The future of narrative reporting: consulting on a new reporting framework. Response form

Please send your response by: 25 Nov 2011

About You	
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I am responding on behalf of (please tick)	
	Quoted company
	Other company
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	Business representative organisation
	Investor representative organisation
	Non governmental organisation (NGO)
x	**Trade Union**
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	Other (e.g. consultant or private individual)

Questions

Question 1

Do you agree in principle with restructuring the current reporting framework into a Strategic Report and an Annual Directors' Statement?

Yes	No
Broadly yes, but with some important qualifications – see below	

Comments
The TUC understands the rationale behind the proposal for restructuring the current reporting framework into a Strategic Report and an Annual Directors' Statement and is cautiously supportive of the proposal in principle. This reform represents a significant change to the current company reporting regime. Given this, we believe that it is essential that it is thoroughly reviewed in a few years (we suggest three) to ensure that it is operating as intended and has improved, rather than weakened, the quality and clarity of company reporting. We support the proposal that a description of the company's business model should be included in the Strategic Report and also the aim of integrating social and environmental information with financial information. These should help to improve the quality of narrative reports. Our main concern in relation to the proposal is the potential impact on the quality and quantity of social and environmental reporting. As noted already, we support the aim of better integration of social and environmental information with financial information. However, we also believe that there is a need for clear and comprehensive reporting on social and environmental issues so that companies' performance in these areas can be evaluated in their own right. At present, too few company directors and investors fully understand the links between social and environmental impacts and long-term financial performance. Given this, if social and environmental information is included only in so far as these groups consider it to be 'material', there is a serious danger of under-reporting in these areas. We believe that comprehensive reporting on social and environmental impacts will itself help to educate directors and investors about the links between these areas and company financial performance. We agree that good quality social and environmental reporting should be an important aim of Government policy in its own right (as reflected in the Coalition Agreement referred to in the introduction of this

consultation paper).

We therefore believe that some degree of prescription in relation to the social and environmental information to be included in the Strategic Report is necessary. This could, of course, be supplemented by fuller information in the Annual Directors' Statement. This is explored more fully below.

We believe that the lack of comparability of narrative reports between companies and over time has severely hampered their utility to date, and therefore strongly support the proposal that the headings and format of the Annual Directors' Statement should be more prescribed than at present.

We support the proposal that the Annual Directors' Statement should be primarily an on-line disclosure, but believe that all users, and not just shareholders, should be able to receive a hard copy from the company on request.

In terms of scope, we believe that it is essential that all requirements relating to social and environmental reporting are extended to large and medium sized private companies, and particularly to large private companies. As the consultation document acknowledges, social and environmental reporting is reviewed by a wide range of stakeholders in addition to shareholders. Large private companies have major social and environmental impacts, and the TUC believes that they should report publicly on these impacts to promote transparency to their stakeholders and the wider public. At present, as a result of the recommendations of David Walker's Guidelines for Disclosure and Transparency in Private Equity, private equity owned portfolio companies are often reporting to a higher standard than other private companies. The Government's current review of narrative reporting provides an opportunity to address this anomaly and to raise the standard of reporting in other private companies, especially the largest.

Question 2

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

- company performance
- principal risks and uncertainties
- key performance indicators
- key financial information (similar to that currently required for the Summary Financial Statements)

and for quoted companies should include:

- strategy
- business model
- environmental and social information,

- key information on executive remuneration and its link to performance?

Yes	No
Yes but with amendments	
Comments	
As argued above, we believe that large and medium sized private companies should be required to report on social and environmental information. We also cannot see any reason for excluding large and medium sized private companies from the requirement to include strategy and business model in their Strategic Report. Discussion of these areas will be key to what will be useful about a Strategic Report, so we do not believe that it benefits unquoted companies to exclude them from these requirements. We would support retention of the current Companies Act 2006 requirement for directors' to report on how they have carried out their duties under Section 172 in order to promote accountability on this key aspect of directors' duties.	

Question 3

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

Yes	No
Comments	
The TUC supports the aim of avoiding duplication in reporting requirements, but cannot comment in detail on this specific proposal.	

Question 4

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

Yes	No
Yes – should include non-executive directors as well as executive	

directors	

Comments
We hope that this would help to ensure that all directors read the Strategic Report and that an in-depth discussion of the contents would take place at board meetings.

