BARRATT

DEVELOPMENTS PLC

13 September 2023

Financial Reporting Council

Code Review Team

By email: codereview@frc.org.uk

Dear Code Review Team

BARRATT DEVELOPMENTS PLC's RESPONSE TO THE FRC'S CONSULTATION ON CHANGES TO THE UK CORPORATE GOVERNANCE CODE

SECTION 1: Introduction

The board of Barratt Developments PLC ('Barratt') is pleased to contribute its thoughts on the proposed changes to the UK Corporate Governance Code. The changes proposed will have an impact on the disclosures that Barratt needs to make and the processes that sit behind these. The attached document consists of an executive summary of our key responses, along with answers to your specific questions.

Barratt is very supportive of the efforts to improve corporate reporting in the UK (including the FRC's focus on audit quality) and its Audit Committee is fully engaged in readiness to implement any changes that may be required. Barratt recognises the need to enhance the transparency of how reporting responsibilities are discharged by its Board and its Audit Committee, and therefore welcomes the initiatives around the Resilience Statement and the Audit and Assurance Policy, having already given thought as to the content of the latter. Barratt also believes that the reporting on the Board's oversight of the effectiveness of risk management and internal control systems needs to be more standardised to facilitate informed decision-making by all stakeholders.

Barratt takes its reporting responsibilities very seriously and therefore it is important for it to understand the rationale behind any expansion of reporting requirements in the context of the value that will flow from the proposed changes. Extra resource will be required to both effect the changes and comply with them on an annual basis and at a time when the competitiveness of the UK listed market is under pressure from alternative international locations, Barratt believes that a robust cost/benefit analysis of the changes is necessary. Barratt would like to be confident that the required investment, at a time when it is under significant pressure from macro factors, will deliver net benefit to their stakeholders. It needs to be evidently clear how this will be achieved.

As you will see from the detailed comments below, Barratt does not support the proposed changes to the reporting of the effectiveness of risk management and internal control systems. In Barratt's view, the proposals to include all internal controls within the scope of the declaration, and their effectiveness throughout the year will impose a significant new burden on the company and create a much higher bar in the UK than any other major international market. It would be far more appropriate to ask companies such as Barratt to explain in some detail how they fulfil the existing responsibilities. Without a baseline for the current state and a detailed definition of the proposed, the potential for a significant use of resources seems very likely.

Finally, Barratt believes that this review of the Code presents an opportunity to improve the usefulness of annual reports by removing reference data (standing data, policies and process information etc.) and focussing the annual report on performance data, both financial and non-financial, relevant to the reporting period. We strongly encourage the FRC to embrace this opportunity. We have just completed our latest Annual Report and Accounts – a document that has grown by c. 34% in the last 5 years.

SECTION 2: DETAILED COMMENTS

1. **Changes to the Code must align with other, on-going corporate initiatives**
   The UK Corporate Governance Code (the "Code") is only one part of the business ecosystem in the UK, and Barratt believes that any changes to the existing Code need to be fully aligned with other elements of the corporate reform agenda, e.g. the new reporting regulations, proposed simplification of the listings regime, review of non-financial reporting and ISSB standards implementation. Barratt notes that inconsistencies currently exist, such as the way that the Audit and Assurance Policy regulation refers to internal controls over financial reporting whereas the proposed Code declaration covers all controls, including those relating to non-financial reporting. Barratt feels that the current proposals lack a clear description of what problems they are designed to address and how they fit with other corporate reform initiatives. It is therefore worried that without this clarity of vision, there is a danger that the proposed changes will make the UK a less attractive place to do business. We take our responsibilities seriously and are concerned there will be an unnecessary use of resources and additional costs if the various proposals are not aligned and complimentary.

