CIPD

Championing better work and working lives

Non-Financial Reporting Review: Call for Evidence

Response to the UK Department for Business & Trade by the Chartered Institute for Personnel and Development (CIPD)
16 August 2023

About us:
We are the professional body for HR and people development. We've been championing better work and working lives for over 100 years.

We help organisations thrive by focusing on their people, supporting our economies and societies. We're the professional body for human resources, learning and development, organisation development and all people professionals – experts in people, work and change.

With almost 160,000 members globally – and a growing community using our research, insights and learning – we give trusted advice and offer independent thought leadership. And we are a leading voice in the call for good work that creates value for everyone.

We are an association representing HR professionals (preparers) which also conducts research (user).

PREPARERS

How valuable is the preparation and/or disclosure of non-financial information for the effective running of your company?

Overall, the information is useful. As a medium-sized organisation with a predominantly female workforce, we see significant fluctuations in our reported gender pay gap – small changes in our staff profile have a significant impact.

What challenges, or costs, if any, does the preparation, disclosure and distribution of non-financial information create for your company?

To what extent do the Companies Act non-financial reporting requirements align with other regulatory requirements your company might be in scope of?

The CIPD operates in the UK, Ireland, the Middle East and Singapore. CIPD Ireland is therefore subject to EU regulations, potentially including EU sustainability reporting standards.

USERS

How, if at all, do you use non-financial information?

We use non-financial information for research as an association; for example, we recently conducted a study of HR expertise on UK boards, which involved reviewing company annual reports and websites.

We found that only 25% of FTSE 250 boards had HR expertise, but that all boards had financial expertise, not only among the non-executive directors but also that 99% of boards included the CFO as a member. So we found that boards are strong on financial expertise, but not strong on non-financial expertise such as HR, people skills and emotional intelligence which are likely to assist with understanding the societal impact of the company's activities on its external environment and awareness of EDI, etc.

We also conduct studies of gender pay gap disclosures to understand the current state of reporting and best practice and to make recommendations to our members.

We have done other studies looking at how HR professionals use non-financial information which may be of interest to DBT below:

1. How do companies report on their 'most important asset'?: **An analysis of workforce reporting in the FTSE 100 and recommendations for action**[i] **(CIPD, 2022)**

This research found that, according to an analysis of annual reports, the quality of workforce reporting in the FTSE 100 remains inadequate. For example, only one-third (33%) reported recruitment data, just 6% reported the cost of hiring contingent workers and a mere nine companies reported their ethnicity pay gap. Only a minority of firms provide data on skills investment, 37% reported their number of apprenticeships, 35% disclosed hours of training and 16% disclosed the cost of training. There is also inadequate reporting on health and wellbeing; for example, only 13% of FTSE 100 companies discussed mental wellbeing in relation to health and safety or risk assessments.

The research – conducted in partnership with the PLSA and Railpen – showed that, while there have been some improvements in disclosure, the quality of this reporting remains low in many cases, making it challenging for stakeholders such as investors to assess the working practices and culture of an organisation. We continue to see instances of poor employment practice, an overall decline in employer investment in workplace training and plateauing productivity. The current UK labour shortage also clearly illustrates why organisations need to focus on pay and conditions.

Workforce reporting is key to responsible business practice. Improved reporting, showing how organisations manage and develop their people, not only proves the value they place in their workforce but also provides crucial information on how effectively they are addressing other ESG issues.

2. Effective workforce reporting**: Improving people data for business leaders**[ii] **(CIPD, 2023)**

The CIPD has published detailed research on how organisations use non-financial reporting. Our effective workforce reporting research from February 2023 draws on survey data and conversations with business and HR leaders to explore how they use people data and reporting, the importance they place on this and how workforce reporting could be improved.

The CIPD believes that organisations are unlikely to perform well over the long term unless decisions taken at executive management and board level are informed by an in-depth understanding of the value of their people, as well as the potential risks associated with their workforce.

Workforce data – how it is collected, analysed and reported on to the most senior level of the business – is a critical part of this. Given a rise in external reporting requirements around people matters, it is more important than ever to understand how organisations value and use people data to influence investment decisions and identify areas for improvement.

Key findings:

- The importance of non-financial metrics to businesses has increased in recent years and looks set to grow further in future.
- Recruitment, retention and pay are current priority people issues for business leaders, potentially crowding out other areas due to the external climate.
- Employee engagement surveys are the most common way of gathering employee voice, with other mechanisms like advisory boards less commonly used.
- People issues are most commonly discussed at the main board level, although only 12% of boards discuss people matters at every meeting.
- A significant gap exists between data that is collected and data that is reviewed, leading to concern from HR leaders that too much information is collected without a clear aim or outcome, and that it is not being used for business decision-making.