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 etc)
- information provided voluntarily by companies (for example, additional environmental and social disclosures)?

Yes	No
Yes but with additional requirements on social and environmental information	

Comments
As argued in response to question 1 above, the TUC broadly supports the proposal for restructuring narrative reporting into a Strategic Report and an Annual Directors' Statement. However, we are concerned that there is a lack of clarity as to where high quality reporting on environmental and social impacts lies within this new framework. As argued above, we believe that some degree of prescription on the social and environmental information included in Strategic Reports is necessary to ensure that there is sufficient focus on these important areas in Strategic Reports. However, we recognise that there will be some important information on social and environmental impacts that will not be included in all Strategic Reports and believe that it is important that this is systematically collected in the Annual Statement. One way of addressing this would be to develop a template for information on social and environmental impacts and, other than some key areas that should always be included in Strategic Reports, leave it to companies to decide which report to include the information in, depending

on their circumstances. This would ensure that comprehensive and comparable information on social and environmental issues was available, but would for the most part leave it up to the company to determine which parts of this went into their Strategic Review and which went into their Annual Directors' Statement.

We do not agree with the argument on page 19 that seems to describe the Annual Directors' Statement as a repository for non-material disclosures. There are many disclosures that are material over the longer-term for an individual company, or are material for the corporate sector as a whole, which may not be central to an individual company's financial performance over a given year but which still need to be reported as a matter of record.

Clearly, the TUC has a particular interest reporting on employment issues. Below is the information that we believe should, at a minimum, be included in narrative reporting on employees.

- **Diversity and work life balance**
  At each level of the organisation a breakdown of staff numbers by gender, race, age and disability, supported by a description of policies on equal opportunities and work life balance and their implementation.

  In addition, the overall gender pay gap, gender pay gaps by job grade and gender differences in starting salaries should be reported.[1]

- **Training and development**
  The role of employee training and development in delivering the company's strategic objectives. In addition, information on training resources per employee (including average annual training expenditure, training hours and type of training) and their distribution in terms of grade/pay and gender should be given. In addition, the overall spending on training as a percentage of total payroll expenditure should be included.

- **Employee representation and involvement**
  Whether trade unions are recognised for collective bargaining, and the extent to which employees and their representatives are (a) informed (b) consulted and (c) involved in decisions about changes to their own jobs and wider strategic issues.

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[1] The proposals on the gender pay gap come from an exercise led by the EHRC with the involvement of the TUC, CBI and other business groups and unions in 2009 to come up with recommendations on what large private sector employers should be reporting on. The full report is available at:

http://www.equalityhumanrights.com/advice-and-guidance/information-for-employers/gender-pay-reporting/

Whether the organisation has policies and procedures for handling problems at work, including grievances and disciplinary procedures.

The number of filed employment tribunal claims and how those were resolved, including how many reached an employment tribunal hearing

- **Health and safety**
  Health and safety performance and the level of director involvement in safety issues, along with details of RIDDOR accident, disease and incident reports and all safety enforcement action and penalties.

- **Pay and pensions**
  Please see our answer to question 24 below.

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)?

Yes	No
Yes	
Comments	
However, it is essential that cross-referenced information should be checked and updated regularly. In addition, care must be taken to ensure that reports do not become a series of web links with no coherence and no narrative argument to link them together. In particular, care must be taken to ensure that those who wish to print copies of narrative reports can do so in a way that creates one coherent document.	

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?

Yes	No
Yes	
Comments	

See response to question 6

Question 8

Do you agree that the Annual Directors’ Statement should be presented online with a hard copy available to shareholders only on request?

Yes	No
Yes	
Comments	
As argued above, we believe that all users should be entitled to receive a hard copy of the annual report from the company on request. This will be especially important if excessive cross-referencing in reports makes it difficult to download a comprehensive Annual Directors’ Statement from the web.	

Question 9

Do you support 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?

Yes	No
	No in relation to employee involvement and policy and practice on payment of creditors
Comments	
We do not support the proposed removal of the requirement for companies to report on employee involvement. Employee involvement has been shown to have a significant impact on company performance (see for example, the evidence on this presented in Engaging for Success: enhancing performance through employee engagement by David MacLeod and Nita Clarke, July 2009). It is therefore a material issue for companies. However, as argued above, both companies and investors tend to underestimate the significance of employee involvement to company performance as reflected in their reporting and therefore it cannot be assumed that companies will necessarily give	

sufficient attention to this key area of their own accord. As argued above, the TUC believes that a detailed template should be developed for social and environmental information to be included in narrative reports. One option would be to put the requirement to report on employee involvement into this template (see answer to question 5 for our proposed template on employment issues, which does include employee involvement). In relation to policy and practice on payment of creditors, the TUC is aware that late payment of invoices remains a problem for many small UK companies and also for supply chains overseas. We would therefore not support removing reporting requirements from this issue.

