UKSBS
Shared Business Services

Commissioning Letter

Eunomia Research & Consulting Ltd
[redacted]
37 Queen Square,
Bristol,
UK,
BS1 4QS

Monday 8th July 2019

Dear Sirs,

BIS Research and Evaluation Framework Agreement – Lot 1
Frameworks for Standards for Non-Financial Reporting in the UK
CR19042

Thank you for your response to the Specification for the above commission by the Department for Business,Energy and Industrial Strategy (BEIS) (the Customer) through the BIS Research and Evaluation Framework dated 2 January 2016 between (1) Secretary of State for Business, Innovation and Skills; and (2) Eunomia Research & Consulting Ltd (the Framework Agreement).

Appendix: 1. Tender dated Thursday 6th June 2019
2. Specification for Frameworks for Standards for Non-Financial Reporting in the UK

Annex A – General Data Protection Regulation (GDPR)

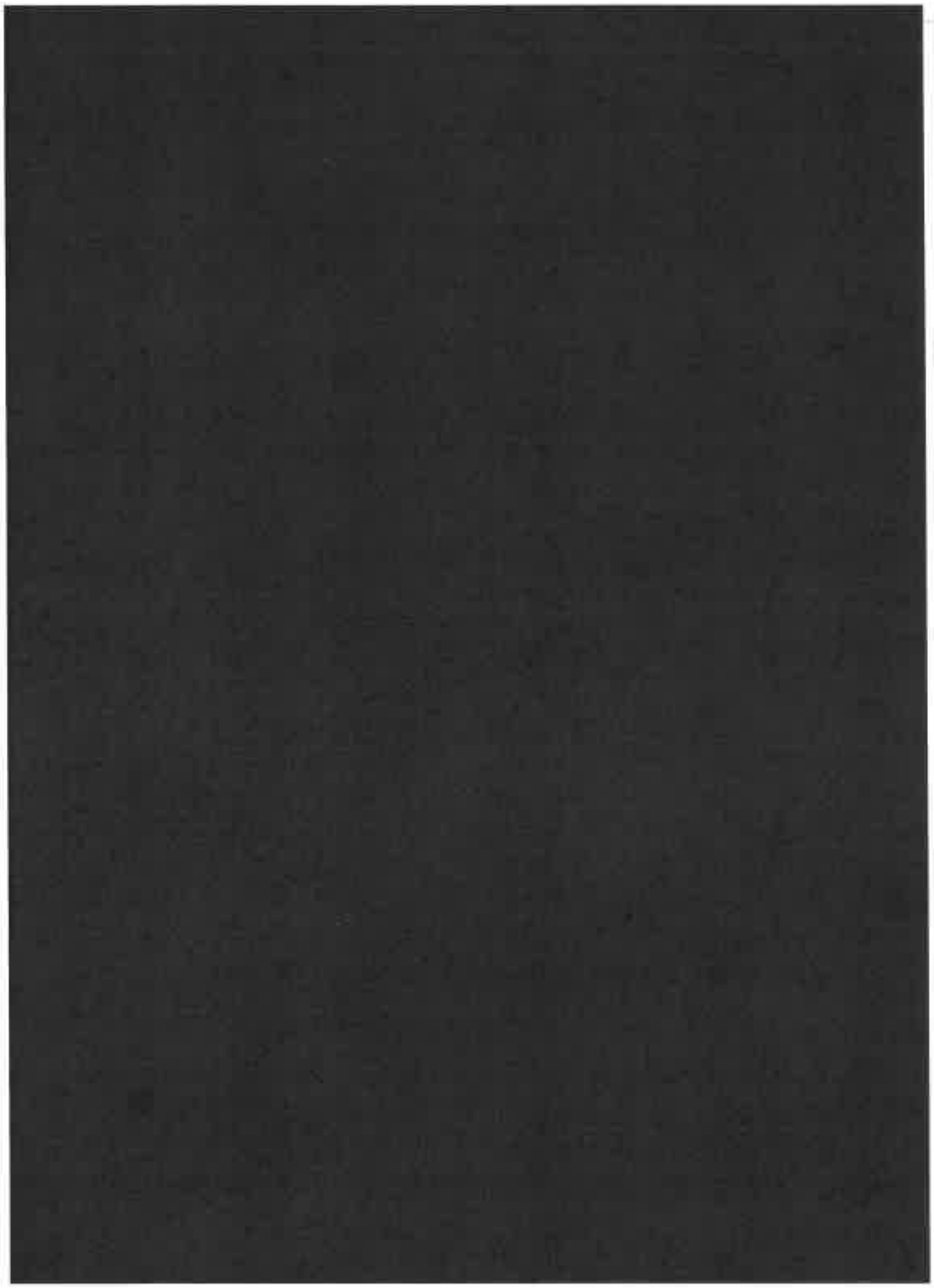
The Department for Business,Energy and Industrial Strategy (BEIS) accepts your Tender (Annex A), submitted in response to our Specification (Annex B).

The Call-Off Terms and Conditions for this Contract are those set out in Schedule 5 to the Framework.

The agreed total charges for this assignment are **£83,607.50** exclusive of VAT which should be added at the prevailing rate. The agreed invoice schedule is as follows:

[redacted]

UK Shared Business Services Ltd (UK SBS). Registered in England and Wales as a limited company.
Company Number 6330639. Registered Office Polaris House, North Star Avenue, Swindon, Wiltshire SN2 1FF



All invoices should be sent to should be sent to finance@services.uksbs.co.uk or Billingham (UKSBS, Queensway House, West Precinct, Billingham, TS23 2NF) A copy of the invoice should be sent to (PM to confirm if they would like a copy)

You are reminded that any Customer Intellectual Property Rights provided in order to perform the Services will remain the property of the Customer. The following deliverables have been agreed:

The Services Commencement Date is Thursday 11th July 2019

The Completion date is Friday 29th Novemeber 2019

The Contract may be terminated for convenience by giving 30 days' notice in accordance with clause 38 of the Call-off Terms and Conditions.

Your Invoice(s) for this work must include the following information:
Commission number: FWRECR19042

The Authorised Representative for this Commission will be [redacted] who can be contacted at [redacted]

Until the date of publication, findings from all Project outputs shall be treated as confidential. Findings shall not be released to the press or disseminated in any way or at any time prior to publication without approval of the Department.

This clause applies at all times prior to publication of the final report. Where the Contractor wishes to issue a Press Notice or other publicity material containing findings from the Project, notification of plans, including timing and drafts of planned releases shall be submitted by the Contractor to the Project Manager at least one week before the intended date of release and before any agreement is made with press or other external audiences, to allow the Department time to comment on factual accuracy. All Press Notices released by the Department or the Contractor shall state the full title of the research report, and include a hyperlink to the Department's research web pages, and any other web pages as relevant, to access the publication/s.

This clause applies at all times prior to publication of the final report and within one month from the date of publication. Where the Contractor wishes to present findings from the Project in the public domain, for example at conferences, seminars, or in journal articles, the Contractor shall notify the Project Manager before any agreement is made with external audiences, to allow the Department time to consider the request. The Contractor shall only present findings that will already be in the public domain at the time of presentation, unless otherwise agreed with the Department.

Congratulations on your success in being selected to undertake this Commission.

Yours sincerely,

[redacted]
UK Shared Business Services Ltd

BY SIGNING AND RETURNING THIS COMMISSIONING LETTER THE SERVICE PROVIDER AGREES to enter a legally binding contract with the Customer to provide to the Customer the Services specified in this Commissioning Letter and Annexes incorporating the rights and obligations in the Call-off Terms and Conditions set out in the Framework Agreement.

Department for Business,Energy and Industrial Strategy (BEIS)

Name and Title	[redacted]
Signature	[redacted]
Date	10/07/2019.

Signed on behalf of Eunomia Research & Consulting Ltd

Name and Title	[redacted]
Signature	[redacted]
Date	09/07/2019

- Apendix 1 – Specification

Background

Company reporting, in annual reports and through other mechanisms, covers both financial and non-financial topics. Such reporting is designed to inform shareholders, prospective investors, and other stakeholders—including employees and potential employees—of not only the company's financial performance, but also of their approach to understanding and addressing risks around the impacts of their activities in non-financial areas. "Non-financial" information refers to narrative information that adds, in part, depth and context to the financial information contained in the company accounts, published in the annual report or elsewhere. It covers a variety of areas: policy around environmental risks, pursuing and securing human rights, protecting against corruption, and promoting diversity.

In the UK, two key pieces of legislation govern non-financial reporting. First, the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013 require all companies, except those subject to the small companies' exemption, to produce focused strategic reports. Firms must disclose human rights issues within their strategic reports, and information on greenhouse gas emissions within their directors' report. Second, the EU Directive on Non-Financial Reporting (Directive 2014/95/EU) requires all large (those with greater than 500 employees) public interest entities (quoted companies, banks, insurance companies) to disclose information on environmental, social, and community matters, to the extent necessary for an understanding of the company's development, performance and position, and the impact of their activities.

Research commissioned by BEIS around the effectiveness of these pieces of legislation is due for publication, along with a Post Implementation Review, later in 2019. Initial findings from this research indicate that stakeholders have some concerns around the materiality, rigour, and comparability of non-financial reporting.

These initial findings join lobbying from stakeholders for further reporting on non-financial issues, both to cover new areas and to expand the rigour of those already reported on. Furthermore, the increasing global interest in the UN Sustainable Development Goals (SDGs) raises the potential to structure company reporting around them. The UN asserts that "The 2030 Agenda for Sustainable Development provides a global blueprint for dignity, peace and prosperity for people and the planet, now and in the future."[1] The UN expects firms as well as other stakeholders to help realise the goals. This has included encouraging governments to legislate to make companies report on relevant items to help achieve the 17 goals, which cover a variety of themes including anti-poverty, gender equality, clean water and energy, responsible production, action on climate change and environmental protection, and developing strong institutions – including through tackling corruption.

Aims and Objectives of the Project

Currently companies use IFRS or GAAP standards with regard to financial reporting, but there is no equivalent standard for non-financial reporting. The proposed work looks to

[1] UN Sustainable Development Goals, https://www.un.org/sustainabledevelopment/why-the-sdgs-matter/

explore preferences around potential frameworks for standards for such reporting. 'Framework' is an inclusive term in this proposal, referring to both the *conceptual basis* for reporting (such as around the UN SDG structure), and the *documented location* of reporting for different non-financial topics (such as the annual report or company website).

The ambition of the project will be to form an initial evidence base around the preferences of UK stakeholders around non-financial standards. This will inform international discussions and ensure UK officials are well informed of stakeholder perceptions and areas in which companies and investors may have concerns. Care will be taken to inform stakeholders that the results will not commit the Government to a model framework, and that the spirit of the research is exploratory.

The specific aim of the work will be to understand, inductively, key stakeholder preferences around potential frameworks for standards around non-financial reporting though in-depth qualitative work. It will then examine how preferences this inductive work identifies are viewed by three key groups: companies (who would need to comply with any set of standards), investors (who would potentially use the reporting to inform investment decisions), and employees or potential employees.

The work will look to contribute to a key government objective around non-financial reporting: to ensure that the UK is strategically placed "at the leading edge of international developments in sustainability reporting."[2]

Furthermore, by exploring ways to enhance standards around non-financial reporting, further evidence is generated to promote trust in the UK business environment, and so, potentially, further investment. As the Green Finance Taskforce suggest, "disclosure and transparency help to encourage trust in capital markets. This is important for London's international reputation and its attractiveness to issuers on the London Stock Exchange."[3]

The outputs of the work will be used to contribute to the UK's ambition to be a leading player in the evolution of non-financial reporting.

The government has already said that it "encourages businesses to communicate what they do for society and the environment as effectively and visibly as possible." It desires clear, informative reporting that meets investor expectations. The proposed study will collect perceptions of the nature of potential frameworks of standards to inform the future of reporting.

Furthermore, BEIS is represented at a UN group on International Standards of Accounting and Reporting which is looking into the link between the UN SDGs and company reporting. This study will provide BEIS with evidence to take to the group and enable the UK's 'leading edge' position to be maintained.

Research Questions

[2] HM Government, 'Government Response to Advisory Group Report on 'Growing a Culture of Social Impact Investing in the UK'' (2018), https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/717511/Government_Response_to_Advisory_Group.pdf

[3] Green Finance Taskforce, 'Accelerating Green Finance' (2018), https://www.gov.uk/government/publications/accelerating-green-finance-green-finance-taskforce-report

Thoughts around the research questions proposed are informed by the 'Reporting principles' section of UNCTAD's guidance on SDG reporting.[4] The ambition will be to obtain a detailed understanding of the preferences of UK stakeholders around the following themes:

- What existing literature exists on potential frameworks for standards for non-financial reporting, at what does secondary research tell us about preferences around them?
- What frameworks of standards for non-financial reporting do key stakeholders propose when posed the question openly? What are their views on existing frameworks identified from current literature?
- Should standards be international or UK based?
- How far should reporting be structured around the UN SDGs? How might compliance be measured? Are some SDGs believed to be more important or relevant than others? Are some SDGs sector specific?
- Where should the line be drawn between what all companies report on (the principle of universality), versus reporting on what is material to them (but need not be reported on by all companies)?
- If metrics around non-financial reporting are proposed by stakeholders, can and should they be comparable across firms, over time and place, and are there suggestions on how this may be achieved?
- How might reporting boundaries work? For financial reporting, it is sometimes the case that international standards are required for consolidated reports but not for legal entities. Should reporting of non-financial information at company level to corporate level follow consolidation principles or rules? At what 'level' should reporting be required?
- What should the reporting period be? Should it synchronise with financial reporting?
- How far do companies feel they can meet potential frameworks identified by key stakeholders? What costs might be involved? How different are the capabilities of the suppliers of the reporting, and the expectations of the consumers?