Leaders' dissatisfaction with the people data they receive is linked to lack of context and data being too narrow, meaning they're not receiving a holistic picture of the impact that people information is having on business outcomes. However:

- fewer than half of organisations surveyed collect data on recruitment and retention, workforce diversity, employee health and wellbeing or training and development.
- There's a significant gap between the data collected and that reviewed by senior management, let alone boards, or reported to shareholders.

3. People analytics **(CIPD, 2022)[iii]:**

This report found that too few organisations use HR/workforce data and analytics to help inform strategic decisions about how they invest in, manage and develop their workforce in order to deliver on their business strategy. This is partly because people analytics is an emerging discipline in the people profession. It uses 'people data' captured in HR and business systems to inform the development of improvements and interventions that lead to enhanced HR and business outcomes.

CIPD research has highlighted several key issues and risks associated with people analytics practice today that are preventing the people profession from benefitting from the practice:

- The people (HR) profession is low in skills and capability, with gaps in data science, and statistical and numerical skills. The absence of these skills is preventing advanced analytical capability from being developed.
- People professionals lack confidence conducting mid-level and sophisticated analyses of people data. For example, only 21% of UK HR professionals state that they are confident with advanced techniques like predictive analytics. There is evidence of 'unlocked skills' in the profession.

- HR functions lack credibility with regards to statistical and numerical skills and capabilities. Only 36% of finance professionals agree that HR has demonstrable numerical and statistical skills, and only 37% believe their HR function demonstrates expertise in people data.

To address this, the CIPD is prioritising building capability among HR practitioners to analyse and use workforce data to inform investment decisions and support the delivery of business strategy. We do this through our professional standards, training courses, conference programmes and guidance.

We also published thought leadership on technology and data use in HR functions which asks whether companies are investing enough in HR data systems?[iv]

Separate research from the CIPD found that 46% of people professionals said their organisation did not collect any data in key areas such as skill gaps within the organisation and sector, future skills requirements, and the availability of talent in the market.

4. **Hidden figures: How workforce data is missing from corporate reports (CIPD, 2018)[v]**

This CIPD research in 2018 found that:

- workforce reporting in FTSE 100 organisations' annual reports increased by 9% between 2015 and 2017, a much smaller increase compared to the 19% increase seen between 2013 and 2016 when the CIPD first analysed FTSE 100 workforce reporting
- the most commonly reported workforce issues were talent management, succession planning and employee turnover
- only 12% of FTSE 100 firms reported their perspectives on skills shortages and only 21% reported on skills gaps
- apprenticeships (64% more reporting), employee wellbeing (+76%), entrepreneurship (+28%) and talent management (+26%) all saw increased levels of reporting between 2015 and 2017
- internships (32% less reporting), commitment (-31%), flexibility (-30%) and employee engagement (-21%) all saw decreased levels of reporting between 2015 and 2017.

Which types of non-financial information are the most useful and/or which are the least useful?

We focus on the social information within non-financial information, particularly workforce disclosures.

Information which is not supported by meaningful evidence and data is not as useful. Information which can provide insight on inclusion and diversity can help stakeholders to understand important aspects of organisational culture and potential risks. In recent years, there has been a lot more disclosure around gender equality in particular, which makes it easier to analyse the information provided, and allows investor advisory firms to analyse and compare the information across sectors and across countries; see, for example, reports by Equileap[vi], which reported earlier this year that: "*The top five companies for gender equality this year are Australian property developer Mirvac with a score of 79%, followed by Diageo (UK), Medibank (Australia), and Allianz (Germany), all scoring 75%, and UBS (Switzerland) with a score of 74%.*"

It is difficult to categorise information as the most useful or the least useful without also specifying the purpose for which we want to use the information. Broadly, workforce data which can highlight how organisations can generate value or manage people-related risks is likely to be useful. We believe that the information most likely to be relevant to value creation is that around skills and productivity, which is, however, probably the least developed. Information which can highlight a link between input data, such as staff training, and output data, for example customer satisfaction or improved financial outcomes, is particularly valuable. We provide further comment on this below.

Which types of non-financial information are the most useful and/or which are the least useful?

Least useful:
Information which is not supported by meaningful evidence or data has little value, except as a signal of management intent. There is also often duplication of social information in annual reports due to the current structure which can make analysing non-financial information more complicated than it needs to be. There is a case for a review of the structure of company reports to simplify and rationalise disclosure on non-financial information.

How easy or difficult is it to interpret non-financial reporting disclosures?
The information that we have found difficult to find for FTSE 250 companies is:

- information about senior management as opposed to the board: most listed companies include this information on their website; however, some do not
- workforce director or equivalent: the information is usually in the annual report and often on the website, but is less clearly labelled than committee membership so it is more time consuming to find
- statement of how the board is set up to meet the challenges ahead: there is usually disclosure of the skills and experience of the individual directors and an outline showing the skills across the board, but this team skillset is not necessarily matched to the challenges faced by the company (see our report on the value of people expertise on corporate boards)
- explanations regarding gender pay gaps: many companies included a narrative report in the first year, but the proportion of firms that provide this information has decreased since. We provide further details below
- as highlighted earlier in our response, the quality of disclosure on workforce information is inconsistent and generally poor across a range of areas including skills, employment relations, health and wellbeing, and EDI. This lack of consistency and comparability makes analysing and interpreting workforce-related data problematic
- social reporting in general is ‘bitty’ since the legislation itself is piecemeal.