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 resolved?

Yes	No
Comments	
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 Report?

Yes	No
Yes	
Comments	
We would support companies being required to report on human rights impacts in their Strategic Reports. We would have considered that this was already covered in the references to 'the company's employees' and 'social and community issues' in the existing Business Review requirements, but it may be helpful to explicitly refer to human rights in order to clarify to	

companies that they should report on their human rights impacts. As argued above in relation to social and environmental impacts more broadly, we believe that this requirement should be extended to large and medium sized private companies.

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?

Yes	No
Yes	
Comments	
We support the proposals, but note that gender diversity is not the only form of diversity on which companies should report. Please see our answer to question 5 for the TUC's recommended disclosure on diversity.	

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 in the UK,
- companies contemplating a prospectus,
- common misunderstandings about the UK liability regimes.
- other concerns?

Yes	No
Yes	
Comments	
Our understanding is that there are sufficient protections for directors within the current UK liability regime to allow them to make forward-looking statements. We believe that it is often the legal advice given to companies that discourages directors from making forward-looking statements.	

Question 14

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

Yes	No
Possibly but not necessarily	
Comments	
There was considerable discussion about directors' liability for reporting when the Companies Act was being finalised. It was made very clear at this time that so long as directors are making forward-looking statement in good faith and have undertaken due diligence, they cannot be held liable for occasions when events unfold differently in practice. The TUC believes that in order to tackle this issue effectively, the Government will need to reach out not only to company directors but also their legal advisors to encourage them to give less cautious legal advice in this area.	

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?

Yes	No
Yes to both	
Comments	
We would support the inclusion of key information on remuneration in the Strategic Report, but this should not be at the expense of the quality of reporting. A standardised format for reporting on directors' remuneration would aid comparability across companies and over time.	

Question 16

Which elements of the current disclosure requirements could be moved to the Annual Director's Statement, or removed entirely?

Yes	No
Comments	

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

Yes	No
Yes	
Comments	
We believe that a single figure including all the different elements of pay would be helpful in promoting clarity on total remuneration levels and their movement over time. However, it is essential that there is clarity on how this figure is calculated so that it is possible to make meaningful comparisons between companies and over time. We believe that this figure should include salary, all elements of performance-related pay calculated individually, pension contributions, golden hellos and any other payments that are made by the company to a director, all itemised individually. It is essential that all payments of any kind made by companies to their directors are included in the total. It is also essential that as well as the cumulative figure, reports show the different elements separately so that the components of the total can be identified. Pension contributions could be the amount paid that year by the company into whatever pension scheme the director is using and/or any cash amounts in lieu of pensions. On balance, we would favour that the total figure is calculated on the basis of the total awarded in the relevant financial year to encourage shareholders to focus on this issue. Otherwise, there is a danger that the totals will represent rewards that relate to past decisions on pay. However, this does raise difficult questions of how to account for remuneration that has been awarded within a performance-related scheme that has not yet vested. If	

these prove too complex to solve satisfactorily, then the total figure should be calculated based on amounts paid out in the relevant year.

In terms of representing performance related by that has not yet vested, one option could be to include a separate figure for pay that cannot yet be evaluated, with lowest and highest possible awards given. Alternatively, this element of pay could be included within the cumulative total, but with notes to show that there are a range of potential outcomes for this element. This would mean showing a range of different cumulative totals, depending on performance outcome.

To ensure comparability between companies, guidance will need to be developed on how to calculate all the different elements of payments that will need to be included.

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 officers?

Yes	**No**
Yes	
Comments	
We support the proposal to disclose the pay of the highest earning workers outside the board. We believe that this proposal has relevance for shareholders and stakeholders regardless of the sector and should be extended to all quoted and large private companies. We would suggest that rather than focus on a particular number of individuals, the pay of all those who are paid the same or more than the lowest paid board director should be disclosed. It is important that the information is calculated in the same way as directors' pay to ensure comparability. In addition, the TUC believes that companies should report on the distribution of pay across the company as a whole, showing pay levels by grade and the number of workers on each grade, including performance-related elements (please see question 24). In carrying out their work, remuneration committees should have oversight of remuneration rewarded to high paid individuals in the company and the	

policies that this is based on, and should include information on this their reports.

