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RETHINKING REWARD

High Pay Centre analysis of FTSE 350 pay ratio disclosures

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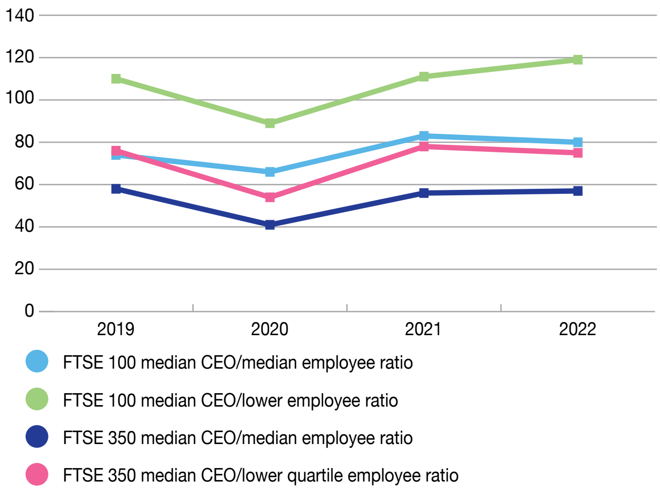
Executive Summary

FTSE 350 CEO to employee pay ratios

The median ratio of the CEO's pay to that of the median UK employee was 57:1 across FTSE 350 companies in 2022, slightly up from 56:1 in 2021. The median pay ratio of FTSE 350 CEOs to their UK employee at the 25th percentile (or lower quartile threshold) of the pay distribution was 75:1 in 2022, slightly down from 78:1 in 2021.

These ratios are higher for the FTSE 100, where the median CEO/median employee ratio was 80:1 and the median CEO/lower quartile employee ratio was 119:1.

Figure 1: Historic median pay ratios



The widest gaps recorded at any company, between the CEOs and the employee at the 25th percentile, were as follows.

Table 1: Highest CEO/Lower Quartile employee pay ratios

Company	Index	Sector	CEO/lower quartile employee ratio
BP	100	Oil, Gas and Coal	421
JD Sports	100	Retailers	360
Darktrace	250	Software and Computer Services	358
Safestore Holdings	250	Real Estate Investment Trusts	350
CRH	100	Construction and Materials	345
Mitie	250	Industrial Support Services	271
Watches of Switzerland	250	Personal Goods	253
Sainsbury's	100	Personal Care, Drug and Grocery Stores	247
Tesco	100	Personal Care, Drug and Grocery Stores	231
AstraZeneca	100	Pharmaceuticals and Biotechnology	230

FTSE 350 absolute pay levels

The companies with the lowest absolute pay levels at the 25th percentile were as follows:

Table 2: Lowest lower quartile thresholds in 2022

Company	Index	Sector	Lower quartile employee's pay in 2022 (£)
JD Sports	100	Retailers	11,240
Mitchells and Butlers	250	Travel and Leisure	15,161
WH Smith	250	Retailers	18,850
Entain	100	Travel and Leisure	18,917
Tesco	100	Personal Care, Drug and Grocery Stores	19,196
Currys	250	Retailers	19,690
B&M European Value Retail	250	Retailers	19,844
Next	100	Retailers	19,852
Sainsbury's	100	Personal Care, Drug and Grocery Stores	19,990
Associated British Foods	100	Food Producers	20,049

Across the sample, 9% of companies had lower quartile thresholds below the annualised equivalent of the London Living Wage (meaning at least a quarter of their UK employees earn less than this amount), and 2% are below the annualised equivalent of the Real Living Wage for the rest of the UK.

The pay ratio calculations do not include indirectly employed workers, who are very often low-paid.[1] Estimating the pay of the lowest-paid worker at each company on the basis of whether or not the company is an accredited living wage employer, suggests that the median CEO/lowest-paid worker ratio was 165:1, far higher than the median CEO/lower quartile employee ratio of 75:1.

Pay ratios at other employers

Not all large employers are required to publish pay ratios. For private sector companies that are not required to comply, it is possible to make crude estimates of the ratios based on disclosures in their annual accounts. For 17 such companies studied as part of this analysis, the median ratio of the pay of the highest-paid director to average employee pay (using a mean average) was 33:1. However, there are significant limitations to the validity of this calculation owing to reporting inconsistencies. For 11 large public sector employers it was possible to calculate a more accurate equivalent to the pay ratio, with a median ratio of 7:1 between the highest earning and median employees.

