HIGH PAY CENTRE

What happened to CEO pay in 2020?

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Summary of key findings

- The median FTSE 100 CEO took home £2.69 million in 2020. This is the lowest level of median pay since 2009, and is a reduction of 17% from the median FTSE 100 CEO pay in FYE 2019, which stood at £3.25 million.
- The median CEO pay of £2.69 million is 86 times the median earnings of a UK full-time worker in 2020 (£31,461).
- Mean CEO pay was likewise lower than the previous year, at £3.38 million, down from £4.54 million in 2019.
- The highest paid CEO received a total of £15.5 million, at AstraZeneca. This is 489 times the pay of the median UK full-time worker.
- Only 64% of FTSE 100 companies paid their CEO a bonus in 2020, down from 89% in 2019. The mean bonus payment fell from £1,096k in 2019 to £828k in 2020.
- 77% of companies paid their CEO a so-called long-term incentive plan (LTIP), compared to 82% in 2019. The mean LTIP payment fell from £2,406k in 2019 to £1,379k in 2020.
- There were 22 FTSE 100 companies supported by the Covid Corporate Financing Facility and/or the Job Retention Scheme over the course of the Covid-19 pandemic. For the financial years that overlap most substantially with the time period of the pandemic, the mean pay for the CEOs of these companies was £2.36 million. Some of these companies have reportedly returned the money, but we estimate that at least 9 have not, with mean CEO pay of £2.39 million.
- There were 7 female FTSE 100 CEOs in 2020, the same number as in 2019.
- Excluding Aviva's female CEO, who was appointed midway through the financial year, the mean pay of the remaining 6 female CEOs, who were in role for the duration of the 2020 financial year, was £2.76 million. This is well below the mean pay of male FTSE 100 CEOs at £3.44 million.

Introduction

This report analyses the pay of FTSE 100 CEOs in 2020, as documented in the companies' own retrospective annual reports for the year.

The FTSE 100 remains an imperfect proxy for top pay across the UK in general. Many of the companies in the index are international operations with limited presence in this country beyond a listing on the London Stock Exchange.

Conversely, there are many major UK employers that are not included in the index, because they are either privately owned or listed by parent companies in other countries. In some respects, the listed companies attract the most analysis (and criticism) because they are subject to the most demanding disclosure requirements and thus data on their pay practices are obtainable. It remains the High Pay Centre view that all large employers should be required to provide more information about the pay of their senior managers and that of their wider workforce, as well as their working practices more generally.

Nonetheless, the index contains many of the UK's biggest private sector employers across a wide range of sectors, whose pay and employment practices as market leaders have a substantial impact on incomes and living standards throughout the country. The fact that pay levels for FTSE 100 CEOs raced away from the average UK worker between the 1980s and the 2000s, mirroring the widening gap between the super-rich and everybody else over the same period, demonstrates how CEO pay is a useful exemplar of wider societal inequality.

Throughout the Covid-19 crisis, many low-paid workers in industries affected by the shutdown, such as travel, leisure and hospitality have experienced loss of income and economic hardship. Others, including carers, cleaners and porters, supermarket workers, delivery drivers and refuse collectors, have played a critical role to keep the country functioning, at heightened risk of infection. And society as a whole has enabled large businesses, including FTSE 100 companies, to continue operating, through the provision of public money.

As a result, interest in top pay and inequality is arguably greater than ever. We hope that this analysis provides informative and insightful evidence to contextualise discussions about fair pay, good corporate governance and responsible business practice – and how these are regulated – across the UK.

Analysis of executive pay in 2020

CEO pay trends

The median FTSE 100 CEO took home £2.69 million in 2020. This is the lowest level of median pay since 2009, and is a reduction of 17% from the median FTSE 100 CEO pay in FYE 2019, which stood at £3.25 million.(1) Undoubtedly, this lower level of pay is largely a consequence of the Covid-19 pandemic and the resulting economic shutdown. The pandemic has had a major impact on companies' performance, albeit to varying degrees depending upon the sector in question. As performance-related pay tends to be tied to financial metrics such as returns to shareholders or company earnings, executive pay has fallen as a consequence.(2)

Despite this fall, the median CEO pay of £2.69 million is still 86 times the median earnings of a UK full-time worker in 2020 (£31,461).(3)

Mean CEO pay was likewise lower than the previous year, at £3.38 million, down from £4.54 million in 2019.