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?

Yes	No
Yes but please see comments below	

Comments
We do not support the current emphasis on performance-related pay and believe that it is neither effective in motivating directors to perform their best nor at rewarding them for good performance. We would like to see radical reform of this element of directors' pay, with a much lower proportion of total pay being performance-related, and remuneration committees rewarding only one performance-related element of pay as per the High Pay Commission's recommendations. These arguments are set out in the TUC's response to the BIS consultation on executive remuneration. Where performance-related pay is used, it is essential that targets relate to long-term performance only and that non-financial targets are included, including on the quality of employment relationships. It is also essential that targets are sufficiently stretching to ensure that no payment is made for poor or mediocre performance. Our responses to questions 19 to 23 should be understood in this context: we believe that the reliance on performance-related pay should be reduced and that targets should be stretching and restricted to long-term performance only. However, where performance-related pay continues to be used, we agree that disclosure should be improved.

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 the most appropriate?

Yes	No

Yes	
Comments	
See comments on question 19 Performance metrics should include non-financial as well as financial information including information on the quality of employment relationships.	

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 Report?

Yes	No
Yes	
Comments	
It is important that remuneration reports become more forward-looking than at present to enable shareholders and other stakeholders to comment on the proposals before they are a fait accompli. Therefore the TUC supports the proposal for companies to set out how performance criteria for the year ahead relate to the company’s strategic objectives. It is important that performance targets are stretching and that schemes do not pay out for mediocre performance as presently occurs. This issue should also be addressed in the disclosure.	

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	No
Yes	
Comments	
This proposal would add clarity to remuneration reporting. It is currently often extremely hard to calculate the amounts that will actually be paid to directors in relation to performance-related pay. As noted above, questions remain as to how these amounts should be represented in the total figure discussed above.	

At present, too many performance targets are insufficiently stretching and schemes frequently pay out for mediocre or even poor performance. This also needs to be addressed. However, please also see comments on question 19 above.

Question 23

Should quoted 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?

Yes	No
Yes but see comments below	
Comments	
The TUC believes that all performance-related pay should relate to long-term performance only. Therefore we do not support the payment of annual bonuses and believe that they should be abolished. However, where annual bonuses continue to be used, we would support disclosure of the performance criteria.	

Question 24

Would disclosure by quoted companies of the ratio between the pay of the 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?

Yes	No
Yes	
Comments	
The TUC strongly supports this proposal. In addition, we believe that the ratio between the pay of the Chief Executive and the lowest paid worker (or average for the lowest ten per cent of the workforce) and other information as set out below should be disclosed. Successive reports, most recently that of the High Pay Commission, have set out the massive increase in the gap between directors' pay and that of	

their employees. The High Pay Commission's Final Report reveals that the ratio between the average pay of executives and ordinary workers has grown from 16 to 63 over the last 30 years[2]. This growing pay gap is a problem for companies, their shareholders, their workforce and society more broadly.

As noted by Will Hutton's Review of Fair Pay in the Public Sector, there is clear academic evidence that high wage disparities within companies harm productivity and company performance. For example, one study of 4,735 companies between 1991 and 2000 found that within-firm pay inequality is significantly associated with lower firm performance[3]. A second study that used compensation data from Standards and Poor's ExecuComp (covering around 1,500 companies per year) found that firm productivity is negatively correlated with pay disparity between top executive and lower level employees[4]. A third study of over 100 companies found that low pay differentials were associated with higher product quality[5]. The clear and negative impact of high pay differentials on company performance shows that this is an issue that shareholders and Government should take extremely seriously, and makes a strong case for the publication of pay ratios.

The Code for Corporate Governance requires remuneration committees to take into account pay and conditions elsewhere in the company, and companies are required by law to report in their remuneration reports on how they have done this. Yet, as the consultation document notes, the vast majority of remuneration reports give little if any meaningful information on this, and there is no evidence that this Code requirement is having any impact on remuneration committee decisions in practice. Publication of a pay ratio as proposed would provide some information that would help shareholders and other stakeholders who wish to track and take account of this important issue.