Additional pay reporting

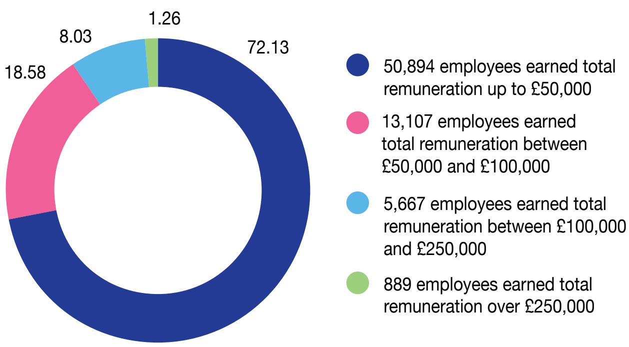
Beyond pay ratio disclosures, annual reports provide limited insight into the pay practices of the company, particularly with regard to the pay of the wider workforce.

Remuneration reports are on average 29 pages long, but typically focus on directors' pay with pay outside the boardroom barely featuring. Elsewhere in their annual report, companies report their total staff costs in their financial accounts but this is rarely broken down into more detail showing how this sum is distributed by geography, level of earnings or seniority, for example. Gender pay gap reporting provides detail on relative earnings of male and female UK employees, but not what they are paid in absolute terms. Requirements to disclose the pay of 'key management personnel' provide limited and inconsistently reported insight into the pay of top earners. The effect of other recent efforts to promote reporting on pay has been more extensive narrative reporting, rather than increased provision of concrete, consistent, comparable data. It is slightly surprising that in 200 page annual reports it is uncommon to find detailed information on how many people the companies employ and what wages they pay them.

There are examples from specific sectors or beyond the corporate world altogether of disclosures that do provide more detailed insights. NatWest supplement their data on high earners with a comprehensive statement of pay levels across their workforce, showing the number of employees in a range of different (albeit very wide) pay bands.

Figure 2: Pay distribution at Nat West

Summary of remuneration levels for employees in 2022



Introducing a requirement to publish something along the lines of the NatWest 'distribution statement' would provide stakeholders with useful and important information about the companies with which they are involved – namely, the number of jobs they create and the wage that they pay. A template that companies might be required to complete is suggested below.

[1] ShareAction (2020) Insecure work in insecure times, via https://api.shareaction.org/resources/reports/Insecure-work-in-insecure-times-briefing-final.pdf

Table 3: Template pay distribution statement

Earnings Band	Number of employees	Total expenditure (£m)
0 - £20,000		
£20,001 - £30,000		
£30,001 - £50,000		
£50,001 - £75,000		
£75,001 - £100,000		
£100,001 - £150,000		
£150,001 - £250,000		
£250,001 - £500,000		
£500,001 - £1,000,000		
£1,000,001+		

Conclusions and recommendations

The pay ratio disclosures give stakeholders some important insights into the pay practices of the reporting company. This is important because living standards and socio-economic inequality are shaped by the pay packages awarded by large employers. Pay differences also have an impact on workers' engagement and motivation, so publishing pay ratios is useful from a business performance perspective too.

At the same time, it is important to acknowledge the limitations of the disclosures. These are chiefly that:

- Reporting requirements fail to cover employers other than UK-listed companies.
- The pay ratio calculations do not include the indirectly employed workforce.
- The disclosures don't provide any detail on high earners between the upper quartile and the CEO.
- Narrative reporting supporting the disclosures provides little useful explanatory information.

The following recommendations identify ways that could strengthen or supplement pay ratio reporting.

- **More granular information on pay distribution throughout the workforce.** The 'distribution statements' discussed previously showing how many workers fall into different pay bands provide a model for better, more insightful pay reporting.
- **More detail on outsourced workers.** Companies should show the extent to which their business model depends on indirectly-employed workers. The number, cost, role and hours worked of these workers are all obvious examples of information currently typically missing from annual reports that should be included.
- **Better narrative reporting on pay.** Key issues that narrative reporting should address include:
    - the number of workers covered by the pay ratio disclosures
    - whether and to what extent workers and their representatives feed into the pay-setting process - through trade union negotiations or consultation on top pay, for example
    - what sort of range of pay gaps between high, middle and low earning employees boards think is appropriate for the company and why
    - what impact intra company pay inequality might have on employee motivation and morale
    - why any significant changes in either pay ratios or pay levels at any point across the company's pay distribution might have occurred.
- **Communicate detail on pay distribution to the workforce.** Companies should directly and individually send a dedicated communication (eg a letter or email) containing disclosures on pay ratios and pay distribution to all workers covered by the disclosures.
- **Consistent pay reporting for large employers of all types.** The above recommendations and the principle of reporting data on jobs, pay and pay inequality should apply to all major UK employers rather than just those listed on the stock market.
- **Governance mechanisms supportive of fair pay.** Worker voice in corporate governance structures and pay-setting processes is a key element of demonstrating that pay awards at all levels of a company are fair and proportionate. By guaranteeing the workforce has had some input into and oversight over the pay-setting process, companies can provide stakeholders with greater confidence in the pay outcomes.

