An aerial photograph of the London skyline, featuring prominent skyscrapers like The Shard and the Gherkin. The image is partially obscured by a large orange diagonal shape that serves as a background for the text.

How are UK-listed companies responding to the economic shutdown?

High Pay Centre

April 2020

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High Pay Centre briefing, April 2020: How are UK-listed companies responding to the economic shutdown?

Executive Summary

- We estimate that 37% of FTSE 100 firms (so far) have cut CEO pay as a result of the economic shutdown.
- Of these firms, only 35% - or 13% of the total – have made cuts to bonuses or ‘Long Term Incentive Payments’.
- 33% have withdrawn or withheld dividend payments
- At least 18% are using the publicly funded job retention scheme to cover the wages of furloughed workers
- The FTSE 100 companies using the furlough scheme paid a total £321 million in CEO pay and £26bn in dividends from £42bn profits between 2015 and 2019
- This equates to an average per year of £3.6m in CEO pay, £293m in dividends and £472m in profits over the same period.

Introduction

The economic shutdown brought about by Covid-19 has dealt a huge blow to many of the UK’s biggest companies.

Some sectors, such as leisure, retail, construction and manufacturing, have faced particularly severe disruption to business but all firms operating in the UK are likely to be affected by what the Office for Budgetary Responsibility estimates will be a 13% fall in UK GDP in 2020 (with a 35% fall in the second quarter of the year).¹

Huge economic uncertainty and in some cases collapsing revenues mean that companies need to cut costs and strengthen their financial position. Top pay and dividend payments to shareholders are two obvious areas that might be prioritised for savings.

¹ Financial Times, UK economy faces 35% quarterly plunge if lockdown lasts, 14 April 2020 via <https://www.ft.com/content/2c4b2ad9-6b7f-44a7-87ca-64475365ad96>

For most companies, staff costs will be amongst their biggest (if not their single biggest) expenses. Top earners represent a disproportionately large element of those costs, and many executives and senior managers already enjoy vast personal wealth and can therefore afford to sacrifice further earnings.² Money from past revenues originally intended to make dividend payments to shareholders can also strengthen cashflow if withheld by the company.

In the case of the banking and insurance industries, the importance of efficiencies in these areas has already been recognised by the Bank of England's Prudential Regulation Authority, who wrote to major banks and insurers in March asking them to suspend or reconsider dividends, and control top pay.³

The PRA are particularly concerned with the systemic role that these industries play in supporting the wider economy. However, the same principle of making timely cost reductions on top pay and dividends also applies to less systemically important businesses outside the financial services sector.

In addition to the practical or economic case for controlling top pay and dividend payments, there is also a moral or reputational case. Workers and households across the UK are experiencing considerable hardship, with applications for Universal Credit rising to almost ten times the usual number in the last two weeks of March and foodbanks reporting that demand has gone up two- or threefold.⁴

As keyworkers risk their health and their lives to keep society functioning, public discomfort at the contrast between the levels of income and wealth enjoyed by the super-rich and the low pay of vital health workers, carers, cleaners, refuse collectors, supermarket workers or delivery drivers is likely to increase.

Furthermore, many of the UK's largest businesses are now using government support to help them survive the crisis. Measures used include the 'coronavirus job retention scheme' supporting the wages of furloughed workers throughout the crisis and the Coronavirus

² Research from the Commonwealth think tanks estimates that the average FTSE 100 Director owns shares in their company worth £8.5 million – see Commonwealth, *Commoning the Company* 17 April 2020 via <https://www.common-wealth.co.uk/reports/commoning-the-company>

³ Prudential Regulation Authority, *Letter from Sam Woods to insurers on distribution of profits*, 31 March 2020 via <https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/letter/2020/letter-from-sam-woods-to-insurers-distribution-of-profits.pdf?la=en&hash=C1FF7D6C560E1C377CC35C1513E27F16646A1B70> and *Letter from Sam Woods to UK deposit takers on dividend payments, share buybacks and cash bonuses* 31 March 2020 via <https://www.bankofengland.co.uk/prudential-regulation/letter/2020/letter-from-sam-woods-to-uk-deposit-takers-on-dividend-payments-share-buybacks-and-cash-bonuses>

⁴ Trades Union Congress, *Fixing the social safety net*, 6 April 2020 via <https://www.tuc.org.uk/research-analysis/reports/fixing-safety-net-next-steps-economic-response-coronavirus> and Sky News, "Coronavirus: 'My only way of surviving' - food banks see massive spike in demand as job cuts bite", 17 April 2020 via <https://news.sky.com/story/coronavirus-my-only-way-of-surviving-food-banks-see-massive-spike-in-demand-as-job-cuts-bite-11974622>

Corporate Finance Facility providing short-term loans for firms with cash flow pressures, while the airline industry has applied for direct bail-outs.