Suggested Methodology

The proposed methodology outlined below should be considered tentative. Bidding contractors will be invited to comment on the proposal and invite alternative methodological suggestions, so long as they would answer the core research questions posed.

It is recommended that the research comprises four stages.

Stage 1

It is first recommended that the contractor undertakes a literature review to understand all the main issues that subsequent qualitative work should consider, and provide structure to consultations with stakeholders. The literature review should cover existing views and research around non-financial reporting, and identify potential frameworks for the way in which non-financial reporting may be structured. The contractor should weigh up the degree of support for different potential frameworks, and use the results to help frame the discussion guide for Stage 2 of the research, workshops with stakeholders.

Stage 2

[4] UNCTAD, 'Guidance on Core indicators for entity reporting on the contribution towards the attainment of the Sustainable Development Goals' (2018), pp. 8-9, https://isar.unctad.org/wp-content/uploads/2018/10/Guidance-on-Core-Indicator_ISAR-35.pdf

It is then recommended that the contractor organises, recruits people to, and convenes research workshops to enable stakeholders to discuss their views on the core research questions around frameworks for non-financial reporting. Participants should have existing understanding of and interest in non-financial reporting, and be drawn from companies, investment organisations, trade unions, and other stakeholders such as NGOs interested in environmental protection, human rights, anti-corruption, and other matters on which firms might reasonably be required to report. The contractor can select the stakeholders in consultation with BEIS policy officials.

Stakeholders should be asked to consider core attributes of what a framework of standards should look like, including who should develop them, which areas should be subject to standards and which not (including consideration of materiality and universality / comparability), the appropriateness of tying them into UN SDGs, and preferred practicalities including the frequency of reporting and where the reporting would ideally occur (the annual report may not always be the most appropriate vehicle). They should be asked to reflect on existing potential frameworks identified from the literature review, and how far they meet their expectations around non-financial reporting.

The contractor should aim to identify stakeholders' preferred criteria for what will make effective standards. For example, clear metrics, reference to concrete activities, flexibility, clarity, feasibility of meeting the standards, relevance, consideration of likely future risks, the degree to which reporting can be used / further action identified, and so on.

To avoid relying on feedback from a single workshop, it is proposed that the contractor convenes two workshops, with about 25 participants each, to enable small group discussions on focused matters as part of the session. The discussion guide should be structured to enable both discussion of existing proposed frameworks and to open up the floor to alternative views. It should accommodate the main issues around non-financial reporting identified from the literature review. As the participants will have existing interest in non-financial reporting, there may be a risk of 'loud voices' and contractors should propose means of ensuring all views are heard. This may involve, for example, avoiding whole group discussions throughout the sessions, and breaking the group into smaller sub-groups to consider specific points, before feeding back.

Care will be taken to emphasise the exploratory nature of the research, and that suggestions are designed to create an evidence base for further research and discussion. They are not to be viewed as tying the government to specific courses of action.
The contractor will then be required to consider the feedback obtained and write up an interim report summarising the key ideas identified from the literature review and the workshops, and use them to make a case for the specific statements, ideas, and questions to be included in the survey instruments in Stage 3 of the research.

Stage 3

It is then proposed that the contractor undertakes more universal testing, through online surveys with three groups (businesses, investors, and employees / potential employees), and a workshop with institutional investors, to gauge broader opinion on the ideas from Stages 1 and 2 of the research. The contractor should attempt to obtain a ranking of criteria of a 'good' framework of non-financial reporting standards by stakeholder, and views on the key issues raised by existing literature and the stakeholders involved in the workshops, reflecting on the core research questions identified previously. If potential frameworks have been identified, such as the UN SDGs, the surveys should cover views on them, with questions tailored towards likely pre-existing understanding of those frameworks. It may be necessary to ask questions around the principles and assumptions underlying the

frameworks rather than the frameworks themselves if understanding of them is likely to be limited. To gauge this, the contractor should undertake appropriate cognitive testing. Finally, for suppliers of non-financial reporting, companies, it may be useful to obtain broad estimates of costs associated with new requirements.

Business Survey: the relevant affected firms are those also subject to the EU Directive on Non-Financial Reporting, and hence those for whom it is necessary to report on the broad suite of non-financial topics. That is, all large (those with greater than 500 employees) and public interest entities (quoted companies, banks, insurance companies). Companies not registered but listed in the UK are not in scope of the Directive and can be excluded from the sampling frame.

According to the FAME database, there is a population of up to 550 eligible firms, and a survey of 100 of them would mean the margin of error around a particular result would be +/- 8.9pts at the 95% confidence level. Though it would be preferable to draw a larger sample to reduce this margin of error, a required sample of 100 is likely to be realistic to achieve given previous research efforts that have exhibited the difficulty in obtaining a high response rate to surveys of companies. Furthermore, the potential for statistical consideration of differences in opinion over perspectives around non-financial reporting make a survey preferable to the alternative of purely qualitative work.

It is suggested that contractors reach out to all firms in scope to identify the individual in the communications or social responsibility department of the company with familiarity with non-financial reporting. BEIS analysts will be able to supply the contractor with appropriate FAME data, including generic contact details of firms. The contractor will be required to contact the firm and obtain the email details of the most appropriate survey respondent, before sending them the link.

If the contractor considers that the required response rate is unlikely to be achievable, they are invited to propose other methodological techniques to obtain business opinion. Such techniques might include depth interviews with a smaller sample of firms or use of an online portal to facilitate easy entry of information.

Investor Survey: it might be argued that investors are far more likely to be interested in firms' financial rather than non-financial performance – however this supposition is not viewed as something to obstruct the research, rather something the contractor should *test* through the research. It is proposed that the contractor surveys 500 retail investors through an online omnibus survey with appropriate screening questions. The sample should have adequate representation of direct, indirect, and both direct and indirect investors (preferably a third in each category, to allow robust comparison), to generate understanding of whether those who exercise greater choice in which companies they invest in express different views around structures for non-financial reporting. A sample of 500 people should produce a maximum margin of error +/-4.4pts when the group is considered as a whole.

Institutional Investor Workshop: Survey research will not be attempted to obtain the views of investment managers due to complexities around defining the population and obtaining a sufficiently high response rate. Nevertheless, they are an important stakeholder and their views will be sought in a separate workshop. It is proposed that the contractor works with BEIS and their contacts in the Investment Association to discuss the research questions included the survey with a group of up to 25 investment managers. A fully representative sample of investment managers will not be achievable due to the low N, but participants will be expected to span different sectors and management of different products. The contractor will be required to recruit participants in partnership with BEIS and the Investment

Association (from whose members participants will be drawn), create a topic guide, and organise and convene the session.

Employee / Potential Employee Survey: Individuals may use information on the non-financial performance of firms to inform a decision whether to seek employment with them, or even whether to stay in employment with them. It is therefore proposed that the contractor undertakes survey research with those who work for, or would consider working for, the companies in scope. This will test for the strength of this effect and gather evidence on the preferences of those for whom such information may be influential. To increase efficiency, it is advised that contractors use the same online omnibus survey with appropriate screening questions for this purpose as for the survey of retail investors. There is, indeed, likely to be a considerable number of individuals who are both retail investors and employees / potential employees. It may be appropriate to ask such individuals to answer some questions twice, so they can express views through each 'lens', or alternatively to route them into the category currently with fewer responses to push for the target sample number. Contractors are invited to provide views on either option. There is the potential for bias, for example, if employees / potential employees are also retail investors in a firm, as they have more at stake in the company as a shareholder which might influence their survey responses as an employee / potential employee. A sample of 500 employees / potential employees is again recommended (maximum margin of error +/-4.4pts), to enable statistically robust comparisons.