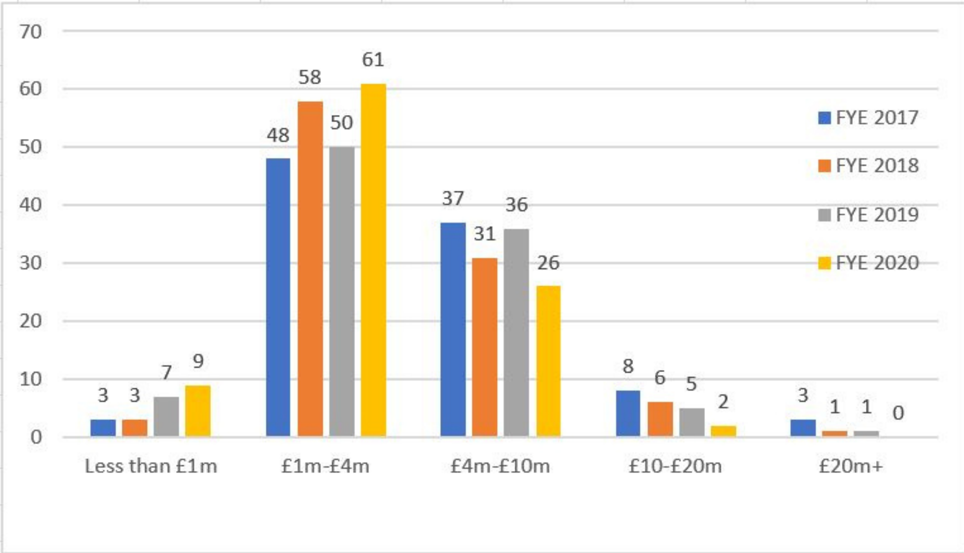
The highest paid CEO received a total of £15.45 million, at AstraZeneca. This is 489 times the pay of the median UK full-time worker, and 197 times the pay of AstraZeneca's median UK employee, according to their 2020 pay ratio disclosure.

Table 1: The ten highest paid FTSE 100 CEOs in FYE 2020

Chief executive (2020)	Company	2020 pay (£m)
Pascal Soriot	AstraZeneca	15.45
Brian Cassin	Experian	10.30
Albert Manifold	CRH	9.92
Laxman Narasimhan	Reckitt Benckiser	9.24
Rob Perrins	Berkeley	8.03
Mark Cutifani	Anglo American	7.82
Peter Jackson	Flutter	7.52
Jean-Sébastien Jacques	Rio Tinto	7.22
Emma Walmsley	GlaxoSmithKline	7.03
Tim Steiner	Ocado	6.97

As a result of the general reduction in CEO pay this year, the overall range of CEO pay awards has narrowed, as shown in Figure 1. This year, only 2 firms paid their CEOs more than £10 million, down from 6 last year.

Figure 1. Distribution of CEO single figure pay (no. of CEOs)



Despite the fall in mean and median pay levels and the broadly negative impact of the pandemic, experiences varied from company to company. There were 34 companies that awarded their CEO a higher pay package than in FYE 2019. The two largest increases were at Flutter (an increase of £5.4 million) and the London Stock Exchange (£4.4 million).

64 companies awarded their CEO a lower pay package than in FYE 2019. Several companies awarded substantially lower pay in FYE 2020 than they did in FYE 2019: the greatest decreases were at Ocado (a decrease of £52.1 million), Diageo (£9.6 million) and BP (£8.6 million).

