



## **Unite response to the Narrative Reporting Consultation November 2011**

**This response is submitted by Unite the union. Unite is the UK's largest trade union with almost 1.5 million members across the private and public sectors. The union's members work in a range of industries including manufacturing, financial services, print, media, construction, transport, local government, education, health and not for profit sectors.**

### **Question 1**

**Do you agree in principle with restructuring the current reporting framework into a strategic report and an annual directors' statement?**

Unite believes that, in principle, it would be a good idea to move to the above named documents in order to simplify the information that is made available to stakeholders on an annual basis. The priority stakeholders for Unite would be employees so the proposal to provide data that correlates director's remuneration packages to performance as proposed to be provided in the Strategic Report is particularly welcome.

In terms of the Strategic Report, the content of such as outlined in paragraph 2.9 would not be too dissimilar to what is currently reported in the standard Annual Report and Accounts but Unite feels the focus on the business model and forward looking analysis would certainly be of benefit to those who wish to compare various companies overall performance within particular sectors. It would certainly be of significance to employees of the company to be made aware of the strategic planning of the company and what it would mean to individuals. The fact that these changes would mainly affect quoted companies in a practical sense mean that large numbers of employees on an operational level would usually be affected by significant decisions made in the boardroom and so an explanation of the drivers of these decisions (in a broad sense) would certainly be a move in the right direction.

The ability to cross reference data from the Strategic Report to the Annual Director's statement could also be of use as it can be difficult to put into context certain comments made in standard directors report to other areas of the Annual Report and accounts.

The standard format of the Annual Director's report that is being proposed would be a great step forward for comparability of information between companies as this is an area of which numerous stakeholders find the current directors report lacking. The various sections and terminology used from report to report make it sometimes impossible to compare like for like data and truly analyse a companies' performance within the market. This is not only essential for the various different stakeholders but in particular for Shareholders who are

expected to make decisions and vote on a range of issues that are, in certain circumstances, completely alien to them.

## **Question 2**

**Do you agree the Strategic Report should include information on:**

- **Company performance**
- **Principal risks and uncertainties**
- **Key performance indicators**
- **Key financial information**

**And for quoted companies should include:**

- **Strategy**
- **Business model**
- **Environmental and social information**
- **Key information on executive remuneration and its link to performance**

Unite certainly believes that the above information should be included in the strategic report. The key points that Unite would focus on would be business model, environmental and social information and key information on executive remuneration and its link to performance as proposed to be included for quoted companies.

As stated in the response to question one, the inclusion of the business model would help stakeholders understand fully the strategic decisions that are made at a board level which have a significant impact on a wide range of people such as employees. There could also be an impact on supply chain so this may have a detrimental impact on other associated companies so it would be important to be aware of the business model and include the drivers of operational change so others can make tactical decisions in line with the main reporting companies' business model.

The inclusion of risks to the business including environmental, social and human rights issues is of particular importance to Unite as the union has seen many boardroom decisions that have a devastating effect on local social environments.

For example the decision by Cadburys in 2007 to close their Somerdale site with a direct impact on 500 people and an indirect on many more was a strategic decision that was made at boardroom level in order to increase profit margins in the European Section of the company. The drive to increase profit margins was certainly no secret and was outlined in previous Annual Reports but there was never any comment on the social impact that would occur while trying to achieve the margin increase.

In addition to this, globalisation has seen the number of UK quoted companies operating in many other global markets so there will also be the potential for human rights abuses and Unite feels that should a company be registered in the UK then, where at all possible, the company should stringently enforce a policy to identify and remove these abuses. The fact that they may be required to report on this issue could be particularly important in future as there will almost certainly continue to be the opening of global markets and a global workforce.

The main area for consideration is the key information on executive remuneration and its link to performance. Unite has made a formal response on this issue in the other BIS consultation on Executive remuneration and is of the opinion that summary details of the

directors remuneration should be highlighted in the summary of financial performance in the current annual report. The remuneration report would still be included but Unite feels that it is of importance to have clear information on the monetary rewards that executive directors receive and the best place to provide this would be early on directly aligned to the overall financial performance of the company.