Stage 4

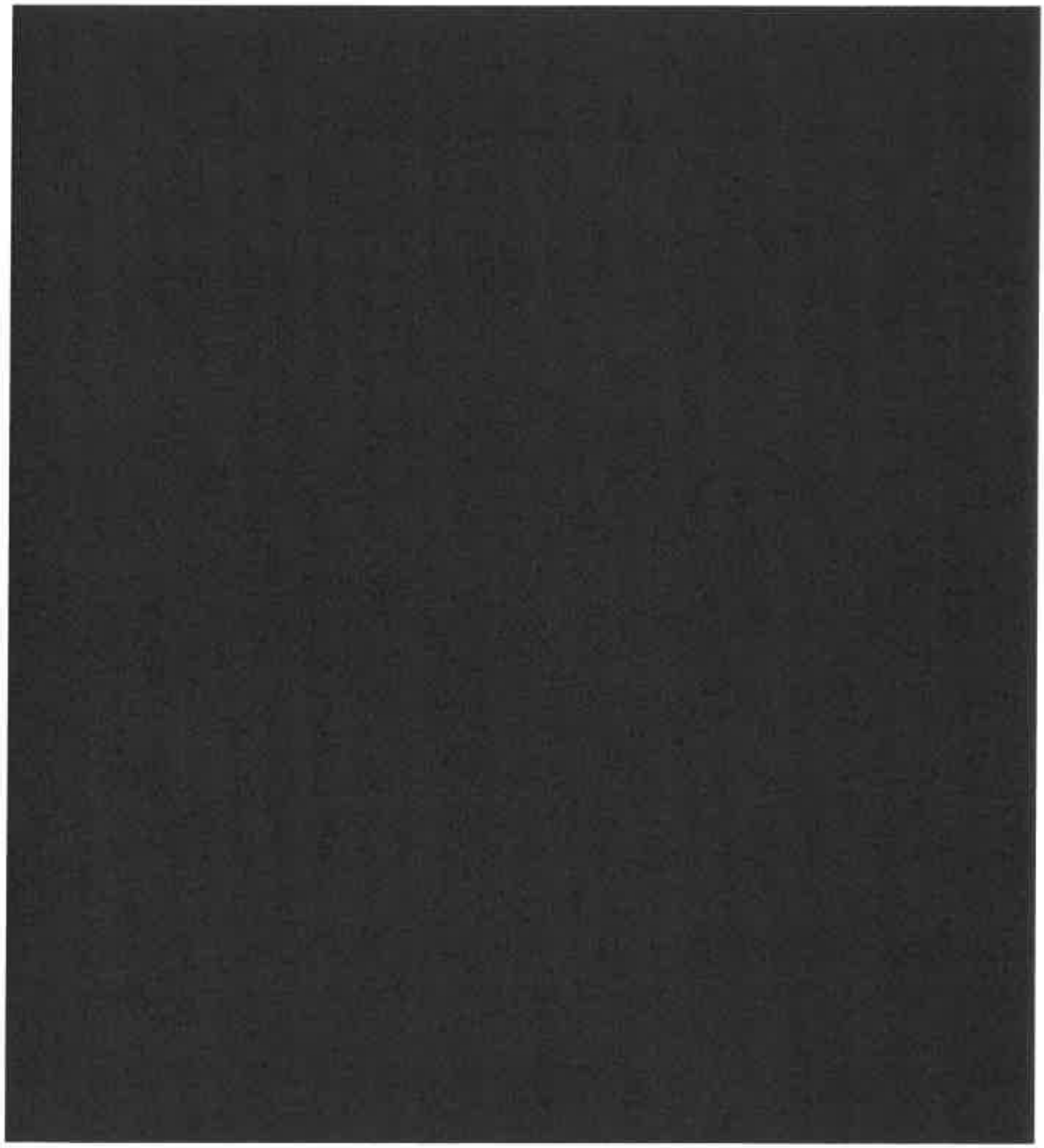
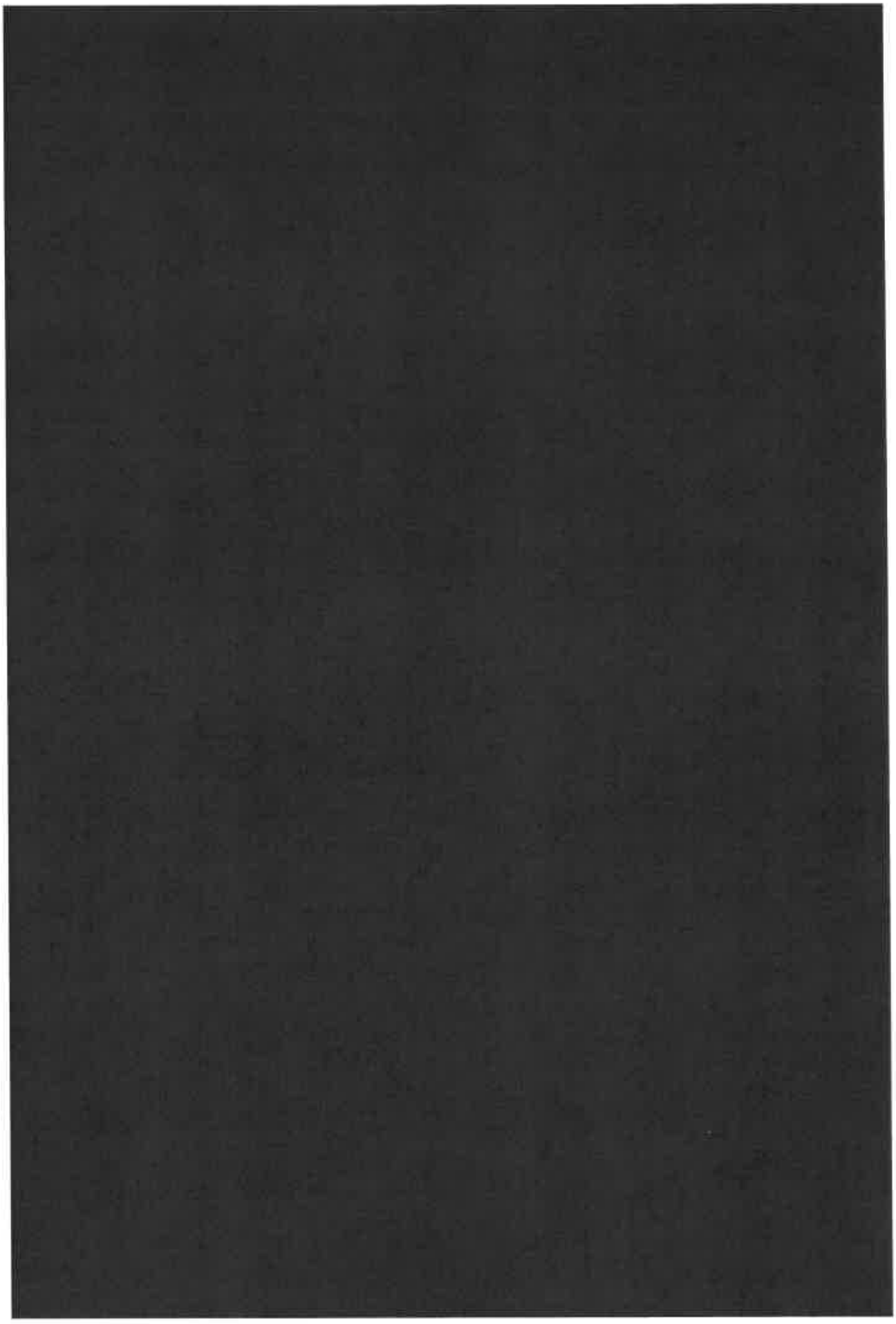
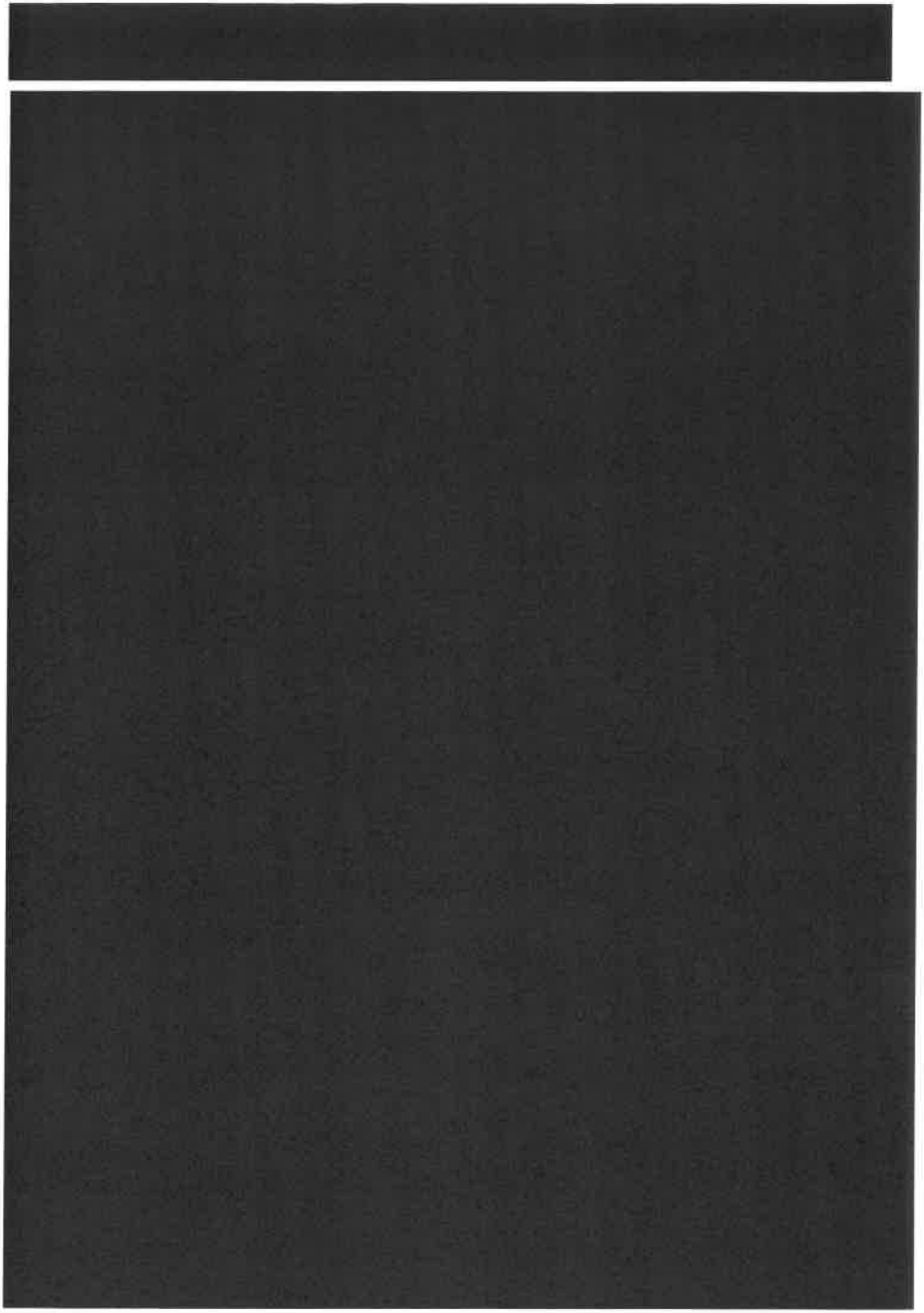
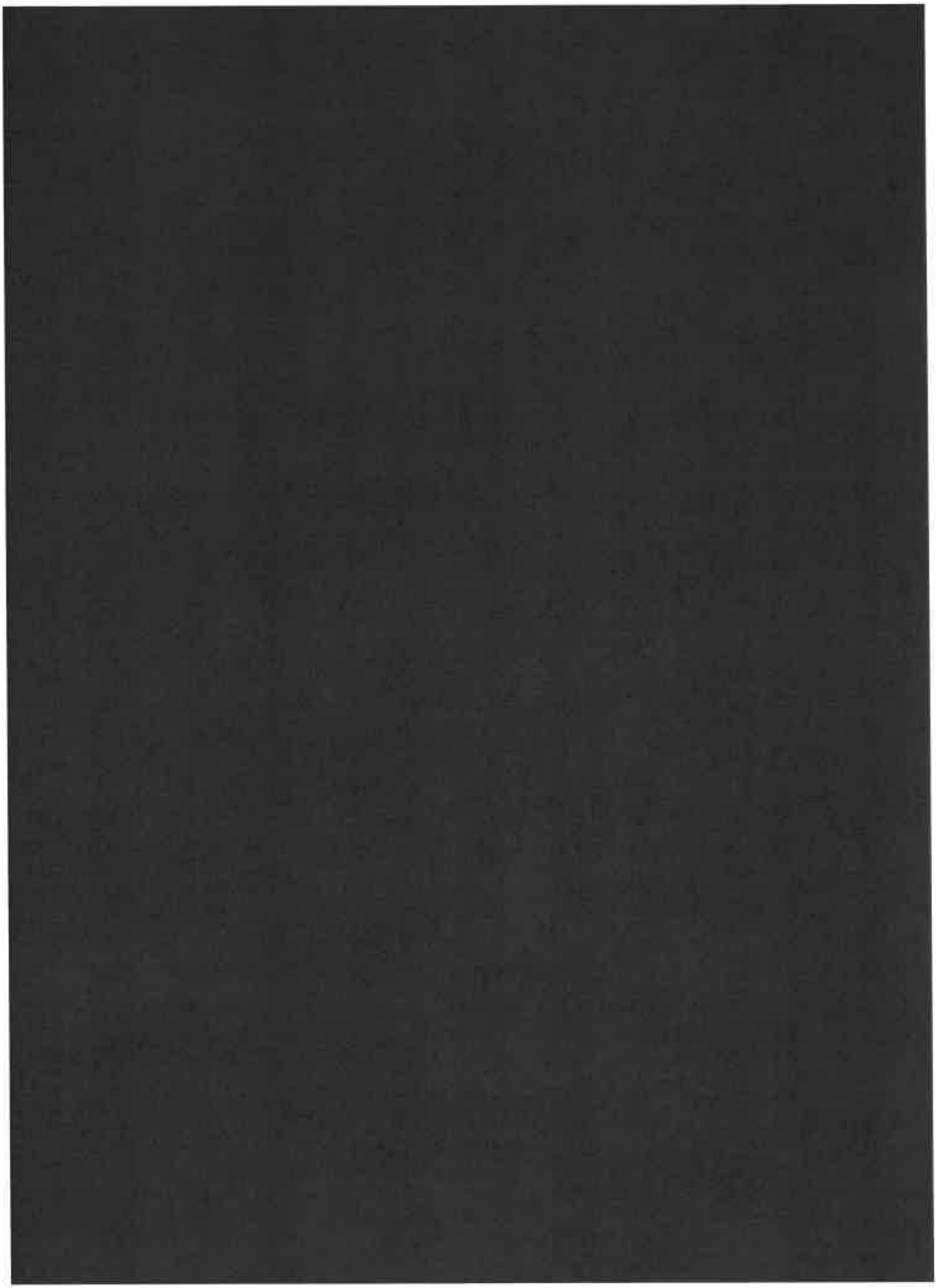
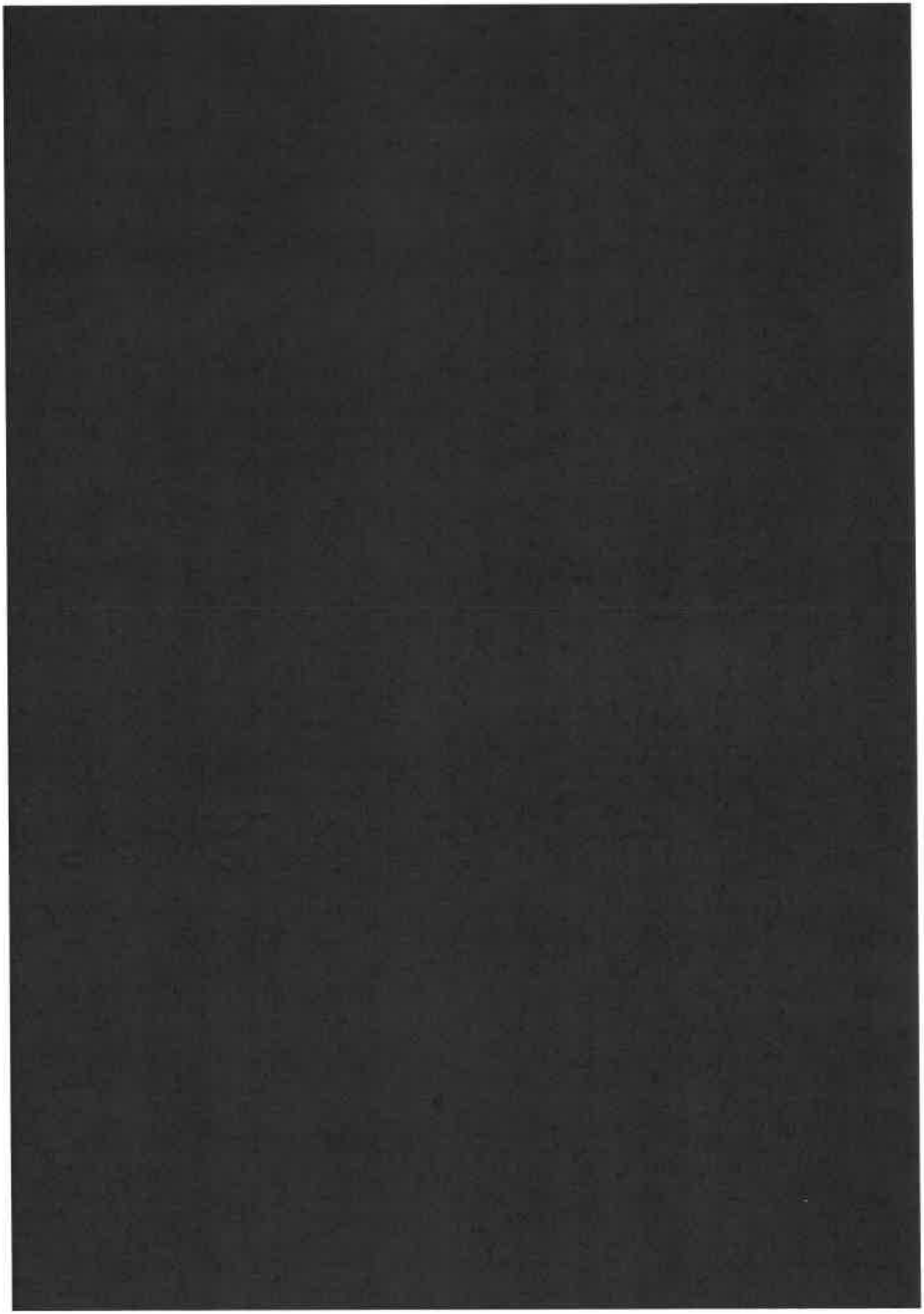
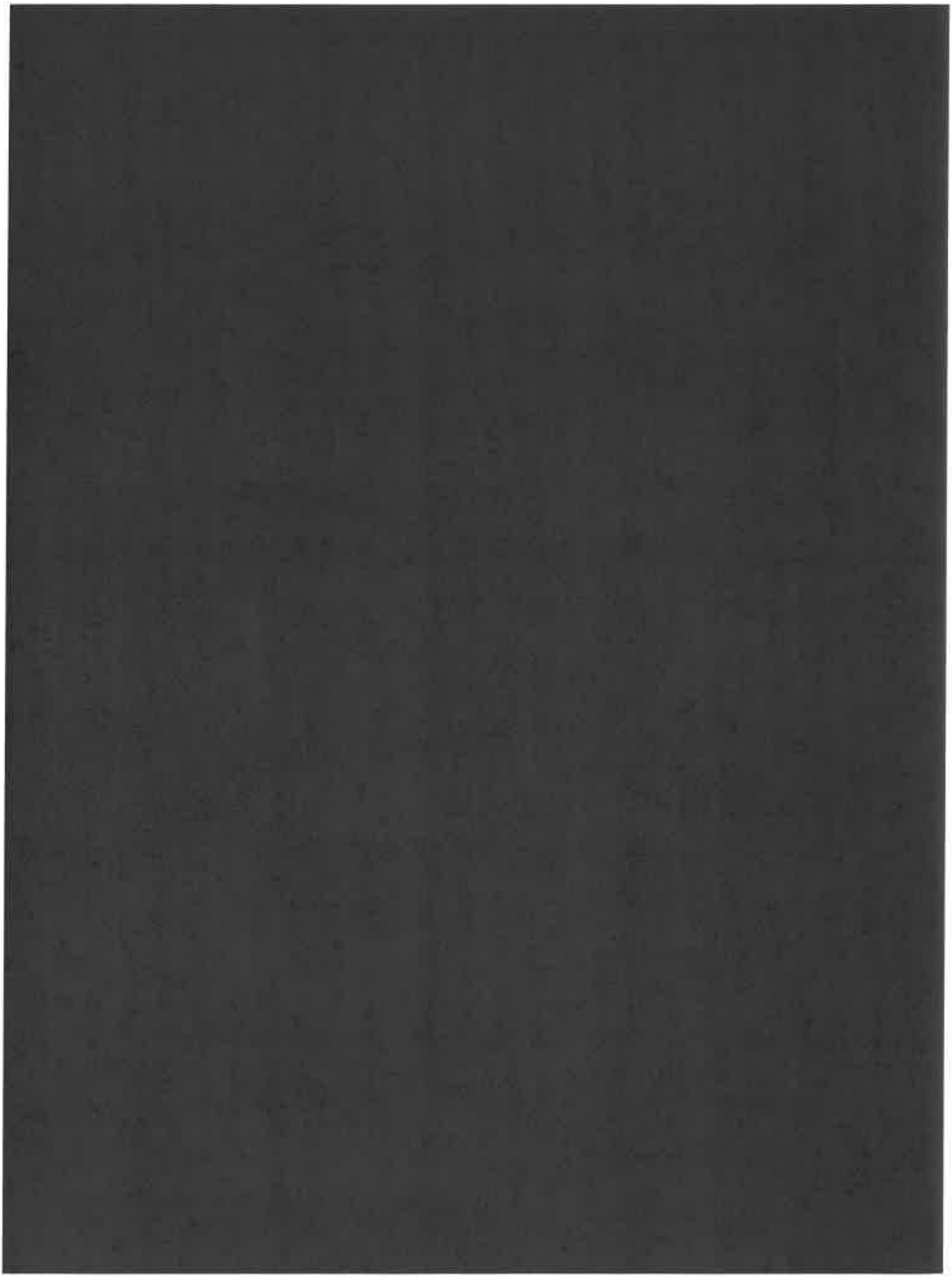
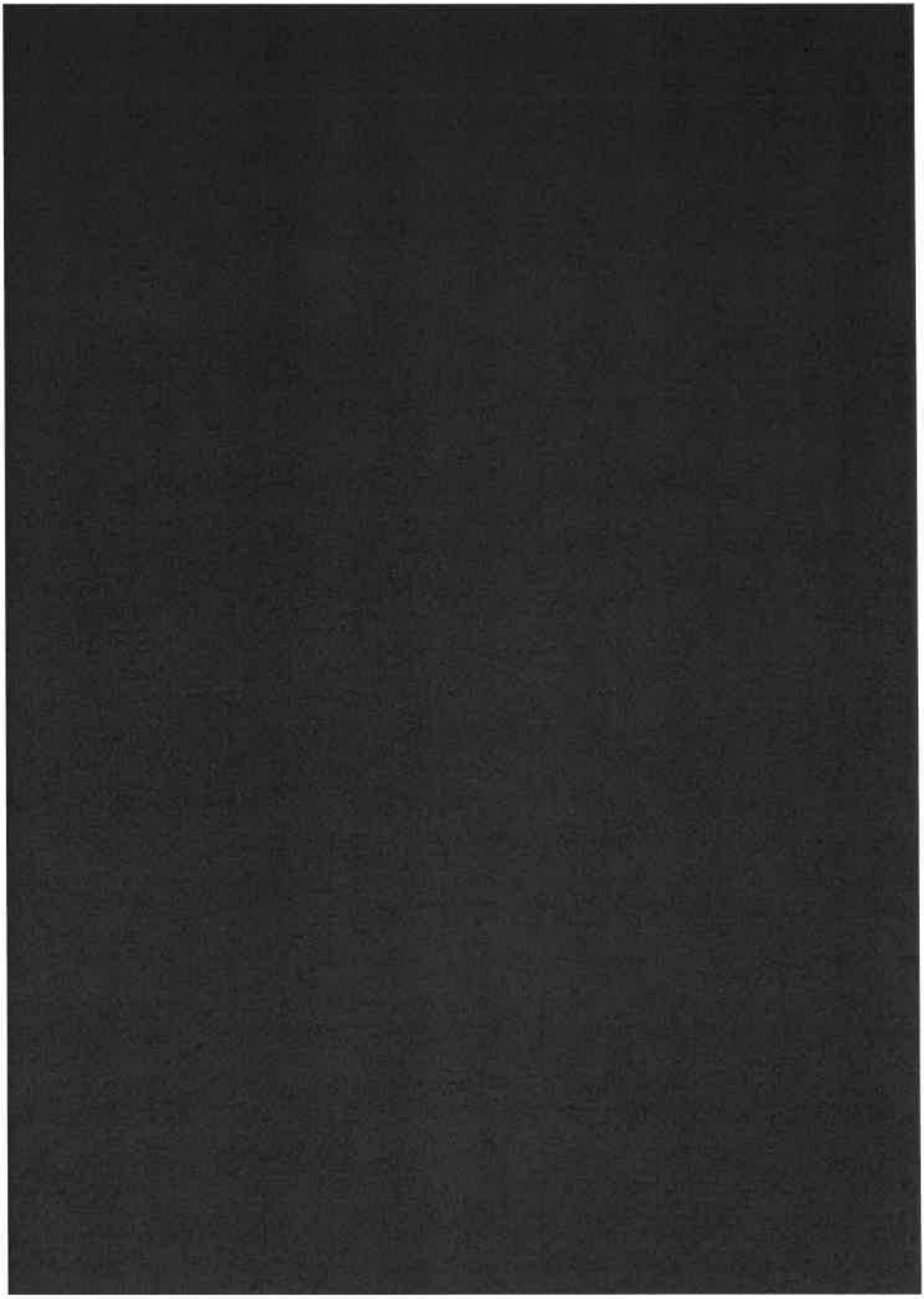
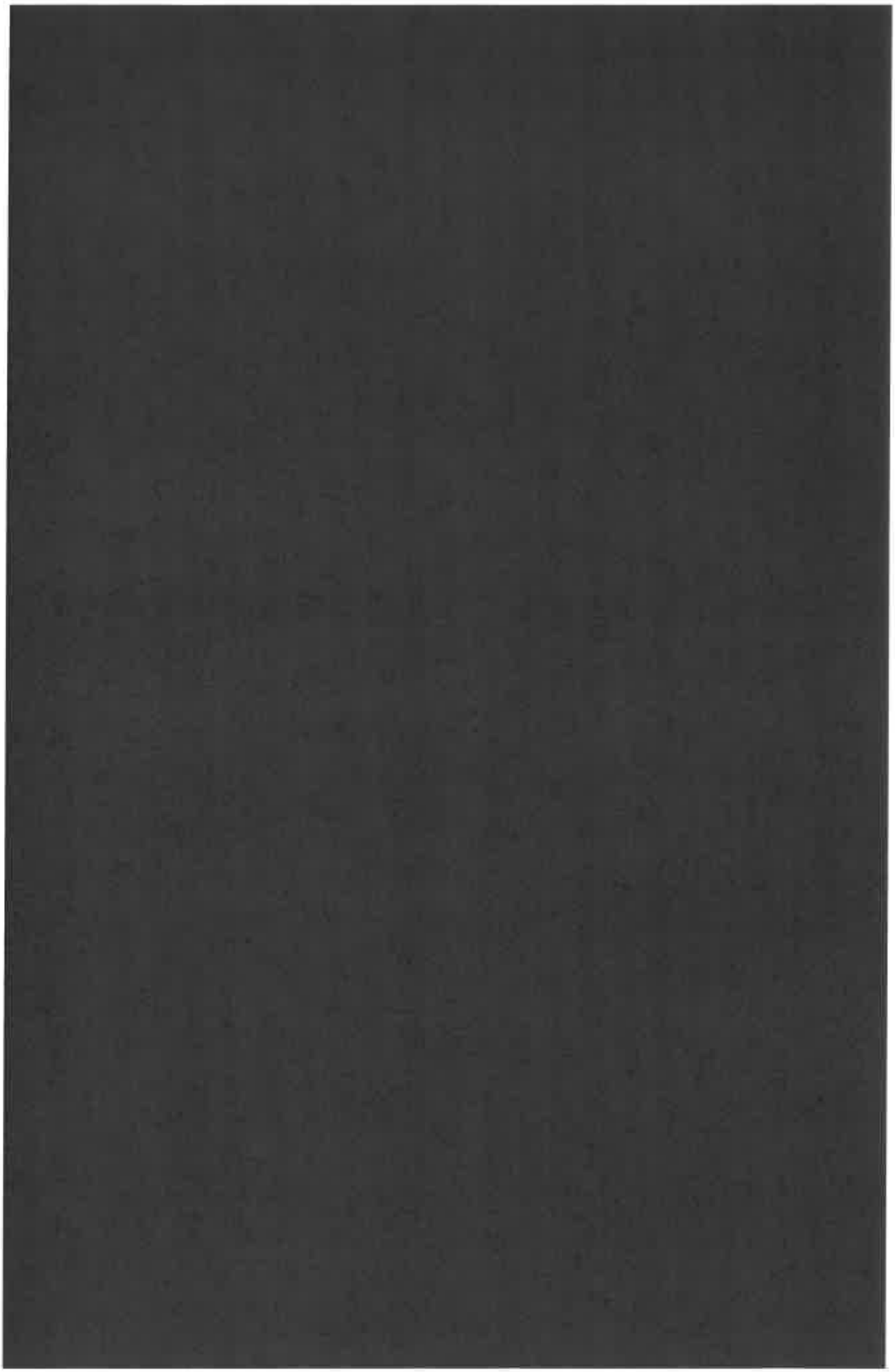
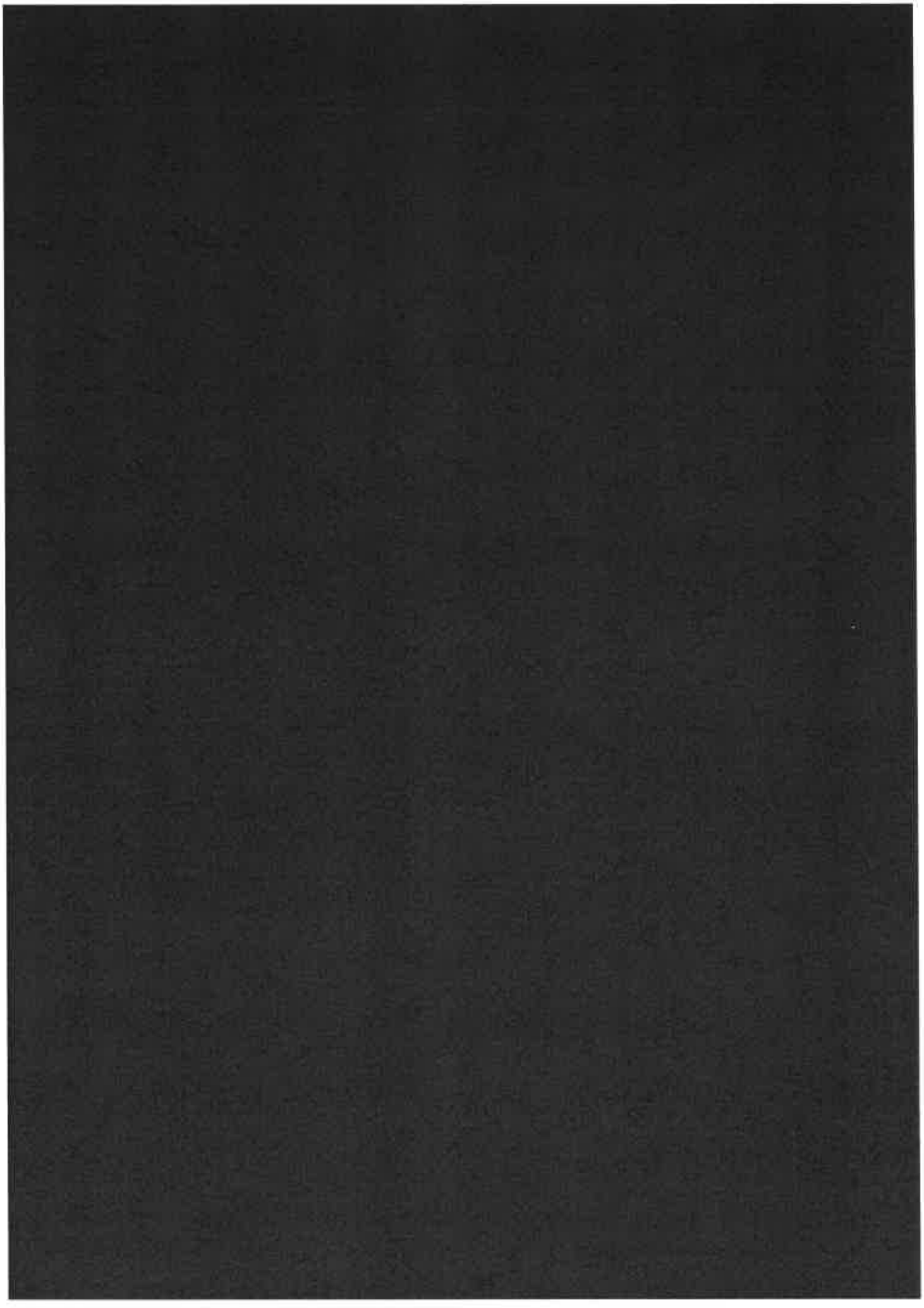
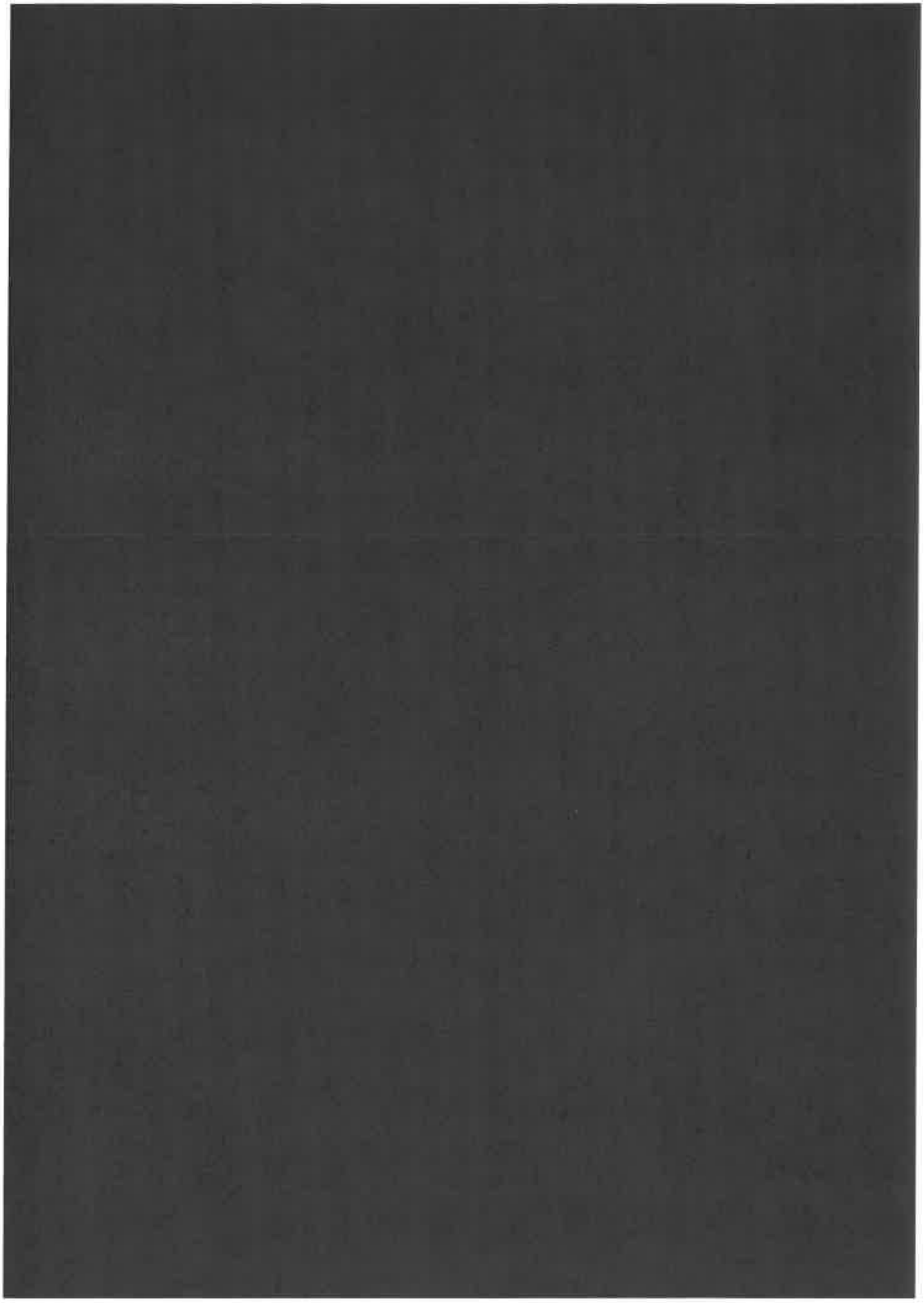
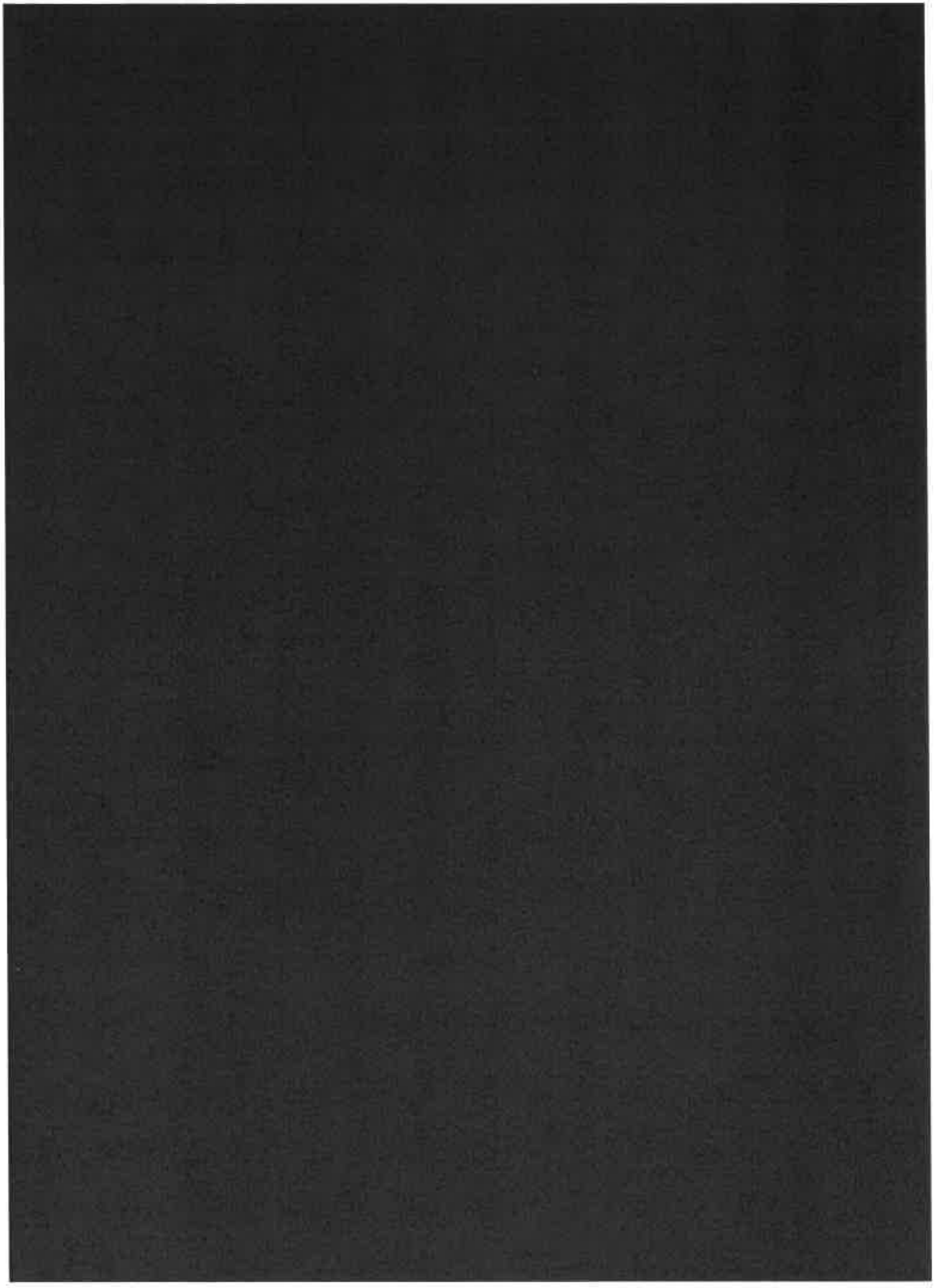
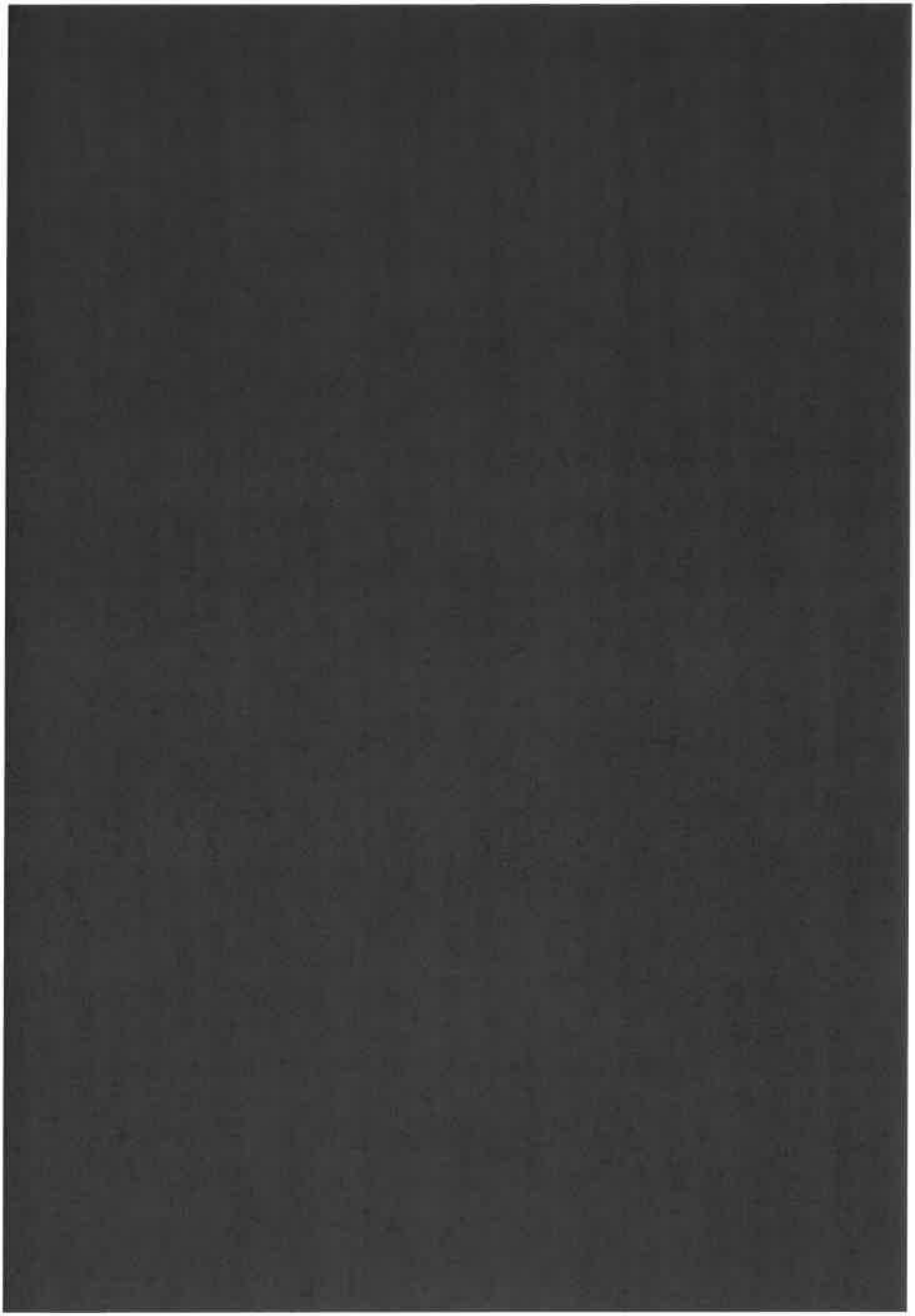
