Title: Modern Slavery Act - Transparency in Supply Chains	**Impact Assessment (IA)**
IA No: HO0192	**Date:** 15/07/2015
	Stage: Final
Lead department or agency: Home Office	**Source of intervention:** Domestic
	Type of measure: Secondary legislation
Other departments or agencies:	**Contact for enquiries:** Justine Currell (020 7035 8205)

Summary: Intervention and Options

RPC Opinion: Green

Cost of Preferred (or more likely) Option				
Total Net Present Value	**Business Net Present Value**	**Net cost to business per year** (EANCB on 2009 prices)	**In scope of One-In, Two-Out?**	**Measure qualifies as**
-£12.5m	-£12.5m	£1.14m	Yes	In

What is the problem under consideration? Why is government intervention necessary?

Modern slavery is a serious, high-harm crime which the Government is determined to tackle. However it is also a hidden crime which is difficult to detect and address. Estimates suggest that there were 10,000 – 13,000 victims of modern slavery in the UK in 2013. In 2014, over a third of the 2,340 suspected victims of human trafficking referred in to the National Referral Mechanism were subject to labour exploitation. Globally, the Walk Free Foundation estimated there to be 35.8 million people in modern slavery in 2014.

Despite these figures, consumers, investors and others are usually unaware as to whether this crime has taken place in the supply chains of businesses which operate in, or trade with, the UK. Government intervention is necessary to ensure that these groups have access to transparent information regarding the efforts businesses make to detect and eradicate modern slavery in supply chains.

What are the policy objectives and the intended effects?

The policy objective is to ensure that UK consumers, investors, campaigners and others are aware of efforts made by businesses to ensure there is no modern slavery taking place in their supply chains.

The intended effects are to encourage businesses to be open and transparent about what they have done to ensure there is no modern slavery in their supply chains. Indirectly, the requirement for transparency should encourage those businesses who are not already taking action to do more in this area, while those who are get the deserved credit. In turn, it is intended that this will aid the detection and elimination of modern slavery in supply chains of businesses which operate in, or trade with, the UK.

What policy options have been considered, including any alternatives to regulation? Please justify preferred option (further details in Evidence Base)

Option 1: Do Nothing
Option 2: Implement the Transparency in Supply Chains provision in the Modern Slavery Act 2015, requiring businesses with a minimum annual turnover of £36m to publish a supply chains transparency statement.
Option 3: As under Option 2, but setting the turnover threshold at £60m per annum.
Option 4: As under Option 2, but setting the turnover threshold at £100m per annum
Option 2 is the preferred option because it has been supported by consultation respondents, matches a similar threshold in the Companies Act 2006, and creates the broadest level playing field that businesses have called for.

Will the policy be reviewed? Yes, review by 2020.

Does implementation go beyond minimum EU requirements?			N/A		
Are any of these organisations in scope? If Micros not exempted set out reason in Evidence Base.	**Micro** No	**< 20** No	**Small** No	**Medium** No	**Large** Yes
What is the CO_2 equivalent change in greenhouse gas emissions? (Million tonnes CO_2 equivalent)			**Traded:** N/A	**Non-traded:** N/A	

I have read the Impact Assessment and I am satisfied that, given the available evidence, it represents a reasonable view of the likely costs, benefits and impact of the leading options.

Signed by the responsible Minister: Karen Bradley Date: 15/07/2015

Summary: Analysis & Evidence

Policy Option 2

Implement the Transparency in Supply Chains provision in the Modern Slavery Act 2015, requiring businesses with a minimum annual turnover of £36m to publish a supply chains transparency statement.

FULL ECONOMIC ASSESSMENT

Price Base Year 2015	PV Base Year 2015	Time Period Years 10	Net Benefit (Present Value (PV)) (£m)		
			Low: -43.6	**High: -5.4**	**Best Estimate: -12.5m**

COSTS (£m)	Total Transition (Constant Price)	Years	Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Low	0.8		0.6	**5.4**
High	6.2		4.9	**43.6**
Best Estimate	1.8		1.4	**12.5**

Description and scale of key monetised costs by 'main affected groups'

We estimate that the total cost to business is most likely to be £12.5m over ten years, affecting a total of 9,000 businesses. The annual cost is expected to reduce after implementation as businesses develop experience of drafting slavery and human trafficking statements. This represents a greater cost than the other policy options as the revenue threshold is lower.

Other key non-monetised costs by 'main affected groups'

There may be some other indirect costs if businesses choose to take additional action, so that they have more to disclose in their annual transparency statements.

BENEFITS (£m)	Total Transition (Constant Price)	Years	Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Low	N/K		N/K	**N/K**
High	N/K		N/K	**N/K**
Best Estimate	N/K		N/K	**N/K**

Description and scale of key monetised benefits by 'main affected groups'

There are no monetised benefits of this measure.

Other key non-monetised benefits by 'main affected groups'

The measure will ensure that all commercial organisations are subject to the same rules on this issue to create fair competition. It will benefit consumers by enabling them to make better informed choices about the goods they buy and could also boost consumer and investor confidence. Indirectly, if businesses do more as a result of this provision, it could lead to a reduced incidence of modern slavery, which would create significant social and economic benefits. This option will capture the most companies of the policy options and therefore the expected benefits will be proportionally higher.

Key assumptions/sensitivities/risks | **Discount rate (%)** | 3.5

The key assumptions are the number of businesses affected and the average cost per business. Best available estimates have been made for both of these figures as detailed below.

BUSINESS ASSESSMENT (Option 1)

Direct impact on business (Equivalent Annual) £m:			In scope of OITO?	Measure qualifies as
Costs: 12.5	**Benefits:** 0	**Net:** -12.5	Yes	In

Summary: Analysis & Evidence — Policy Option 3

Implement the Transparency in Supply Chains provision in the Modern Slavery Act 2015, requiring businesses with a minimum annual turnover of £60m to publish a supply chains transparency statement.

FULL ECONOMIC ASSESSMENT

Price Base	PV Base	Time Period	Net Benefit (Present Value (PV)) (£m)		
Year 2015	**Year** 2015	**Years** 10	**Low: -27.5**	**High: -3.5**	**Best Estimate: -8.0**

COSTS (£m)	**Total Transition** (Constant Price)	Years	**Average Annual** (excl. Transition) (Constant Price)	**Total Cost** (Present Value)
Low	0.5		0.4	**3.5**
High	3.9		3.1	**37.5**
Best Estimate	1.1		0.9	**8.0**

Description and scale of key monetised costs by 'main affected groups'

We estimate that the total cost to business is most likely to be £8.0m over ten years, affecting a total of 5,700 businesses. These costs are also expected to reduce over time as businesses develop experience of drafting slavery and human trafficking statements. This represents a higher cost than option 2 but a lower cost than option 4, as the revenue threshold sits between the two.

Other key non-monetised costs by 'main affected groups'

There may be some other indirect costs if businesses choose to take additional action, so that they have more to disclose in their annual transparency statements.