The proposal to include this information in the Strategic Report is a welcome move forward to providing the relevant data for stakeholders to take an objective view on executive remuneration and not have to sift through a convoluted remuneration report of 20+ pages. The understanding of the link between executive remuneration and company performance has for too long been one of the great mysteries of the world so any move to simplify this is major progress.

### **Question 3**

**Do you agree that the proposed Strategic Report should replace the Summary Financial Statements?**

The proposal to amend the SFS with the Strategic Report is more one of common sense as there does not appear to be material change in the actual data included (provided the key financial data is not superseded completely by strategy and governance issues) but Unite is concerned with the statement “changing the emphasis of high-level company communication from historical financial performance to strategy and governance”. A key point for shareholders is the ability to assess the company’s financial performance in a summarised format without having to read through the current annual report so this would most certainly need to be included in the Strategic Report.

### **Question 4**

**Do you agree that the Strategic Report should be signed off by each director individually?**

Unite welcomes the proposal that each of the directors must sign the new Strategic Report and agrees that this would encourage the whole board to take ownership of the report and its contents, and contribute to its status as a key company document.

### **Question 5**

**Do you agree that the annual directors’ statement for quoted companies should include:**

- **Disclosures required, regardless of materiality by the companies act the listing rules etc**
- **The corporate governance statement**
- **The directors remuneration report**
- **Financial information (for example post balance sheet events)**
- **Information provided voluntarily by companies (for example, additional environmental and social disclosures)**

The key point is that of comparability and the provision of clear and concise data that end users feel comfortable in making an assessment of the company in question. The ability to easily identify areas of a report in which a comparison with other companies can be made is the main reason why a prescribed structure is vital.

Unite welcomes the proposal to include such topics as greenhouse gas emissions, board diversity, corporate governance but most importantly directors remuneration. The government, as stated, will have to work with companies, investors, regulators and wider

stakeholders over the coming months to develop an appropriate framework and guidance to ensure a robust and future-proof framework is in place before implementation and Unite would be pleased to add further input into this.

#### **Question 6**

**Do you agree that companies should be able to include material in the annual directors report (for example information on policies and procedures) by cross reference to information published elsewhere (for example on the company's website)?**

The ability to cross reference information is useful but Unite do not have a specific view on the practicalities of this issue. The concern would be that instead of having relevant information being held in one specific place it could be easier for companies to restrict access by harbouring data in various different places/reports. The government would need to identify exactly what information is to be published away from the annual directors' statement and why it is not necessary to include it in one report then another, other than for the simplistic purpose of allowing companies to produce a leaner annual report.

#### **Question 7**

**If companies are able to include material in the annual directors' statement by cross reference (question 6) do you agree that they should make an annual statement confirming it has reviewed that information and noting any significant changes?**

As in previous responses, Unite feels that the overriding point of the consultation is to encourage companies to provide more clear and concise annual reporting and so to make notes confirming any reviews or changes to material that has been cross-reference is essential. This will assist in preventing any lack, or perceived lack of clarity in the financial statements as a whole.

#### **Question 8**

**Do you agree that the annual director's statement should be presented online with a hard copy available to shareholders only on request?**

No comment

#### **Question 9**

**Do you support the removal of the disclosure requirements arising from company law identified in Table 1? If not, please provide evidence of their relevance to users, including why disclosure in the annual directors statement is necessary for meeting their needs. Are there any other disclosure requirements arising from company law that in your view could be simplified or removed?**

The concern for Unite is that of Employee involvement. In the current directors report, in line with Companies Act, there is a paragraph that outlines a number of specific employee issues most notably details of consulting with employees or their representatives and even though Unite is aware that the rights of employees to information are protected by the Information and Consultation of Employees Regulations 2004 (SI 2004/3426) it would be of particular comfort to employees to have this statement retained in the proposed changes.

**Question 10**

**Are there areas where the listing rules, IFRS, company law and the corporate governance code are inconsistent or require similar disclosures? If so, how could these best be solved?**

No comment

**Question 11**

**Should quoted companies be explicitly required to include information about human rights (to the extent necessary for an understanding of the development, performance or position of the company's business) in the strategic review?**

As stated previously, Unite's main concern surrounding the issue of human rights and the disclosure of activities performed with a company in order to address these issues is that of the globalisation. The stringent employment laws that are applied in the UK will clearly be very different to overseas legislation and so human rights abuses could be taking place at an operational level while actually being overseen from UK boardrooms. Any guidance or instruction for reporting human rights issues should be embraced and clearly included in the Strategic Report.

