

## Reporting update – health and safety

Workforce Health and Safety (WHS) continued to be an ongoing focus for ASX listed companies this reporting season. Since COVID, there has been an overall increase in the number of fatalities and a decrease in performance against standard health and safety metrics such as the total recordable incident frequency rate (TRIFR). This has been especially material for sectors such as mining, oil and gas, industrials, and consumer.

There is also a growing focus on psychosocial safety and risk management following Rio Tinto's report into workplace culture that was released in 2022, and changes to WHS laws which now require these types of risks to be managed in the workplace.

### Update on the type and extent of reported WHS incidents

#### TRIFR and Fatalities

The drivers for the impact to WHS performance can be explained by a few different factors including safety fatigue following the period of extensive mask wearing and social distancing, higher average staff turnover rates, greater use of part time or contract workforces, and the ongoing growth in some industries resulting in a higher number of 'new starters' than normal, especially in mining.

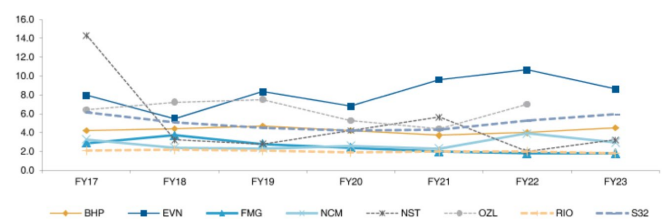
In FY23, we have identified 23 fatalities across the following companies:

- Two fatalities reported at: **BHP, DOW, NIC, PRN, S32, and WOW.**
- One fatality reported at: **AMC, CMM, CWY, EDV, LLC, MIN, NCM, QUB, SGM, WDS, and WOR.**

Performance across TRIFR metrics has also been mixed across sectors. There is also no conclusive link between an increase in TRIFR and the fatalities experienced at the above companies. This is illustrated in the following charts from the Macquarie ESG Research Reporting Season Wrap<sup>1</sup>.

### Sector safety performance (all TRIFR)

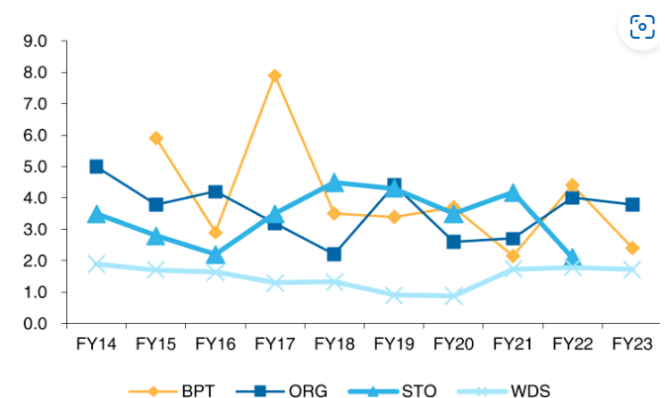
#### Materials



#### Comments:

- *BHP, S32 and NCM all had fatalities. BHPs TRIFR has increase however S32s and NCMs has decreased*
- *The rest of the sector is mixed*

#### Energy

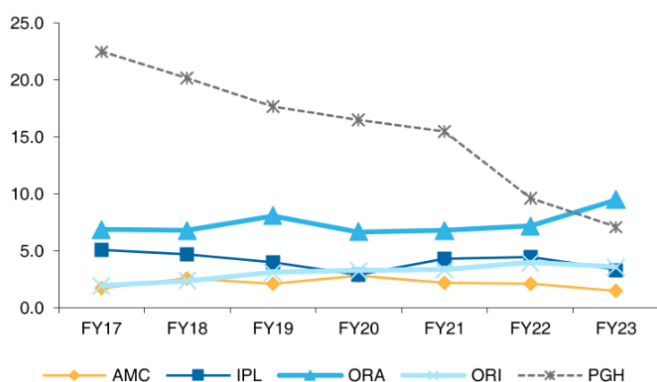


<sup>1</sup> Source: company data, Macquarie research, September 2023

#### Comments:

- Injury rates materially improved across the energy sector in FY23
- WDS TRIFR improved but has remained elevated since FY20

### Chemical and packaging



#### Comments:

- AMC injury rates have been tracking downwards since FY20, however there was a fatality this year

### Psychosocial safety

There has been a notable increase in the number of companies that explicitly mentioned psychosocial safety and risk in FY23 investor updates. These companies are from a mix of sectors, with mentions ranging from simple statements highlighting the relevance, to detailed reporting on the number and types of reported incidents.