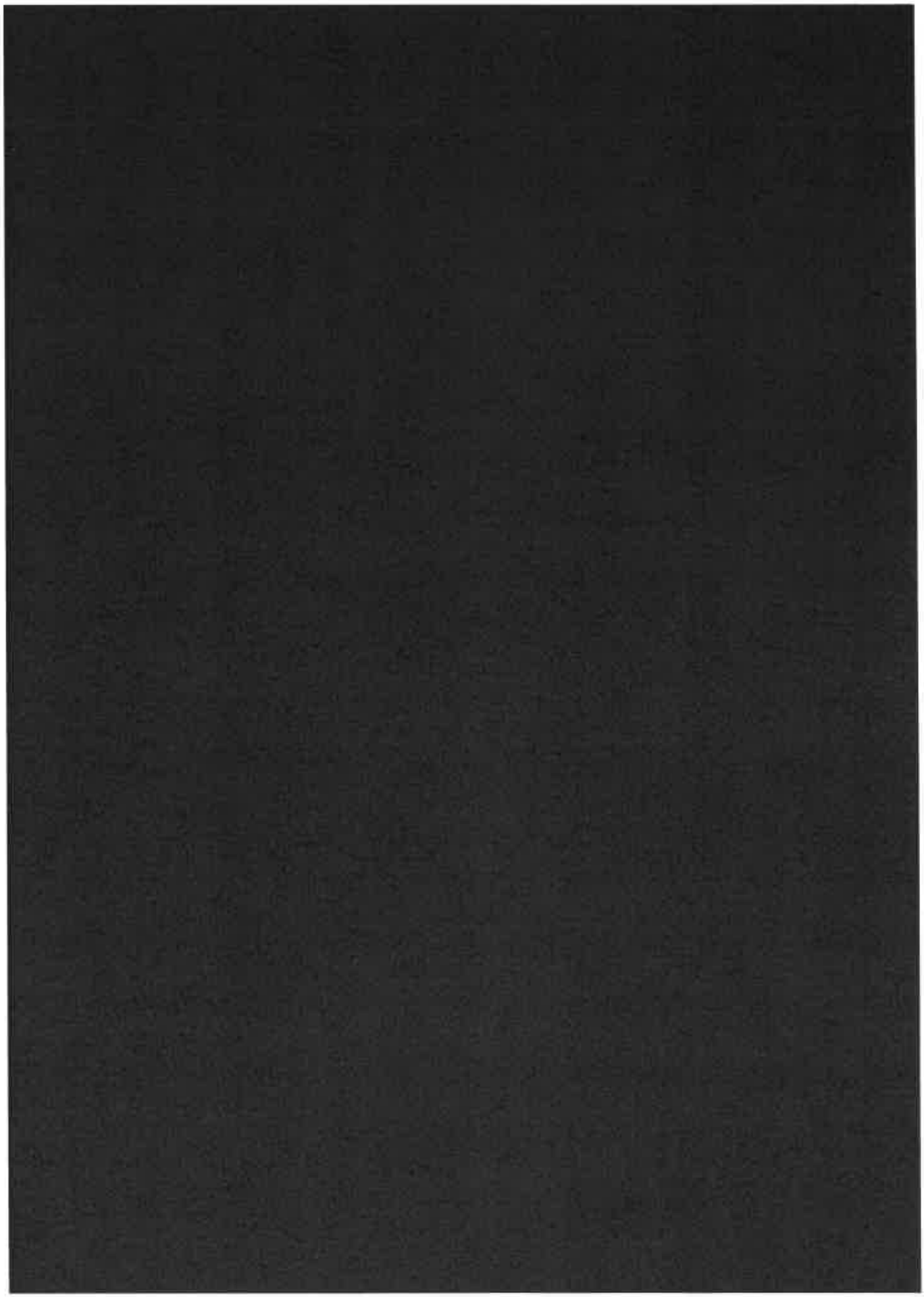
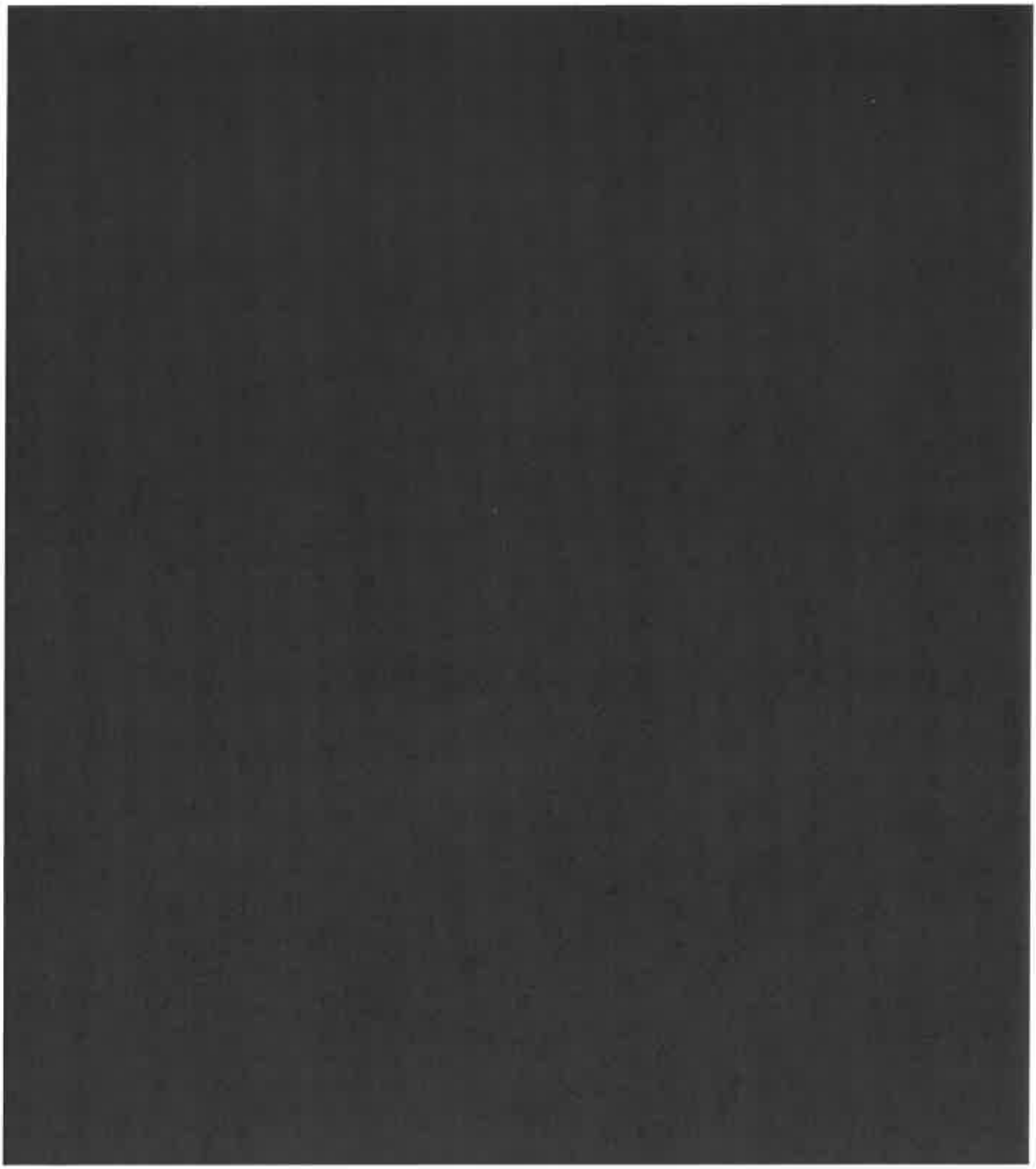
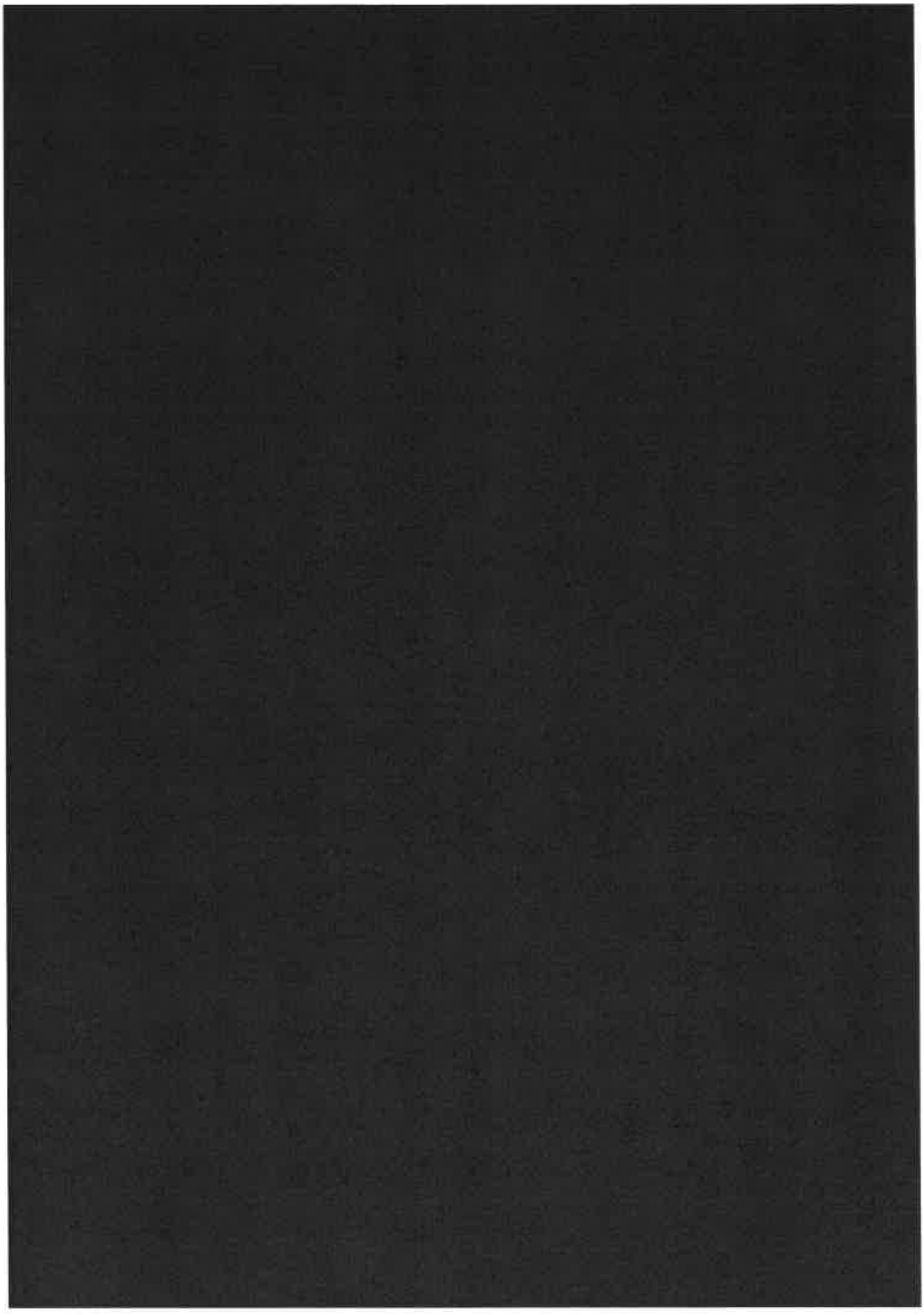
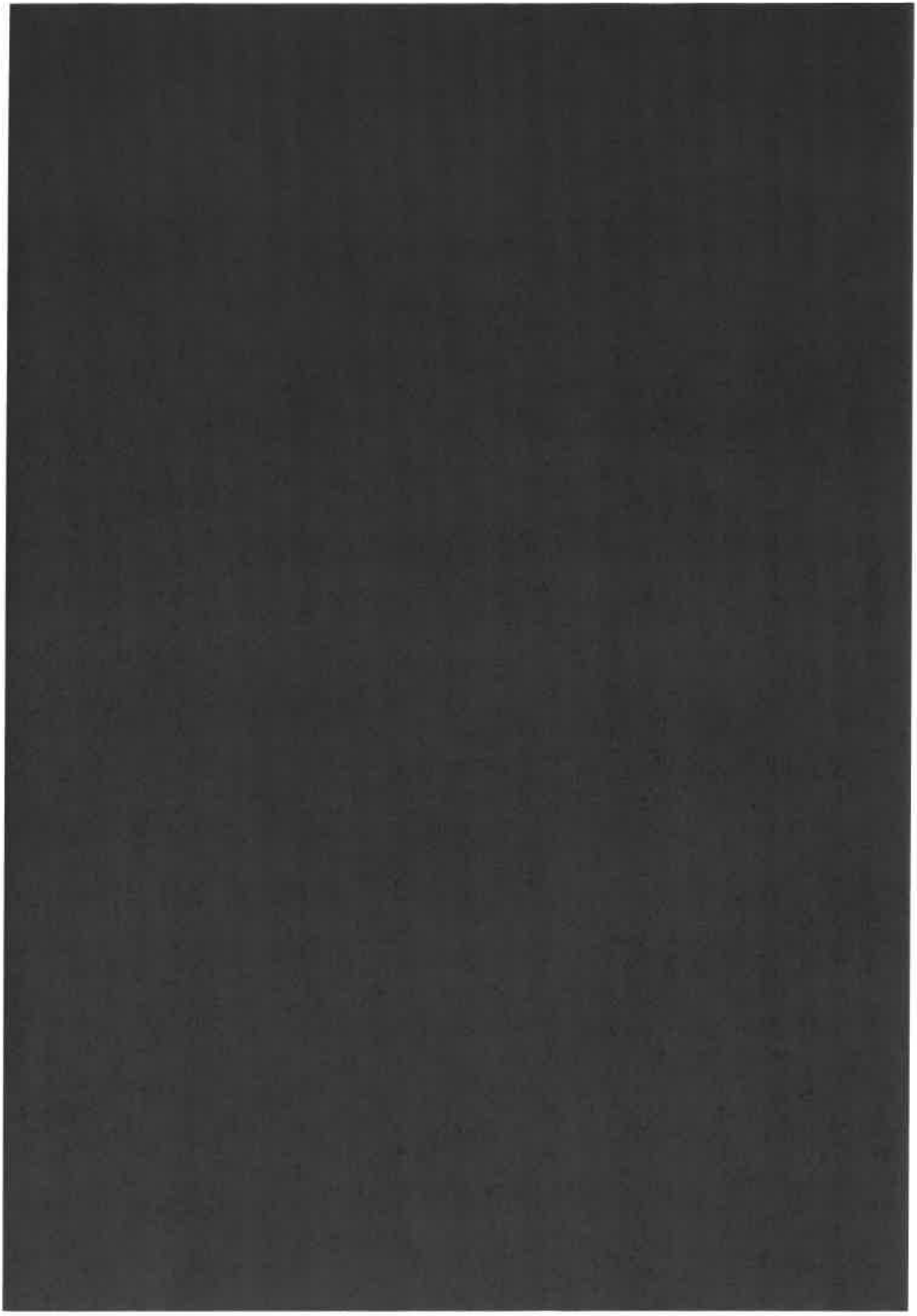
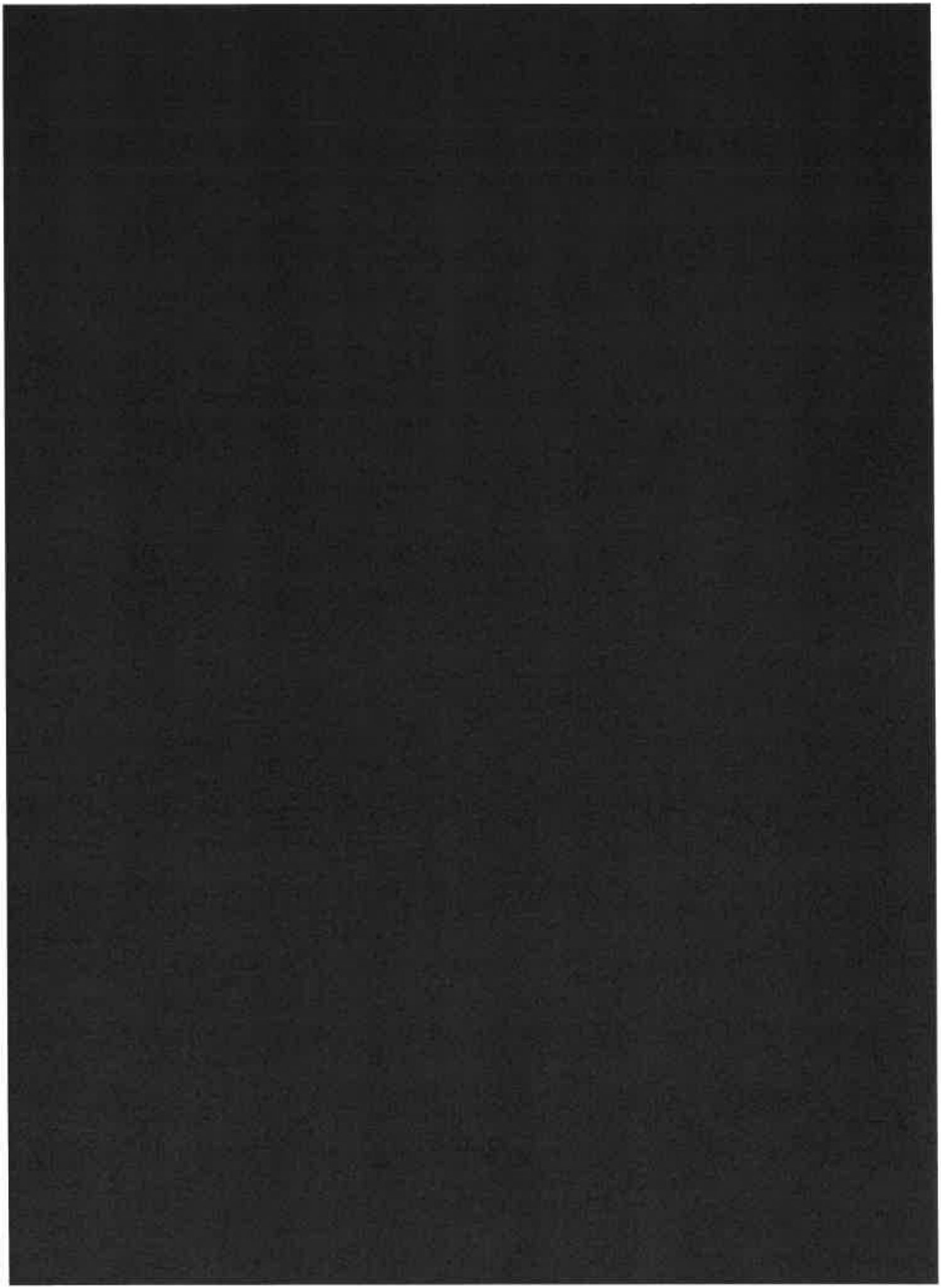
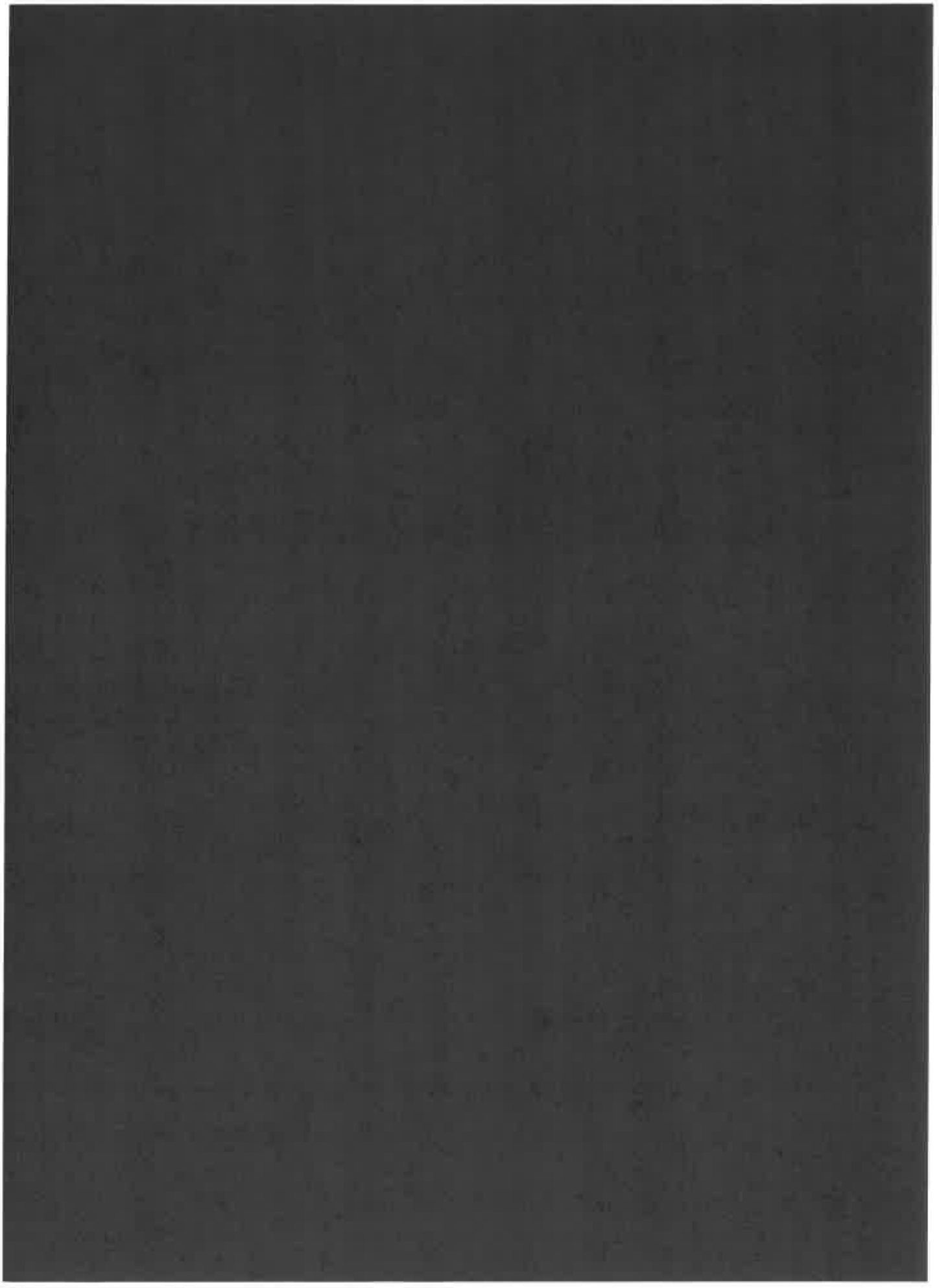
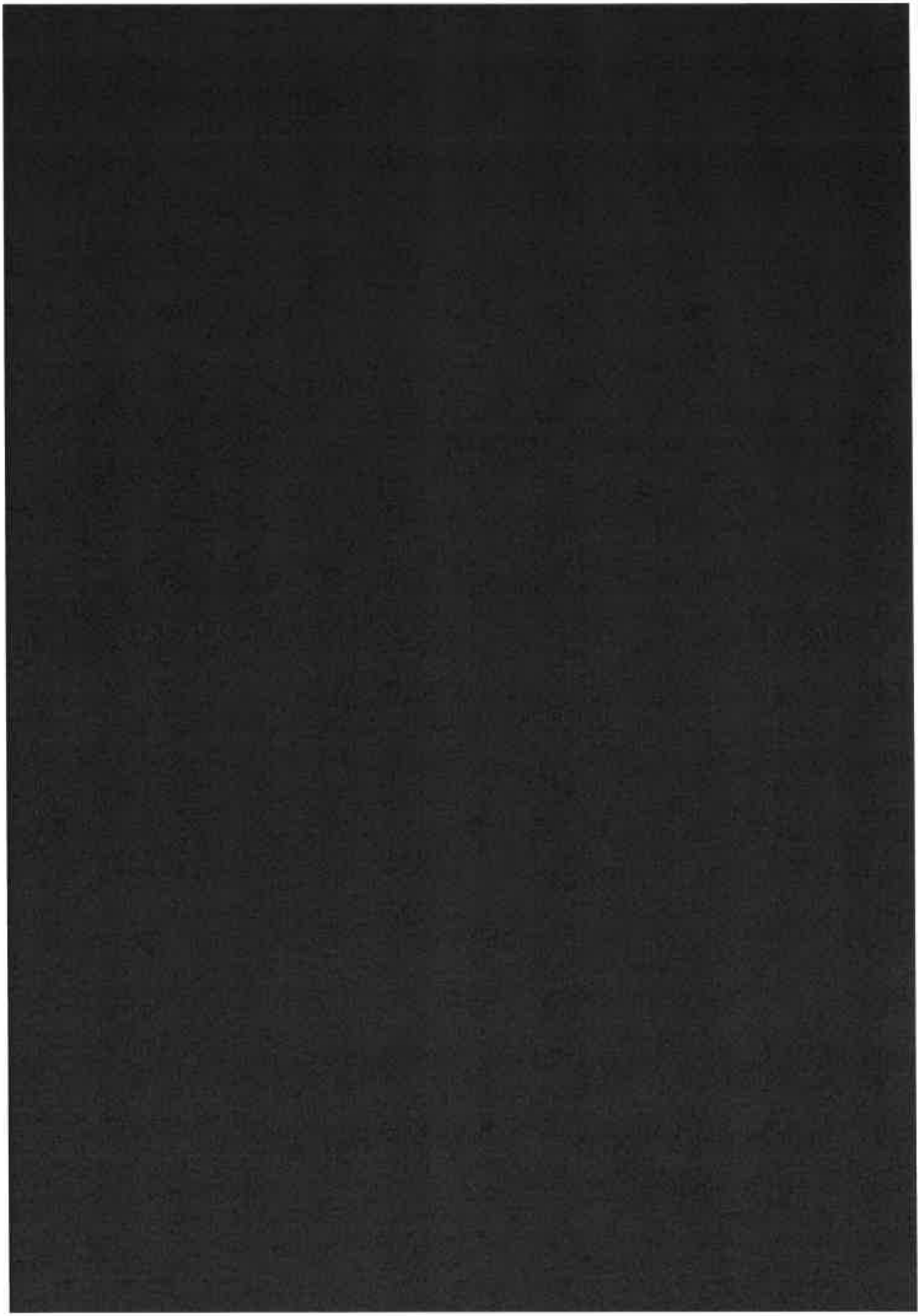
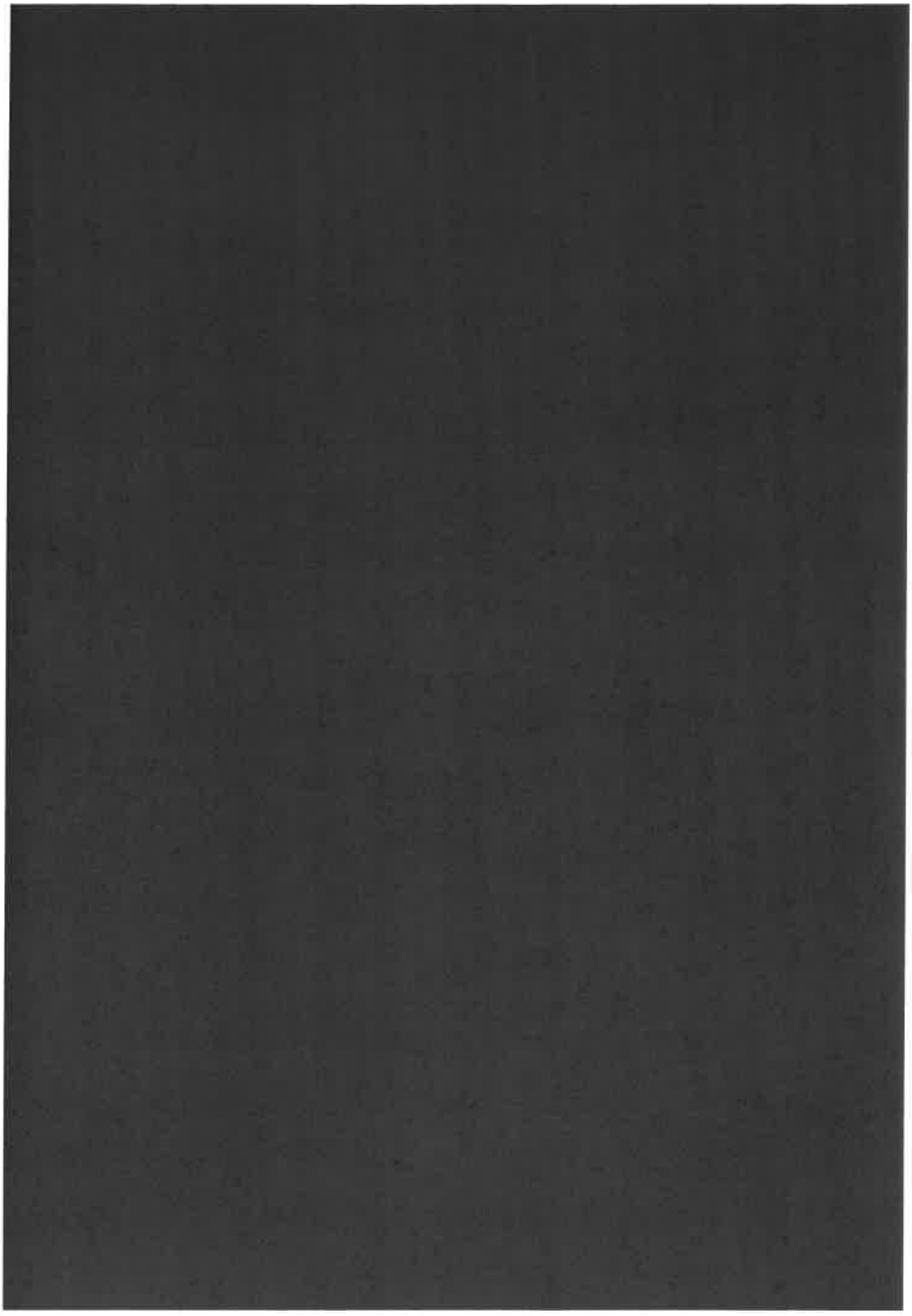
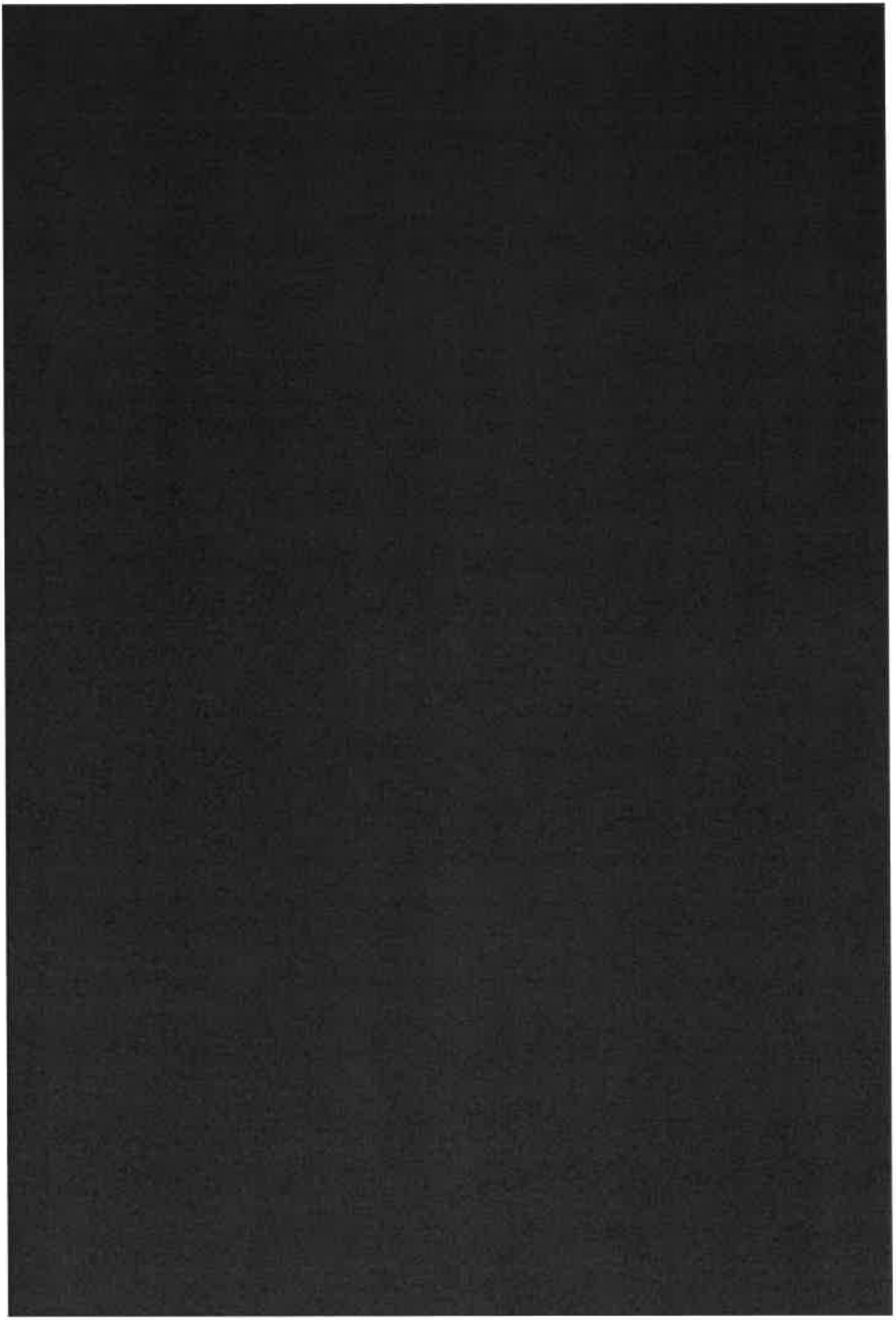
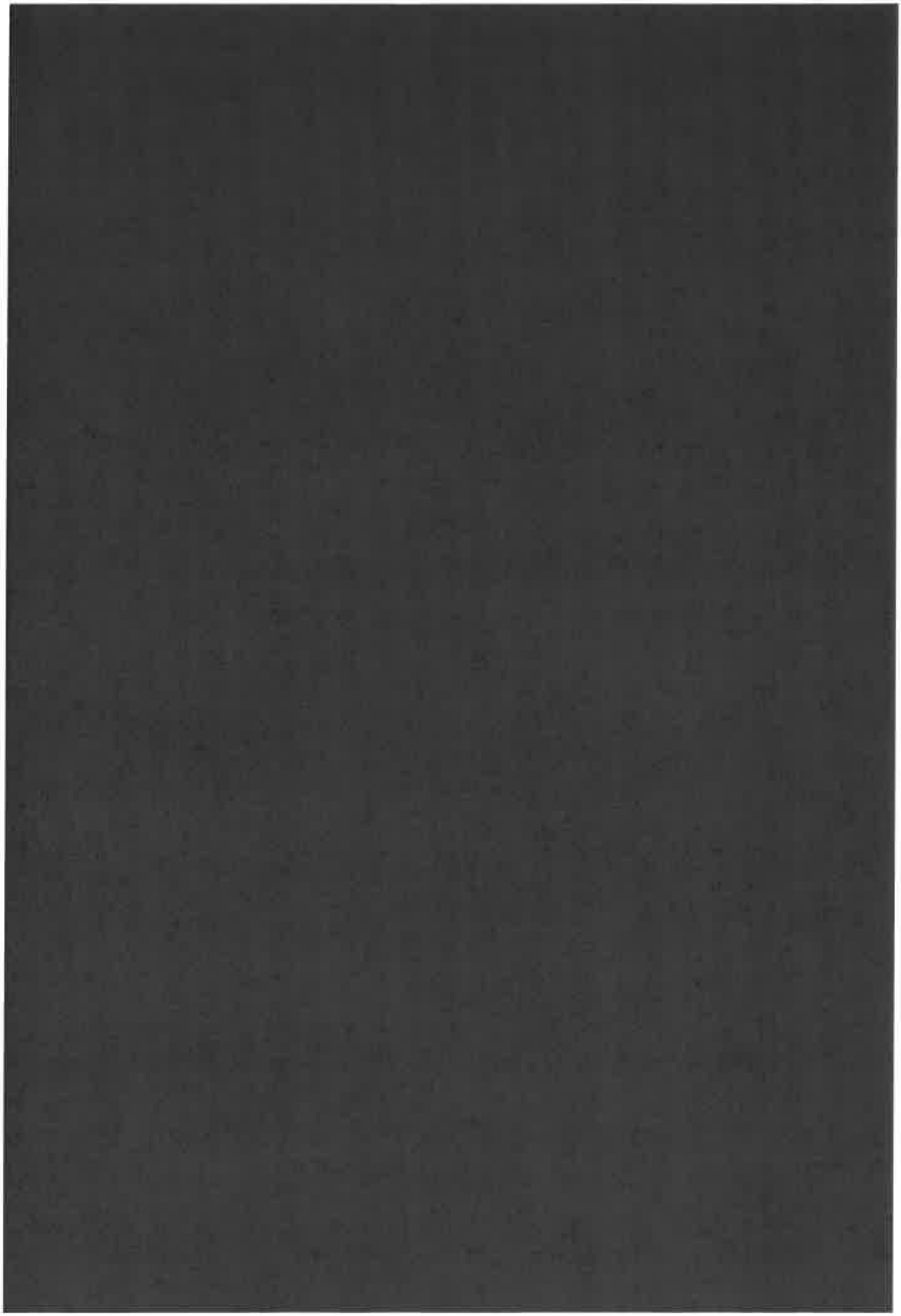
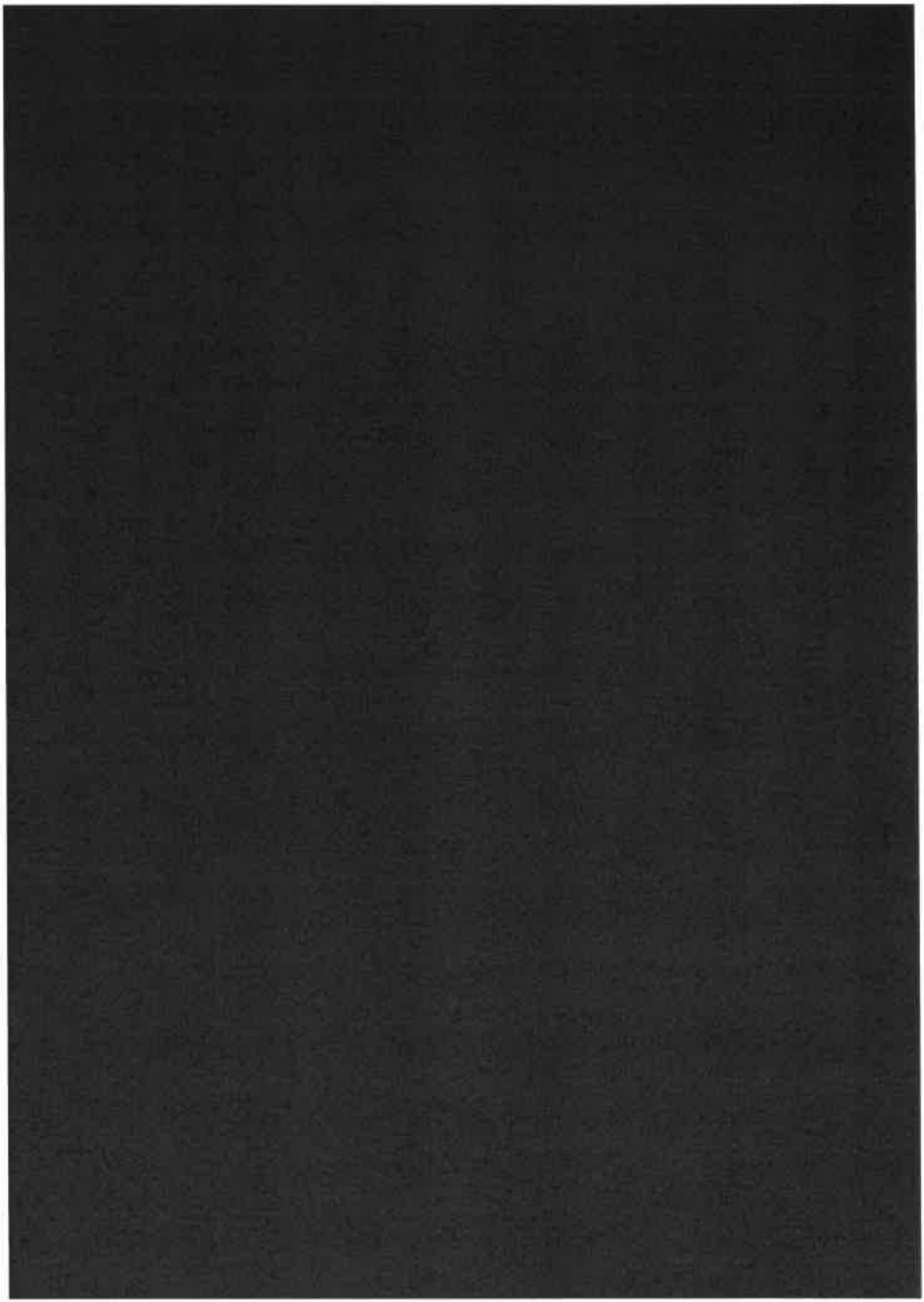
The contractor will finally be required to bring together the findings from the