

Business and Human Rights: A Five-Step Guide for Company Boards

Equality and Human Rights Commission

RPC rating: validated

The assessment is now fit for purpose as a result of the department's response to the RPC's initial review. As first submitted, the assessment was not fit for purpose.

Description of proposal

The Equality and Human Rights Commission (EHRC) has recently issued a five-step guide for company boards explaining the UN Guiding Principles on Human Rights and Business, and the types of actions that businesses can take to put these principles into practice.

Specifically, the guide calls upon a company's board to:

- embed the responsibility to respect human rights into its culture, knowledge and practices;
- identify and understand its salient, or most severe risks to human rights;
- systematically address its salient or most severe risks to human rights and provide a remedy when it is needed;
- engage with stakeholders to inform its approach to addressing human rights risks; and
- report on its salient, or most severe, human rights risks and meet regulatory reporting requirements.

Impacts of proposal

Familiarisation costs

The guidance is aimed at all companies with boards in the UK, estimated to be between 1,500 and 7,000 businesses. However, the assessment assumes that a significant proportion of businesses for which the guidance is relevant are already likely to consider themselves compliant. These businesses will, therefore, already be familiar with the guidance and will not undertake further familiarisation. Additionally, businesses are not required to read the guidance, and the guidance does not change the underlying legal requirements.

The regulator, therefore, assumes that 242 businesses will familiarise themselves with the guidance on a one-off basis. This assumption is based on the 242 times the guidance was downloaded in a 12 month period. The total one-off cost of familiarisation is estimated to be approximately £4,300. The assessment then assumes there will be further 'refresher' costs every two years over the ten-year period of the assessment (in years 3, 5, 7 and 9). The total re-familiarisation cost over the ten-year period is estimated to be approximately £2,500.

Direct savings

The regulator expects the change to reduce the level of external legal advice that companies seek on their obligations under the Equality Act. However, it has been unable to quantify these savings due to data limitations.

Policy costs

As the actions in the guidance are voluntary, it is assumed that companies would undertake these actions only if the benefit to them at least outweighed the costs. As such, these are assumed to be 'cost-neutral' overall.

The regulator has noted that there would also be indirect benefits from the amendments to its guidance, including: improved corporate reputation, potential increases in productivity, and improved employee wellbeing. However, these have not been quantified for the purpose of this assessment.

Quality of submission

The original assessment of the impact of this guidance included an attempt to quantify savings from legal advice, which were estimated to have resulted in substantial savings to business. However, these estimates were not based on sufficient evidence. Following the RPC's initial review, EHRC was asked to seek further evidence or external validation to support the high level of expected savings. Specifically, more robust evidence was required to support the estimated compliance rate, which was used to calculate legal savings.

The assessment now does not monetise these legal savings due to the lack of evidence. The assessment would have benefitted from an attempt to gather data from businesses to quantify the saving.

The assessment assumes that the guidance will be reviewed by businesses every two years; it would have been helpful to provide justification for this assumption. Additionally, the assessment would have benefitted from an attempt to quantify internal dissemination activities for those companies that make use of the guidance, along the lines of the calculations included in the original assessment. However, the RPC understands the regulator was not able to gather the necessary information from business to quantify this.

Despite the unsupported assumption that the number of businesses familiarising themselves with the guidance each year is constant, it is likely that the EANDCB remains accurate. The net cost of the policy is estimated to round to zero in EANDCB terms.

Departmental assessment

Classification	Qualifying regulatory provision
Equivalent annual net direct cost to business (EANDCB)	-£0.1 million (initial estimate) Zero (final estimate)
Business net present value	Zero

RPC assessment

Classification	Qualifying regulatory submission
EANDCB – RPC validated ¹	Zero
Business impact target score ¹	Zero
RPC rating (of initial submission)	Not fit for purpose



Anthony Browne, Chairman

¹ For reporting purposes, the RPC validates EANDCB and BIT score figures to the nearest £100,000.