2. **The benefits arising from the proposed changes should outweigh the costs of implementation**
   Barratt believes that the cost/benefit argument for the proposed changes to the Code has not yet been made. It is concerned that many of the proposed changes will result in significant extra time and cost being incurred, with little confidence that the changes will result in demonstrable benefit to stakeholders. Barratt believes that the case for change needs to be made more effectively, in large part through a robust analysis of incremental cost measured against incremental benefit. Barratt strongly supports the retention of the "comply or explain" regime, which it believes will be helpful during the implementation phase of any proposed changes, but it is concerned that certain stakeholders, in particular the proxy agencies, substitute this part of the Code with "yes/no". Such behaviour will undoubtedly have adverse consequences on some companies and needs to be addressed.

3. **Additional requirements may make annual reports even longer and less easy to use**
   Whilst Barratt supports many of the individual proposals, the sheer volume of change is significant and it is disappointed that there has been no attempt to create space in annual reports by removing existing policy and process information, perhaps to company websites or other repositories, leaving annual reporting to focus on performance outcomes in the year. This should also be applied to the new requirements such as the Audit & Assurance Policy, whereby it would be helpful if the policy itself could be published on corporate websites with the annual update statement in the annual report. Barratt recognises the challenge presented by moving relevant information outside annual reporting, but feels that simply layering new requirements on existing ones runs the risk of making annual reports less useful by way of their sheer

complexity, density and length and may even encourage “boiler-plating”, which will provide little assurance for stakeholders.

4. **Significant incremental effort will be required to make the declaration on the effectiveness of risk management and internal control systems**
Barratt does not support the proposed changes to the reporting of the effectiveness of risk management and internal control systems. At a conceptual level many of these proposals make sense and build on existing requirements in the Code. However, at a practical level, Barratt is very concerned that the proposals represent a significant change and will result in the need for a considerable increase in the level of resource required. In the absence of detailed guidance and worked examples Barratt is worried that there will be a wide range of interpretation which will lead to comparability challenges between sectors and competitor companies. It also feels that, despite your comments to the contrary, the proposed changes do represent an extension of the requirements that some UK companies currently comply with as US Foreign Registrants. Therefore, it is important to identify what additional work will be necessary (for example, a declaration of effectiveness throughout the year rather than point in time (referred to by yourselves as “continuous monitoring”), and the inclusion of all controls, rather than just those relating to financial reporting).

Finally, Barratt is concerned that many companies may perceive the proposed changes as simply requiring more extensive narrative reporting. Barratt notes the FRC’s own conclusion that “Currently there is a lack of information about the risk management and internal control systems operated by companies, and the work carried out during the reporting period to maintain their effectiveness”. At Barratt there are processes in place that support our current responsibilities. A discussion around how to give greater transparency around what currently exists would be a far more proportionate place to start.

Barratt would like to suggest the following options for you to consider:

1. Call for specific narrative on the steps taken by the board to assess the effectiveness of the risk management and internal control systems.
2. If there is a demonstrable need for a “declaration”, focus the declaration just on the effectiveness of internal controls over financial reporting in the first instance.
3. Make the declaration on the effectiveness of internal controls over financial reporting as at the balance sheet date.
4. Stagger the implementation of these proposed changes, so that well-resourced organisations, perhaps with experience of reporting under the Sarbanes-Oxley regime, are required to adopt the changes first with a phased implementation thereafter.

Whatever approach is adopted, it will be important to reflect the wide variety of business models which exist and to acknowledge that one size does not fit all. Those in the financial services industry are already subject to various regulations over risk management which are appropriate for the risks facing those businesses, but Barratt does not believe that these requirements should be extended to all UK companies.

5. **An expectation gap may be created if additional ESG/narrative reporting responsibilities are allocated to the Audit Committee**
Barratt believes that its Board is best placed to identify the most appropriate committee to take responsibility for ESG and narrative reporting and therefore does not agree with the proposed change to the Code that suggests the Audit Committee should be the default answer. It should

be for the Board to decide how and to whom any responsibilities are delegated. This should be an important element of the future Audit and Assurance Policy.

6. **Shortage of competent and appropriately regulated providers of external assurance**
   Barratt believes that currently there is a shortage of competent and appropriately regulated providers of external assurance in the UK market and the proposed changes to the Code will only exacerbate this position. As boards and audit committees seek additional assurance, particularly over risk management and internal control systems and the statements that boards will be required to make, it is likely that existing providers will struggle to meet demand. New entrants will come forward, and Barratt believes that both existing and new entrants will need to be regulated to ensure that minimum standards are met. In addition, conflicts of interest are likely to occur as financial audit firms offer a wider range of non-financial assurance services. An already restricted choice of financial audit firm may become more acute as a result.