Together, these mechanisms could ensure more accurate, more comprehensive data on pay across a much broader range of large UK employers.

Introduction

The 2018 Companies (Miscellaneous Reporting) Regulations require UK-incorporated listed companies to publish 'pay ratio' disclosures showing the relationship of their CEO's total remuneration to the total remuneration of employees at the 75th (upper quartile), median and 25th (lower quartile) percentile of the pay distribution of the company's UK employee population.[2] Companies are also required to disclose the absolute levels of total remuneration for the employees at these percentiles. The pay ratio requirements apply to UK-incorporated companies with a premium stock market listing with over 250 UK employees, and first came into effect for annual reports with year-ends on 31 December 2019.

The disclosures and the light they shed on pay practices at some of the UK's biggest employers are particularly pertinent in light of recent economic developments in the UK - the 'cost of living crisis', and longer term trends affecting the UK economy including poor economic growth and wage stagnation.[3]

In difficult economic circumstances, how we share the wealth we do have becomes increasingly important. CEO to employee pay gaps and the absolute pay levels for lower, middle and higher earning employees within major UK employers provide interesting underlying insights into broader economy wide data on earnings and earnings distribution across sectors and the country as a whole.

The ratios are also informative from a business performance perspective. It makes intuitive sense that some degree of inequality is necessary within organisations, to encourage lower earners to work harder and accumulate more skills in order to achieve a promotion to a higher-earning role. Pay might be expected to vary according to qualifications, experience and the contribution a worker to makes to the organisation. Equally, it is possible that very large differences in pay between colleagues within the same organisation foster resentment that is not conducive to high performance or a positive corporate culture. Recent research from the US finds that companies publishing wider pay ratios were more likely to experience weaker employee engagement and more negative attitudes from colleagues towards the CEO.[4]

This report analyses pay ratio disclosures published by FTSE 350 companies covering the financial year 2022 and compares them to the previous three years for which comparable ratios are available. The report looks at both CEO to employee pay gaps, and the pay levels for employees across the pay distribution in absolute terms. It then goes on to estimate CEO to worker pay gaps at major employers not covered by the pay ratio reporting requirements, before reviewing wider reporting on pay. The report concludes by summarising some of the insights provided by the pay ratio disclosures, as well as noting their limitations, and recommending measures through which either companies and investors, through voluntary action, or policymakers and regulators, through laws and regulations, might further enhance the transparency and governance of the pay practices of corporate Britain.

[2] UK Government (2018), The Companies (Miscellaneous Reporting) Regulations 2018 https://www.legislation.gov.uk/ukdsi/2018/9780111170298/pdfs/ukdsi_9780111170298_en.pdf
[3] Resolution Foundation (2022), Stagnation nation: Navigating a route to a fairer and more prosperous Britain via https://economy2030.resolutionfoundation.org/reports/stagnation-nation/
[4] Boone, Audra and Starkweather, Austin and White, Joshua T (2023), The Saliency of the CEO Pay Ratio via https://ssrn.com/abstract=3481540

Methodology

This report compiles pay ratio disclosures for FTSE 350 companies, indexed on the basis of their status at the time of the publication of their annual report. Only those companies that are legally required to publish a pay ratio – UK incorporated firms with a premium stock market listing and over 250 UK employees – are included in the analysis, unless stated otherwise.

All figures in the report relate to the financial year 2022 unless stated. In this report, the financial year '2022' equates to disclosures made by companies for their reporting period ending between April 1 2022 and March 31 2023. For 2021, it equates to reports relating to years ending between April 1 2021 and March 31 2022 and so on for 2020 and 2019. So, for example, a pay ratio reported by a company for the financial year 1 April 2022 to 31 March 2023 would be allocated to the 2022 dataset. This represents a change from previous reports when we previously simply attributed ratios to the calendar year in which the company's financial year end took place (meaning the pay ratio for a financial year ending March 31 2023 would be allocated to the 2023 data set). The change means the data corresponds more accurately to the year to which it is allocated, but does not substantially change the results.

As companies reporting timeframes are different, there is a significant time lag between the end of the year and the publication of full pay ratio data for every FTSE 350 company. This means that by the time the data set is complete some companies have already published updated figures for 2023, so individual company ratios cited in this report are mostly but not universally the latest ones for the company in question.