Table 2. The 5 FTSE CEOs whose pay increased by the largest amount from 2019 to 2020 (5)

Chief Executive	Company	2019 pay (revised) (£m)	2020 pay (£m)	2019-20 increase (£m)
Peter Jackson	Flutter	2.10	7.52	5.42
Nikhil Rathi	London Stock Exchange	2.46	6.88	4.42
Mike Henry*	BHP	2.68	6.64	3.97
Laxman Narasimhan	Reckitt Benckiser	5.54	9.24	3.70
Peter Cowgill	JD Sports	2.55	5.59	3.04

*BHP had two CEOs during the course of their financial year ending 30 June 2020. Mike Henry was appointed as CEO on 1 January 2020. He was preceded by Andrew Mackenzie.

Pay ratio disclosures

The Companies (Miscellaneous Reporting) Regulations, introduced by Theresa May's Conservative government, require all UK-listed companies with over 250 UK employees to publish 'pay ratios', showing the relationship of their CEO's pay to other employees in the company. The regulations stipulate that companies must publish the ratio of CEO pay to pay at the 75th, median and 25th percentile of the company's UK employees. CEO pay must be calculated using the existing formula for the 'single figure' of total remuneration, encompassing salary and all forms of pay and benefit including pensions, bonuses and share awards. The employee total remuneration figures include salary, taxable benefits, cash bonuses, share-based pay and pensions.

82 FTSE 100 companies disclosed their pay ratios in 2020. As discussed in the introduction, many UK-listed companies have limited operations in the UK and have under 250 employees, meaning that they are not required to disclose.

In 2020, the median ratio for the FTSE 100 of the CEO to the lower quartile employee (the employee at the 25th percentile) was 80:1. The FTSE 100 company with the highest CEO/median employee ratio in 2020 was Ocado, with a ratio of 312:1. The construction company CRH had the highest CEO/lower quartile employee ratio, at 368:1.

In terms of employee total remuneration, the lowest-paid employee at the 25th percentile was at Associated British Foods, with a total remuneration of £14,175.

Figure 2 shows the trend in median CEO pay since 2009. The median for each year is taken from the June FTSE 100 cohort each year and uses data from each company's prior financial year.(4) As can be seen in Figure 2, this year's median of £2.69 million is the lowest since 2009.

Figure 2. Median single figure of FTSE 100 CEOs since FYE 2009 (£m)

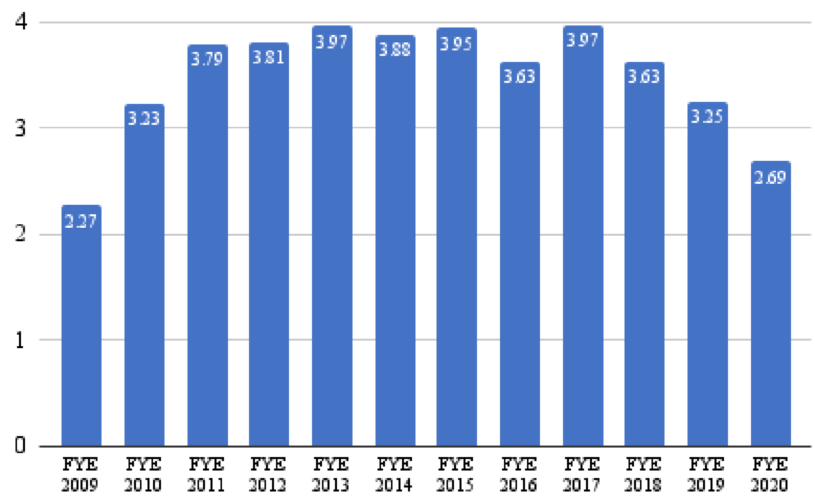


Figure 3. Mean single figure of FTSE 100 CEOs since FYE 2009 (£m)