How does non-financial information support your judgement in the following areas?

How the directors of the company have fulfilled their duties;

Annual reports include information on stakeholders, particularly the workforce, which is useful. They contain reports from senior management such as the CEO and CFO, sometimes from other C-suite members such as the CPO, CSO, or general counsel, and from the various board committee chairmen, which can lead to some duplication of information. On the other hand, it does make clearer what the various individuals or committees have done, which helps accountability.

The more difficult part is to tie the reporting back to its relevance to the success of the company, rather than merely providing statistics, but many companies now report against the UN Sustainable Development Goals or other international frameworks, which helps with comparability, and with understanding performance against goals set. Given that more companies are reporting the success of the company across the triple bottom line of people profit planet, social reporting is more important now.

The performance of the company;

The CIPD believes that company performance is strongly linked to skills and productivity, with implications not only for the individual company but also for growth in the UK economy: see the extract below based on our report: Keep, E. (2023) An industrial strategy for the everyday economy. London: Chartered Institute of Personnel and Development.

"The business improvement organisation Be the Business (2021) argues that there are five interlocking factors that together lead to high-productivity organisations: management and leadership; technology adoption; training, development and human resources policies and practices; operational efficiency; and innovation and ideas.... policy currently only really targets technology adoption and innovation, and our efforts at supporting businesses to aim higher are limited in scope and ambition. This is in marked contrast to practices in other developed countries and needs to change if a high productivity economy is our goal.

"Besides the quality of management, the quality of employment opportunities in general matters. Job quality is an extremely important component in delivering real growth, prosperity and individual and community wellbeing (Cruddas, 2021; Goodwin et al, 2022; Institute for the Future of Work, 2021; Marmot, 2020). The US academics Rodrik and Sabel (2019, p5) have argued that "producing good jobs is a source of positive externality for society", and is central to helping less successful localities to improve their relative performance and outcomes...

"In the UK, there is emerging evidence that job quality and good jobs have a positive effect on productivity (Bosworth and Warhurst, 2022), and the linkages between job quality and mental and physical health have been known for a relatively long time, with Sir Michael Marmot calling, 10 years after his initial review on health equity, for fair employment and good work for all (Marmot, 2020; see also Institute for the Future of Work, 2021). There is also research that suggests that better job quality and flexible employment practices can help enable people with poor health, disabilities and caring responsibilities to enter and sustain employment (eg Roulstone et al, 2003; Yeandle et al, 2002). This suggests that policy-makers interested in welfare to work should increasingly be considering policies and approaches that seem to improve organisations' people management practices and job flexibility. This is particularly the case given the growing evidence that the current 'supply-side' benefits regime tends to drive people into insecure, low-paid and low-quality employment (Hoyes et al, 2022).

"The government's white paper on levelling up (HM Government, 2022a) argued that there is a set of mutually interlocking 'capitals' that act as the drivers for tackling poor economic performance and spatial inequality: 1 physical capital (infrastructure, plant and machinery, and housing) 2 human capital (the skills, health and experience of the workforce) 3 intangible capital (innovation, patents and ideas) 4 financial capital 5 social capital (the strength of communities, relationships and levels of trust) 6 institutional capital (local leadership, capacity and capability). The government also argued that all of

these need to be addressed in the round if progress is to be made, stating: "The engine of regional growth is a six-cylinder one" (HM Government, 2022a, p57)."

We therefore believe that the Department for Business & Trade should have a strong interest in the quality of social reporting and in encouraging improvements in reporting as a means to drive productivity and growth in the UK economy.

Other research published by the CIPD around this topic includes the following:

In August 2023, the CIPD published research on Improving UK management capability[vii]: According to experts quoted by *The Economist*, the UK's productivity gap with its leading competitors could, in great part, be due to differences in the quality of management. Analysis by the ONS found that management practices played a part in variations in productivity, and that people management practices – including performance reviews, managing underperformance, training and promotion – were the practices most connected to productivity.

In May 2023, the CIPD published research[viii] that highlights a link between the quality of people management and employee engagement, performance, health and wellbeing. Using the CIPD/YouGov UK Working Lives/Good Work Index 2022 surveys[ix], this report highlights how important it is that managers are equipped with the skills to manage and develop people effectively in order to support their health and wellbeing and to help boost employees' performance and commitment. Managers who treat people fairly and provide effective feedback and support, while also developing their staff and helping employees to work together, are likely to have happier, healthier and higher performing teams.

