This year's findings

Our review process

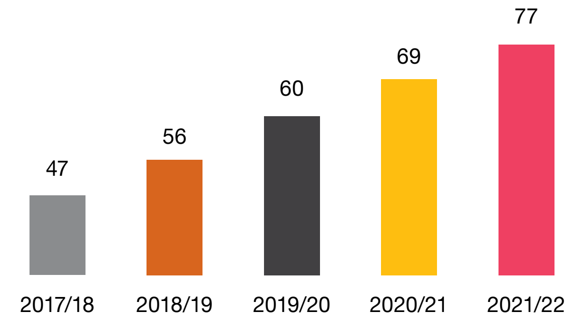
This is the 16th year in which we have reviewed the annual reports of all of the FTSE 350 companies, excluding investment trusts. Our process also supports the PwC Building Public Trust Awards (BPTA), which take place in the Autumn. This year, we reviewed 267 reports with years ended between 30 April 2021 and 31 March 2022.

We have set out below what we found. Overall, other than new ESG-related information and the resulting impact on the length of reports, the picture is of limited change year-on-year.

See what companies think of current reporting, as well as our practical suggestions for a new way forward in our four game-changers.

Length of strategic reports

The strategic report continues to grow in length (pages)



- The strategic report continues to get longer, with a 12% increase year-on-year and a 64% jump from five years ago.
- This is largely a result of how companies have dealt with incremental regulatory requirements, particularly around ESG-related matters, over a period of years.

Length of strategic reports

ESG matters continue to be added to the ever-growing strategic report...

26%

Is the average proportion of ESG content in the strategic report (up from 21% last year)

- Companies have added more and more ESG information into the strategic report, although this information often feels siloed and its strategic relevance unclear.
- If the information is materially relevant to a range of stakeholders – whether quantitatively or qualitatively – this makes sense. However, it should be made clear why the information is included – this is something that investors want to understand.
- Find out more about our findings on ESG and climate change reporting on page 15, including how important it is to integrate it with other reporting where possible – and particularly with the reporting on a company's core business strategy.

Quick win:

Sense-check whether existing ESG information is material and, if it is, ensure it is clearly explained why.

If it is not, consider whether an alternative channel would be more appropriate.

...a materiality assessment could help streamline this content

15%

Discussed a materiality assessment

- One way of evidencing why a topic is included in the annual report is through a materiality assessment, which is a technique applied and disclosed by only a small number of companies.

Reporting on strategy

Information on strategy, and the related strategic actions and targets, is limited...

42%

Of disclosures around strategy did not refer to a specific time period.

25%

Of those who did provide timeframes used one year (and the other periods used were much less common)

- Companies continue to provide limited insights into their future strategic direction, despite how important this is to understanding the business and the strategic report.
- The majority provide no indication of time period, or limit this to one year. In contrast, viability statements usually indicate strategic planning cycles of three to five years.

Quick win:

Sense-check here possible, include strategic timeframes and future actions and be mindful of how these compare with other disclosures that include timeframes.

...and companies seem to be more comfortable providing longer-term non-financial targets

24%

Provided quantitative targets for non-financial KPIs.

78%

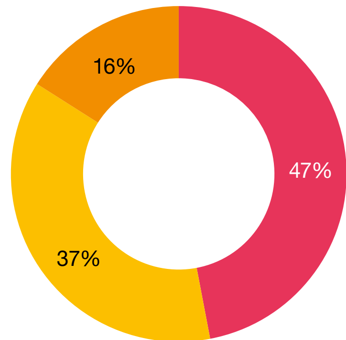
Provided a target to reduce carbon emissions by a date more than five years into the future

- For non-financial matters we found that plans and commitments can extend to decades, as seen in climate transition plans where carbon emission targets often go out to 2050.
- This raises questions as to why companies are happy to provide this information for some areas and not others, such as strategy.

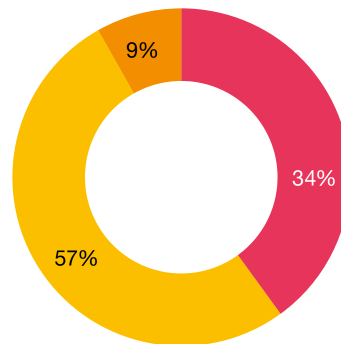
Reporting on strategy

Links between strategy, key performance indicators (KPIs) and risk are still not common

Linkages between strategy and KPIs



Linkages between strategy and risk



Key

- No link
- Use a symbol
- Provide a qualitative analysis

- The link between strategy and KPIs remains a challenge – there has been almost no change in reporting in this area year-on-year – and almost half of companies did not make the connection clear.
- In these cases the reader is left to determine why the particular KPIs have been chosen.

- This trend is also evident for principal risks, where the reader is left to draw their own conclusions as to why these risks have been selected or how they link to strategy.
- Symbols are often used to make links. These can be helpful to the reader, but overuse makes them hard to follow and less impactful.

