

The strategic report Guidance for unquoted companies



Introduction

In August 2013, parliament approved **The Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013**. These regulations, which amend the Companies Act 2006, apply to all companies except those qualifying as small, although certain requirements within the regulations only apply to quoted companies. This document provides a step-by-step guide for unquoted companies to ensure compliance with the new Regulations as well as some suggestions for better practice. A summary of the requirements is given overleaf. More information on the new Regulations can be found at www.ukaccountingplus.co.uk.

What changes are required to comply with the new Regulations?

The requirement to include a business review within the directors' report has been replaced with the requirement to prepare a 'strategic report'. Unlike the business review, the strategic report must be presented separately to the directors' report. It must also be separately approved by the board of directors and signed on behalf of the board by a director or the secretary of the company.

To comply with the Regulations:

- the section within the directors' report which is currently titled 'business review' should be removed from the directors' report and presented as a separate report;
- references to the 'business review' should be replaced with references to the 'strategic report'; and
- both the new strategic report and the directors' report should be signed separately on behalf of the board.

For unquoted companies, the contents of the strategic report will mirror those previously required for the business review. They should therefore require little or no further change.

How does the strategic report interact with the directors' report?

A directors' report is still required but will be shorter in length. As well as removing the information comprising the business review from the directors' report, unquoted companies can remove the following disclosures from the directors' report (although management may wish to consider whether any are of sufficient strategic relevance to be included in the strategic report):

- the description of the principal activities of the company during the course of the year;
- asset values, i.e. the difference between the value of land as noted in the balance sheet and the directors' view of the value of that land;
- charitable donations;
- the policy and practice on payment of creditors; and
- disclosure of the acquisition of own shares.

Of the disclosures remaining within the directors' report that are still required by law, some may seem more appropriately included in the strategic report. Notable examples are:

- particulars of important events affecting the company since the financial year-end;
- an indication of likely future developments in the business;
- research and development activities; and
- details of employee involvement and policies for employment of disabled persons.

Management may decide that these disclosures are of sufficient strategic importance to be promoted to the strategic report and discussed within the business review. However, where this is done, the directors' report still needs to identify the specific disclosures that have been moved to the strategic report.

Some thoughts for better practice

The procedures above will enable basic compliance with the requirements of the Regulations. However, companies wishing to enhance their narrative reporting further might consider doing one or more of the following in their strategic report:

- including a description of the business model of the company and how it generates value for shareholders;
- explaining why KPIs are selected and how they relate to the measurement of progress against the company's objectives; or
- discussing how future developments might impact the position and performance of the company.

Further information

The regulations can be accessed at:

http://www.legislation.gov.uk/ukxi/2013/1970/pdfs/ukxi_20131970_en.pdf

Further guidance for quoted companies is available in the Deloitte publication:

'The Strategic Report – a practical guide to the new Regulations'.

More information and other UK accounting, reporting and governance news can be found at:

www.ukaccountingplus.co.uk

Summary of the legal requirements

Reference	Requirement
CA 2006 s414A	The directors of a company must prepare a strategic report for each financial year of the company.
CA 2006 s414C(1)	The purpose of the strategic report is to inform members of the company and help them assess how the directors have performed their duty under section 172 (duty to promote the success of the company).
CA 2006 s414C(2)	The strategic report must contain: (a) a fair review of the company's business, and (b) a description of the principal risks and uncertainties facing the company.
CA 2006 s414C(3)	The review required is a balanced and comprehensive analysis of the development and performance of the company's business during the financial year and the position of the company's business at the end of that year, consistent with the size and complexity of the business.
CA 2006 s414C(4) & (6)	To the extent necessary for an understanding of the development, performance or position of the company's business, the review must include analysis using financial and, where appropriate, non-financial key performance indicators, including information relating to environmental and employee matters. NB. Companies qualifying as medium-sized do not need to provide non-financial key performance indicators.
CA 2006 s414C(11)	The strategic report may also contain such matters as the directors consider are of strategic importance to the company.
CA 2006 s414C(12)	The report must, where appropriate, include references to, and additional explanations of, amounts included in the company's annual accounts.
CA 2006 s414C(14)	Disclosure of information about impending developments or matters in the course of negotiation does not need to be disclosure if it would, in the opinion of the directors, be seriously prejudicial to the interests of the company.

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