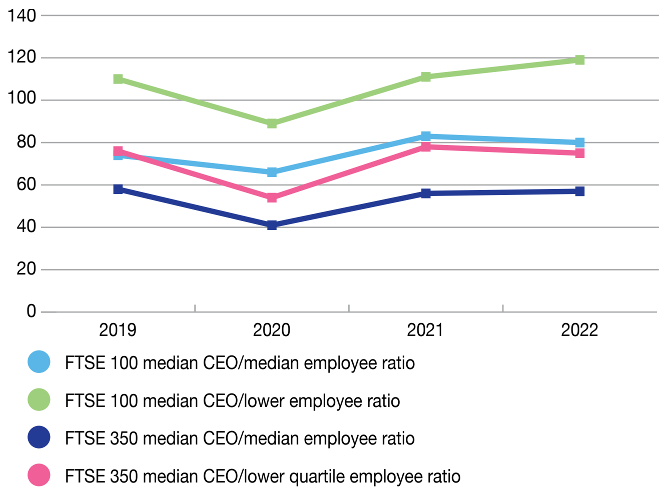
CEO to employee pay ratios at FTSE 350 companies

Historic pay ratios

The median ratio of the CEO's pay to that of the median UK employee was 57:1 across FTSE 350 companies in 2022, slightly up from 56:1 in 2021. The median pay ratio of the CEO to the UK employee at the 25th percentile, or lower quartile threshold (i.e. paid more than 25% of employees on a full-time-equivalent basis) was 75:1 in 2022, slightly down from 78:1 in 2021.

The ratios are higher for the FTSE 100, where the median CEO/median employee ratio was 80:1 and the median CEO/lower quartile employee ratio was 119:1.

Figure 3: Historic median pay ratios



In 2022, 21% of FTSE 350 companies had a CEO/median employee ratio of over 100:1. In 2021, it was 20%. In 2022, 3% of companies had a CEO/median employee ratio of over 200:1, which is a decline from 5% of companies in 2021.

In 2022 35% of companies had a CEO/lower quartile ratio that exceeded 100:1 and 7% that exceeded 200:1. In 2021, by comparison, 35% of companies also had a CEO/lower quartile ratio that exceeded 100:1 but 9% exceeded 200:1.

The data shows that CEO TO worker pay ratios rebounded in 2021 to 2019 levels, having fallen in 2020. This reflects CEO pay trends during the Covid pandemic, when the impact of lockdowns on the stock market and voluntary reductions in CEO pay led to a decrease in CEO-worker ratios. When markets and CEO pay awards rebounded in 2021 as lockdown restrictions eased, pay ratios widened again. In 2022, pay ratios remained similar to both 2021 and 2019 levels. In other words, the narrowing of the gap that occurred during the pandemic has been reversed, but otherwise pay ratios have remained reasonably stable since reporting requirements were introduced.

Highest and lowest pay ratios

Tables 1 and 2 show the companies with highest CEO/median employee and CEO/lower quartile employee pay ratios. These are mostly FTSE 100 companies, indicating that there is a connection between market capitalisation and a high pay ratio, as observed in last year's report. This might be expected – managing a larger company could be considered a more complex task requiring higher CEO pay – whereas the role of an ordinary employee in (for example) the manufacturing or financial services or chemicals sector does not necessarily change regardless of whether the employer is a FTSE 100 or FTSE 250 company. On the other hand, pay for CEOs of FTSE 100 companies also generates higher non-financial rewards relative to their FTSE 250 counterparts in terms of the prestige of being CEO of a larger, higher profile organisation. Some commentators have also argued that at larger, more established companies with extensive institutional knowledge, long-standing operational processes and wider-ranging business and geographical interests, CEOs exercise less control over the company and their actions are of less significance.[5]

Retail companies are particularly well-represented in the tables. This reflects low rates of pay across their workforce combined with the high levels of CEO pay common to all large companies. Of the 13 companies included in the two tables, five are the same as those in last year's ten highest CEO/median and CEO/lower quartile ratios: these are Safestore, CRH, B&M, Tesco and JD Sports.