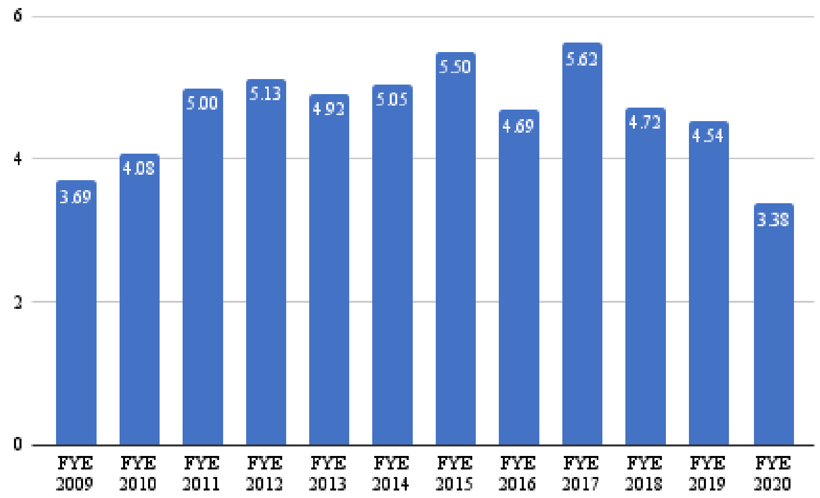


Table 3. Relation of average CEO pay to average UK full-time worker, financial years 2017-20 (5)

Measure	FYE 2017 (revised)	FYE 2018 (revised)	FYE 2019 (revised)	FYE 2020
FTSE 100 companies as at June each year				
CEO median pay package	£3.97m	£3.63m	£3.25m	£2.69m
CEO mean pay package	£5.72m	£4.72m	£4.54m	£3.38m
Comparison of CEO pay with UK salaries				
Ratio of median CEO pay to median UK full-time worker	138:1	123:1	107:1	86:1
Ratio of mean CEO pay to mean UK full-time worker	159:1	131:1	121:1	88:1

What makes up CEO pay?

The CEO single figure of remuneration consists of a base salary, bonus or short-term incentive plan (STIP), long-term incentive plan (LTIP), pension or pay in lieu of pension and benefits. It excludes National Insurance contributions, which are reported on for the whole company.

Ordinarily, the majority of the total CEO pay package is made up of performance-related pay. In both 2018 and 2019, the STIP and LTIP combined made up 74% of CEO pay on average.

As discussed, the Covid-19 pandemic and the resulting economic shutdown have meant that company performance has taken a hit across the board, though with some sectors struggling much more than others. This has depressed performance-related pay.

Of the 96 companies for which we have bonus data, only 61 (64%) paid their CEO an annual bonus in 2020. This is a significant decrease from 2019, when 89% of companies paid a bonus. In response to the economic damage caused by Covid-19 and in solidarity with employees taking pay cuts, a small number of companies scrapped their bonus for 2020. For many others the bonus simply paid out at £0 due to a failure to meet the minimum performance criteria. Total bonus payments came to £79.5 million, compared to a total of £108.5 million in 2019.

Of the 96 companies for which we have LTIP data, 74 (77%) paid their CEO an LTIP, compared to 82% in FYE 2019. The total sum of all LTIPs paid was £132.3 million, significantly down from last year's figure of £238.2 million.(6)

Restricted share awards

Restricted share awards are unconditional share-based payments that cannot be accessed until a certain number of years has passed. One argument in favour of restricted shares is that because they are guaranteed, they produce less extreme and less variable payouts than the traditional LTIPs do, and this results in a reduction in CEO pay levels. They are also less complex than LTIPs. In 2016, the Executive Remuneration Working Group of the Investment Association recommended that companies should consider alternative remuneration structures to LTIPs, and one of the alternatives posed was restricted share awards.(7)

For the purpose of our analysis, we have included restricted share awards in the category of LTIP. Only one FTSE 100 CEO's remuneration included a restricted share award in the place of an LTIP this year, though two more companies stated in their 2020 annual reports that they would be implementing restricted shares from 2020 onwards. It is possible that restricted share awards will be more commonly used in future years.