Quick win:

Explain clearly the link between strategy and the principal risks and KPIs to ensure the strategic relevance is evident.

Risk and controls

Risk reporting techniques provide colour – but the details of the risks themselves still need to be made clear for this to be of value to readers

40%

Used an arrow to indicate how each principal risk's profile has changed

31%

Included a heat map

27%

Provided an idea of risk appetite on risk-by-risk basis

12%

Disclosed key risk indicators in relation to their risks

1%

Quantified the potential impact of the principal risks

- A number of disclosure techniques were commonly used in risk reporting to provide context to the principal risks. For example, the majority of companies used an arrow to indicate how a principal risk's profile had changed year-on-year. Similarly, a heat map was regularly used by companies to show how the principal risks track against their potential impact and likelihood.
- But the value of these disclosures is dependent on providing sufficiently detailed company-specific information on the principal risks themselves, and graphics often need further explanation to be properly understood.

Quick win:

Look again at the principal risk disclosures to ensure that they are company-specific, and consider whether using any of the techniques discussed opposite could enhance quality and understandability.

Risk and controls

The depth of information on emerging risks varies

30%

Provided a detailed view of what the emerging risks were

40%

Gave no indication at all

- Despite the ever-evolving macro-economic environment, less than a third of companies provided this detail and 40% provided no indication of what these risks were.

Quick win:

Check whether emerging risks are clearly identified and described in enough detail for the reader to be able to understand the potential implications for the business.

Risks relating to widely discussed social and economic issues are often not touched on

66%

Had no risk relating to keeping up with technological change

46%

Did not include labour shortages in their principal or emerging risks

54%

Did not include supply chain issues in their principal or emerging risks

- Risks will vary from company to company of course, but the number of companies not including risks on any of these topics is surprising.

Quick win:

Revisit principal and emerging risks to consider if there are any gaps with regard to risks related to employees, technology and suppliers.

Risk and controls

Company culture can be a key indicator of risk, but most culture disclosures are limited

77%

Described the ways in which culture was monitored

28%

Provided insights into what they did as a consequence

- The vast majority of companies provided an overview of how culture was assessed as per the UK Corporate Governance Code (the 'Code') – for instance through employee surveys or meetings with small groups of employees.

- It was much less common to find information on the conclusions that were drawn, or how culture was consistent with the established risk appetite. While culture can be difficult to articulate without resorting to platitudes, it can also be the difference between success and failure of a company.

Quick win:

Revisit culture disclosures for completeness on monitoring activities and outcomes.

Disclosures around the effectiveness of internal control vary considerably

9%

Provided detailed insights into the outcomes from the board's review of the effectiveness of internal controls, including weaknesses

32%

Did not provide any information on the outcomes

- The Code requires the board to monitor the company's risk management and internal control systems and, at least annually, to carry out a review of their effectiveness and report on that review. The current disclosures are of mixed quality, with very few providing detailed insights into the outcomes.

- Changes are expected to the Code in 2023 to strengthen the internal control provisions following the Government's response to the 'Restoring trust in audit and corporate governance' consultation. This is an area that will come under a high level of additional scrutiny.

Quick win:

Conclude on the outcomes of the effectiveness review, clearly identifying any areas where further work is needed, or will be a future focus.

Stakeholder engagement

Key stakeholder issues are often reported...

52%

Described what the key issues were for their stakeholders

- It was only possible in around half of reports to understand what stakeholders' key issues were, and this had not really improved year-on-year. This emphasises the important role that a materiality assessment can play in identifying the most material issues for stakeholders, and responding to these.
- Without this information, the stakeholder engagement process could be seen as a box-ticking exercise, despite the internal and external value it might bring.

....but how they influence the business is less clear

17%

Explained how stakeholder engagement influenced decisions made or actions taken

- The next step is to explain how the engagement changed or influenced what the company did subsequently, but – again similar to last year – far fewer companies did so.

Quick win:

Provide a clear link between the engagement process and resulting issues and any influence on key decisions.

Stakeholder engagement

There is also limited evidence of KPIs being used in this area

67%

Did not include a KPI related to employee satisfaction or engagement

64%

Did not include a KPI related to customer satisfaction or other customer-related metrics

91%

Did not refer to employee turnover as a KPI

- Given the challenges that many organisations are experiencing with recruitment and retention and the fundamental importance of employees to a company's success, it is surprising that more specific metrics, and indeed targets, were not reported in this area in particular.
- The Financial Reporting Council (FRC) has also encouraged more use of metrics to demonstrate rigour in relation to engagement activities.

Quick win:

Add any appropriate KPIs that demonstrate the rigour applied to stakeholder engagement, such as employee or customer satisfaction.

Evidence of long-term thinking by boards could be clearer

46%

Did not provide insights into the long-term consequences of board decisions

- Although there was evidence of improvement compared to the prior year, when 78% of companies did not provide any insights, there was still a lack of meaningful disclosure of this in section 172 statements beyond saying that the long term has been considered in key board decisions.