Our Good Work research explores job quality in the UK today and the factors impacting it, such as public sector discontent and the cost-of-living crisis. Our evidence suggests that, whilst job satisfaction in the UK is high, we're seeing a slow shift away from engaging and fulfilling jobs. We define 'good work' as work that:

- is fairly rewarded
- gives people the means to securely make a living
- provides opportunities to develop skills and a career and gives a sense of fulfilment
- delivers a supportive environment with constructive relationships
- allows for work–life balance
- is physically and mentally healthy for people
- gives people the voice and choice they need to shape their working lives
- is accessible to all.

Our latest research was published in June 2023 and is packed with practical guidance and includes two UK-wide reports, and three local reports (North of England, Wales and Scotland).

We are working with ACAS to look at the 'S' in ESG to further develop research into this area.

The company's future strategy, opportunities and risk;

Future strategy

Companies can use their annual reports to inform investors and other stakeholders of their value as an employer.

Companies that don't take equality, diversity, and inclusion (EDI) matters seriously are likely to fall behind in the war for talent. Investment in the workforce and upskilling existing employees is important for talent retention.

We know[x] that nearly two-fifths of organisations (38%) are increasing efforts to meet their talent requirements by developing more talent in-house. Upskilling existing employees is the most common response to recruitment difficulties (60%).

Upskilling/L&D

Learning and development is very relevant to a company's future strategy and opportunities. As highlighted above, not many companies report extensively in this area.

We have surveyed L&D professionals[xi] to understand how learning practitioners are contributing to continually changing workplace demands. We found that:

- addressing the skills gap is the number one priority for L&D professionals (29%)
- while L&D budget and headcount have increased over the past 12 months, 53% said their overall team workload has also increased.

Essential skills

Research from the CIPD, the Edge Foundation, and KPMG[xii] has shown that people with higher levels of essential skills experience have improved social mobility, employment, earnings, job satisfaction and life satisfaction.

UK employers need to take a more structured and cohesive approach to essential skills training (transferable skills such as communication, interpersonal, problem solving and self-management skills). This is not just about providing the training itself, but also about job design and performance management. Our research estimates that low essential skills cost the UK economy £22bn.

Job quality

In 2018, we conducted research[xiii] exploring the academic literature around the strengths and weaknesses of the existing measures of job quality, working from the assumption that, to fully understand the interrelationships between our economies and societies, we need a broader conception of good quality work and employment than the standard econometric measures give. The raw figures of how many jobs there are and what financial value they produce are quite simply not enough. As well as wellbeing at work, we can also look at employees' opportunities to progress and develop as professionals, job complexity and skills used, and employee voice. All these factors and more can be hugely influential in people's working lives. Part 1 reviews the academic literature on job quality, to both flesh out what we can understand by this strapline and propose a usable and meaningful approach to measuring job quality. Part 2 reviews existing measures of job quality, highlighting strengths and weaknesses.

Opportunities

Innovation: Working practices are very relevant to innovation and thus to company opportunities (see Eurofound and Cedefop (2021), Innovation in EU companies: Do workplace practices matter? European Company Survey 2019 series, Publications Office of the European Union, Luxembourg).

This found inter alia that: "*Establishments where management facilitates employees to work autonomously and where self-directed teams are prevalent are more likely to innovate in their market than workplaces where the predominant model is one of managerial command and control. The case studies of innovative companies suggest that, where workers have autonomy in their jobs, they are more likely to propose suggestions for new products and services and process improvements.*"

"Establishments that offer comprehensive training and learning opportunities are more likely to innovate than those where the scope for skills development is limited. The case studies suggest that innovation is supported not only by training from external providers, both formal and non-formal, but also by internal non-formal and informal learning facilitated through work organisation practices and job design ('non-formal' meaning intentional, structured training that does not necessarily lead to formal qualifications)."

"*Collaboration with other establishments is positively associated with innovation in companies. Evidence from the case studies shows that companies tap into their large networks of collaborators, experts and customers to develop new ideas and to stay up-to-date with new technologies, services, products and processes."*

Better reporting on workforce issues should therefore enable investors to better understand the innovation and growth potential of companies.

People risks

A lack of people expertise on boards

Despite growing expectations for competence around people issues to help with challenges such as closing the skills gap, attracting, and retaining talent, EDI and workforce mental health, our research shows that the majority of UK boards lack directors with people expertise. In all, 99% of boards have a chief financial officer or a finance director among their executive directors, but just 2% have an HR director at this level, and only 25% have a non-executive director with HR experience.

Many of the key challenges facing companies relate to people issues; however, there is often a significant mismatch between the skills and knowledge of UK boards and those needed to understand the main people-related risks facing organisations.

This 'people insight' deficit also means that many organisations fail to fully recognise the value creation potential of their workforces, reflected by falling levels of investment in workforce training and disappointing levels of productivity growth in the UK. Several of the main challenges around organisational performance come down to people management, including closing skills gaps, talent attraction and retention, EDI, and workforce mental health.