The High Pay Commission present evidence that the pay increases for top executives have made a significant contribution to the rise of inequality

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[2] High Pay Commission, Cheques With Balances: why tackling high pay is in the national interest Final Report of the High Pay Commission November 2011

[3] Pedro Martins, Dispersion in Wage Premiums and Firm Performance, Centre for Globalisation Research Working Paper No. 8 April 2008

[4] Olubunmi Faleye, Ebru Reis, Anand Venkateswaran, The Effect of Executive-Employee Pay Disparity on Labor Productivity, EFMA, Jan 2010

[5] Douglas M. Cowherd and David I. Levine, Product Quality and Pay Equity Between Lower-Level Employees and Top Management: An Investigation of Distributive Justice Theory, Administrative Science Quarterly, Vol. 37, No. 2, Special Issue: Process and Outcome: Perspectives on the Distribution of Rewards in Organizations June 1992

across society in recent years. The huge social costs of inequality have been well documented in The Spirit Level[6]. Inequality also brings significant economic costs, as set out in The Cost of Inequality[7]. These are compelling reasons for public policy to support the publication of clear and reliable data to track this issue.

The argument mooted in the consultation document against publication of pay ratios – that disparities between different sectors will limit the value of comparisons between companies – is not a valid argument against disclosure of the information. Those who wish to make comparisons between companies will be able to take account of the different pay profiles of different sectors and make their judgements accordingly. As the consultation document notes, over time sectoral norms and trends may emerge, and it will also be possible to track trends within companies over time.

The TUC therefore supports the proposal that the ratio between the pay of the company's Chief Executive and the median earnings of the organisation's workforce should be disclosed. We would support this being a requirement for all quoted companies and also for large and medium sized private companies.

While top to median ratios are important, the TUC believes that top to bottom pay ratios should also be reported. Median pay levels, while they will be pulled down by large numbers of workers on low pay, do not give a clear picture of the extent of low pay within an organisation. Low pay should be a major concern to shareholders and also the wider public, as it tends to be correlated with lower productivity and motivation, lower levels of training, higher levels of staff turnover, sickness and other costs. Conversely, when the accountancy firm KPMG signed up to pay a national living wage for its facilities staff, it found that turnover amongst this group of workers fell by 50 per cent, and sickness absence was also greatly reduced.

Companies whose business model is based on large numbers of relatively low paid workers – for example, supermarkets – but who strive to pay well relative to the norms of their sector, would benefit from publication of top to bottom ratios. For example, a supermarket that pays its staff above the national minimum wage will come out with a lower top to bottom ratio than a supermarket that pays the national minimum wage (for a given level of CEO pay), but this might not show up in the top to median ratio.

Some of the arguments given against top to bottom ratios – that they would

[6] Richard Wilkinson and Kate Pickett, The Spirit Level, Penguin, March 2009

[7] Stewart Lansley, The Cost of Inequality,Gibson Square, August 2011

be open to distortion, for example by outsourcing groups of workers – could be addressed by calculating the ‘bottom’ rate as the average of the lowest 10% of workers. The TUC is also sceptical of claims that a requirement to publish pay ratios would lead to outsourcing by companies; if companies are really basing decisions relating to restructuring on reporting requirements of this kind, then shareholders should be extremely concerned.

It is, however, important that where services are outsourced – as is already very common with low-paying services such as cleaning and security – this is reflected in pay ratios. Ideally, a company should take account of staff performing essential services for them such as cleaning, security and so on, in their calculation of lowest and median pay. At a minimum, a company should report which functions are outsourced so that this can be taken into account in judging pay ratios.

In terms of how the ratio should be calculated, we would suggest that the proposed figure for total pay (as discussed above) should be used and a comparable figure for the median and lowest paid employees. If it is difficult to identify the median and lowest paid workers on this basis, it should be permissible to simply use payroll data to identify the relevant workers and then once identified calculate their total pay in the same way as for CEO pay. Part-time pay should be adjusted on a pro-rata basis to form a full-time equivalent to ensure comparability with CEO pay.