BENEFITS (£m)	**Total Transition** (Constant Price)	Years	**Average Annual** (excl. Transition) (Constant Price)	**Total Benefit** (Present Value)
Low	N/K		N/K	**N/K**
High	N/K		N/K	**N/K**
Best Estimate	N/K		N/K	**N/K**

Description and scale of key monetised benefits by 'main affected groups'

There are no monetised benefits of this measure.

Other key non-monetised benefits by 'main affected groups'

The measure will ensure that all commercial organisations are subject to the same rules on this issue to create fair competition. It will benefit consumers by enabling them to make better informed choices about the goods they buy and could also boost consumer and investor confidence. Indirectly, if businesses do more as a result of this provision, it could lead to a reduced incidence of modern slavery, which would create significant social and economic benefits. This option will capture more companies than option 4, but fewer than option 2 and therefore the expected benefits will be proportionally higher than option 4 while lower than option 2.

Key assumptions/sensitivities/risks — **Discount rate (%)** 3.5

The key assumptions are the number of businesses affected and the average cost per business. Best available estimates have been made for both of these figures as detailed below.

BUSINESS ASSESSMENT (Option 1)

Direct impact on business (Equivalent Annual) £m:			In scope of OITO?	Measure qualifies as
Costs: 8.0	**Benefits:** 0	**Net:** -8.0	Yes	In

Summary: Analysis & Evidence — Policy Option 4

Implement the Transparency in Supply Chains provision in the Modern Slavery Act 2015, requiring businesses with a minimum annual turnover of £100m to publish a supply chains transparency statement.

FULL ECONOMIC ASSESSMENT

Price Base Year 2015	**PV Base Year** 2015	**Time Period Years** 10	**Net Benefit (Present Value (PV)) (£m)**		
			Low: -16.8	**High: -1.8**	**Best Estimate: -4.5**

COSTS (£m)	**Total Transition** (Constant Price)	Years	**Average Annual** (excl. Transition) (Constant Price)	**Total Cost** (Present Value)
Low	0.3		0.2	**1.8**
High	2.3		1.9	**16.8**
Best Estimate	0.7		0.5	**4.5**

Description and scale of key monetised costs by 'main affected groups'

We estimate that the total cost to business is most likely to be £4.5m over ten years, affecting a total of 3,400 businesses. These costs are also expected to reduce over time as businesses develop experience of drafting slavery and human trafficking statements. This represents the lowest cost of all options as the revenue threshold is the highest.

Other key non-monetised costs by 'main affected groups'

There may be some other indirect costs if businesses choose to take additional action, so that they have more to disclose in their annual transparency statements.

BENEFITS (£m)	**Total Transition** (Constant Price)	Years	**Average Annual** (excl. Transition) (Constant Price)	**Total Benefit** (Present Value)
Low	N/K		N/K	**N/K**
High	N/K		N/K	**N/K**
Best Estimate	N/K		N/K	**N/K**

Description and scale of key monetised benefits by 'main affected groups'

There are no monetised benefits of this measure.

Other key non-monetised benefits by 'main affected groups'

The measure will ensure that all commercial organisations are subject to the same rules on this issue to create fair competition. It will benefit consumers by enabling them to make better informed choices about the goods they buy and could also boost consumer and investor confidence. Indirectly, if businesses do more as a result of this provision, it could lead to a reduced incidence of modern slavery, which would create significant social and economic benefits. This option will capture the fewest number of companies of all policy options and therefore the expected benefits will be proportionally lower than any other option.

Key assumptions/sensitivities/risks	**Discount rate (%)**	3.5

The key assumptions are the number of businesses affected and the average cost per business. Best available estimates have been made for both of these figures as detailed below.

BUSINESS ASSESSMENT (Option 1)

Direct impact on business (Equivalent Annual) £m:			**In scope of OITO?**	**Measure qualifies as**
Costs: 4.5	**Benefits:** 0	**Net:** -4.5	Yes	In

Evidence Base (for summary sheets)

A. Problem under consideration

Modern Slavery is a serious high-harm crime which poses a significant challenge to law-makers and law enforcement agencies. Modern slavery encompasses slavery, involuntary servitude, forced and compulsory labour and human trafficking. Victims of modern slavery are often coerced, deceived or forced against their will in to a life of abuse and servitude. The human impact of this crime is severe.

Despite this, modern slavery is a hidden crime which is difficult to detect or to quantify accurately. Kevin Bales, Professor of Contemporary Slavery at the Wilberforce Institute, University of Hull, has highlighted that modern slavery is almost unique, in that the normal means of recording crime through direct reports or survey returns will not be effective in identifying the true extent of a crime where victims can be held for years in secret (and of course unable to take part in crime surveys or report the offences to the police), and even on release may feel too traumatised or ashamed to report it.[1]

However, it is estimated that the UK experiences modern slavery on a significant scale; increasing numbers of victims are being identified. The Home Office Chief Scientific Adviser, Professor Bernard Silverman, has estimated that in 2013 there were between 10,000 – 13,000 victims of modern slavery in the UK[2]. In 2014 2,340 potential victims of human trafficking were referred in to the National Referral Mechanism, of which 34% (788 cases) were subject to suspected labour exploitation. More widely, the Global Slavery Index estimated that there were 35.8 million people in modern slavery globally in 2014.[3]

Modern slavery is thought to generate $150 billion annually for slaveholders with the issue extending to most countries around the world.[4] While this is small in terms of global trade, it is clear that goods and services produced via modern slavery can make their way into the supply chains of legitimate businesses with ease, unless those businesses are vigilant. Equally, unscrupulous businesses may knowledgably use such supply chains to undercut competitors.

Many consumers, investors and others are unaware of the risks of modern slavery in supply chains and the efforts made by many organisations to prevent it. There exists asymmetric information over the nature of supply chains of businesses. If transparency is not widespread on this issue, businesses which make significant efforts to prevent modern slavery can fail to get the credit they deserve, while it is easy for unscrupulous businesses to hide their lack of effort.

B. Rationale for intervention

Consumers, investors and others are often unaware of the risks of modern slavery in the supply chains of businesses which operate in, or trade with, the UK. While it will not always be possible to identify, government intervention is necessary to ensure that everyone has access to transparent information regarding the efforts businesses make to detect and eradicate modern slavery in supply chains.

Throughout development of our modern slavery work to look at transparency in supply chains, we engaged with a wide range of businesses across sectors with a view to developing a voluntary approach. A significant number of businesses including the British Retail Consortium (BRC), the Ethical Trading Initiative (ETI), and Virgin Group, which collectively represent hundreds of businesses, lobbied the Home Office and Number 10 to include a transparency provision in the Modern Slavery Act, arguing that a voluntary approach was not sufficient. They argued that Government legislation was necessary to level the playing field and ensure that all businesses of a similar size were required to be transparent.