**Question 12**

**Do you support the government's proposals for company disclosure of the proportion of women on boards and in companies as a whole?**

Unite would certainly support the governments proposal for company disclosure of the proportion of woman on boards and in companies as a whole. The ability to encourage gender diversity has been increasingly in the media and the report "Women on Boards" that was published on 24 February 2011 was clear in that female representation on boards should increase by 25% by 2015. Already in the majority of annual report and accounts there is a section that provides brief biographies of the board but in order for further clarity Unite supports the proposals.

**Question 13**

**Do you agree that the current UK liability regime does not discourage companies from making meaningful forward looking statements? If you believe that there are issues with the current regime, do these relate to:**

- **Companies listing in the US as well as the UK**
- **Companies contemplating a prospectus**
- **Common misunderstandings about the UK liability regimes**
- **Other concerns**

No comment

**Question 14**

**Would improved understanding and awareness of the UK liability regime help encourage more meaningful, formal looking statements? Are there other activities that the UK government could make that you believe may be necessary?**

No comment

### **Question 15**

**Do you agree that the key information on remuneration should be included in the new strategic report? If so would a standard format for this information be helpful?**

The area of executive remuneration and possible changes to the whole reporting structure is of most interest to Unite as well as, quite possibly, the media and general public. For a significant time period now executive remuneration has been on the front pages for all the wrong reasons and the feeling that remuneration at board level throughout the UK, and also global, is excessive has even been addressed by the current Prime Minister.

Unite is of the opinion that it is now a perfect time to address key areas in the reporting of executive remuneration. The key pieces of information as proposed in this consultation and possible standard format are welcome and Unite believes that a single figure for the total remuneration for each individual director should be made clear and in line with other key financial information presented for the year. However, this must not be a stand alone figure and the full breakdown has to be included in some format with full details of LTIP, bonuses, share awards, pension contributions and any other benefits awarded during the year. It is also very important to show a graphical representation of company performance and show how the remuneration in the relevant year relates to this performance as stakeholders have been continuously told that executive remuneration is aligned to company performance with ambiguous measurements to define success. As Unite points out in the response on the consultation on executive remuneration the comparison of executive remuneration against share price has long been a distinctly poor comparison as top end salaries continue to soar against any other performance measure (IDS Directors pay report 2010/11 average pay up 50%, IDS Directors pay report 2011/12 average pay up 50%).

This combined with details of the proposed remuneration policy and performance measures for the year ahead will be a vital element for shareholders to fully understand the packages that are agreed by vote at the AGM. Unite argues that this vote should be binding in the executive remuneration consultation as this would strengthen the decisions made and could also provide further incentive for shareholders to be fully satisfied that the vote taken for or against is the right one.

Unite is fully supportive of information being provided in terms of the relationship between executive pay and pay across the organisation, and expenditure on executive pay as a proportion on executive pay as a proportion of profit. Unite has seen on numerous occasions employees losing out with factory closures, restructuring and redundancies that when viewed purely as a financial short term decision enhances the short term profits and in turn has inflated executive pay. The employees have the right to know what link executive pay has to their own input into generating profits for the company which they are both employed by and who each answer to the overall owners, the shareholders.

Unite also welcomes the summary of how the remuneration committee came to the decision on what is an acceptable level of pay but feels that there should also be details of any "payments for failure" as this emotive issue is certainly one that has caused many negative headlines within the media. Many chief executives have been able to walk away from a failing business that has been subjected to disastrous decisions of which, even though they may leave office and held accountable, they leave with exceptionally generous deals. Unite believes that these large payments are certainly unacceptable and that full details should be made public in order to attempt to drive down or remove completely for executive contracts.