The CEO of BHP, Mike Henry, recently said that the miner still has “some ways to go” when it comes to creating a safe workplace for all employees. The company has reported that there were 475 new or ongoing reports of sexual harassment in FY23<sup>2</sup>. 167 of these cases are newly reported incidents, which is an increase from 103 reports the year before. In this case, the increased numbers of reported incidents are a positive sign that employees are willing to speak up, rather than a negative sign that there are more incidents this year than last. We expect many companies that increase the focus on this issue will experience an increase in reported numbers in the short term before they can implement actions to reduce the number of incidents over the medium and longer term.

We believe that severe psychosocial safety incidents have the potential to be more costly and create a more disruptive impact to company operations than physical safety incidents. Safe Work Australia states that mental health conditions account for a relatively small but increasing proportion of serious claims, rising from 6.2% of all serious claims in FY15 to 9.3% in FY21. It is also reported that the median time lost for mental health was

<sup>2</sup> BHP 2023 Annual Report [230822\\_bhpannualreport2023](#)

<sup>3</sup> Work related injury fatalities (2022)

[key\\_whs\\_stats\\_2022\\_17jan2023.pdf\(safeworkaustralia.gov.au\)](#)

**30.7 weeks** per serious claim compared with **6.2 working weeks** for physical injuries, illness and disease<sup>1</sup>.

### Investment considerations

The potential investment considerations of poor H&S management or H&S incidents are:

- **Fines and other penalties:** Any workplace fatality or serious injury will be investigated by the relevant work, health and safety authority. If a company is found to be at fault or responsible for the fatality or serious injury, then the authority could issue fines or require additional management practices are put in place. In NSW, a category 1 offence, which would be linked to gross negligence or recklessness that leads to serious injury, illness or death, can attract a maximum potential fine of \$3,000,000 for an organisation, however most fines would typically be much lower than that. For companies that operate in other jurisdictions penalties can vary significantly.
- **Worker compensation / lost time:** following the point above, generally compensation would be paid to injured employees, other employees that may have been impacted by the incident, and family members of those injured or killed workers. There is also lost time for employees that require leave to recover from injuries or illness. Safe Work Australia<sup>3</sup> reported that the medium lost time per serious claim (2022 data) is 7 weeks. As highlighted above, this is typically much higher for mental health related issues.
- **Employee retention and trust:** a large part of building a loyal and resilient workforce is trust. Following a fatal incident or serious injury, employees will be looking to the employer to respond appropriately and demonstrate accountability for the incident. A lack of action or accountability could lead to a reduced level of trust and result in higher employee turnover and increased labour costs.
- **Industry risk:** the mining and oil and gas sectors already face issues with reputation and challenges recruiting employees for a number of reasons. Ongoing issues with fatalities and reports of sexual assault and bullying may result in further impacts to the industry’s reputation and the cost of labour.

### How a company should respond to a serious incident

We fundamentally believe it is every worker’s right to go to work in a safe environment, however we recognise there are factors in many workplaces which mean that the risk of fatality or serious injury (mental or physical) cannot be avoided

entirely. In the case of such incidents occurring, we specifically look for the following actions from the company involved:

- 1. Recognition and accountability:** notwithstanding there are limitations to what companies can disclose related to the specifics of each incident, we expect to see at the very least a statement recognising the incident and confirming next steps or actions from the company's perspective.
- 2. Remuneration impacts:** given the materiality of workforce safety we expect there should be remuneration impacts for company leadership following a fatality, serious safety incident, or deterioration in safety performance. Many organisations in high-risk sectors have a clawback provision

or a "gate" for any fatalities that occur in the workforce for the financial year. This would commonly put between 8-15% of an STI at risk. In the case that a fatality does not result in an impact to remuneration, we would expect an explanation from Board. We would also consider voting against the remuneration report if there is a significant omission.

- 3. Regular updates and actions to improve safety:** following a serious safety incident, or ongoing deterioration in safety metrics performance, we ask that companies include relevant safety metrics in subsequent investor updates (eg quarterly reports) and identify the clear actions required to improve safety performance moving forward.