ESG reporting – This year's hot topic

Our review covered the first year of mandatory TCFD disclosures for those with December year ends onwards. Coupled with the international focus on ESG and climate change reporting and developments from the International Sustainability Standards Board (ISSB), European Union (EU) and the US Securities and Exchange Commission (SEC), this is one area that has continued to change substantially in this year's annual reports.

For more detail on the international ESG and sustainability reporting developments, see our separate publication:

Where do I start guide on international ESG and sustainability reporting developments

Explain what is important about ESG and why …

- This has emerged as one of the key issues in ESG reporting. Extensive disclosures related to ESG matters are found across various parts of the annual report, as evidenced by ESG information taking up 26% of the average strategic report.
- But only just over half of companies in this year's review indicated that ESG matters were integral to strategy, as is the expectation of investors[1], or underpinned their strategy. The remainder disclosed an ESG strategy that sat outside the core business strategy, or did not set out a clear ESG strategy at all.

ESG evidenced across the annual report

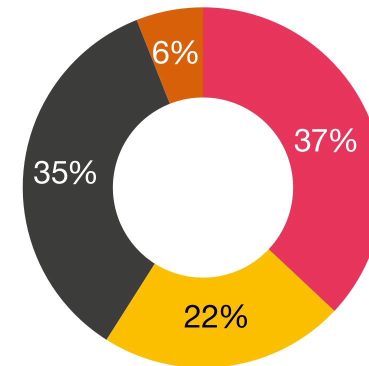
81% Included non-financial matters as part of the current year variable executive remuneration

The average number of KPIs

6.3	4.8
Financial	Non-financial

45% Had a board-level ESG committee

How ESG is positioned in relation to strategy



Key

- Integral to strategy
- Underpinning strategy
- Separate ESG strategy
- No ESG strategy evident

- This is important because where the relevance of ESG information is not clear – and this includes very lengthy disclosures that are not directly connected to business strategy – there is a real risk that reporting will come across as 'greenwashing', even if unintentional.
- As the ISSB and other reporting developments progress and come into force the relevance of ESG to the business will also become increasingly vital. The content of the proposed new frameworks could drive very extensive disclosures – particularly with the concept of double materiality proposed in European developments – so companies will need to assess carefully and explain what is (and, in some cases, what is not) material.

1 In PwC's global investor survey, 2021, 82% of investors agree that companies should embed ESG directly into their corporate strategy.

...and the same applies in particular to climate change

Again, disclosures have often been very extensive, driven by the requirement to report against the four pillars of the TCFD framework under the Financial Conduct Authority's (FCA) Listing Rules. As with ESG generally, climate change-related information appeared across the annual report:

43% Had climate change as a principal risk, and a further 22% included it as an emerging risk (56% in total last year)

48% Included a KPI on carbon reduction

41% Included climate-related measures as part of the current year variable executive remuneration

It is still relatively early days for these disclosures, and we were encouraged by how positively many companies had approached TCFD reporting. However, we found that, apart from operational net zero commitments, most companies were more comfortable discussing governance and risk management than scenarios or metrics and targets.

76% Referred to net zero commitment

Most significantly of all, explicit reporting of the financial impact of climate change was rare. Most of the financial statement references were brief and often simply confirmed that the impacts were not material (or not yet material).

61% Mentioned 'climate change' in their financial statements, up from 23% last year

<10% Provided any quantification of physical or transitional risks

As these disclosures develop (and as better information becomes available in many cases), it is important for businesses to be clear about why they are making each disclosure. Where aspects of climate change are fundamental to the company's business model and strategy, these connections should of course be drawn out. But companies will no doubt continue to make net zero commitments in support of the UK Government's goals, for instance, and this should also be explained.

For more detail on how companies have responded to year one of mandatory TCFD reporting, see our separate publication:

The green shoots of TCFD reporting – An analysis of the first 50 companies to report under the Listing Rules.

Quick win:

Explain why ESG information is included, and, where relevant, link it clearly to strategy.

Other aspects of the ESG agenda

Our review this year also looked specifically at evidence of reporting on some of the other most widely discussed aspects of ESG.

We noted additional disclosure being made in the areas of biodiversity, social mobility, equity and equality, gender and ethnic pay gaps and supplier relationships. New issues can emerge quickly in this area, politically or socially, needing rapid responses from companies.

42% Referred to biodiversity in some way, and 2% included it as an emerging risk

21% Included some discussion on social mobility

25% Discussed supplier payment practices

67% Provided either quantitative or qualitative targets for board diversity

Overall, though, we generally found limited content on these important areas. This might be due to the current regulatory emphasis on climate change diverting attention. Or, alternatively, it might be that the annual report is not seen as the main channel for communications about these issues, and others, such as a separate ESG report, are.

Quick win:

Consider whether more should be disclosed about any of these important emerging aspects of ESG in a particular company's circumstances.