BPF
BRITISH PROPERTY FEDERATION

The future of narrative reporting – a consultation

Introduction

The British Property Federation (BPF) represents companies owning, managing and investing in property. This includes a broad range of businesses comprising commercial property owners, financial institutions and pension funds, corporate landlords, residential landlords, as well as all those professions that support the industry.

We welcome the opportunity to respond to the consultation document regarding the future of narrative reporting and we set out our views below, based on the comments we have received from members.

Executive summary

The principal UK property companies take their reporting obligations very seriously and many approach the preparation of their annual reports bearing in mind the principles espoused by the former OFR rather than viewing it simply as a compliance exercise.

Generally, UK property companies do not compile their annual reports in isolation but instead involve shareholders and other users of financial statements such as analysts and professional advisors in the preparation process in order that the annual report is as useful and relevant as possible.

In addition, industry specific best practice guidelines have been set by the European Public Real Estate Association (EPRA) and all of the major UK property companies have committed to following their advice. As a result, the quality of narrative reporting among UK property companies is very high and comparability between companies' performance is easy to assess.

Notwithstanding that UK property companies are 'ahead of the curve' in relation to reporting, the UK real estate industry continues to strive for improvement in the way that it reports to users of financial statements. In particular, recent industry efforts have focused on achieving consistency and transparency in the way in which the environmental and social implications of their activities are reported.

The UK real estate industry is an example of how businesses and the users of financial statements can work together to develop and support a consistent approach to reporting (including narrative reporting) that provides users with the information they need to evaluate and compare business performance.

Response to consultation questions

Question 7

Is there scope to reduce or simplify the requirements on which companies report?

The obligation of companies to make varying disclosures stems from a number of different and completely independent sources including company law, accounting standards and Government/industry best practice guidance.

While satisfying the requirements and recommendations of these many sources clearly involves a good deal of work it is felt by our members that inasmuch as narrative reporting is concerned it is principally the corporate governance disclosures that are of least interest and value to users of financial statements. Accordingly, an assessment of the ways in which these could be shortened or simplified would be welcome.

There are a number of other ways in which companies' annual reports could be made more user friendly and less lengthy, but these involve cutting back on the accounting disclosures in the notes to the financial statements and are therefore not within the scope of this consultation.

Question 9

Looking at an Operating and Financial Review and the existing business review, do you see any 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?

When the previous OFR was introduced many property companies began upgrading their systems and processes to comply with its requirements. By the time it was later withdrawn these companies had either already changed their narrative reporting process accordingly, or were so far on the way to doing so, that they embraced the principles espoused by the OFR. As a result, property companies have some of the best narrative reporting available, and our members have been nominated for industry awards to reflect this.

Given the high standard of narrative reporting that exists among property companies, we believe that reinstating elements of an OFR by way of a statutory reporting standard is unlikely to change the quality of reporting.

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?

Our response to this question will focus mainly on sub-question (ii), and specifically explore whether regulation requiring additional disclosure of environmental matters would improve such reporting among UK property companies.

Many of our leading members have recognised the value of sustainable measurement and reporting, but the vast array of tools on the market creates confusion. Especially desirable would be a low cost means to prioritise which buildings should be targeted for more detailed assessment of their environmental performance. The Green Property Alliance (GPA) published in October 2010 a report[1] which set out a set of common sustainability metrics for energy, carbon, water and waste around which owners, occupiers, agents and advisors could coalesce, with a view to their being embedded into company reporting.

The European Public Real Estate Association (EPRA) will be examining the findings of the GPA with a view to perhaps including these recommendations in its best practice guidance for reporting for listed companies across Europe.

In addition, the BPF has joined the working group compiling a Construction and Real Estate Sector Supplement (CRESS) with the Global Reporting Initiative[2]. The CRESS will provide a globally agreed, free-to-use methodology for constructing organisational reports which include consideration of economic, social and environmental factors which are material to the organisation (both qualitative and quantitative).

As noted above significant efforts are being made by property companies and the ancillary businesses which support them to determine ways to meaningfully report upon economic, environmental and social performance that are easy to understand and can be consistently applied. There is a genuine desire on behalf of the real estate industry to improve the way in which environmental and social issues are reported by companies and we do not believe that additional regulation is required to achieve that objective.

Question 11

Would more guidance be helpful? If so, what form should this take? For example: best practice example, sample KPIs etc?

There are various industry initiatives seeking to add further refinement to existing frameworks. For example, the Greenprint Foundation[3] is seeking to expand upon the World Resources Institute's Greenhouse Gas Protocol and to adapt its expression of emissions in 'scopes' to rented non-domestic buildings. Government could helpfully signpost such guidance which is produced by the industry so that it reaches a wider audience than it might otherwise.

[1] http://www.bpf.org.uk/en/files/bpf_documents/Common_Metrics_Paper_FINAL.pdf
[2] www.globalreporting.org
[3] http://greenprintfoundation.org/Public_GCI.aspx

Government might also help to foster guidance for small and medium sized enterprises to help them to begin to measure and report. Larger property market players, whom we largely represent, find sustainability reporting increasingly unavoidable but take-up among smaller enterprises is scant.

Question 12

Should there be a shareholder's advisory vote on the Business Review?

While we understand the rationale for suggesting this measure we do not believe that it would in practice make much of a difference for either shareholders or companies. Shareholders already have the opportunity to raise any questions or objections they may have during the annual general meeting at which companies' accounts are approved. In addition, companies will often meet with major shareholders in advance of the AGM to discuss their performance during the year and allow shareholders to ask questions. Accordingly, there is a danger that an advisory vote would become a mere formality.

Question 13

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

All major property companies in the UK subscribe to real estate specific reporting standards and best practice guidance set out by EPRA. For nearly ten years EPRA has held yearly awards where the annual reports of property companies from across Europe are independently judged and the best receiving due recognition.

The majority of previous 'best annual report' winners have been UK companies, which shows that the standard of reporting among UK property companies is high by European standards. This also demonstrates that industry self-regulation can be an effective way to improve the quality of reporting.

Question 15

If you can provide any information on costs associated either with the existing narrative reporting requirements (e.g. 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.

As noted above, the standard of reporting among large UK property companies is very high, and this is reflective of the amount of time and effort that these companies put into preparing their annual reports. The annual report is seen by many as an opportunity for the company to market itself to shareholders and potential investors, so there is added incentive to ensure that the annual report is clear, descriptive and easy to use.

Accordingly, the preparation of large UK property companies' annual reports often takes place over two or three months and in some cases involves the use of external professional writers to ensure the report is easy to understand. UK property companies also make use of external benchmarking services to compare their annual report against those of other UK property companies in order to determine whether more could be done to improve their reporting.

In compiling their annual reports, UK property companies consult with major shareholders and other users of financial statements such as equity analysts as to what information and disclosures could be usefully included in the annual report.

UK property companies go to great lengths to produce excellent annual reports, but this clearly comes at a significant cost in terms of both time and money. However, given the high quality of reporting in the property industry it is unlikely that additional reporting requirements would significantly increase these costs, as there is a possibility that the way in which UK property companies currently report would satisfy these requirements.