The State of Pay: High Pay Centre briefing on executive pay

Summary findings:

• Average pay for a FTSE 100 CEO rose to £5.480 million in 2015, an increase from £4.964 million in 2014, but significantly higher than the £4.129 million in 2010

• In 2015, the average pay ratio between FTSE 100 CEOs and the average wage of their employees was 147:1. In 2014, the ratio was 148:1

•The average pay ratio between FTSE 100 CEOs and the average total pay of their employees in 2015 was 129:1

• The ratio of FTSE 100 CEO pay to the median full-time worker across the whole UK economy was 183:1 in 2014, up from 182:1 in 2013 and 160:1 in 2010

• In contrast to the generous pay packages awarded to their Executives, only a quarter of the 100 FTSE 100 companies are accredited by the Living Wage Foundation for paying the living wage to all their UK-based staff.

• Most FTSE 100 companies fail to disclose how many people they employ in the UK in their annual reports. Only 22 companies from a sample of 72 did so. Directors from 39% of FTSE 100 companies were signatories to a public letter supporting Remain ahead of the Brexit vote. Of the companies which disclosed the number of UK employees 16 out of 22 employed a majority of their employees outside the UK.

•One FTSE 100 company has employee representatives on the board. TUI which recently merged with German incorporated TUI AG has an airline pilot and a travel agent on its supervisory board.

•No FTSE 100 company currently publishes its CEO to employee pay ratio
Average pay for a FTSE 100 CEO rose to £5.480 million in 2015, an increase from £4.964 million in 2014, but significantly higher than the £4.129 million in 2010.

• Median FTSE 100 CEO pay in 2015 was £3.973 million, a slight increase from £3.873 million in 2014, but up from £3.391 million in 2010.

• The slower growth in median pay suggests that the increases in average pay are driven by big pay increases for a small number of CEOs at the top.

• The 10 highest paid CEOs in 2015 and 2014 were as follows:

<table>
<thead>
<tr>
<th>2015</th>
<th>2014</th>
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<tbody>
<tr>
<td><strong>Company</strong></td>
<td><strong>CEO</strong></td>
</tr>
<tr>
<td>WPP</td>
<td>Sir Martin Sorrell</td>
</tr>
<tr>
<td>BERKELEY GROUP</td>
<td>Tony Pidgeley</td>
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<tr>
<td>RECKITT BENCKISER</td>
<td>Rakesh Kapoor</td>
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<td>SKY</td>
<td>Jeremy Darroch</td>
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<td>SHIRE</td>
<td>Flemming Orskov</td>
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<td>BP</td>
<td>Bob Dudley</td>
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<td>RELX</td>
<td>Erik Engstrom</td>
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<td>PRUDENTIAL FINANCIAL</td>
<td>Mike Wells</td>
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<tr>
<td>SCHRODERS</td>
<td>Michael Dobson/Peter Harrison</td>
</tr>
<tr>
<td>LLOYDS GROUP</td>
<td>Antonio Horta Osorio</td>
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• Big pay is a boys club. No women made it into the top ten in either of the last two years.

• 10% of FTSE 100 companies had no female executive directors and no female remuneration committee members.

The case for the annual binding vote

• We have recently witnessed significant opposition votes on advisory resolutions to approve remuneration reports at UK listed companies.

• A majority of shareholders in only two FTSE 100 Companies voted against their company’s remuneration report in the 2016 advisory vote on 2015. Amongst the highest paid CEOs BP was the only company in the top ten of our FTSE 100 sample to suffer rejection by a majority of shareholders. Smith & Nephew was the only other FTSE 100 where dissent above 50% was recorded. Neither majority vote compelled the respective boards to act as the vote
was advisory. The 2016 season saw the first defeat of a binding remuneration policy vote at a former FTSE 100 company. Weir had fallen out of the FTSE 100 in 2015.

- The root cause of shareholder revolts on this issue is the difference between pay outcomes and expectations. Expectations are informed by the policies which shareholder approve in advance of awards being made. The chart below shows just how different outcomes can be from companies best estimates at the time of policy approval.