   At Barratt we have started to assure certain sustainability and non-financial data for which we undertook market testing. It is evident that the resources that are available for this type of work are already subject to significant demand.

   A further, related issue in relation to the provision of external assurance is both the availability of appropriate standards of assurance and the differing levels of assurance. Whilst the concepts of reasonable and limited assurance are becoming more familiar, for certain non-financial data, e.g. CO2 measures, the amount of estimation involved creates a significant challenge to delivering effective limited or reasonable assurance.

7. **Audit firm capacity**
   Barratt also has concerns that the introduction of new reporting requirements will put additional pressure on the capacity of audit firms to audit existing and new disclosures within the current reporting timescales. As Barratt, and many other companies, have seen in the past, this is likely to result in a further rise in audit fees, which, for Barratt, have increased c. 184% over the last five years.

NEXT STEPS

Barratt believes that the FRC should prepare and publish a detailed cost/benefit analysis of the proposed changes to the Code, indicating the need for the change, the cost of implementation and the benefits that will accrue from the change. Further, proposals should be developed to ensure that annual reports do not get longer as a result of the proposed changes to the Code.

Furthermore, more work is required to ensure that proposed changes to the Code are fully aligned with, and complement, other corporate reforms and initiatives.

Barratt is very concerned that some proposed changes, particular those relating to risk management and internal control systems, will impose a significant extra burden on it and many other UK companies and will make a listing in the UK unattractive at a time when we are seeking to improve our global competitiveness.

Barratt is also worried that a number of the proposed changes are open to a considerable range of interpretation, which increases the importance of developing extensive guidance and worked examples to assist in implementation.

As Chair, I must continually have an eye to succession planning and that becoming a Board member at Barratt continues to be an attractive proposition. I fear that without real clarity on the questions that are to be effectively answered by these proposals, the very important role of being a listed (or PIE) director will become less attractive.

Finally, there is a need to develop an appropriate regulatory framework which can be applied to providers of non-financial assurance to ensure quality and comparability.

If you would like to discuss this response in more detail or require any clarification, please contact [redacted]

For and on behalf of Barratt Developments PLC

[redacted]

Questions Barratt has not responded on directly but agrees with the responses set out by the GC100 Group which Barratt has had sight of

Board leadership and company purpose

Q2 ***Do you think the board should report on the company's climate ambitions and transition planning, in the context of its strategy, as well as the surrounding governance?***

Q3 **Do you have any comments on the other changes proposed to Section 1?**

Division of responsibilities

Q4 ***Do you agree with the proposed change to Code Principle K (in Section 3 of the Code), which makes the issue of significant external commitments an explicit part of board performance reviews?***

Q5 ***Do you agree with the proposed change to Code Provision 15, which is designed to encourage greater transparency on directors' commitments to other organisations?***

Diversity and inclusion

Q6 ***Do you consider that the proposals outlined effectively strengthen and support existing regulations in this area, without introducing duplication?***

Q7 ***Do you support the changes to Principle I moving away from a list of diversity characteristics to the proposed approach which aims to capture wider characteristics of diversity?***

Q8 ***Do you support the changes to Provision 24 and do they offer a transparent approach to reporting on succession planning and senior appointments?***

Board performance reviews

Q9 ***Do you support the proposed adoption of the CGI recommendations as set out above, and are there particular areas you would like to see covered in guidance in addition to those set out by CGI?***

Remuneration

Q22 ***Do the proposed revisions strengthen the links between remuneration policy and corporate performance?***

Q23 ***Do you agree that the proposed reporting changes around malus and clawback will result in an improvement in transparency?***

Q24 ***Do you agree with the proposed changes to Provisions 40 and 41?***

Q25 ***Should the reference to pay gaps and pay ratios be removed, or strengthened?***