However, the majority of UK boards lack directors with a professional background in HR and people development, which would not be seen as acceptable for financial expertise – indeed the UK Corporate Governance Code has required recent and relevant financial experience on audit committees. The end result, as the evidence in this report shows, is that, while 100% of FTSE 350 company boards have members with finance or accounting backgrounds, only a quarter have a member with professional HR experience. Many chairs, senior independent directors, nomination and remuneration committee chairs also have financial backgrounds. There is even a lack of HR representation on remuneration committees (23%) and nomination committees (20%), despite these both being focused on the key people issues of reward and talent.

The report highlights common errors that CPOs see board members making, such as:

- an overconfidence/a lack of understanding of people issues
- an overfocus on the financial skillset
- an 'over-enthusiasm' around employee engagement
- a lack of emotional intelligence
- a lack of awareness/discomfort around EDI.

A lack of people expertise in senior management

There is a question around a lack of HR expertise in senior management teams as well as on boards. CIPD research has found that:

- 12% of FTSE 250 companies or one-eighth do not include HR expertise in their senior management team
- 20% of FTSE 250 companies or one-fifth do not disclose the members of the senior management team on the company website, so it is difficult to tell whether or not the team includes HR expertise
- only 68% of FTSE 250 companies definitely include HR expertise in their senior management team, although the actual figure may be higher, given that 20% is unknown.

Sexual harassment[xiv]

Corporate failings such as sexual harassment and other forms of discrimination, bullying, and poor working practices, can lead to serious reputational damage if not recognised by senior leaders.

Researchers have found that "*The average effect of a sexual harassment scandal is significantly negative and robust, with around 1.5% abnormal decrease in market value over the event day and the following trading day.*"[xv]

Serious incidents of sexual harassment can lead to existential challenges for organisations[xvi].

Reward/turnover: CIPD/Omni survey[xvii]

CIPD research shows that many companies are not fully aware of the costs involved in workforce risks, which means that they are not in a position to act on them or to report on them. For example, a survey by the CIPD and Omni found that only 17% of companies surveyed were calculating the cost of labour turnover.

The costs of turnover, however, are extremely high: builtin[xviii] estimates that "*losing an employee can cost a company one half to two times the employee's salary. Depending on the individual's level of seniority, the financial burden fluctuates. For hourly workers, it costs an average of $1,500 per employee. For technical positions, the cost jumps to 100 to 150 percent of salary. At the high end, C-suite turnover can cost 213 percent of salary*".

Better reporting on workforce risks could enable investors to better understand the potential risks faced by the company, the ways in which the company is seeking to mitigate those risks, and how well its approach compares to its competitors. However, even before that, better reporting would force companies to better understand and manage their own risks, which should in turn improve their performance.

The company's approach to societal issues such as modern slavery and the gender pay gap;

Gender pay gap: Narrative reporting

The CIPD has conducted an analysis of company reporting on the gender pay gap[xix] and we found that:

- in the first year of reporting on the gender pay gap, 74% of employers that had submitted their gender pay gap data also gave a weblink to a narrative explaining their figures and any plans they might have to create a more equal workplace
- by 2022/23 however, this proportion had slumped to 56%, possibly indicating that some employers no longer feel the need to justify their figures or actions. Further analysis can be found at: Gender pay gap reporting: Where's the story? | CIPD[xx]

The CIPD favours additional mandatory reporting requirements for large companies to include narrative reporting on the gender pay gap.

Whether or not to invest in a company - please consider the types of non-financial information that is most and least useful, and how it compares to other factors or information in your response.

According to research by the Financial Reporting Lab[xxi] (FRL), investors are seeking to understand the composition of the workforce and whether the board views the workforce as a strategic asset, how value is maintained and risks mitigated.

To aid investor understanding, the FRL recommends that companies should therefore report:

• the oversight of workforce-related matters, including how the board engages with the workforce and what impact the board's consideration of workforce matters has had on strategic decisions
• who the company considers its workforce to be (including total headcount, demographics and employment composition, such as direct employees, contractors and/or others in the supply chain)
• how each aspect of the workforce creates value for the organisation and what opportunities there are to grow that value, including how the workforce model links to the business model
• the risks and opportunities related to the workforce, how the company is responding to these, how the risks were identified and where they are in the business, including health and safety metrics
• how the desired culture is being driven from the top including how 'buy in' has been achieved from the workforce and how culture and values help achieve the strategy, including employee engagement retention and turnover (both planned and regrettable), values being applied in the working environment, other measures of culture that the company monitors, and how the company is enhancing and incentivising its workforce to deliver value. This should include information about remuneration and other benefits, training, and development progression.

In addition, potential employees may review the company website and annual report when deciding to which companies to apply, or when preparing for interview, to get a feel for the culture and business model of the company, and likely future career prospects.

CIPD research published this year[xxii] found that addressing skills and/or labour shortages was cited by business leaders as their number one organisational challenge, with employee health and wellbeing coming in at number four, behind inflation costs and wage inflation. This suggests organisations should publish information on workforce planning, talent management and training and development and on outcomes where this data is available. They should also publish information on their strategy and policies to support and manage staff health and wellbeing and their effectiveness.