[5] For example Sir Philip Hampton, former RBS Chair in argues that "the bigger the system, the more it's the system that counts, not the person on top", High Pay Centre (2014), Made to Measure: How Opinion about Executive Performance Becomes Fact via https://highpaycentre.org/made-to-measure-how-opinion-about-executive-performance-becomes-fact/

Table 4: Highest CEO/median employee ratios

Company	Index	Sector	CEO/median employee ratio
Safestore Holdings	250	Real Estate Investment Trusts	313
Darktrace	250	Software and Computer Services	271
CRH	100	Construction and Materials	259
Mitie	250	Industrial Support Services	248
Sainsbury's	100	Personal Care, Drug and Grocery Stores	229
Watches of Switzerland	250	Personal Goods	213
Tesco	100	Personal Care, Drug and Grocery Stores	197
Pearson	100	Media	181
Ashtead	100	Industrial Transportation	179
B&M European Value Retail	250	Retailers	178

Table 5: Highest CEO/lower quartile employee ratios

Company	Index	Sector	CEO/lower quartile employee ratio
BP	100	Oil, Gas and Coal	421
JD Sports	100	Retailers	360
Darktrace	250	Software and Computer Services	358
Safestore Holdings	250	Real Estate Investment Trusts	350
CRH	100	Construction and Materials	345
Mitie	250	Industrial Support Services	271
Watches of Switzerland	250	Personal Goods	253
Sainsbury's	100	Personal Care, Drug and Grocery Stores	247
Tesco	100	Personal Care, Drug and Grocery Stores	231
AstraZeneca	100	Pharmaceuticals and Biotechnology	230

Tables 3 and 4 show the 10 lowest CEO/median employee and CEO/lower quartile employee ratios. The companies in these tables are mostly from the FTSE 250. They are also mostly in the technology and finance industries. These industries are capital-intensive and therefore have a small employee population of so-called 'highly skilled' employees, earning more than those in labour-intensive industries such as retail and hospitality.

Of the 12 companies included in these two tables, seven are the same as those in last year's ten lowest CEO/median and lowest CEO/lower quartile companies: Tullow, CMC, Rathbone Bros, NCC, Royal Mail/International Distribution Services, Kainos and Integrafin.

Table 6: Lowest CEO/median employee ratios

Company	Index	Sector	CEO/median employee ratio
Tullow Oil	250	Oil, Gas and Coal	8
Jupiter Fund Management	250	Investment Banking and Brokerage Services	9
Kainos	250	Software and Computer Services	9
Rathbones	250	Investment Banking and Brokerage Services	11
CMC	250	Investment Banking and Brokerage Services	11
Integrafin	250	Investment Banking and Brokerage Services	12
NCC	250	Software and Computer Services	14
Beazley	250	Non-life Insurance	16
Pennon	250	Gas, Water and Multi-utilities	16
ASOS	250	Retailers	17

Table 7: Lowest CEO/lower quartile employee ratios

Company	Index	Sector	CEO/lower quartile employee ratio
Tullow Oil	250	Oil, Gas and Coal	12
Jupiter Fund Management	250	Investment Banking and Brokerage Services	14
Kainos	250	Software and Computer Services	15
Integrafin	250	Investment Banking and Brokerage Services	16
CMC	250	Investment Banking and Brokerage Services	18
Pennon	250	Gas, Water and Multi-utilities	20
Rathbones	250	Investment Banking and Brokerage Services	21
International Distributions Services	250	Industrial Transportation	21
NCC	250	Software and Computer Services	23
Synthomer	250	Chemicals	24

Absolute pay levels at FTSE 350 companies

Lowest and highest earning low-earners

As part of the pay ratio disclosures, companies are required to disclose the total remuneration of employees at the 25th, 50th and 75th percentile of the workforce. The levels of pay for employees at the 25th percentile, or the 'lower quartile' are particularly important to analyse, as raising pay for the lowest earners should be a societal priority, and the FTSE 350 includes many of the UK's biggest employers.

Tables 8 and 9 show the 10 companies with the lowest lower quartile thresholds for 2022 and 2021 respectively. 6 of the ten companies in Tables 8 are also in Table 9: Mitchells & Butlers, JD Sports, WH Smith, Entain, Next and B&M Value Retail. The average lower quartile threshold of the ten companies in Table 8 is £18,279, compared to £16,437 for Table 9. This means that pay for this group has gone up by £1,842 since last year. This accounts for an 11.2% increase. However, inflation needs to be taken into account. Given that companies have different financial years, the inflation rate for the relevant period will differ for each company. An 11.2% pay increase would be greater than the CPI or CPIH levels of inflation recorded in late 2022 and early 2023 but below the RPI level of inflation.[7 8]

Table 8: Lowest lower quartile thresholds in 2022

Company	Index	Sector	Lower quartile employee's pay in 2022 (£)
JD Sports	100	Retailers	11,240
Mitchells & Butlers	250	Travel and Leisure	15,161
WH Smith	250	Retailers	18,850
Entain	100	Travel and Leisure	18,917
Tesco	100	Personal Care, Drug and Grocery Store	19,196
Currys	250	Retailers	19,690
B&M European Value Retail	250	Retailers	19,844
Next	100	Retailers	19,852
Sainsbury's	100	Personal Care, Drug and Grocery Stores	19,990
Associated British Foods	100	Food Producers	20,049