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[1] Joint Committee on Draft Modern Slavery Bill, Oral evidence: Draft Modern Slavery Bill, HC [1019], Thursday 27 February 2014

[2] Bales, Hesketh and Silverman. (2015). Modern slavery in the UK: How many victims?. Significance. 12 (3), 16-2

[3] Walk Free Foundation (2014) Global Slavery Index. Available at www.globalslaveryindex.org

[4] ILO, Profits and Poverty: The Economics of Forced Labour (2014) [Accessed online: http://www.ilo.org/global/publications/ilo-bookstore/order-online/books/WCMS_243391/lang--en/index.htm]

Businesses already undertaking relevant corporate social responsibility (CSR) activity indicated that they were keen to publicise it, and so indicated that a formal legal requirement would simply level the playing field and ensure that those taking no action could not remain silent. For example, in a joint letter to the Prime Minister on 29 August 2014 on behalf of their members, the ETI and the BRC wrote 'we would like to see a clause in the Bill that calls for transparency in supply chains'.[5] They acknowledged that legislation 'would not require companies to take any specific action' beyond producing a transparency disclosure, but emphasised that this 'smart' legislation would 'create positive competition to improve practices'.[6] Similarly, in April 2014 Richard Branson, as founder of Virgin Group, published a blog post stating that 'I also keep my hopes up that the UK Government will provide leadership and legislate for Transparency in Supply Chains as part of the Modern Slavery Bill'.[7]

Since inclusion of the provision in the Act, we have worked with a number of individual businesses and key representative detailed in Section E, to establish the reporting requirements. Applying the measure to larger businesses would also help push responsible practices down through the supply chain whereas setting the threshold too low could place the responsibility on those with less capacity to effect change. Targeted government intervention is therefore needed to ensure that all businesses of a similar size are required to be transparent, to address an information asymmetry between businesses and consumers, and ensure that the public can compare the efforts that all businesses are making in this area, rather than only those who are already voluntarily being transparent.

Increased transparency may indirectly lead businesses to choose take more action to tackle modern slavery, so that they have more to disclose. As such, Government intervention should only affect larger businesses who have the purchasing power and resources to take action if they so choose. There is not a strong rationale for requiring small businesses to disclose information about supply chains over which they have little control. Collating such a disclosure would also be notably more burdensome for smaller companies and it would be more difficult for them to find and release useful information about global supply chains. Exactly where this threshold lies between sufficiently large and small businesses is considered as part of this impact assessment.

C. Policy objective

The policy objective is to ensure that UK consumers, investors, campaigners and others are aware of efforts made by businesses to ensure there is no modern slavery taking place in their supply chains. UK businesses have lobbied the Government to include a transparency provision in legislation. This has now been achieved through the Modern Slavery Act 2015.

The intended effects are to encourage businesses to be open and transparent about what they have done to ensure there is no modern slavery in their supply chains. This will ensure that businesses which make substantial effort to tackle modern slavery get the credit they deserve.

Indirectly, the requirement for transparency should encourage those businesses who are not already taking action to do more in this area, as they will be encouraged by the potential reputational benefits of that information mandatorily being in the public domain.

In turn, if the prospect of publication leads to increased efforts, this could aid the detection and elimination of modern slavery in supply chains of businesses which operate in, or trade with, the UK.

D. Description of options considered (including do nothing)

[5] Letter available online: http://www.ethicaltrade.org/sites/default/files/resources/ETI%20BRC%20letter%20to%20PM.pdf

[6] Letter to the Prime Minister, 29 August 2014, available online: http://www.ethicaltrade.org/sites/default/files/resources/ETI%20BRC%20letter%20to%20PM.pdf

[7] Richard Branson blog post: http://www.virgin.com/richard-branson/let%E2%80%99s-end-modern-slavery

The policy options being considered relate to the implementation of the Transparency in Supply Chains provision (section 54) in the Modern Slavery Act 2015.

This section requires any commercial organisation with over a certain level of turnover and which carries out business in the UK to prepare a ‘slavery and human trafficking statement’ each financial year. The statement would set out the steps the organisation had taken during the financial year to ensure that slavery and human trafficking was not taking place in its business or supply chains, or the statement would simply state that the organisation had taken no such steps.

The Modern Slavery Act sets out the kind of information that may be included, but ultimately the statements can take any form or be of any length. The business has control over the kind of statement that they produce. The statements must be approved by the board of directors of a company (or equivalent management body) and signed by a director (or equivalent). The statements must then be published on the businesses’ website, and be made accessible via a link on the website’s homepage.

The policy was designed to ‘nudge’ businesses towards taking positive action in this area and create a ‘race to the top’ through competition encouraged by transparency. It was not designed to rely on heavy handed Government regulation. Therefore, the sanction for non-compliance is that the Secretary of State can apply for a court injunction requiring a company to comply. If they continue to be non-compliant they will then be in contempt of court and could receive an unlimited fine.

The above provision would apply in the same way for options 2, 3 and 4. The Act sets out that it will apply to businesses with a total turnover above a certain amount, but not what that amount should be. Therefore the options present different turnover thresholds of business which this provision should apply to.

The Home Office held a consultation from 12 February 2015 to 7 May 2015 to seek views on what this threshold should be. Using the results of that consultation, we have designed three policy options which are detailed below (in addition to a ‘do nothing’ option).

<u>Option 1 - Do Nothing (do not implement the Act provision)</u>

Consumers and businesses would continue to have asymmetric information about modern slavery in supply chains, and those businesses not taking any action would still be able to stay silent about their lack of activity. A clause within a piece of primary legislation would be left unimplemented.

<u>Option 2 - Implement the transparency in supply chains provision in the Modern Slavery Act 2015, and set a turnover threshold of £36m.</u>

This option would implement the provision in the Act which requires businesses to state what they have done to ensure there is no slavery or trafficking in their supply chain or organisation. This provision would be implemented for firms with a turnover threshold of £36m.

The Act sets out the kind of information that a ‘slavery and human trafficking statement’ may include, but ultimately the statements can take any form or be of any length. The business has control over the kind of statement that they produce and so the only action, mandated by this regulation, will be that of putting the disclosure together and publishing it online. Our intention is that requiring businesses to complete a statement will act as a nudge for them to take action, because once consumers, investors and others have a better understanding of what action business is taking, they will call for more action if they think it is necessary.

This is the Government’s preferred option.

Of all consultation respondents who answered the threshold question, 79% said that the threshold level should be set at £36m. £36m is the threshold for determining large companies under the Companies Act 2006 and so this option would also provide some consistency with other UK legislation.

Of the three options discussed here, this is the lowest threshold considered. Therefore, this option in particular would maximise the anticipated benefits of this policy. It would ensure that there was a level playing field between as many different businesses as possible, and would ensure that the public could access as much information as possible about business activity in this area. It is the lowest threshold considered, because the policy intention has always been clear that this policy should not impact on small or medium sized enterprises.

Option 3 - As under Option 2, but setting the turnover threshold at £60m per annum.

This option received some support in responses to the consultation. It reflects the fact that there is very similar legislation to this in California (California Transparency in Supply Chains Act 2010) which has a set turnover threshold of $100m (roughly equivalent to £60m). It was suggested during the consultation process that this would be advantageous because it would harmonise requirements between the jurisdictions.

Option 4 - As under Option 2, but setting the turnover threshold at £100m per annum.