Even those companies that are not using direct government support will benefit from these and other measures taken to support incomes and stabilise the economy.

In these circumstances, it is highly questionable whether companies in receipt of public money should continue to disproportionately channel private gains to a small number of often very rich people, in the form of very high CEO pay and dividend payments.

In order to establish the extent to which this is the case, this briefing analyses the response of FTSE 350 companies to the economic shutdown. The briefing gives a comparative review of the proportion of companies across the FTSE 100 and 250 indexes that have cut CEO pay; withdrawn, suspended or cancelled dividends; or furloughed workers using the coronavirus job retention scheme. For the companies that have furloughed workers, we have also examined data on dividend payments and CEO pay over the last five years.

Methodology and caveats

This study examined Regulatory Notification Service (RNS) announcements by the FTSE 350 companies (excluding investment trusts), as well as reviewing press statements and surveying FTSE 100 companies directly. The research covered details of plans to cut CEO pay; withdraw or withhold dividend payments; or apply to the UK Government's coronavirus job retention scheme.

For companies to change the terms on which senior managers are paid, amend dividend strategy or furlough their workforce would represent a significant development of considerable relevance to current/prospective investors and other stakeholders. Therefore, we would expect companies taking these measures to announce them clearly and prominently. However, we cannot be certain that this is the case. There may be some companies who have taken such measures unannounced.

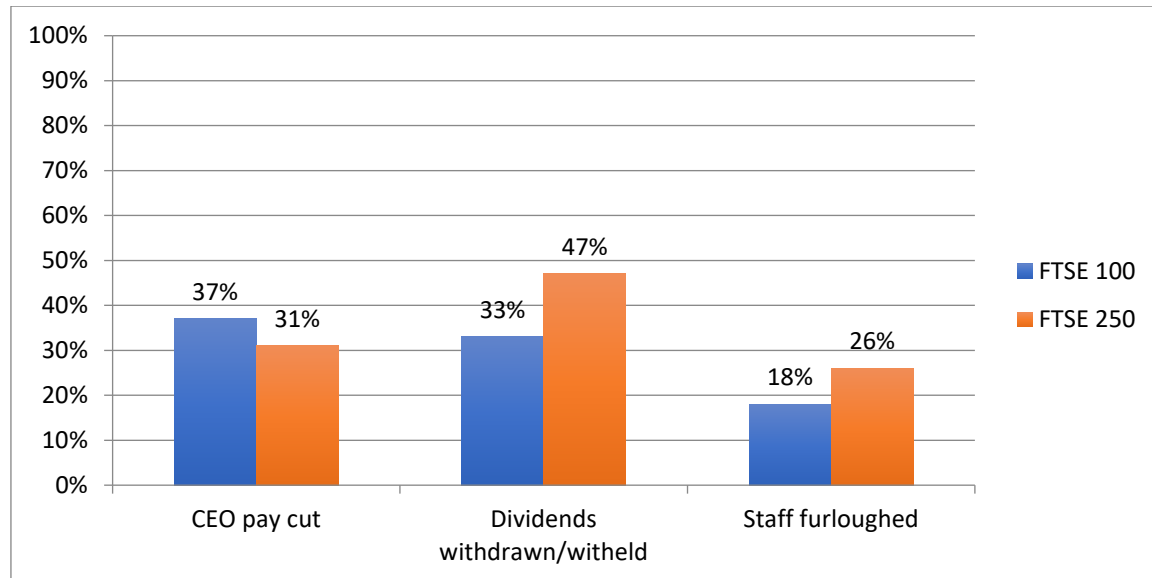
Equally, it may be that companies that have not yet confirmed their response to the shutdown take some of these measures in the future.

Finally, the FTSE 350 includes many companies publicly listed on the London Stock Exchange but operating mainly overseas. Conversely, it does not include privately-owned UK companies or foreign-owned firms operating in the UK.