**Question 16**

**Which element of the current disclosure requirements could be moved to the annual directors' statement, or removed completely?**

No comment

**Question 17**

**Do you agree that quoted companies should be required to disclose the total remuneration of each director in a single cumulative figure?**

**If so, how should it be calculated so that it accounts appropriately for the various elements of remuneration packages, including share options, LTIPs and pensions?**

As stated previously Unite agrees that quoted companies should be required to disclose the total remuneration of each director in a single cumulative figure. The single biggest issue with this is identifying exactly what has been paid in respect of all the different elements that make up a directors' remuneration with LTIP and any share awards being historically difficult to quantify at a specific date.

Unite suggests that in the first instance, basic salary and benefits that are not specifically performance related are shown followed by any payments that are specifically performance related.

There should also be details of any joining payments, leaving payments and also retention payments as all of these have been identified within recent company annual report and accounts.

In terms of providing definitive figures for elements of executive remuneration that are unable to be valued at the date of the reporting period i.e. share awards, Unite suggests that a specific date is chosen (most likely the statement of financial position date/balance sheet date) to value any shares awarded during the year.

This same approach should be applied to any payments made in a different currency with a standard approach being used by all companies in order to provide information in GBP.

Pension contributions made by and on behalf of individuals during the year should also be part of the single cumulative figure with further details held in the overall remuneration report on accrued pension and transfer values. In some cases there are also cash based payments that are made as the director does not wish to participate in the company pension scheme so this would also need to be included in the cumulative figure.

**Question 18**

**Would there be benefits in introducing a requirement to disclose the pay of the highest earning executive officers below board level and, if so, to which companies and individuals should such an obligation be extended?**

**Are there alternative ways of improving shareholder oversight of the performance and pay of influential non-board executive members?**

Unite believes there is a requirement for transparency in the area of highly paid individuals outside of the boardroom and that this issue is cross sector with no identifiable companies or individuals to specify. However in the Walker review, Sir David Walker called for banks to

disclose those employees earning over £1million per year which is certainly very specific but may not be a relevant figure to use in other sectors and companies.

In the case of a company who employs an individual, or individuals, who earn more than the highest paid director, there would certainly be scope to report this as part of the remuneration report.

#### **Question 19**

**Do you agree that quoted companies should be required to disclose how remuneration awarded relates to performance in the relevant financial year and to the company's strategic objectives?**

As stated previously, Unite is aware that the purpose of this consultation is to provide clarity in the field of financial reporting and as such welcomes further disclosure surrounding remuneration and its relation to performance. With the addition of details of remuneration aligned to the company's strategic objectives it would be easier to hold those charged with the governance of the company to account should remuneration bear no comparison to the long term objectives.

#### **Question 20**

**Should quoted companies be required to illustrate performance and the total remuneration of the CEO for the last five financial years, to enable shareholders to assess the relationship between total pay and performance over time?  
If so, which performance measure would be most appropriate?**

There are numerous issues when deciding on performance measurement as Unite has outlined in the BIS consultation on executive remuneration. Specifically it is very difficult to see what the performance measurements have been used over recent years as companies have certainly claimed to be struggling with the impact of the global economic climate with sales down and share prices plunging and yet executive remuneration continued to soar. Unite does not provide a distinct view on the best metrics to use when assessing company performance as the various measurements that can be used are all open to misinterpretation and can be manipulated in the favour of short term interests over long term objectives.

However, in terms of the specific proposal to illustrate performance and the total remuneration of the CEO for the last five financial years Unite welcomes this.

#### **Question 21**

**Should quoted companies be required to explain how the performance criteria for remuneration policy for the year ahead relates to the company's strategic objectives, as set out in the new strategic review?**

Unite sees scope for this proposal and forward looking analysis that provides detail of minimum and maximum payments to directors with information as to the link to strategic objectives could be very useful to stakeholders who wish to scrutinise the structure of remuneration going forward. If this is standardised then full comparisons could be made with other companies within the same sector and trends could be identified prior to the payments being made.

**Question 22**

**Should quoted companies be required to provide estimates of the total future remuneration of executive directors if they exceed, meet or do not meet their performance criteria?**

Yes, see answer to question 21.