The CIPD also believes that organisations should publish information on the equality, diversity and inclusion of their workforce. An inadequate focus on diversity and inclusion can indicate that an organisation is failing to identify talent effectively and without bias, and also raises reputational risks, for example in relation to discrimination or harassment[xxiii].

Other societal issues

More financial analyst reports have covered social issues since before the pandemic: MSCI reported[xxiv] that over 50% of financial analyst reports on listed companies in the second quarter of 2020 had dealt with social issues, as these were the most likely to impact company valuations.

Inequality reporting: Ethnicity pay gap reporting

The CIPD favours mandatory reporting (both statistics and narrative) on the ethnicity pay gap. For more information, see: Ethnicity pay reporting: a guide for UK employers | CIPD

Inequality reporting: Disability reporting

We support the DWP best practice reporting on disability. For more information, see Disability & Employment | Factsheets | CIPD and Disability Workforce Reporting | Policy consultation | CIPD.

Our last survey in April 2022 found that 77% of employers surveyed did not collect any disability information, while only 5% collected and published data including pay gaps.

Health and wellbeing at work

CIPD research[xxv] in 2022 found that most organisations were taking additional measures to support employee health and wellbeing in response to COVID-19, most commonly through providing more tailored support to address individuals' needs and concerns (81%), an increased focus on employees' mental health (81%), and new or better support for people working from home (72%). Fewer (26%) provides guidance/training for line managers on how to support people to stay at work when managing health conditions, while half of organisations (51%) took a strategic approach to employee wellbeing. These organisations are far more likely to report a number of positive achievements from their activity, at both the individual and organisational level.

Fewer than two-fifths (38%) of HR respondents agreed that managers are confident to have sensitive discussions and signpost people to expert sources of help when needed; even fewer (29%) believed they are confident and competent to spot the early warning signs of mental ill health. This isn't surprising given that just over two-fifths (44%) of organisations are training managers to support staff with mental ill health. Finally, management style remains among the most common causes of stress at work.

Reporting on health and wellbeing can give insights into management practices and thus into the likely future prospects of the company.

Financial wellbeing

CIPD research has shown that financial and related mental health issues are affecting a significant and growing proportion of the workforce[xxvi], negatively impacting employee wellbeing and performance[xxvii]. Employees not only need, but now also expect, this support from their employer.

The business case for improving employees' financial health is clear: those who experience money worries are more prone to absence from work. Financial distress relates to health issues, including dysregulated production of the hormone cortisol, key to dealing with stress, and self-reported health. In turn, these can influence performance, absenteeism and presenteeism, in which employees attend work but, because of health problems or other personal issues, don't perform to their usual standards.

Many companies have reported on what they have done to help employees manage the cost-of-living crisis.

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What changes, if any, would you like the UK Government to make to the current legal requirements for companies to prepare non-financial information, and why?

The CIPD believes that the UK needs a strategy for non-financial reporting which sets out what we want to achieve and why. This should include a clear focus on workforce reporting given that the effective recruitment, management, development and retention of the workforce is critical to companies meeting their environmental goals[xxviii], to achieving social responsibility and to [xxix]effective organisational governance[xxx]. A clear goal of such a strategy should be to provide more consistency in how organisations report on their workforce.

It should also seek to rationalise how information on the workforce is reported so it is not duplicated in different parts of an annual report, as currently happens. Reviewing the current format of annual reports could be one way of reducing the reporting burden.

Information on the workforce should be underpinned by a consistently used narrative framework which clearly articulates an organisation's people strategy and how it is supporting the wider business strategy and sustainability goals.

Future legal requirements for workforce reporting should be aligned with new human capital sustainability standards being developed by the IFRS for the International Sustainability Standards Board. The IFRS current consultation on its agenda priorities notes that institutional investors around the world increasingly seek information on human capital management in making investment decisions. It goes on to say: *"Although reporting on human capital is increasing, investors said they do not have information that is sufficiently decision-useful and comparable to evaluate."*

Besides better alignment and consistency on the key workforce issues that organisations are expected to report on, there needs to be a focus on ensuring the information is presented in a more logical and accessible way than is typical currently. Consequently, there should be consideration of whether non-financial reporting related to an organisation's human capital should be covered in a single holistic people section of the annual report covering the workforce and supply chain.

We note that some annual reports now include a report from the chief people officer as well as the chief financial officer. It would be useful to seek feedback from investors on whether this makes the information easier to find and digest.

We would also highlight our recent report which finds that only 25% of FTSE 250 boards include HR expertise, which means that they may be less aware of EDI (equity, diversity and inclusion) issues and less skilled at social reporting.

Social reporting objectives could be for the directors to describe:

- how they manage people in their workforce, value chain and consumer base
- how the company provides healthy and inclusive work.