Some respondents to the consultation called for a range of higher thresholds, right up to £1bn. We therefore also wanted to consider a realistic higher threshold, to see how this would affect any impact on business. To significantly increase transparency for consumers and investors, we felt that more companies needed to be included than would be by a turnover of £1bn, and so have opted to test a threshold of £100m.

E. Consultation

The Government has engaged with a number of businesses and business representative organisations to develop the transparency in supply chains policy for inclusion in the Modern Slavery Act. A number of these businesses actively lobbied the Government to introduce a transparency measure, arguing that it would level the playing field.

The Government held a consultation to seek further views, which was open for responses from 12 February 2015 to 7 May 2015. During this time the Home Office also held two consultation events with a range of businesses and NGOs to hear their views directly. The consultation sought views on what the turnover threshold should be for this new provision to apply.

In total, we received 181 responses to the consultation from a range of trade representative bodies, businesses, NGOs and others.

We consulted openly without suggesting a preferred option, but made clear our view that the measure should apply to those businesses well placed to influence conduct in their sector and with the resources and purchasing power to take action.

Of the 84 respondents who answered the revenue threshold question, 67 (79%) said that the revenue threshold should be set at £36m (the lowest option offered). Respondents included the BRC, the ETI, and major retailers such as Asda, Debenhams, Sainsbury's, Tesco and M&S. A number of respondents, including the John Lewis Partnership, also indicated their preference for the threshold to be lower than £36m, to ensure a level playing field.

80% of respondents specifically justified their decision to select £36m because they argued that it would provide consistency and clarity for business if the threshold was aligned with that in the Companies Act 2006. The Companies Act does not have a specific definition of large company, but defines a medium sized company as being below a turnover threshold of £36m per year, which is therefore the effective threshold for a large company.

In our consultation events held in March 2015, attended by a number of businesses including Next, Primark and M&S businesses argued strongly that the threshold should be set sufficiently low so that a critical mass of companies could be captured. This would then allow for shared learning and best practice to spread, which would lower the cost for all businesses. The strong feedback from these consultation events was that for most responsible businesses this new measure would not be a burden and would be welcome. Businesses reported clearly that for most responsible businesses which already take corporate social responsibility seriously, demonstrating compliance with this specific modern slavery reporting requirement would be relatively straightforward as the required activities and policies would already be in place.

The direction and consensus of feedback through consultation events and written consultation responses steered us clearly towards selecting £36m as the Government's preferred option.

To estimate the possible costs that this provision might have for businesses we specifically consulted a wide range of businesses across different sectors and sizes of business that this could apply to. This includes seeking the views of many of the biggest trade bodies and business representative organisations in the UK including the Confederation of British Industry, the BRC, EEF (which covers the manufacturing and engineering industry) and the ETI. We also reached out to large accounting firms who have expertise in corporate reporting issues, including Deloitte and PriceWaterhouseCoopers, and spoke to major NGOs and consultancies who have experience of working on issues like this. We, of course, also sought to speak to as many businesses as we could directly across a range of sizes and sectors including retail, engineering, extractives and financial (including a number of major investment firms).

Not all businesses contacted responded, and only a proportion that did were able to provide substantive feedback. A common theme in responses was that this was a very new provision with little precedent (given that the only similar legislation in the world is in California) and so whilst businesses universally indicated that they did not expect this to be burdensome, they found it difficult to provide any substantive estimates. However, some that did respond include, for example, the BRC and the ETI which represent over 80% of retail trade in the UK by turnover and a diverse range of other businesses, covering well over 200 in total. The majority of the estimates and calculations in this impact assessment are based on the evidence provided by the businesses contacted, which we have also bolstered with figures from a comparable EU impact survey, which was itself based on extensive business consultation. The membership organisations which we contacted represent around 2000 or more businesses collectively.

F. Monetised and non-monetised costs and benefits of each option

All three options considered here involve implementing the Transparency in Supply Chains clause in the Modern Slavery Act 2015. The provision does not place a requirement on a business to undertake activities, only to produce an annual statement. It does not specify what should be in a statement, nor does it say how the statement should be presented. This is to create minimal impact on businesses with the direct costs being that of writing and publishing a statement. Any efforts above this, as a result of the policy, are considered to be indirect and are at the discretion of the business.

The general assumptions and data considered in the analysis of the policy options are laid out below.

General assumptions and data

Number of businesses

The Act applies to any commercial organisation over a certain turnover threshold carrying on business in the UK regardless of where that organisation is incorporated. The best available data on the number of businesses that this might apply to comes from the Mint Global database of company information. This is a database provided by Bureau van Dijk, a private company that specialises in collating and publishing global business information. They build their global database by collating data from over 120 sources.

This database may cover slightly more businesses than the Act, because the database includes sole traders and unincorporated companies, which are not necessarily covered by the definition of 'corporate body' in the Act. The figures produced may therefore be an overestimate, but we are unable to confirm this through stratification. If we filter this database for active companies, where UK has been selected as a region of operation, and each of the turnover thresholds that we are considering are entered then there are 7,332 businesses over £100m annual turnover, 11,292 over £60m and 17,257 over £36m.[8] Of these companies only a limited number will actually incur the full cost of drafting a statement. This is due to four factors.

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[8] The exact filters used on the Mint Global database were 'minimum operating revenue (turnover)', 'only active companies' and 'UK' (region). These figures represent the data as extracted on 16 June 2015.

Firstly, a large proportion of these companies are subsidiary companies owned and controlled by a parent company. Subsidiary companies are required to produce disclosures under the Modern Slavery Act if they are over the set turnover threshold in their own right. However, the likelihood is that their parent company will have very similar policies and supply chains to the subsidiary company. Subsidiary companies are legally entitled to replicate their parent company's disclosure or modify it accordingly. The British Retail Consortium have confirmed that they expect this to be standard practice among most of their members. Further large companies have also confirmed they would take this approach. For example, Tesco PLC, which is a parent company to a range of qualifying subsidiaries, confirmed that they would produce one statement to apply to all of their subsidiaries. Filtering the initial business volumes by parent company, the total qualifying firms over the £100m threshold comes to 4,646, over the £60m threshold to 7,193, and over the £36m threshold to 11,096 companies.