Therefore, this briefing should not be taken as an exhaustive and definitive summary of the reaction of British businesses to the shutdown, but as an informed insight into how large UK-listed businesses, including many of the UK's biggest private sector employers, have responded as of 22 April 2020.

Findings

Figure 1: How FTSE 350 Companies are responding to the economic shutdown



Executive pay cuts

According to our estimates, 37% of FTSE 100 companies and 31% of FTSE 250 companies (equating to 33% of the FTSE 350) have reduced executive pay.

Cuts to CEO salaries of between a third and a fifth have been the most common measure adopted, though it is not always made clear whether this represents a reduction to the annual salary or on a pro-rata basis for the duration of the lockdown.

Only 13% of firms – 35% of those undertaking some form of executive pay cut - have cancelled or reduced the bonus or long-term incentive payments that comprise the biggest component of executive pay awards. Even in these cases, some announcements refer to cash bonuses, meaning that bonuses could still be paid in shares. The effect on total pay is therefore uncertain.

Bonuses and long-term incentive payments are typically tied to company earnings and shareholder returns. However, the use of additional operational metrics, the possibility of markets rebounding and the fact that performance is often measured relative to rival companies, rather than in absolute terms, means it is not inevitable that pay awards will automatically fall as a result of the crisis without companies taking discretionary action to reduce them.

This highlights the difficulty in assessing whether or not pay reductions represent substantial cost savings or meaningful demonstrations of solidarity with colleagues and wider society. Assuming a salary of £850k and bonus of £1.4 million (the FTSE 100 medians),

a 20% salary cut lasting 3 months would represent a loss to the CEO of £42,500. A 30% cut to annual salary and cancellation of bonus payments would amount to a loss of £1.65m.

In the context of median total pay for a FTSE 100 CEO of £3.5m, this is a huge difference.

Of course executive pay packages, typically valued in the low millions, have important symbolic value but are on their own unlikely to offer major potential savings for companies with market capitalisations of hundreds of millions or billions of pounds. However, when aggregated with pay amongst other highly-paid staff the cost and the potential saving become more significant.

To this end, some companies have announced pay reductions across senior management teams more broadly. These include Spirax Sarco, who have committed to reducing pay of 100 senior managers by between 20% and 7.5%. Page Group have committed to reducing the pay of 450 directors by 20%.

Dividends withdrawn or withheld

So far, 33% of FTSE 100 companies and 47% of FTSE 250 companies (equating to 42% of the FTSE 350) have either withdrawn proposed dividends in 2020, or made announcements electing not to offer a dividend as a result of the current economic uncertainty.

As companies pass their financial year-end and announce annual results, when they might typically also announce dividend payments, it is possible that these figures will increase depending on the impact of the pandemic and the shutdown on companies' results.

Companies with a 31 December financial year-end would typically propose a final dividend in the first quarter of following year to be approved at their Annual General Meeting. In 2020, 41% of the FTSE 100 companies with a 31 December 2019 year-end have subsequently either withdrawn their proposed final dividend or elected not to propose one.

Workers furloughed

At least 18% of FTSE 100 companies and 26% of FTSE 250 companies (equating to 23% of the FTSE 350) will be taking advantage of the 'Coronavirus Job Retention Scheme' meaning that staff will be placed on furlough with 80% of the wage costs covered with public money.

This figure is likely to increase and may already be higher – a number of FTSE 100 firms surveyed by the High Pay Centre declined to comment on whether they would be using the scheme.

The proportion of workers varies from company to company, with some saying they are furloughing hundreds of staff while others intend to furlough tens of thousands. Some companies have made clear that they will top up wages to their full value – FTSE 100 companies that have committed to topping up workers' wages to their full level include Auto Trader, Barratt Developments, Centrica, ITV, Rolls Royce, Taylor Wimpey and Whitbread.

Over the past five years (financial years ending 2015-2019), the FTSE 100 companies that we know have now furloughed staff using the coronavirus job retention scheme have:

- made CEO pay awards worth £321 million;
- paid out £26 billion in dividends;
- made £42 billion in profits.

For FTSE 250 companies, the figures are £452 million in CEO pay, £14 billion in dividends and £18 billion in profits.

Over the period, for the FTSE 100 companies, this equates to an average per year of

- £3.6 million in CEO pay
- £293 million in dividends
- £472 million profits

For FTSE 250 companies, the annual averages are £1.9 million in CEO pay, £60 million in dividends and £76 million in profits.