Table 9: Lowest lower quartile thresholds in 2021

Company	Index	Sector	Lower quartile employee's pay in 2021 (£)
JD Sports	100	Retailers	10,405
Mitchells & Butlers	250	Travel and Leisure	15,215
Telecom Plus	250	Telecommunications Service Providers	15,305
Next	100	Retailers	15,669
WH Smith	250	Retailers	16,795
Dixons Carphone Warehouse	250	Retailers	17,254
Domino's Pizza	250	Travel and Leisure	17,913
Entain	100	Travel and Leisure	18,503
B&M European Value Retail	250	Retailers	18,612
Kingfisher	100	Retailers	18,700

However, comparing Table 8 with Table 9 is not a like for like comparison, as four of the ten companies in this list have changed from 2021 to 2022. When looking at how pay has changed for the lower quartile threshold at individual companies, the picture becomes more complicated, as at some companies the lower quartile threshold has increased far more than 11.2%, whilst at other companies, the increase has been minimal. Tables 10 and 11 show the lower quartile threshold data for the companies in Tables 8 and 9 for both 2021 and 2022, revealing how pay has changed at these companies over these two years. Changes in the lower quartile threshold may be due solely to changes in employee remuneration. However, in the case of large changes in pay levels, these could result from the restructuring of the workforce (e.g. outsourcing employees, moving operations or reducing working time as a result of the pandemic), meaning that the employee population included in the pay ratio calculations is different to the previous year.

[7] Office for National Statistics (2023), Consumer Price Inflation, UK October 2023 via https://www.ons.gov.uk/economy/inflationandpriceindices/bulletins/consumerpriceinflation/october2023#:~:text=The%20core%20CPIH%20annual%20inflation,in%20the%20constructed%20historical%20series.

[8] Office for National Statistics (2023), RPI All items Percentage change over 12 months via https://www.ons.gov.uk/economy/inflationandpriceindices/timeseries/czbh/mm23

With this in mind, some of the pay increases in these tables seem implausible. Telecom Plus and Next report lower quartile pay levels respectively 61% and 27% higher than in 2021. It seems likely that this reflects changes in the employee population, rather than the actual pay increases experienced by the workforce. Companies are directed by the reporting requirements to explain changes to the pay ratio but not necessarily to the absolute pay levels at any of the percentile points in the distribution, and in these examples neither company explains why there is such a big increase in pay at the lower quartile threshold. The fact that some of the reported figures seem hard to trust in light of previous disclosures does raise the question of whether other, more plausible sounding figures can be taken at face value.

Table 10: Comparison of lower quartile employee pay in 2021 and 2022 for the 10 companies with the lowest lower quartile thresholds in 2021

Company	Index	Lower quartile employee's pay in 2021 (£)	Lower quartile employee's pay in 2022 (£)	% change from 2021 to 2022
JD Sports	100	10,405	11,240	8%
Mitchells & Butlers	250	15,215	15,161	-0.4%
Telecom Plus	250	15,305	24,565	60.5%
Next	100	15,669	19,852	26.7%
WH Smith	250	16,795	18,850	12.2%
Currys / Dixons Carphone Warehouse	250	17,254	19,690	14.1%
Domino's Pizza	250	17,913	20,125	12.3%
Entain	100	18,503	18,917	2.2%
B&M European Value Retail	250	18,612	19,844	6.6%
Kingfisher	100	18,700	21,100	12.8%

Table 11: Comparison of lower quartile employee pay in 2021 and 2022 for the 10 companies with the lowest lower quartile threshold in 2022

Company	Index	Lower quartile employee's pay in 2021 (£)	Lower quartile employee's pay in 2022 (£)	% change from 2021 to 2022
JD Sports	100	10,405	11,240	8%
Mitchells & Butlers	250	15,215	15,161	-0.4%
WH Smith	250	16,795	18,850	12.2%
Entain	100	18,503	18,917	2.2%
Tesco	100	18,912	19,196	1.5%
Currys / Dixons Carphone Warehouse	250	17,254	19,690	14.1%
B&M European Value Retail	250	18,612	19,844	6.6%
Next	100	15,669	19,852	26.7%
Sainsbury's	100	18,780	19,990	6.4%
Associated British Foods	100	20,049	19,775	1.4%

It is instructive to compare these figures to the incomes that experts estimate are necessary to ensure a decent standard of living. The UK Real Living Wage, calculated by the Living Wage Foundation on this basis, was set at an hourly rate of £11.05 in London for 2022, and £9.90 across the rest of the UK. Based on a 37.5 hour working week, the 2022 London rate equated to £21,548 per annum and the wider UK rate to £19,305 per annum.[6] Across the FTSE 350, 9% of companies have lower quartile thresholds below the annualised equivalent of the London Living Wage and 2% are below the annualised equivalent of the Real Living Wage for the rest of the UK.