Secondly, to produce a realistic estimate of the number of businesses likely to be affected, it is also important to acknowledge that there will be some level of simple non-compliance, and therefore a number of addition companies who will incur no costs. In California, where there is very similar legislation in place, of 1,185 qualifying organisations, Know the Chain (an NGO monitoring compliance in California) estimate that 85 have so far failed to comply with the provisions since they were introduced in 2010. This is a non-compliance rate of 7% and it therefore seems realistic to assume that there may be a similar rate in the UK. This non-compliance specifically covers those companies that have not yet published a statement at all in California. Whilst clearly the UK Government's policy intention would be to seek 100% compliance, to produce a realistic cost estimate, we feel that it is important to reflect to reality that there is likely to be some low level of non-compliance. California represents the best possible evidence for this because the legislative requirement is so similar and it is the only comparable legislation currently in place. It is considered a reasonable comparison because the economic and business landscapes are relatively comparable. For example, the UK and United States are both ranked as highly developed economies by the UN Human Development Index (2014)[9], while also having similar Corruption Perception Index scores.[10] In 2013, industrial output constituted 20.1% and 20.5% of GDP in the UK and US GDP respectively.[11]

Thirdly, any business publicly listed in the UK is required to include information on 'social, community and human rights issues' in their annual strategic report, as required by section 414C of the Companies Act 2006. Therefore, these companies should also already have much of the necessary material ready to produce a 'slavery and human trafficking statement' given that modern slavery is a serious human rights abuse. As of 31 May 2015 there are 1,282 companies publicly traded on main market on the London Stock Exchange.[12] Whilst it has not been possible to cross reference this data precisely with turnover data, based on the FTSE 100[13], the ratio of market capitalisation to turnover is on average 3 to 1[14]. This means that on average firms with a market capitalisation over £108m are likely to have an annual turnover of over £36m, firms with a capitalisation of £180m are likely to have a turnover over £60m and firms with a capitalisation over £300m are likely to have a turnover over £100m. Based on the London Stock Exchange data, this suggests that there would be around 1,027 businesses already reporting on human rights issues under the Companies Act with a turnover over £36m, 734 over £60m and 628 above £100m. As such, a new modern slavery reporting requirement should incur no real cost to this number of businesses at each turnover threshold.

Lastly, any multi-national organisations with a sufficient footprint in California will already be producing statements which comply with the UK Act, given the parallel legislation, and so would incur no additional

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9 The human development index jointly measures standards of living, educational attainment and life expectancy, available online at http://hdr.undp.org/en/content/human-development-index-hdi. [Accessed on 14 July 2015]

10 The Corruption Perceptions Index 2014 scored the UK as 78, in 14th place; and the United States as 74, in 17th place, available online at https://www.transparency.org/cpi2014/results [Accessed on 14 July 2015]

11 World Bank (2013) estimates. 'Industry' includes manufacturing, utilities, construction and resource extraction. Out put is 'value added' output, which is calculated by subtracting intermediate inputs. Available online at http://data.worldbank.org/indicator/NV.IND.TOTL.ZS/countries.

12 List of all companies on the London Stock Exchange, available online at http://www.londonstockexchange.com/statistics/companies-and-issuers/companies-and-issuers.htm [Accessed on 23 June 2015]

13 FTSE 100 companies represent approximately 80% of the entire London Stock Exchange value.

14 This is more commonly known as the price-to-sales ratio. This average is based on the Financial Times quoted market capitalisation of each FTSE 100 constituent company at close of trading on the 29/06/2015, against the 2014 annual turnover of each firm .

costs. California does not record exactly how many companies it's provision covers, however the Mint global database estimates that there are around 1,184 companies operating in California with an annual turnover of over $100m (which is the qualifying turnover threshold for their requirement).[15] This list might not be a precise estimate of the number of businesses which should be publishing statements in California, because the Californian legislation requires businesses to have a certain footprint in California not solely dependent on turnover.

We further obtained a list of companies with over $100m turnover operating in the UK (which covers around 7,000 businesses) against which to compare business registration in California. This was also from MINT global database. The California list and UK list contain significant differences in recorded nomenclature, with conflicting abbreviation and terminology (particularly for the term denoting the type of business, following the business name). We considered that the available solution to this, a full manual comparison of the data sets, would have required a disproportionate level of effort in comparison to the benefit of being more precise in a relatively small adjustment. . Therefore, we assessed the likely overlap based on manual comparison of a sample of the data sets. This indicated that there were roughly 300 companies based in California and the UK at the £36m threshold level, 280 at the £60m and 250 at the £100m. This analysis indicates that there area small number of companies in the UK who already report on this issue in California, and so would incur no costs.

It is important to note that our estimates do not discount those businesses who might choose to produce minimal 'one-line' statements, stating that they have taken no steps to check their supply chains. This is compliant with the law, but would clearly incur very low costs. It has been difficult to quantify how many businesses may choose to take this approach, and so no adjustment has been made for the lower costs that would be incurred by this group.

More broadly, some businesses will have strong Corporate Social Responsibility (CSR) programmes in place which are already publicised. CSR is widely recognised by most responsible companies as vital to attracting and retaining customers. This has been confirmed to us informally by businesses during our consultation, while the Walk Free Foundation also describe it as an important consumer issue. Their consumer poll conducted in the UK confirmed that the majority of UK consumers would pay more or switch brands, even from their preferred products, if they discovered it was produced via modern slavery.[16] Any cost of the provision to businesses with extensive CSR work would be minimal, simply involving the rearranging or collating of existing material. We have not been able to quantify how many businesses have a substantial enough CSR policy already. It is however important to note that there will be a significant number for whom costs are reduced, or even negated entirely, by their existing CSR work.

Table 1 sets out our total estimate of the businesses who are likely to be covered by this provision, and required to produce a disclosure which they are not already doing. This accounts for deductions in volume due to subsidiaries, due to a 7% non-compliance rate, and due to some businesses already reporting under the Companies Act and in California. This leaves us with a central estimate of the number of companies affected by the provision at each revenue threshold.

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[15] The exact filters used on the Mint Global database were 'minimum operating revenue (turnover)', 'only active companies' and 'California' (region). These figures represent the data as extracted on 22 June 2015.

[16] Full consumer poll available online at http://assets.walkfreefoundation.org/2015/03/Consumer-Poll-UK.pdf [Accessed online on 23 June 2015]

Table 1

Operating Revenue[17]	Initial figure	Minus subsidiaries	Minus 7% due to non-compliance	Minus those reporting under the companies act	Minus those reporting in California	Total[18]
>£100m	7,332	4,646	4,320	3,692	3,442	3,400
>£60m	11,292	7,193	6,689	5,995	5,675	5,700
>£36m	17,257	11,096	10,301	9,274	8,974	9,000

There is a small risk that some companies may report under the Companies Act and under Californian legislation. We are confident that there will be very little double counting, because companies covered in California are more likely to be quoted on an American stock exchange rather than in the UK. However, even if there is some overlap, the number of companies that we have assessed as reporting in California is relatively low, at around 300, and so would not affect our volume estimates significantly.

Cost per business

Even for those companies producing statements without an existing framework to build on, the flexibility built into the policy approach should keep costs to a minimum. We have consulted with a wide range of businesses throughout policy development and specifically in advance of this impact assessment to try to estimate the likely cost of producing and publishing these statements.

The feedback has suggested that costs are difficult to estimate prior to completion, and will vary between businesses. As Tesco, Primark and Sainsbury's said to the joint committee (cited above), some businesses suggested that they have most of the material to hand and already seek to disclose clear information about their activities in this area, whilst others have suggested it may take more time to collect the relevant information.

Although California introduced a transparency measure in 2010, it has no central state-run database to maintain or monitor compliance. Evidence of the costs and benefits of such a provision is therefore limited. There are no direct comparisons with the reporting requirement we are introducing to draw from. However, the policy is purposely designed to be low cost and not place unnecessary burdens on business. The policy itself was designed in consultation with business. We have therefore drawn on a number of different areas to identify potential costs.

