting is the sheer volume of new requirements, largely coming out of the European Union, and other key markets such as the USA e. Large multi-national enterprises (MNEs) may be able to handle most of the additional compliance burden under fragmented reporting regimes, but additional resource cost may act as a barrier to new firms who are either growing into compliance scope or attempting to bridge the gap from UK to other jurisdictions, or vice versa. Interoperability with other jurisdictions will assist SMEs with moving into foreign markets.

Outside the costs listed in the call for evidence, staff availability and training are a key cost for companies, and this resource demand often means sustainability teams are focused on reporting as opposed to action. As reporting requirements grow in complexity and the scope of businesses expands, there is likely to be a skills gap in compliance professionals with the appropriate expertise to deliver effective reports, which in turn crates additional consultancy costs. This will of course drive up the cost of compliance and make it harder for smaller businesses to comply once they find themselves in scope.

At present, there is no empirical evidence on whether the costs outweigh the benefits when it comes to purely financial metrics. The sector does, however, see the intangibles of a good history of improvement and engagement on ESG disclosures as reporting becomes increasingly normal and standardised.

If companies were asked to prepare multiple reports covering the same topics (specifically fragmented duplication of the CSRD's scope), but with slight variances, then this would tip the scales on the side of cost, due to the lack of any benefit that such an activity would produce.

In short, harmonisation within the UK regime, interoperability with the EU and alignment with international standards, would reducing duplicative reporting, costs, and fragmentation, all of which add costs to business if unaddressed.

However, this needs to be balanced as we recognise that one size does not fit all – companies should be focusing on the most material issues to their business and not been required to report where it is not relevant. We should be proud of the UK's non-financial reporting regulations preference for principles-based guidance on employee disclosures rather than mandating specific metrics. The focus is on high-level policies and outcomes that allow flexibility, not prescriptive employee data points which can result in lower quality insights.

Transparency is not just about the data provided, but about progress made and challenges identified.

Value to Users of Non-Financial Information

Non-financial information disclosed in annual reports can be useful for companies who are looking to examine their supply chain relationships. For example, carbon disclosures are useful for companies who are making efforts to quantify their scope 3 GHG emissions. Consistency in carbon reporting would make the carbon footprint of a business more transparent, however, it should be recognised that all provided information contains a degree of uncertainty, which should be reflected in any future provisions around liability.

There is an intangible value of examining companies reporting on other performance metrics such as gender equality, which is that it informally fosters competition on social good and allows comparison between potential suppliers. However, we would like to reiterate that a standardised approach to non-financial reporting would drive greater outcomes, as procurement teams could compare like for like when exploring business relationships.

Changes to the NFR Regime

Broadly speaking, techUK would support increased flexibility around the timing and format of providing annual sustainability/non-financial reporting requirements. We already see some overlaps between S172, SECR and UK MCD disclosure requirements. Any changes should eliminate existing duplication and provide options for consolidation. For some firms, yearly, consolidated non-financial information including detailed disclosures currently found in the several other reports listed would be of greater value to the procurement and ESG teams of firms, both in examining their suppliers and in preparing their own reports. For others, additional flexibility to report different elements of non-financial reporting requirements at different times of the year may help them to align to reporting requirements in other jurisdictions or internal data collection processes.

We support the government's intention to assess the ISSB standards and welcome the call for evidence by the UK Sustainability Disclosure TAC. Ahead of a formal consultation on the adoption of ISSB into UK Law, we note that any deviation from ISSB standards should be done with careful consideration of the business impacts and interoperability between different reporting regimes.

Expanding the Scope

Many of techUK's largest firms work with clients and small businesses which are out of scope of existing NFR requirements. From this experience, techUK recommends that any expansion of the scope of existing or future non-financial reporting requirements be carefully considered for the impact on small businesses, especially with the current economic pressures.

techUK also recommends careful consideration of whether disclosure is appropriate for certain types of business, particularly tech SMEs who run relatively small ships and who's business impact is largely influenced by supplier relationships which they have little control over. Placing a reporting burden on such firms would have detrimental impacts on budgets and resourcing, and little upside in terms of continuous improvement, due to the static supply chain relations and the relatively small footprint of the company to begin with.

If changes to company thresholds were to be made, we would recommend additional phase in periods be added to ensure that companies are supported and prepared for the administrative burden.

This review may also provide an opportunity to challenge pre-Brexit threshold for company compliance; ensuring the appropriate level of coverage is achieved and desired outcomes met by tailoring thresholds to the UK Economy in 2023. The TCFD thresholds (min GBP 500M PA, min 500 UK Staff) are a good example of how raising thresholds for company compliance reduces SME burden and achieves the desired coverage and outcomes through supply chain engagement.

For many companies, reporting at a parent level and consolidation options can be both reducing costs and administrative burden and provide more meaningful disclosures. We encourage the government to investigate the following when considering changes to the scope.

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- Subsidiary exemption: whereby a UK subsidiary is exempt from disclosures so long as their parent company is reporting on an equivalent basis. These exist in the EU and are being proposed in Singapore in relation to the ISSB reporting.
- Consolidation: Permitting one UK report for all subsidiaries of the same non-UK parent company. This would reduce reporting burden and provide meaningful sustainability related information.

Further explanation of these options can be undertaken in the 2024 consultation period.

Final Comments

techUK would like to thank the Department for Business and Trade once again for taking the time to consider the views of the techUK membership. We hope that the comments here provide an overview of the benefits of non-financial reporting and the improvements that can be made in the pursuit of a more streamlined regime in the UK post-Brexit.

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