![Chaotic Pay Outcomes: Remuneration Policy Vote](image)

Source: Annual Reports. Sample of 76 companies in FTSE 100 at date maximum approved

- The impossibility of accurately predicting in advance the quantum that might be paid to individual directors for achieving performance targets attached to share based incentive awards makes the binding policy vote a poor tool for controlling quantum
Caveats & Methodology

- Contrary to the regulations a number of companies failed to disclose a maximum remuneration scenario in which a quantified total is provided for the expected pay of the CEO.
- The Enterprise and Regulatory Reform Act 2013 requires UK-listed companies to publish a ‘single figure’ detailing the total pay awarded for the lead executive’s position. Most companies also provide a ‘single figure’ going back to 2010 for comparative purposes (they will eventually have to provide a figure for the previous ten years). The High Pay Centre compiled these figures to create an average for the FTSE 100. All historical figures are nominal, rather than adjusted for inflation.
- Where there was a change in CEO during the year, the ‘single figure’ covers the total pay for the different individuals who occupied the CEO’s position during their time in post.
- There were some companies where we have concerns about their single figure – for example, if it did not include payments made in 2014 to a previous CEO as part of a historic pay scheme, or where a recently-merged company only disclosed historic pay levels for the CEO of one of the constituent companies. Nonetheless, we have used the figures provided by the company without making adjustments, for the purposes of consistency.
- Five companies that were members of the FTSE 100 in 2010 have subsequently delisted, meaning they don’t have to publish historic CEO pay in their most recent annual report using the prescribed methodology. For these companies we have taken the figure published in 2010, which may have been calculated slightly differently. This is unlikely to significantly affect the wider average.
- Our average figure for 2015 is based on figures published in annual reports of FTSE 100 constituents as at June 2016 for financial years ending 2015. A minority of FTSE 100 companies report to a financial year that differs from the calendar year. For these companies, we have attributed the financial year 2014/15 to the figures for 2015, the financial year 2013/14 to 2014 and so on.
- These single figures were approved by shareholders as part of the advisory vote on the remuneration report at the AGM following the respective financial year end. The average single figure for 2015 will be subject to subsequent revision following restatement by companies in annual reports for year ending 2016.
- There is a degree of inconsistency with regard to the figures which companies disclose for wages and salaries. For example some companies make clear that bonuses and cash incentives are included in the wages and salaries figures whilst others do not. For the sake of consistency we have provided a ratio figure computed using the wages and salary element of employee pay but have additionally provided a ratio figure using total employee pay. Included within the total employee pay measure are elements such as pension and share based pay which are included within the CEO single figure.
- There is also a degree of inconsistency in disclosure of employee numbers. Not all FTSE 100 constituents disclose an average employee figure in accordance with the prescribed Companies Act measure. Where alternative measures are available we have used the largest figure. Some companies use Full Time Equivalent. Some companies also provide a year end figure when discussing the gender breakdown of
their workforce rather than an average for total workforce in the notes to the accounts.
• For 2015 26% of FTSE 100 companies reported at least one element of pay in a currency other than sterling. For all figures, we have converted to sterling using the average exchange rate at balance sheet date.

• 33% of FTSE 100 companies restated their shareholder approved 2014 CEO single figure in their annual report for year ending 2015. 22% of FTSE 100 companies made a positive adjustment (i.e. the single figure was higher than the approved figure) and 11% made a negative adjustment.

Chaotic Pay Outcomes: Remuneration Report Vote

Source: Annual Reports. Sample of 50 companies in FTSE 100 at date of disclosure of revised single figure

• Our pay ratio figure has been calculated using figures which are already subject to mandatory disclosure rules. Part 3 s4 Large & Medium Sized Companies & Groups (Accounts & Reports) (Amendment) Regulations 2013 introduced disclosure of the CEO single figure. For employee costs section 411 of the 2006 Companies Act requires disclosure of the Aggregate amounts in wages and salaries paid or payable, social security costs and other pension costs incurred by the company in respect of that year. For employee numbers section 411 of the Companies Act 2006 requires disclosure of the number of persons employed under contracts of service by the company in that month (whether throughout the month or not) divided by number of months in the financial year.

• Due to incorporation outside of the UK not all FTSE 100 companies comply with these disclosure rules. Two FTSE 100 constituents did not provide sufficient disclosure to allow a CEJ/employee ratio to be calculated. At a further non UK incorporated FTSE 100 company the number of employees has been sourced from a key performance indicator figure.

• However, disclosure of both total employees and total wage and salary costs is highly inconsistent. For example some companies report their total number of individual employees while others calculate on a full time equivalent basis. Some companies include payments such as social security payments, pensions and redundancy costs in their wage and salary costs, while others do not.