The European Commission held a public consultation on the non-financial reporting directive from between November 2010 to January 2011, receiving 260 responses. They summarised the results in a n impact assessment, and stated that 'In general, stakeholders were not able to quantify costs and benefits and it appeared clear that there is **no broadly recognised methodology in place for the assessment of costs arising from reporting activities.**'[19] (p.44). This reflects feedback from businesses consulted by the Home Office on this issue.

The EU Commission impact assessment provides a detailed analysis of policy options to strengthen the non-financial reporting of companies within the EU. Specifically, policy option 1 would involve requiring businesses to 'disclose a statement on non-financial information in the Annual Report' (p.25). This would

[17] In this impact assessment, the terms 'revenue', 'operating revenue' and 'turnover' are used interchangeably.

[18] To the nearest hundred.

[19] European Commission, IA for a Directive on the disclosure of non-financial and diversity information, available online: http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52013SC0127&from=EN

be much more burdensome than the Modern Slavery Act provision because it requires businesses to provide information on five key areas: ‘material information relating to at least social human rights, anti-corruption and bribery matters is disclosed, in addition to environmental and employees-related matters’ and ‘within these areas, the disclosure should include a description of (i) the companies’ policies, (ii) performance and (iii) risk-management aspects’ (p.26). Furthermore, this list is not exhaustive, and if they do not have a policy in one of these areas, they would be ‘required to explain why this is the case’ (p.26).

Despite this increased complexity European Commission estimated that making such a disclosure would cost between **€600 (c.£425) to €4300 (c.£3047)**[20] per year per company (p.83). They also specifically cite the fact that ‘such estimates should be considered valid in particular for first time-reporters. There is evidence that such costs could decrease from the second year onwards’ (p.83). These costs and assessments are based on direct business consultation and surveys conducted directly by the European Commission and the Danish Government, with businesses across Europe.

By contrast, our measure only requires businesses to set out the steps they have taken in one specific policy area – modern slavery – and if they have no policy, business would not be required to explain why. They can simply state that they have taken no steps. It is therefore reasonable to assume that our costs would be significantly lower than these estimates given that there would be less information to collate and less drafting to undertake. Given that the EU directive reporting requirement covers five areas of reporting, compared to our one, a reasonable estimate might be that the average cost to each business of this policy are 20% of those estimated for EU non-financial reporting directive, in the implementation year. We are aware that not all costs included here will be proportional, for example the cost of publishing, but we estimate that the more significant costs of collating the steps taken and covering the relevant material in the drafting would be proportional, so we think that this reduction represents a reasonable estimate.

Businesses have not been able to quantify or estimate how their costs may decrease over time given that this is such a new provision which they have not even started to comply with yet. However, businesses have indicated to us that they would expect costs and timeframes to fall after the first year and this is supported by the European Commission IA which also found that ‘there is evidence that such costs could decrease from the second year onwards’, though they were also unable to quantify this fall precisely. When asked to validate out 20% assumption, the British Retail Consortium (BRC), which represents over 80% of the UK retail trade by turnover, considered this to be a reasonably accurate estimate. The fall in cost could however be lower than this, because it will still be compliant with the law if businesses simply choose to copy and republish most or all of the existing statement each subsequent year. We have assumed that these costs will fall by 20% once in year two and then stabilise, and companies repeat the same refresh process each year.

This gives us a estimated lower bound cost of the provision in the UK of **£85** per business in the year of implementation.[21] Based on a 20% reduction in costs in year two and all subsequent years, we estimate that lower bound annual cost of the provision per business is **£68**.

Our central estimate is based on further information from the British Retail Consortium (BRC). When asked to validate a figure of 6 hours, they stated that ‘general feedback from BRC members (large and small) has been that it would take less than a day for them to draft, review and sign-off [a statement]. Most said it would take about 6 hours’. When asked how long it would take to produce a statement taking the minimum steps of drafting and publishing to comply with the law, a number of companies who suggested that 6 hours was a reasonable estimate. This included major retailers like Morrison’s, Next and the Co-op. Tesco, for example, added that they were ‘supportive of the Bill and the TISC [transparency in supply chains] clause and do not think complying with the reporting clause itself will be a costly or burdensome task’.

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[20] Calculated using a market exchange rate of 1.41 Euros to pound sterling on the 26/06/2015.

[21] This is based on 20% of the EU lower and upper bound figures of £425 and £3047.

We have not only sought views from the retail sector or from UK companies. David Arkless, President, International for CDI Corporation states that 'the cost to any company to continually monitor their supply chain and to report it within their financial statements at year end is minimal. Most of the reporting will be undertaken as part of other reporting requirements. Identifying and mitigating the risk of slavery within your supply chain far outweighs the costs of rectifying any evidence if indeed it is found to be the case that this has occurred.' Similarly, the Ethical Trading Initiative (ETI) which represents a wide range of companies, consulted its members and stated that simply complying with this provision should 'take a minimal amount of time, incurring insignificant cost.'

For the purposes of establishing potential costs we have used wage estimates from the Annual Survey of Hours and Earnings (ASHE) for the type of managerial role which companies have indicated might be responsible for this drafting. The estimated wage rate at this level is **£32.58** per hour.[22] Based on 6 hours to produce a statement, our central cost estimate in the implementation year would be **£195** per business. Based on a 20% reduction in costs in year two and all subsequent years, we estimate that lower bound annual cost of the provision per business of **£156.**

Some organisations did indicate that it could take more time than this. Debenhams, for example, suggested it would take a maximum of a day to write, and Deloitte, who have already drafted one for their company, suggested that it took them around three days. However, they are one of the first companies to do so in the UK, and are designing a thorough process for collecting the relevant information, based on answering 30 detailed questions. This effectively represents a 'gold-plated' statement, taking a full and thorough approach. As such, we can use this estimate as our upper limit, as an example of a business producing a comprehensive statement.

On this basis our upper estimate for the cost of producing a statement to comply with the new provision, based on Deloitte's estimate of three days (21 hours of working time), would be **£684** per business in the implementation year. Based on a 20% reduction in costs in year two and all subsequent years, we estimate that the upper bound annual cost to business is **£547.** This is only slightly above the upper estimate based on the findings of the European Commission impact assessment, which further suggests this is a robust upper estimate.

Costs and Benefits of Option 1

Do nothing.

This is the baseline option. Consumers, investors and others will continue to be largely unaware of the efforts made by businesses to specifically ensure there is no modern slavery in their supply chains. These groups will remain broadly unable to identify the businesses which choose to take action.

These groups will continue to interact with all businesses in the same way, with a continuing degree of asymmetric information around the issue.

There are no costs and benefits associated with this option.

Costs and Benefits of Option 2, 3 and 4

The monetised and non-monetised costs and benefits of each option are considered together here, because the only variable being considered is the turnover threshold, and therefore number of covered businesses. The types of costs and benefits incurred will be the same in all three. The three options considered are to implement the transparency provision with a turnover threshold of £36m, £60m or £100m.