Figure 4. Year-on-year comparison of components of FTSE 100 single-figure pay (%) (8)

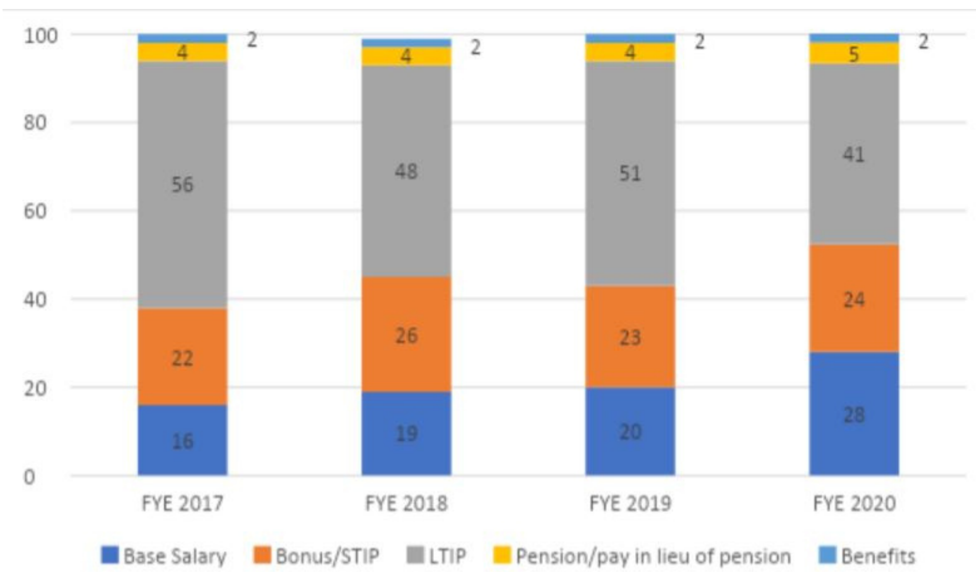
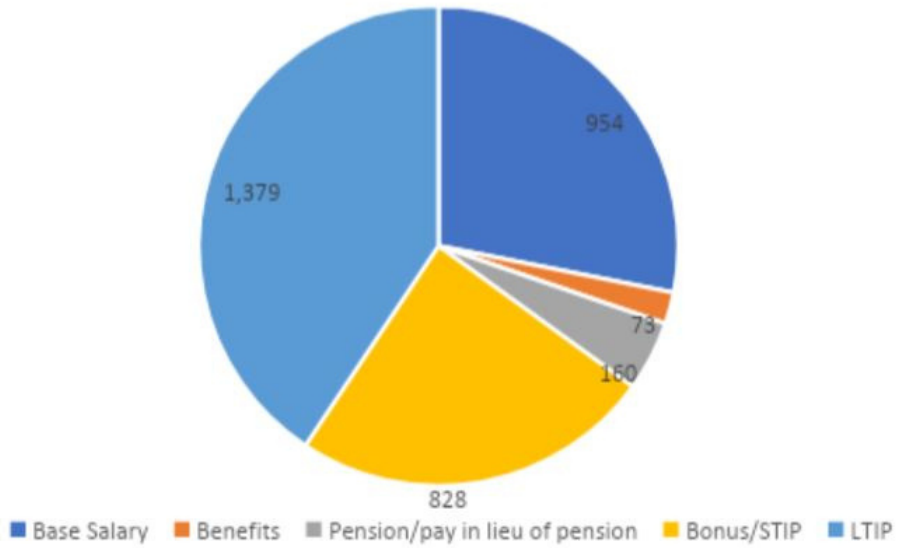


Figure 5 shows that the mean components of performance-related pay were likewise much lower than in FYE 2019. The mean bonus payment fell from £1,096k in 2019 to £828k in 2020, whilst the mean LTIP payment almost halved, falling from £2,406k in 2019 to £1,379k in 2020. It is important to bear in mind that in the case of some 2020 CEO single figures, the variable element is an estimate, as it has not yet been paid in full.