Conclusions

Decisions by companies to cut CEO pay or withdraw or withhold dividend payments in this period of uncertainty should be welcomed. They will increase companies' financial resilience by reducing costs, and represent a well-intended gesture of solidarity at a time when many people are undergoing real hardship.

At the same time, the fact that only a third of the UK's leading companies have acted to contain top pay might be considered surprising. Similarly, the levels of reduction proposed are highly varied. Temporary salary cuts do not represent a particularly generous sacrifice in the context of median FTSE 100 CEO annual pay of £3.5 million – enough money in one year to afford an entire lifetime of comparative luxury relative to the average UK worker.

The recent crisis calls into question the wisdom and fairness of very high levels of top pay. The massive, co-ordinated public effort to sustain jobs and incomes and meet the huge challenges facing the health service highlights the importance of collective endeavour in building and sustaining socio-economic prosperity, and suggests that the narrative of heroic individual entrepreneurs or business leaders is a little overstated.

There is also a consensus emerging, recognising the work done by workers previously derided as 'unskilled' and acknowledging that they deserve better pay. This consensus appears to span the political spectrum. One might expect to hear former Labour Party leader Jeremy Corbyn ask:

“Who are we least able to do without in a crisis? The refuse collector or the billionaire hedge fund manager?”⁵

It is perhaps more surprising to hear former Conservative Party leadership contender Kit Malthouse suggest in a similar spirit:

“when we emerge from this crisis... there will be a general reassessment about who is important in this country and what a ‘key worker’ means.”⁶

If we are to raise pay and living standards for those in the lowest paid work, it is likely to mean reducing the rewards that executives and shareholders have come to expect.

We don’t live in a world of infinite wealth: if a painless pay increase for low and middle earners could be conjured up at no cost to anybody else, it would probably have already happened by now. Though now facing cuts, top pay levels in the UK and companies’ returns to shareholders are very high, suggesting there is considerable scope for a fairer proportion to be redirected to low earners on an ongoing basis.

Estimates suggest that the richest 1% of the UK population take around 15% of total incomes, having increased their share by around 38% since the mid 1990s.⁷ A study published by the High Pay Centre and the Trades Union Congress found that between 2014 and 2018, returns to the shareholders of FTSE 100 companies increased seven times faster than pay for the median UK worker.⁸

Profits, top pay and dividend payments at the companies now using public money to pay the wages of furloughed workers are likely to prove particularly controversial.

The Coronavirus Job Retention Scheme is a vital measure to protect jobs and living standards throughout the crisis, and is to be welcomed and fully supported as such.

Equally, it would be excessive to blame companies for their reliance on the scheme.

However, it is right to question the resilience of companies that have lavished billions on shareholders and executives in recent years, but now depend on public funding to cover their costs throughout what will hopefully be a brief pause in economic life.

⁵ Hansard, *House of Commons: Financial and Social Emergency Support Package*, 25 March 2020 via <https://hansard.parliament.uk/Commons/2020-03-25/debates/D7F266F7-2B62-4D83-BA7F-C77A0A8BED61/FinancialAndSocialEmergencySupportPackage>

⁶ Hansard, *House of Commons: Shop workers – Protection from Violence*, 23 March 2020 via <https://hansard.parliament.uk/Commons/2020-03-23/debates/DF73EF11-39F6-43AA-86FE-0656329A4382/ShopWorkersProtectionFromViolence>

⁷ University of Essex, *Top Incomes in the UK: Analysis of the 2015-16 Survey of Personal Incomes*, 17 June 2019 via www.iser.essex.ac.uk/research/publications/working-papers/iser/2019-06

⁸ High Pay Centre and Trades Union Congress, *How the shareholder first business model contributes to poverty, inequality and climate change*, 13 November 2019 via <http://highpaycentre.org/pubs/how-the-shareholder-first-business-model-contributes-to-poverty-inequality>

Whilst the furlough payments are made directly to workers, the savings that the scheme entails for companies in terms of wage costs, developing and managing their own furlough processes and potentially redundancy, recruitment and training costs as they enter and (hopefully) exit the shutdown represents massive support.

Future public opprobrium for companies that engage in practices that have damaged the reputation of businesses in recent years such as pollution, pay inequality or tax controversies will be particularly severe for those firms that have required an effective government bailout to sustain them through the shutdown. **However, it is to be hoped that the sense of community engendered in these difficult times will inspire much higher ambitions for all businesses in respect of their social and environmental contribution.**