Costs

[22] This is the gross hourly wage of a corporate manager or director, based on 2014 provisional ASHE results. This has been uplifted by 24.2% for non-wage costs based on the 2014 Eurostat average. http://www.ons.gov.uk/ons/publications/re-reference-tables.html?edition=tcm%3A77-337425

The UK is the first country in the world to implement a transparency in supply chains measure nationwide. The provision in the Act requires businesses above a certain turnover threshold to state what they have done to ensure there is no slavery or trafficking in their supply chain or organisation. The Act sets out the kind of information that a 'slavery and human trafficking statement' may include, but ultimately the statements can take any form or be of any length. The business has control over the kind of statement that they produce and so the only cost, as a direct result of this regulation, will be the cost of putting the disclosure together and publishing it online. Our intention is that requiring businesses to complete a statement will act as a nudge for them to take action, because once consumers, investors and others have a better understanding of what action business is taking, they will call for more action if they think it is necessary.

We have engaged with a large number of stakeholders to understand the impact. A significant number of businesses and business representative bodies have said that they do not believe the transparency in supply chains provision will be burdensome. These include a number of the 200+ members who are represented by ETI and BRC who estimate that the cost of complying with the provision would be low, but variable.

The director of ethical trading for Tesco, said very clearly in oral evidence to the pre-legislative scrutiny committee looking at the draft modern slavery bill on 11 March 2014 that 'we would like to think that, regardless of legislation, we will be ahead of what legislation asks us for' and when specifically discussing the legislation in California, which is very similar to the legislation subsequently introduced in the UK, he commented that 'I do not see the California Act as something that would give me concern and I would be comfortable with that'. Similarly, when Sir John Randall specifically asked if they would agree that 'you would not regard it [transparency legislation] as an extra burden because you are doing it already' representatives from Primark and Sainsbury's confirmed 'Absolutely' and 'Yes'.[23] This kind of feedback has been frequently repeated in informal contact and consultation directly to the Home Office. It therefore seems clear that for many businesses this measure will bring a very small or negligible cost.

To calculate what this cost might be we have sought to establish as accurately as possible how many businesses would be affected by this provision at each turnover threshold, and then what the average cost per business might be of complying with this provision.

Table 2 presents the estimated total annual cost of each policy option in the implementation year , based on the estimates businesses affected at each turnover threshold, and the cost per business estimates, laid out under **General assumptions and data.**

Table 2. Total annual costs of each policy option, implementation year.

Policy option	Operating Revenue (Turnover)	Numbers of businesses affected	Low estimate	Central estimate	Upper Estimate
2	£36m	9,000	£0.8m	£1.8m	£6.2m
3	£60m	5,700	£0.5m	£1.1m	£3.9m
4	£100m	3,400	£0.3m	£0.7m	£2.3m

Table 3 presents the estimated total annual cost of each policy option in subsequent years, based on the estimates businesses affected at each turnover threshold, and the cost per business estimates, laid out under **General assumptions and data.**

[23] Oral evidence to the joint committee Joint Committee on the Draft Modern Slavery Bill, 11 March 2014, available online: http://data.parliament.uk/writtenevidence/committeeevidence.svc/evidencedocument/draft-modern-slavery-bill-committee/draft-modern-slavery-bill/oral/7465.html

Table 3. Total annual costs of each policy option, subsequent years (year two onwards).

Policy option	Operating Revenue (Turnover)	Numbers of businesses affected	Low estimate	Central estimate	Upper Estimate
2	£36m	3,400	£0.6m	£1.4m	£4.9m
3	£60m	5,700	£0.4m	£0.9m	£3.1m
4	£100m	9,000	£0.2m	£0.5m	£1.9m

These represent our best available estimates based on available business data and our consultation with businesses. However, they may still be slight overestimates because a proportion of the businesses identified may sole traders and unincorporated companies and so would not be required to comply with the new provision, though we estimate this to be a small number. It has also not been possible to quantify how many of these businesses already have such extensive CSR policies and disclosures in place that they already disclose sufficient information to comply and so would incur no cost.

Indirect Costs

If businesses choose to take additional actions to prevent modern slavery in their supply chains because they want more to report in their annual statements, then these actions might incur costs. However, there is no regulatory requirement for them to do anything other than publish a statement. So any other costs which they may choose to incur have not been considered to be direct costs. We also expect that businesses will make the most cost effective interventions, and that any costs would be proportional to the benefits gained.

It is assumed that any efforts made above the minimum legislative requirement which incur indirect cost will be proportional to the benefit received. This assumption is made on the basis that businesses will always undertake profit maximising decisions, where the benefits of any decision are expected to outweigh the costs. It is further assumed that any costs businesses choose to incur in additional efforts will be proportional to the benefits of reduced modern slavery in supply chains. Should businesses choose to undertake significant activity to detect modern slavery, then it is assumed there will be a larger degree of detection and elimination of the crime.

Benefits

The benefits of implementing this provision are potentially substantial but are non-monetisable. The measure will ensure that all commercial organisations are subject to the same rules on this issue, so it should be more difficult for unscrupulous businesses to undercut others and should create more fair competition. It will benefit consumers by enabling them to make better informed choices about the goods they buy and could also boost consumer and investor confidence, potentially driving additional consumption.

Business transparency on modern slavery in supply chains could also reduce businesses' exposure to risk and unforeseen costs. Modern slavery issues receive extensive media coverage, and if they are found in business supply chains, it can drive consumers and investors away, as well as incur very large costs for the business in terms of remediation and compensation. Businesses that seek to collect and disclose information about their supply chains proactively will be much less exposed to these risks.

The benefits to business of increased transparency in general, particularly on a level playing field where all businesses are required to be transparent, are numerous and well documented. The European Commission's Impact Assessment to accompany the non-financial reporting directive (2013) considered the wide range of benefits that transparency had been shown to generate.[24] Although the Modern Slavery Act 2015 only focuses on one specific area of transparency, rather than CSR transparency in general, because it increases transparency still further, it could still bring the same kind of benefits, even if on a reduced scale.

The main areas of net benefit that the Commission's research identified were:

- Better performance of companies (and better risk management). Even though the benefits are hard to quantify, the Commission stated that 'academic evidence confirms a positive correlation between transparency and performance'. (p.37)
- Increased accountability. The Commission argued that increased transparency 'could increase consumers' trust and have a positive effect on the demand side, creating new entrepreneurial opportunities and better management of externalities' (p.38)
- Enhanced efficiency of capital markets. The Commission pointed out that increased transparency would 'contribute to improve investors' decision-making capacity' and ultimately 'contribute to a more efficient allocation of capital across the Internal Market'. (p.39)

In 2011 the European Commission also commissioned the Centre for Strategy and Evaluation Services (CSES) to produce a study assessing the costs and benefits of non-financial reporting.[25] The study considered existing CSR programmes in businesses across Europe which stretch well beyond the requirements of the Modern Slavery Act 2015, however again the general conclusions about the benefits of transparency are applicable.

The study was based on an analysis of published non-financial reports by 71 companies in eight countries - Germany, Denmark, Spain, France, Italy, the Netherlands, Poland and the UK. In terms of sectors, the selected companies included banking and financial services, food and agriculture, textile, consumer goods, extractive and other sectors. 58 of the companies had more than 250 employees and 13 had less than 250 employees.

