Social Value Portal

UK Corporate Governance Code Consultation

Response from Social Value Portal

About Social Value Portal

Social Value Portal is a certified B-Corp company Social Value Portal that helps its customer procure, measure, manage and report social value via a single, easy to use, adaptable online platform. Our Our mission is to engage, enable and empower people and organisations to work together in the pursuit of social, economic and environmental wellbeing.

Social Value Portal was founded in 2014 and works with both public and private sector organisations.

General Comment: we welcome the fact that the proposed changes reinforce the inclusion of wider benefits to society as a criterion for the sustainable success of a business.

Full list of consultation questions

Q1: Do you agree that the changes to Principle D in Section 1 of the Code will deliver more outcomes-based reporting?

We can see the rationale for requiring a focus on outcomes (as opposed to, for instance, simply reporting activity volumes), but further guidance – whether or not this is within the scope of the Code itself - will be needed on defining outcomes (both in terms of content and timescales) for companies to be able to put this into practice.

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

Absolutely. Transition planning is critical. While many companies have clear goals, there is much less clarity on how to get there and the broader impacts of an economic pathway to a sustainable future.

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

The requirement to report on how effectively the desired culture has been embedded (2) will in itself be a significant cultural change for many organisations and will require an assessment that is both impartial and independent. Further guidance may be helpful and probably the best way to do this is to share the learning from early implementation.

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

We have no specific comment to make on this area.

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

We have no specific comment to make on this area.

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

We have no specific comment to make on this area.

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

This is a complex and evolving area, and there is a probable risk of unintended consequences, however the Code chooses to frame this.

The proposed new wording takes a broader approach than previously, but in so doing loses the clear signposting offered by the phrase "diversity of gender, social and ethnic backgrounds". The emphasis has also changed slightly, from "promote diversity" to "promote….inclusion of protected characteristics", which begs the question of where protected characteristics are to be included.

Arguably the phrasing has moved from supporting diversity to supporting a process that considers protected characteristics, which feels weaker.

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

Yes

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

We have no specific comment to make on this area.

Q10: Do you agree that all Code companies should prepare an Audit and Assurance Policy, on a 'comply or explain' basis?

Yes – the Code sets a standard for good practice, so it makes sense that while legislation only targets PIEs, all Code companies should prepare an AAP.

Q11: Do you agree that amending Provisions 25 and 26 and referring Code companies to the Minimum Standard for Audit Committees is an effective way of removing duplication?

We have no specific comment to make on this area.

Q12: Do you agree that the remit of audit committees should be expanded to include narrative reporting, including sustainability reporting, and where appropriate ESG metrics, where such matters are not reserved for the board?

Yes – this is an important step towards establishing robust and transparent standards for ESG reporting.

Q13: Do you agree that the proposed amendments to the Code strike the right balance in terms of strengthening risk management and internal controls systems in a proportionate way?

We have no specific comment to make on this area.

Q14: Should the board's declaration be based on continuous monitoring throughout the reporting period up to the date of the annual report, or should it be based on the date of the balance sheet?

The obvious danger of fixing the declaration at a point in time is that issues that arose during the reporting period but were resolved prior to the balance sheet date would not be reported on, although they may represent significant future risks. So it seems clear that the declaration should be based on continuous monitoring.

Q15: Where controls are referenced in the Code, should 'financial' be changed to 'reporting' to capture controls on narrative as well as financial reporting, or should reporting be limited to controls over financial reporting?

Yes – a narrow focus on financial reporting would be inconsistent with the principle established in the Code of taking into account wider social and environmental considerations and impacts.

Q16: To what extent should the guidance set out examples of methodologies or frameworks for the review of the effectiveness of risk management and internal controls systems?

This doesn't seem appropriate for the Code. Methodologies and frameworks are likely to evolve over time (particularly in respect of wider ESG factors). Examples therefore embed the risk of obsolescence in the Code and on the other hand are unlikely to be sufficiently comprehensive.

Q17: Do you have any proposals regarding the definitional issues, e.g. what constitutes an effective risk management and internal controls system or a material weakness?

Following the response to Q16, we would suggest that this is a level of detail that should sit outside the Code.

Q18: Are there any other areas in relation to risk management and internal controls which you would like to see covered in guidance?

No.

Q19: Do you agree that current Provision 30, which requires companies to state whether they are adopting a going concern basis of accounting, should be retained to keep this reporting together with reporting on prospects in the next Provision, and to achieve consistency across the Code for all companies (not just PIEs)?

Yes – this a fundamental reporting principle.

Q20: Do you agree that all Code companies should continue to report on their future prospects?

Yes – clearly future prospects are difficult to forecast and will this involve uncertainty, but it would not be consistent with the Principle A (which states that the role of a board is to promote "the long-term sustainable success of the company") not to report on future prospects. Further guidance on what factors to take into consideration might be helpful.

Q21: Do you agree that the proposed revisions to the Code provide sufficient flexibility for non-PIE Code companies to report on their future prospects?

The Code does not direct how future prospects should be reported on, so lack of flexibility does not seem to be an issue.

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

We have no specific comment to make on this area.

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

We have no specific comment to make on this area.

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

We have no specific comment to make on this area.

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

The ratio of executive pay to average employee remuneration and / or the gap between the best and least well remunerated employees in a company is perceived by some to be a major factor affecting perceptions of inequality and unfairness. A lack of transparency in this area is not helpful. So we would argue that these provisions should be strengthened, not removed.

Q26: Are there any areas of the Code which you consider require amendment or additional guidance, in support of the Government's White Paper on artificial intelligence?

Not at present. There is a need for more open and informed debate on AI before considering how provisions within the Code could or should be strengthened.

[redacted]

Social Value Portal

6th September 2023