In principle, companies could be asked to describe their people strategy and create a people section of the annual report, covering the workforce, supply chains and consumers. Many listed companies are already doing something similar.

UK non-financial reporting strategy should also consider:

- what is best placed in legislation, where we want all companies to comply
- what is best placed in the UK Corporate Governance Code to comply or explain, which may be better placed to manage experimental new disclosures to see what works
- what is best placed in listing rules (FCA Disclosure and Transparency rules) for companies with quoted securities
- what is best placed at international versus UK level
- why for each.

For example, initial disclosures around gender and ethnic balance on boards were placed in the UK Corporate Governance Code, which made sense at a time when the disclosures were new and experimental. However, over time, investors expected all (listed) companies to disclose this information, which meant that the FCA rules were a more logical place.

We do need to consider the reporting burden on companies, and what is possible for smaller companies. It may be that some of the reporting on governance could be cut out of the annual report and moved to the company website, or possibly included in a more detailed governance report for the governance analysts instead, especially information regarding committee process/meetings and directors' external appointments.

We would hope to see both Green and White Papers to explore how this might be done.

Company law provides the rules for companies to disclose information in their annual report and accounts, as well as for shareholders' rights, especially the right to vote at general meetings for the resolutions and for the appointment of directors. Given that investors/financial intermediaries also need to disclose information to their end investors, there needs to be some alignment between company and investor reporting and more discussions between companies and investors, facilitated by government (HMT and DWP as well as DBT and FRC).

Thinking about the future of your organisation and the UK's transition to a net zero economy, what changes, if any, do you think may be required to the type of non-financial information produced to guide decision making, and why?

As stated above, there should be a clear strategy developed for non-financial reporting and its objectives, including the aim to achieve net zero in climate. This would need to consider and highlight the sometimes underweighted importance of workforce issues that are essential to the transition to net zero operations[xxxi].

This should include key people-related elements such as workforce planning and upskilling, and organisational change where major transitions are required.

The CIPD's net zero report[xxxii] found that the key areas for human capital management in relation to the transition to net zero are likely to be:

- organisational change
- workforce planning
- upskilling the workforce (and sometimes supply chains).

Organisational change[xxxiii]:
CIPD research shows that most change initiatives fail to get their intended outcomes and may even limit an organisation's potential and its people. The complexities and difficulties of delivering change are well established, with failure rates frequently cited as high as 70%. Failure to introduce effective change can have a high impact: loss of market position, removal of senior management, loss of stakeholder credibility, loss of key employees, and reduction in employee engagement and motivation. People factors that may lead to failure include lack of trust, communication, fear of loss of control, threat to status or competence.

Workforce planning[xxxiv]:

- 'Hard' workforce planning is about numbers: predicting how many people with what skills are likely to be needed. In recent years, using basic numerical or statistical data has become embedded in management information systems to help understand cause and effect of certain phenomena. Metrics alone are not enough however, and they need to be analysed and understood in context.
- 'Soft' (or strategic) workforce planning is about defining a strategy or developing a strategic framework within which information can be assessed. With an increased emphasis on agility and responsiveness, there's a growing realisation that good-quality management information set within such a framework is the key to identifying and maximising performance drivers. This approach gives managers the opportunity to consider a range of possibilities before reaching a stage where they are forced into action by circumstances.

Company reporting is still at an early stage in this area.

Upskilling
Microsoft President Brad Smith has stated that[xxxv]: *"We have to move very quickly to start to bring our emissions down, and* ***the ultimate bottleneck is the supply of skilled people****".*

We comment further on skills above.

The CIPD has produced guidance for our members on how organisations can help tackle the climate crisis[xxxvi] and case studies[xxxvii] for members.

There are likely to be implications for company health and safety via:

- increased heat, with implications for how work is carried out (for example, the FT reports that one-third of England's healthcare facilities will be at risk from heatwaves by 2050)[xxxviii], while the IPCC report states that: "*In all regions increases in extreme heat events have resulted in human mortality and morbidity. The occurrence of climate-related food-borne and water-borne diseases* *and the incidence of vector-borne diseases have increased. In assessed regions, some mental health challenges are associated with increasing temperatures, trauma from extreme events, and loss of livelihoods and culture. Climate and weather extremes are increasingly driving displacement in Africa, Asia, North America, and Central and South America…*"

- flooding of offices/working areas/employee and supplier homes with implications for long-term workforce planning. (The IPCC report states that: "*Due to relative sea level rise, current 1-in-100 year extreme sea level events are projected to occur at least annually in more than half of all tide gauge locations by 2100 under all considered scenarios.*"[xxxix]
- water scarcity impacting offices/homes, with implications for long-term workforce planning. The IPCC report states that: "*Climate change has reduced food security and affected water security... Roughly half of the world's population currently experience severe water scarcity for at least part of the year due to a combination of climatic and non-climatic drivers".*

Organisations need to plan for different scenarios as set out in the IPCC reports: what would be the implications of a 1.5%, 2.5%, 3.5% or 5% change in temperature on current ways of working? What would be the impact of a 1m, 2m or 5m increase in sea levels? What would be the impact of extreme weather events once every two years rather than once every one hundred years?