[6] Office for National Statistics (2023), Earnings and hours worked, place of work and place of residence by Parliamentary constituency: ASHE Tables 9 and 10 via https://www.ons.gov.uk/datasets/ashe-tables-9-and-10/editions/time-series/versions/5

Pay for low earners below the lower quartile

It is also important to emphasise that the pay ratio disclosures substantially understate the extent of low pay at the reporting companies. Firstly, the lower quartile employee is the employee at the 25th percentile, meaning that a quarter of employees are earning less than this amount. The pay ratios do not provide any information on the earnings of these employees. Secondly, the pay ratios do not include indirectly employed workers, who often carry out typically low-paid roles.[7] This also has a consequent effect for pay reported for median and upper quartile employees. For example, the median pay level for the median employee recorded by our analysis was £44,223, substantially higher than median pay of £33,000 for all full-time earners across the UK.[8] While this could suggest that the large employers listed on the FTSE 350 generally pay better than most UK employers (as a result of the nature of their work, workforce and organisation) it could also reflect the extent to which their low earning workers are indirectly employed and therefore don't feature in the calculation of median pay.

It is possible, however, to estimate the pay ratios between the CEO and the lowest-paid worker at their company, assuming the lowest-paid worker earned the annualised equivalent of the 2022 Real Living Wage (£19,305) while at non accredited companies they earned the annualised equivalent of the statutory minimum wage for those aged 18 or over, equating to an annual salary of £13,319 on the same basis (the fact that one company reported pay lower than this could reflect factors such as employees aged under 18 or a shorter definition of full time hours).

Using this calculation, the median CEO/lowest-paid worker ratio across the FTSE 350 was 165:1, far higher than the median CEO/lower quartile employee ratio of 75:1.

Pay for high earners below the CEO

While the requirement to provide information on the pay of the CEO and employees at the 25th, 50th, and 75th percentile may have been intended to provide transparency on the high, middle and low earning employees within companies, it is striking that the differences between the 25th and 75th percentile points are typically trifling compared to the gap between the CEO and all three of the other pay points disclosed. Median upper quartile pay is £67,410, undoubtedly well-paid but not what most people would consider to be outlandishly rich. Median pay for a FTSE 350 CEO in the sample was £2.4 million.[9] The median upper quartile to lower quartile ratio across the companies was 2:1 compared to a median CEO to upper quartile ratio of 38:1.

In other words, an employee going from the bottom quarter to the top quarter of a company's pay distribution might only see their pay double, but to go from the threshold of the top quarter to the very top of the company would see it increase 38 times over.

This mirrors income distribution across wider society. Government statistics suggest that median UK incomes of around £26,000 compare to around £60,000 (a little more than double the median) at the 90th percentile (the threshold for the top 10%) and £180,000 (around seven times the median) at the 99th percentile.[10] Separate research has previously put the threshold for the top 0.1% at around £650,000, roughly 25 times the median.[11] Income inequality in the UK is less a phenomenon of gaps between the top, middle and bottom than of a huge gap between a very small super-rich elite and everybody else. However, pay ratio disclosures do not provide data on the pay of very high earners at UK-listed companies, other than that of the CEO.

[7] ShareAction (2020) Insecure work in Insecure Times, via https://api.shareaction.org/resources/reports/Insecure-work-in-insecure-times-briefing-final.pdf

[11] Figure for median full time UK earnings via Office for National Statistics (2023), Annual Survey of Hours and Earnings via https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/bulletins/annualsurveyofhoursandearnings/2023

[9] High Pay Centre (2023), FTSE 100 CEOs get half a million pound pay rise via https://highpaycentre.org/ftse-100-ceos-get-half-a-million-pound-pay-rise/

[10] Office for National Statistics (2023), Percentile points from 1 to 99 for total income before and after tax via https://www.gov.uk/government/statistics/percentile-points-from-1-to-99-for-total-income-before-and-after-tax

[11] Institute for Fiscal Studies (2019), Characteristics and Incomes of the top 1% via https://ifs.org.uk/sites/default/files/output_url_files/BN253-Characteristics-and-Incomes-Of-The-Top-1%252525.pdf

Pay ratios beyond listed companies

Exceptions to the reporting requirements

The pay ratio requirements present information on income inequality within UK-listed companies. However, many major employers are not subject to these requirements due to being privately-owned companies not listed on the stock market, the UK subsidiary of foreign-incorporated parent companies or public sector organisations outside the private sector altogether. Given interest in the pay, living standards and working conditions of all UK workers, this is a significant limitation and one of the reasons why the pay ratio disclosures are a useful insight, rather than a definitive account, of pay distribution at major UK employers.