## Summary of Executive Remuneration and links to safety

Companies which have a high risk of serious safety incidents and fatalities should include measures of safety performance in the short-term incentive structures for their Executive Management teams. Ideally this should include a no-award gate or clawback provision in the case of fatalities. Importantly, where there is a serious safety incident, including a fatality, reasonable accountability should be demonstrated through tangible impacts to remuneration.

Across the companies that have reported a fatality or a deterioration in safety performance for this financial year, there is a lot of variability as to how safety is integrated into Executive remuneration. For example:

Company	Component	Allocation	Measure	# of Fatalities	FY23 assessment
BHP	CDP	10%	10% significant HSEC events Fatality gate is applied for this component	2	Awarded zero for this component due to two fatalities.
IGO	STI	10%	5% TRIFR 5% Safety workplan delivery	NA	Awarded zero for TRIFR for missing target. Awarded 84% for workplan measure.
WOW	STI	8%	8% Severity rate	2	Awarded close to the stretch outcome for severity rate. To recognise the fatalities, the board applied a 10% reduction in in the Group STI scorecard outcome from 89.8% to 79.8% of Target.
CWY	STI	10%	10% TRIFR A no 'at fault' fatality gate is applied for this component	1	Awarded zero for this component for missing the TRIFR target. Fatality was deemed 'not at fault'

Some companies that have reported a fatality this financial year are yet to publish their annual financial statements.

## Recommended improvements to safety metrics

Currently, TRIFR and 'number of fatalities' are the two primary WHS metrics that most companies report externally to investors. These are both lagging metrics. Given the lack of correlation between fatalities and TRIFR rates, we think there is a need for more consistent reporting of other H&S statistics that include leading metrics which help to provide a fuller picture of the risk and how well this risk is managed. For example:

LAGGING indicators	LEADING indicators
<ul style="list-style-type: none"> <li>Total recordable incident frequency rate (TRIFR)</li> <li>Number of fatalities</li> <li>Lost Time Injury Rate (LTIR) – the number of lost time injuries that happen per million hours worked</li> </ul>	<ul style="list-style-type: none"> <li>Number of high potential incidents – this is sometimes communicated as serious potential incidents</li> <li>Near miss rates – the number of near-miss incidents that occur in a workplace over a given period, usually expressed as a rate per 100 employees.</li> </ul>

<ul style="list-style-type: none"> <li>• Injury severity rate - the number of lost workdays experienced per 100 workers</li> <li>• Safety related penalties – the number of fines or penalties related to non-compliance in safety laws/procedures</li> </ul>	<ul style="list-style-type: none"> <li>• Number of safety violations – identified through an audit or inspection</li> <li>• Hours of staff training on safety or percent of staff trained</li> </ul>
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Over the next few years, we also expect WHS metrics will be expanded to include separate number for physical or psychosocial safety incidents.

## Conclusions

Workplace Health and Safety continues to be a material ESG issue for many companies, particularly those in the resource and industrial sectors. There has recently been a significant increase in the number of fatalities across the ASX compared with previous years. Worryingly this has included fatalities in sectors like consumer (eg WOW and EDV) which usually would not be considered very high risk. The drivers for this are not certain, however we believe issues such as higher turnover, use of contractors, and safety fatigue have been contributing factors to deteriorating safety performance.

This year, there has also been an increase in the number of mentions of psychosocial safety and risk management. It has so far mainly been within the Resource sector although we expect that the trend will continue over coming years and expand into other sectors, and that more companies will start to separate physical from psychological safety metrics in reporting.

Most companies, for whom safety is a material issue, report health and safety metrics. However, we feel that increased reporting of the leading indicators (eg near miss data, outcomes

of safety audits) will allow investors to better analyse WHS risks and the effectiveness of management practices.

Based on the continued deterioration of safety performance, we will have an ongoing focus on linking safety to Executive remuneration, particularly for high-risk sectors or companies that have experienced fatalities across concurrent years. Currently, there is no consistent approach for integrating safety measures into short or long-term incentives. As such, we will be focusing on four elements:

1. Inclusion of a fatality gate for safety components
2. Inclusion of lead and lag indicators
3. Increasing the weight for the safety component where performance has been an ongoing issue for more than two consecutive years.
4. Clear explanations in disclosures related to the assessment of safety components, including where fatalities have been deemed 'no fault of management' or similar.

We continue to feel concerned about the ongoing challenges with WHS and will keep this as a priority engagement topic throughout the remainder of FY24 and we expect most likely into FY25.