We know that there is an emotional impact of climate change on individuals: the Financial Times[xl] reports that: *"A growing segment of workers is concerned about environmental issues, presenting bosses with a host of new challenges: from supporting employees with climate anxiety, to how to hire and retain eco-conscious staff."*

HR has a role to play in managing employees' engagement at work and in training managers to manage the tensions between different points of view on how best to manage the climate transition.

How should the standards being prepared by the International Sustainability Standards board (ISSB) be incorporated into the UK's non-financial reporting framework?

On social reporting, it is still too early to say much about the detail of any reporting standards at international level. We note that the UK has stated that it will adopt the International Sustainability Reporting Standards from the IFRS Foundation/International Sustainability Standards Board (ISSB).

We will feed our views into the current ISSB agenda consultation, but we note that the consultation asks for views on prioritisation of the following areas of social reporting:

- worker wellbeing (including mental health and benefits)
- diversity, equity and inclusion
- employee engagement
- workforce investment
- the alternative workforce
- labour conditions in the value chain
- workforce composition and cost
- human rights (modern slavery, child labour, supply chains).

The question for prioritisation is again: what are we trying to achieve? The answers may be different depending on whether you prioritise a pragmatic approach of building the standards which are easiest for companies to meet, in which case policy makers might start with workforce composition and cost. If the aim is to focus on those standards which might have the greatest impact on company performance and sustainability, the focus may be in workforce investment, including skills and employee engagement, first. However, from the perspective of a company which has not reported before on workforce matters, it might be difficult to start from here.

European sustainability standards under the Corporate Sustainability Reporting Directive will ask companies to report against:

- their own workforce
- workers in the value chain
- affected communities
- consumers and end users.

These standards will apply to any company with at least one large or listed EU subsidiary, or at least one branch with a net turnover of €40 million in the EU, that has also generated a net turnover of more than €150 million on the European market in the last two consecutive financial years. So UK companies with EU operations may also be affected.

Reporting will be subject to double materiality: both financial materiality (how the sustainability matters affect the company) and stakeholder materiality (how the company affects the external world). We note that the EU has attempted to bring its standards into line with the ISSB approach in order to reduce the reporting burden on companies by ensuring consistency between the different standards.

The ‘Social’ standards assess how a business treats and protects its employees, suppliers, customers and the public by considering:

- human capital including investment and skills
- working conditions including health and safety, employment rights and employment relations
- diversity, equity and inclusion
- customer satisfaction, product safety and data protection
- human rights and local communities.

To what extent do you agree or disagree that current size and company type thresholds for non-financial reporting information could benefit from simplification?

The Companies Act 2006 sets out size categories for UK companies that determine the type of accounts that need to be prepared and filed with Companies House.

2 of 3 out of:	Micro	Small	Medium	Large
Annual turnover (£)	≤632k	≤10.2m	≤36m	Any company not meeting medium threshold
Balance sheet total (£)	≤316k	≤5.1m	≤18m	
Average number of employees	≤10	≤50	≤250	

Do these size thresholds remain appropriate?

There would need to be a comprehensive review to establish whether size categories for reporting purposes need to be changed. This might involve:

- reviewing annual reports across different sizes of company to see what the current state of play is
- interviewing business leaders from different sizes of organisations on the challenges and benefits of reporting non-financial information and whether there should be any changes
- interviewing company secretaries and investor relations teams on their views on whether changes should be made to current size and company type thresholds for non-financial reporting information

- interviewing HR directors/chief people officers across different types and sizes of business regarding social reporting and particularly workforce reporting.

Do you have any other comments that might aid the consultation process as a whole?

This call for evidence is very useful as a starting point for reflection; we would hope to see more fully researched proposals by way of Green and White Papers to inform future changes and improvements to non-financial reporting.

We would be very happy to organise discussions with our policy experts and our members on the topics above.

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[ii] www.cipd.org/uk/knowledge/reports/improving-people-data
[iii] www.cipd.org/uk/knowledge/reports/people-data-driving-performance/
[iv] www.cipd.org/uk/views-and-insights/thought-leadership/insight/technology-data-hr-functions/
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[xx] Ibid
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[xxiv] International Corporate Governance Network webinar, 9 July 2020
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[xxviii] https://www.theccc.org.uk/wp-content/uploads/2023/05/Skills-and-Net-Zero-Expert-Advisory-Group.pdf
[xxix] https://www.theguardian.com/commentisfree/2016/sep/06/the-guardian-view-on-sports-direct-a-business-fighting-for-its-social-licence
[xxx] https://www.frc.org.uk/getattachment/9fc6c466-dbd2-4326-b864-c2a1fc8dc8b6/FRC-Creating-Positive-Culture-Report_December-2021.pdf
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