Figure 5. Mean components in FTSE 100 single-figure pay for FYE 2020 (£000)



The Covid effect: Companies supported with public money

Many FTSE 100 companies received substantial support from public money in 2020, through loans from the Bank of England through the Covid Corporate Financing Facility (CCFF) or through the Job Retention Scheme (JRS), commonly known as the furlough scheme.

Though the furlough payments were intended to cover part of the wages of workers unable to work while covid-related restrictions were in place, it was also an effective subsidy for business, removing considerable uncertainty as well as enabling substantial savings on wage costs plus potential administrative costs relating to redundancies, re-employment or training.

While measures such as the furlough scheme, designed in partnership with trade unions, were vital policies for combating the socio-economic crisis, top pay levels at the companies that drew on public money are likely to be particularly controversial. The cost of the various government schemes will be borne by society as a whole – meanwhile the pay awards of the typical FTSE 100 CEO could cover the furlough costs of dozens of workers, and all FTSE 100 CEOs have already accumulated sufficient incomes over their careers to maintain a vastly higher standard of living than the average UK worker. Therefore, the question of whether pay awards for CEOs and top earners at these companies need to be maintained beyond a certain upper limit (an income of around £150,000 is likely to put the recipient in the top 1% of UK earners) needs to be asked.

We estimate that there were 22 FTSE 100 companies supported by the CCFF and/or JRS over the course of the Covid-19 pandemic. We have analysed CEO pay at these companies, using the financial year for each company that overlaps most substantially with the time period of the pandemic. This means that for companies with year ends between January and April, we have used their 2021 annual reports (rather than using 2020 annual reports, as we have done for all other analysis in this report).

The mean pay for the CEOs of these companies was £2.36m. However, many furlough recipients have subsequently announced that they intend to repay the public money they have received. This still equates to an effective Government loan during a period of uncertainty. As many companies have been secretive about their use of support schemes, it is difficult to establish which companies have received support, and what kind of support. Based on enquiries to the companies themselves, and their statements to the stock market, we estimate that 9 of the 22 have not repaid the JRS money. The mean CEO single figure for these companies was £2.39m.(9) As Table 2 shows, there have been some notable examples of pay restraint. However, there have also been instances where companies have continued to pay out large bonuses and LTIPs whilst taking public money.

Table 4. FTSE 100 companies in receipt of JRS money that have not announced repayment

Company	Year End	Total pay (£000)	Bonus (£000)	LTIP (£000)	CEO/lower quartile employee pay ratio	Lower quartile employee pay (£, FTE basis)
Entain	31/12/2020	1,983	0	1,222	106	18,667
Intercontinental Hotels	31/12/2020	1,418	0	483	85	16,736
International Airlines	31/12/2020	963	0	0	34	28,383
Intertek	31/12/2020	2,578	0	1,215	99	26,155
JD Sports	30/1/2021	4,999	4,295	0	251	15,624
Next	25/01/2021	3,393	0	2,387	192	17,643
Rentokil	31/12/2020	4,055	0	3,188	203	19,975
Rolls Royce	31/12/2020	1,110	0	0	26	42,700
Whitbread	27/02/2021	1,032	0	0	55	18,682

Gender and Ethnicity

Of the 98 companies covered by our report, only 7 have a female CEO. This is the same number as in 2019. One of these companies, Aviva plc, appointed a female CEO midway through their 2020 financial year, after having had a male CEO. Of the 6 companies that had a female CEO for all of their financial year, the median single figure of remuneration was £2.63m and the mean was £2.76m. These figures are well below the median and mean for male FTSE 100 CEOs, which were £2.80m and £3.44m respectively. However, the very small sample size of female CEOs renders pay comparison less meaningful. The most pressing issue is the underrepresentation of women amongst FTSE 100 CEOs.