previous stages to reflect judiciously on the most viable frameworks for standards in non-financial reporting, with reflection on where the demand for non-financial reporting might best meet the supply of this reporting, and how frameworks and structures around this reporting might support this.

- The degree of demand for non-financial reporting can draw on the literature review and stakeholder workshops, as well as the various surveys which measure interest in non-financial reporting among potential consumers (investors, employees, and potential employees, and even companies if they feel the reporting can inform strategy). Consideration of demand should reflect on the importance of universality and comparability against materiality.
- The potential to supply non-financial reporting should draw particularly on the findings of the company survey, reflecting on the ease with which reporting requirements proposed by stakeholders can be met, and potential costs.
- All previous stages of the research should help inform recommendations on how far potential frameworks might accommodate where demand and supply for non-financial reporting meet.

Before the analysis is formalised, the contractor is required to organise and convene a workshop to peer review the conclusions, to include BEIS Policy officials and academics with expertise in the area. The contractor should use their experience of conducting the literature review to identify the leading academics interested in non-financial reporting and request their participation, in person or virtually, in this discussion. Feedback should be integrated into the final report. To keep the volume of feedback manageable, it is proposed that 6 to 8 academics are invited to the workshop.

Deliverables

- Regular updates on emerging findings and project progress
- Research instruments – questionnaires and discussion guides

- Interim report of findings
- Presentation of results, including PowerPoint slides
- Quality assured final report
- Anonymised dataset of survey results

- Annex B – Tender Response