All the companies surveyed thought that non-financial reporting would lead to some important benefits for them, including 'increasing confidence in the company', 'improving the brand image', 'risk avoidance', 'internal staff relationships' and 'attracting new employees'. (p.28).

Demonstrating transparency on modern slavery could also act as a pull factor for recruiting and retaining employees. Recruitment and retention of staff has a negative effect on organisation performance and profitability given the costs involved. Based on a 2004 Chartered Institute of Personnel and Development (CIPD) survey report the average cost of replacing an employee is £4,800 and a manager is £7,000, whilst the Advisory, Conciliation and Arbitration Service (ACAS) (drawing on analysis from Oxford Economics) have estimated that this could even be as much as £30,000.

Indirectly, it is also important to note that this provision will ultimately lead to reduced victimisation which will create significant social and economic benefits, within the UK and abroad. Whilst the exact scale of modern slavery is difficult to determine, a Home Office research report in October 2013 on the social and economic cost of organised crime estimated that human trafficking for sexual exploitation alone incurred social and economic costs of £890m.[26] If these kinds of costs were replicated for forced labour, and this policy helped to reduce the incidence of that kind of exploitation, it is clear that the social and economic benefits could be very substantial.

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[24] European Commission, Impact Assessment for the Directive Of The European Parliament And Of The Council as regards disclosure of non-financial and diversity information (April, 2013) [Accessed online: http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52013SC0127&from=EN]

[25] Centre For Strategy and Evaluation Services, Disclosure of Non-Financial Information by Companies, Final Report (December 2011) [Accessed online: http://ec.europa.eu/finance/accounting/docs/non-financial-reporting/com_2013_207-study_en.pdf]

[26] Home Office. Understanding organised crime: estimating the scale and social and economic costs (2013). The sources used to make this estimate are set out in the report and associated data sets, both of which are available online. https://www.gov.uk/government/publications/understanding-organised-crime-estimating-the-scale-and-the-social-and-economic-costs. The sources include 'Project Acumen', an investigation into trafficking for prostitution carried out by the Association of Chief Police Officers. http://www.acpo.police.uk/documents/crime/2010/201008CRITMW01.pdf.

All three policy options will create the same type of benefits, though of course if the turnover threshold is set lower so that the provision applies to more businesses, the benefits will be proportionately greater.

Net present value

As there are no monetised benefits of this policy, the below table present the ten year costs in net present values of each policy option.

Option 2

	Best Estimate	Lower Bound	Upper Bound
Net Present Value (Over 10 Years)	**-£12.5m**	**-£5.4m**	**-£43.5m**

Option 3

	Best Estimate	Lower Bound	Upper Bound
Net Present Value (Over 10 Years)	**-£8.0m**	**-£3.5m**	**-£27.5m**

Option 4

	Best Estimate	Lower Bound	Upper Bound
Net Present Value (Over 10 Years)	**-£4.5m**	**-£1.8m**	**-£16.8m**

G. Risks and sensitivities

The UK is the first country in the world to introduce legislation of this kind nationwide. Only the state of California currently has something similar. As such, businesses have not been able to provide detailed cost estimates for every aspect of this new provision. Therefore, we have had to make a number of informed assumptions which have all been set out in detail above, based on the available data from samples of respondents and where possible verified by major trade bodies. Overall we are confident in these assumptions, because the overwhelming feedback from the wide range of businesses we have consulted has been that they expect this provision to be non burdensome, even if they cannot yet quantify its exact impact. Many businesses actively campaigned for this legislation either directly or through their representative trade body as a non-burdensome way of levelling the playing field. Our estimates are in line with this view.

The most difficult estimate to make has been the average cost per business. Businesses have suggested that costs could differ significantly between them, and that making any kind of estimate is difficult until the measure is actually introduced given the newness of the provision and lack of substantial precedent.

There are two identified effects which, should data have been available to viably quantify them, may have moved this estimate upwards or downwards respectively. The first is that businesses which have responded to our consultation, called for this legislation and engaged with the Government on this issue are potentially those who are already taking action, and therefore may find this regulation easy to comply with, even if they wish to publish detailed statements. This would signal our estimates are in fact underestimates, as it is primarily these businesses which have informed them. On the other hand, the second is that businesses who are not yet engaged with the issue may also face low costs, as they will choose to simply publish minimal statements which require little effort are still compliant with the law. This would suggest our estimates could be an overestimate, as the businesses which have informed them are likely to do more given their involvement in the issue. A realistic cost assessment should acknowledge these two effects. Given their opposite direction, we feel that our evidenced assessment of the likely cost of compliance represents a reasonable average figure.

H. Wider impacts

There could be wider benefits from this policy. If successful in reducing the asymmetry in information between businesses and consumers, there may be a boost to consumer and investor confidence.

More broadly, increased transparency is expected to indirectly encourage businesses to take more action to tackle modern slavery in their supply chains. Any resultant reduction in victimisation could create significant social and economic benefits, both within the UK and abroad.

I. Summary and preferred option with description of implementation plan.

Option 2 is the preferred option because of the support received through consultation, particularly from business, and the fact that this option would cover the widest range of businesses while avoiding the inclusion of any small or micro sized enterprises.

To bring this provision into force requires making regulations via the affirmative procedure in the Houses of Parliament. So this would involve drafting and laying a Statutory Instrument to actually enact the policy option.

J. Monitoring and evaluation

The regulations which set the turnover threshold for this provision will include a review clause which will require the Home Secretary to carry out and publish a review of the regulations, at least once every five years. These reviews will be required to set out the objectives intended to be achieved by the regulations, assess the extent to which those objectives are achieved; and assess whether those objectives remain appropriate and, if so, the extent to which they could be achieved with a system that imposes less regulation.

We will continue to monitor and evaluate the impact of the transparency provision through engagement with those businesses that will be required to comply with the legislation. We will do this by engaging with businesses on a regular basis through informal consultation and ongoing engagement both in the lead up to commencing the provisions and subsequently. This will include ensuring that we engage with the widest possible range of business types and sizes (within the range of those covered by the provision), including those who may have been less engaged in this agenda prior to introduction and which have therefore been harder to reach up to this point. The evaluation process will also examine the costs to business of the provision.

Sept 2015	Engagement with businesses on state of readiness for the introduction of the provision
April 2016	Roundtable with businesses on initial views
Oct-Dec 2016	Engage with businesses 12 months following commencement to understand any issues and to receive feedback on the reporting requirements.

3-5 years (following Royal Assent)	Post Legislative Scrutiny of the Modern Slavery Act 2015

K. Small and Micro Business Assessment

This policy will not have any direct impact on small or micro businesses. Our preferred policy option is aligned with the definition of a large business in the Companies Act 2006, and this is the lowest turnover threshold being considered in this assessment. This provision has always been intended to impact only on larger businesses, and by aligning with the definitions in the Companies Act 2006 this will provide consistency and clarity for affected businesses.