The TUC believes that in the first instance the calculation of median and lowest pay should include only UK workers. This is to ensure that the ratio is meaningful for readers and cannot be dismissed as irrelevant because of the inclusion of workers from countries with very different economic circumstances. It also removes complexity that would otherwise arise from issues such as exchange rates, differing costs of living and so on. This is a reflection of what is practical in the first instance and is not a reflection of the importance of fair pay for overseas workers and in supply chains, which the TUC believes is a critical social and economic issue. The TUC believes that company disclosure of pay ratios that include overseas workers should be a medium-term public policy aim, and would support the active development of methodologies that would facilitate this in a meaningful way.

In addition to top to median and top to bottom pay ratios, the TUC believes that reports should include the following information:

- For each director, the rate of increase in their basic salary and in their total remuneration.

- The average pay increase for staff elsewhere in the company (it should be permissible, but not a requirement, for information about different groups of staff to be provided separately if this adds clarity).

- Where the average rise in basic pay for directors is significantly higher (say more than 1%) than the average rise for employees, an explanation for this differential from the remuneration committee should be included in their report.

- The distribution of pay across the company by grade.

This information is necessary to enable shareholders and others to assess the extent to which remuneration committees are being ‘sensitive to the wider scene, including pay and conditions elsewhere in the group’, as required by the Corporate Governance Code. It complements disclosure of pay ratios by focussing on the issue of differential pay increases that, repeated on an annual basis, create the ever-rising pay ratios that have become the norm over the last twenty years.

On pensions, the following information should be disclosed:

- For all company pension schemes for all directors and staff: full disclosure of all company pension schemes and details of who is entitled to join each scheme on what terms; numbers of employees who are not in a company pension scheme.

- For DB schemes: transfer values and accrued benefits for each director; accrual rates for directors and employees, and an explanation where these differ; normal pension age for directors and employees, and an explanation where these differ.

- For DC schemes: contribution amounts for each director and average contribution amount for employees; contribution rates as a percentage of salary for each director and average contribution rate for employees, and an explanation where these differ.

- Cash in lieu of pensions: amounts and percentage of salary for each director.

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?

Yes	No
Yes but a wider range of expenditures should be included to provide greater context	

Comments
We support the thinking behind this proposal, but propose that other key expenditures, such as dividends, tax, total staff costs and investment should

also be included. We would draw the Government's attention to the proposal of the High Pay Commission that companies should be required to produce a distribution statement, which would show percentage changes in spending on key areas over three years. Our concern about the proposal as it stands is that companies could be encouraged to boost short-term profits to make the pay percentage look smaller; this would be less of an issue if expenditure on items such as dividends, tax and investment were also included. We also believe that it would be useful for investors and other stakeholders to see how expenditure on directors' remuneration compares to key company expenditures such as investment and dividend payments.

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 procedure for setting directors' remuneration?

Yes	No
Yes	
Comments	
We agree that the total fees paid to remuneration consultants should be disclosed, but believe that this proposal will be insufficient to tackle the problems of conflicts of interests of remuneration consultants. The TUC believes that the cross-selling of services by remuneration consultants should be prohibited. The TUC believes that where remuneration committee members sit on other company remuneration committees, this should be reported.	

Question 27

Do you agree that company law and the Listing Rule disclosure requirements on remuneration should be made fully consistent?

Yes	No
Comments	

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?

Yes	No
Comments	

Question 29

Do you agree that 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 the 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.

Yes	No
	No
Comments	
We do not agree that the current regime for audit of narrative reports is sufficient. One of the major problems with narrative reports is their patchy, inconsistent nature and poor quality. Given these problems, the TUC believes that it is appropriate to apply an appropriate verification or audit regime for narrative reports. Unless a way is found of improving the quality and reliability of narrative reports, the danger of them presenting over-rosy and misleading information will remain. The key benefits would be reliability of information in narrative reports, enabling investors and other stakeholders to base their decisions on them with confidence. In terms of implementation, there could be an argument for staging audit of narrative reports in relation to other reforms. For example, the TUC believes that it would make sense to bring a statutory reporting standard into force	

before bringing in a requirement for audit of narrative reports, to allow a degree of best practice to emerge before narrative reports are subject to a statutory audit process.

Question 30

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

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<tr><th>Yes</th><th>No</th></tr>
<tr><td>Yes</td><td></td></tr>
<tr><th colspan="2">Comments</th></tr>
<tr><td colspan="2">The TUC believes that it would be beneficial for stakeholders to be consulted on what they regard as the key impacts of the company on their stakeholder group, and whether they regard the company’s statements on this in their narrative reports as fair. For example, companies should consult with their workforce through their trade unions on key information on employment issues to include in narrative reports and whether statements on these issues are fair, with the results included in the relevant section of the report.