**Question 23**

**Should companies be required to disclose the performance criteria for annual bonuses? If so should companies be permitted to delay the publication of commercially sensitive performance criteria for up to two years?**

This is certainly an area where full disclosure is necessary in order to identify why remuneration is at an acceptable level. In the consultation paper itself there is reference to an increase in bonus payments of 356% between 1998 and 2010 with the IDS directors report 2011/12 showing bonuses increasing by 23% in the past year alone and these increases bear no relation to any performance measurement available and so any disclosure that outlines the performance criteria in order to obtain the bonus is not only welcome but essential.

So in respect of this direct issue Unite is of the view that in order to assist with transparency this should be made mandatory.

Unite does not hold a view on the retention of commercially sensitive data for the two year period but feel that it is vitally important that full and transparent information is made available to stakeholders as soon as reasonably possible.

**Question 24**

**Would disclosure by quoted companies of the ratio between the pay of company's chief executive and the median earnings of the organisation's workforce provide useful information to shareholders? If so, how should the ratio be calculated?**

Unite has a specific interest in this issue and believes that in order to provide relevant, transparent and comparable information quoted companies should provide this ratio. It would be of particular interest to the general workforce and would enable key stakeholders to identify just what the difference is between the salaries of this general workforce and the chief executive and possibly quantify value for money especially when compared with other companies within sectors.

As stated in the consultation notes, the US are moving forward with the reporting of wage ratios after significant debate over excessive boardroom pay and the US are trying to adopt a more transparent reporting structure.

Unite doubts that there would be any real additional cost to the company if they were to perform a calculation to compare median pay against that of the chief executive and so feels that this is a proposal that has merit and can also be applied very easily in a practical sense.

**Question 25**

**Do you agree that quoted companies should be required to disclose the total spend on directors remuneration as a proportion of profit for the relevant financial year?**

As stated previously, Unite feels that in the interests of transparency any changes that provide easily identifiable comparisons would be welcome and this figure would be of particular note to shareholders who may wish to identify how much money is being spent in order to fund the stewardship of the company. This would provide a clear indicator as to whether or not investors are getting value for money when compared to other companies of similar stature and nature of business.

**Question 26**

**Should the amount of fees paid by companies to remuneration consultants be disclosed, and is there any further information which should be disclosed by companies in relation to the procedures for setting directors remuneration?**

Unite has commentated on this issue in the BIS executive remuneration consultation and feels that it would be of benefit to stakeholders to see how much in fees any remuneration consultants are being paid and also a note of any conflicts of interests that they may have with full details being provided.

**Question 27**

**Do you agree that company law and the listing rule disclosure requirements on remuneration should be made fully consistent?**

No comment

**Question 28**

**Would reporting under international financial reporting standards provide an appropriate basis for disclosure of remuneration in the preceding financial year if this were required on both an aggregate and individual basis?**

No comment

**Question 29**

**Do you agree that under the current legislative regime for audit and assurance for narrative reporting is adequate for your needs?**

**If you support assurance beyond the consistency of the strategic report and annual directors' statement with the accounts, then please explain what you believe assurance should be provided on and the benefits that you believe will ensue.**

No comment

**Question 30**

**Are there any actions the government could take to make the process of obtaining additional assurance on specific information in company narrative reports easier or less costly?**

No comment

**Question 31**

**Do you agree that the audit committee report should contain, in addition to existing requirements:**

- How long the current auditor has been in post; and when a tender was last conducted.
- The length of time since the directors, including members of the audit committee, have held discussions with principal shareholders about the company's relationship with its auditors, including the quality of service provided?

No comment

#### **Question 32**

The government would also welcome views on the impact of these proposals, both on the cost of preparation of the audit committee report, and of the benefits to investors of having access to this information.

No comment

#### **Question 33**

What guidance should be provided for preparers of the strategic report and the annual directors' statement? For example, what form should the guidance take (case studies, best practice, minimum compliance requirements), how should it be disseminated and should it be at high level and principles based or more detailed and specific?

No comment

#### **Question 34**

Do you agree with the government's proposal that the reporting statement and supporting guidance should remain voluntary? If you support a mandatory statement, please explain why it is necessary for your requirements.

No comment

#### **Question 35**

Do you agree that understanding of the profile and working practices of the FRRP should be enhanced, but that the remit of the FRRP should remain unchanged?

No comment

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