At present, firms are not required to disclose the ethnicity of their CEO or senior management teams – as they must with gender – so it is not possible to ascertain the level of under-representation of ethnic minorities from annual reports and accounts. However, the UK government's Parker Review Committee conducted a survey on the ethnic diversity of FTSE 350 boards, for which data was collected between July 2019 and January 2020.(10) 83 companies in the FTSE 100 responded fully. Of these 83 companies, 11.3% of directors were directors of colour.(11) 31 of the 83 companies did not meet the Parker Review's target of at least one director of colour on the board.

Conclusion

This year’s analysis shows a substantial fall in CEO pay and a narrowing of the pay gap between executives and the wider UK workforce.

This development will be welcomed by anyone concerned about economic inequality in the UK. From a corporate governance perspective, most observers would also agree that CEO pay should reflect the experience of their company’s wider stakeholders. With the pandemic resulting in large numbers of workers being furloughed on reduced pay, weaker returns to shareholders and major public expenditure required in support of companies, it is appropriate that executive pay levels have also decreased.

However, it is questionable whether a 17% reduction in median pay to ‘only’ £2.69 million represents a sufficient economy given circumstances including:

- the immense hardship experienced by many across the UK,
- the accumulated personal wealth of CEOs who will typically have experienced long careers in high-earning roles,
- the fact that all companies, having benefited either directly or indirectly from policy measures to support businesses, would have been in a much worse position without government intervention

For most businesses, staff costs will be one of their largest items of expenditure, if not the largest, and pay for top earners form a disproportionate element of these costs. Therefore, pay for people who can afford to take a huge pay cut and still enjoy a standard of living far higher than the majority of the population will ever experience would appear an obvious place for companies to make savings during difficult periods.

The fact that CEO pay levels have decreased and FTSE 100 companies – thanks to government intervention – have endured, without CEOs departing for better-paid occupations or their businesses falling apart, also raises the question of whether pay needs to go back up in the hoped-for event of a post-pandemic recovery. Indeed, it might be asked if the experience of the pandemic implies there is scope for further equalisation of pay, bringing CEO earnings to a multiple of around 10 times that of the typical UK worker, for example, as was commonly the case from the post-war years up until the early 1980s.

The worst decade for real earnings growth in the UK since the 1900s has been followed by a global pandemic. At the same time, the increasingly imminent threat of climate change is highlighting our overexploitation of the earth's resources. These developments remind us that wealth is finite and that living standards in the UK depend not just on our aggregate resources but how they are shared.(12) The distribution of pay at major employers remains a critical part of this.

Therefore, despite the reductions in CEO pay this year, addressing the issue of excessive top earnings should remain a critical part of efforts to ‘level up’, ‘build back better’ and other clichés sloganising the objective – shared by all parts of the political spectrum – to tackle inequality and raise incomes for low and middle earners.

Methodology

Our research covers the FTSE 100 cohort as at June 2021 and analyses the information published in their annual reports for financial year-ends in 2020.

We excluded the Scottish Mortgage Investment Trust and Pershing Square Holdings from our analysis as they are externally managed investment trusts and therefore not relevant to the study of CEO and employee pay.

All figures are based on the 'single figure' disclosed in companies' annual reports, calculated according to a methodology prescribed by government regulation. Where there has been a change of CEO during the financial year, the figure represents the total remuneration awarded to the two (or more) individuals that relates to their role as CEO, which in some cases may include one-off costs such as transfer costs and golden handshakes. However, in 2 cases where the CEOs have occupied other board roles during 2020, the remuneration report does not detail the size of pay components (such as bonuses and LTIPs) for the time spent by the individual in their role as CEO, but for the whole year of service on the board. This prevents us from calculating the pay components received by the CEO. As a result, we only have pay component information for 96 companies out of the 98.

Where we have calculated the proportion of CEO pay made up of bonuses and LTIPs, we have counted all instances in which a bonus or LTIP was not paid as 0. This includes companies where a bonus or LTIP scheme was not in place, as well as those where the minimum performance criteria to trigger a pay-out were not met, or where the bonus or LTIP was waived on a discretionary basis.