In addition, as mentioned above, we believe that the introduction of a statutory reporting standard would help to make an audit process more straightforward and would encourage the development of best practice in relation to narrative reports.

In addition, we would argue that it is wrong to look at the costs of verifying information without also examining the costs of not verifying information and commensurately the benefits of verification. We therefore reject an assessment of verification that looks only at the immediate costs of the verification process without comparing this with the costs of inadequate or misleading information continuing to be reported.</td></tr>
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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?

Yes	No
Yes	
Comments	

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.

Yes	No
Comments	

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 high-level and principles-based or more detailed and specific?

Yes	No
Minimum compliance requirements	
Comments	
The TUC is very doubtful that case studies and examples of best practice will on their own drive up reporting standards. As additions to minimum compliance requirements, they can add value and in particular provide guidance to companies on implementation. The state of company narrative reporting is characterised by some examples of good practice followed by a long tail of weak practice. The TUC strongly believes that minimum reporting requirements are the only way to bring weak reporters into line with what is required in narrative reports. Best practice examples and case studies alone do not provide sufficient clarity to	

companies of what it is that they need to report.

There is a strong need for comparable and reliable information in narrative reports, and setting out clear and detailed guidance on what reports should contain will make it easier for companies to produce high quality reports. Flexibility can be ensured by allowing companies to report according to the standards on a comply or explain basis, so that if companies believe that a particular item is not relevant for them they can simply explain why.

As argued above, the TUC believes that it is essential that the changes that the Government is planning to introduce are thoroughly reviewed after three years to review the impact on quality and reliability of narrative reporting.

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 that is necessary for your requirements.

Yes	No
	No

Comments

The TUC believes that a statutory reporting standard is necessary to improve the currently low quality of company narrative reports. The current reporting standard, which is voluntary, is rarely referred to in narrative reports and appears to have had little influence on the quality of reporting. Without a statutory reporting standard, the TUC is concerned that improvements in the quality of narrative reporting will remain illusive.

As the consultation document itself notes, there is a need for information in narrative reports to be comparable and this is much easier to achieve with a statutory reporting standard.

The Accounting Standard Board's own analysis of compliance under the current regime found that 66% of companies needed to improve their reporting of risks in order to meet the spirit of the requirements; 32% of companies did not include any non-financial KPIs, despite the explicit requirements on this in the Companies Act 2006 and were therefore non-compliant on this; and 52% and 58% of companies were non-compliant with either the letter or spirit of the law in relation to reporting a fair review of the business and business strategy respectively[8]. These figures do not suggest

[8] Financial Reporting Council, Rising to the Challenge, 2009

that the voluntary reporting standard is being successful in terms of promoting widespread adoption of high standards of narrative reporting.

The TUC does not agree with the consultation document's assertion that a statutory standard will lead to boilerplate reporting, and indeed the document provides no evidence for this assertion. By this argument, there should be no statutory standards for company reporting, yet it is widely accepted that statutory accounting standards facilitate the production of reliable and comparable financial information by companies. There is no reason to assume that the impact of statutory standards will be different in the case of narrative reporting.

One of the key differences between the Business Review introduced in the Companies Act 2006 and the original proposal for an Operating and Financial Review (OFR) was that the latter proposal included a statutory reporting standard. The TUC finds it hard to see how the Coalition Government's commitment to reinstate the OFR can be met without the introduction of a statutory reporting standard.

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?

Yes	**No**

Comments
The TUC believes that an effective monitoring and enforcement regime for company narrative reporting is essential if the weaknesses in current practice are to be addressed. We do not accept that the current regime is adequate, as evidenced by the ASB review of narrative reports referred to in our response to question 34. In our view, it is not so much the remit as the practices and resources of the FRRP that need to be changed. We believe that the resources of the FRRP in particular should be increased to allow it to take a more active approach to enforcement. We also believe that the FRRP should develop a more proactive approach to monitoring and enforcement in consultation with stakeholders, and should do much more to publicise its role. It is essential that a clear process for complaints is developed and publicised, to enable stakeholders to feed in

their concerns about inadequate or misleading reports.

Without an independent audit or verification process for narrative reports, an adequate monitoring and enforcement regime becomes even more essential to promote the reliability of information in narrative reports.

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