Income from all-employee share schemes, as well as notional returns and the value of buyout options, were included in the category of LTIP.

Where 2019 CEO pay has been restated in the 2020 accounts, we have used the restated figures based on FYE 2020 accounts.

Averages (mean and median)

Both the mean and the median are single values that describe the middle or average of a range of values. The mean is calculated by adding together all the values in a dataset and then dividing the result by the number of values in that dataset. To find the mean pay received by FTSE 100 CEOs, we have added all of the CEO single figures together and then divided the total by the number of FTSE 100 CEOs in our sample (98 excluding Scottish Mortgage and Pershing Square Holdings, as discussed). The median is found by listing all the values in numerical order. If there is an odd number of values, the median is the number in the middle of the list; if there is an even number of values, the median is the mean of the two middle numbers. Both the mean and median figures are useful in exploring the distribution of single figure outcomes received by FTSE 100 CEOs.

If the mean and median single figures for remuneration were the same, this would indicate that there was no skew in how pay has been distributed. If the mean and the median are widely different, the dataset is skewed, either by the presence of very low earners (where the mean is below the median) or by a group of very high earners (where the mean is above the median).

Foreign exchange rates

All pay figures have been converted to sterling before analysing the data. We have used the average exchange rates for the 12 months prior to each company's year-end. These are taken from government sources.(13)

Endnotes

(1) This differs from the figure given in HPC and CIPD's report on CEO pay in 2019, as some CEO single figures for FYE 2019 have been revised in 2020 annual reports.

(2) It should be noted that this sample includes 24 companies with year ends in the first 3 months of 2020, before the economic lockdown began in the UK. Nonetheless, three quarters of the companies in the sample will have been affected by the UK lockdown by the time they have reached their 2020 year-end.

(3) Annual Survey of Hours and Earnings 2020, via https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/bulletins/annualsurveyofhoursandearnings/2020

(4) The data used in Figures 2 and 3 for FYE 2009 to FYE 2018 are taken from: CIPD & HPC (2020) FTSE 100 CEO pay in 2019 and during the pandemic. London: Chartered Institute of Personnel and Development, p.10.

(5) UK wage data used to calculate the ratios in this table is sourced from the ONS Annual Survey of Hours and Earnings 2020.

(6) The data on bonuses and LTIPs for 2019 relates to the single-figure data originally given, rather than the data that has been revised the following year.

(7) Executive Remuneration Working Group (2016) Final Report, via ERWG%20Final%20Report%20July%202016.pdf (theia.org)

(8) The data used in Figure 4 for FYE 2017 to FYE 2019 is taken from: CIPD & HPC (2020) FTSE 100 CEO pay in 2019 and during the pandemic. London: Chartered Institute of Personnel and Development, p.12, via https://highpaycentre.org/hpc-cipd-annual-ftse-100-ceo-pay-review-ceo-pay-flat-in-2019/

(9) The government has not published a comprehensive list of companies that have received money through the JRS. Our record of FTSE 100 firms that have done so is based on public announcements and media reports, and is therefore non-exhaustive. The same applies to our list of companies that have not repaid JRS money.

10) The Parker Review Committee (2020) Ethnic Diversity Enriching Business Leadership, via https://assets.ey.com/content/dam/ey-sites/ey-com/en_uk/news/2020/02/ey-parker-review-2020-report-final.pdf

(11) According to the Parker Review, however, these directors are concentrated in a small number of companies: across the FTSE 350 as a whole, 8 companies account for nearly 25% of the directors of colour. These mainly consist of companies owned or founded in Central and Southern America, Asia or Africa, including mining companies in particular.

(12) Resolution Foundation (2020) The Economic History of the 2010s, via https://www.resolutionfoundation.org/comment/the-economic-history-of-the-2010s/

(13) HMRC yearly average and spot rates, via https://www.gov.uk/government/publications/exchange-rates-for-customs-and-vat-yearly

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