However, provisions in the 2008 Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations and 2006 Companies Act mean that non-listed companies do have to disclose their 'highest paid director's emoluments', 'total staff costs' and number of employees. [12] [13] Similarly, public sector organisations often have to comply with pay reporting guidance, such as The Government Financial Reporting Manual or NHS Foundation Trust Annual Reporting Manual.[14] [15] Compliance with these requirements enables some simplistic calculations to compute approximate CEO to employee pay gaps within these companies.

Pay gaps at companies beyond UK-incorporated listed companies

The UK Government's Gender Pay Gap reporting database identifies employers that must comply with the gender pay reporting requirements, grouped by number of UK employees up to those with an employee population of 20,000 or more. This latter group includes 17 companies that don't have to comply with the pay ratios requirements and can act as a case study for calculating pay gaps at other large private sector employers. The Companies House register contains company accounts for these companies, which include data on their 'highest paid director's emoluments', 'total staff costs' and number of employees.

By dividing total staff costs by the total number of employees, it's possible to obtain the average pay of an employee at each company. This figure can then be compared to the highest-paid director's pay to get the highest-paid-director-to-mean-employee pay ratio. For our sample, the median highest-paid-director-to-mean-employee pay ratio was 33:1, though the mean was 97:1, suggesting there are a few companies with exceptionally high pay ratios.

This is much lower than the median CEO/median employee ratio across the FTSE 350, which could suggest that 'CEO to employee' pay gaps are generally lower at non-listed or subsidiary companies that aren't subject to the reporting requirements. However, there are a number of reasons why the estimated ratios for these companies may be inaccurate.

As the average employee pay figure is a mean, not a median, it could be skewed upwards by a small number of very highly-paid employees, meaning that in reality the pay ratio between the CEO and the median employee might be much higher. Conversely, as the annual reports do not report the number of employees on a Full Time Equivalent (FTE) basis, using the number of all employees (part and full time) might skew average employee pay (on an FTE basis) down and thus the pay ratio up.

Furthermore, there were a number of cases where the 'highest paid director's emoluments' appeared to be very low compared to typical pay levels for very senior business executives. For example, two foreign owned firms, one with nearly 62,000 UK employees and another with 36,000, reported their highest-paid UK director to be paid around £250,000 - median FTSE 250 CEO pay is about seven times this amount. This is likely a consequence of the fact that reporting requirements on top pay are less comprehensive for these companies, rather than their highest earners being paid so much less than at the companies subject to the pay ratio reporting requirements.

[12] UK Government (2008), The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations (2018), Schedule 5 via https://www.legislation.gov.uk/uksi/2008/410/schedule/5/made

[13] UK Government (2006), Companies Act (2006), Section 411 via https://www.legislation.gov.uk/ukpga/2006/46/section/411/2016-05-17

[14] HM Treasury (2022), The Government Financial Reporting Manual: 2022-23 via https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1124824/MASTER_FINAL_2022-23_FReM.pdf

[15] NHS England (2023), NHS foundation trust annual reporting manual 2022/23 via https://www.england.nhs.uk/wp-content/uploads/2023/04/PRN00335_NHS-foundation-trust-annual-reporting-manual-2022-23_310523.pdf

Public sector employers

The Gender Pay Gap reporting database also identifies 12 public sector organisations with over 20,000 employees.[16] This group provide an insight into pay gaps at large public sector employers. Five of these were NHS Trusts and thus had to comply with NHS Foundation Trust Annual Reporting Manual 2022 and six were government departments (or fell under a government department's reporting scope) and thus had to comply with The Government Financial Reporting Manual 2022. The reporting manuals mandate that these organisations report pay levels throughout the organisation in a structured tabular format, similar to the pay ratio reporting requirements.

The median highest-paid director/median employee pay ratio across these public service organisations for 2022 was 7:1. This ratio is dramatically lower than the private sector companies, even though median employee pay of £33,886 was comparable to many FTSE 350 companies. It suggests a completely different pay culture for public sector leaders, even though senior public sector positions entail huge responsibilities within large organisations doing vital work, often of literal life-or-death importance. It is striking that these public sector bodies don't appear to require such substantial levels of top pay in order to function properly and there doesn't seem to be a struggle in attracting and retaining competent staff. The Civil Fast Stream scheme, from which many future public service leaders are recruited, has attracted around 60,000 applicants in recent years for barely 1,000 positions.[17] This raises questions of whether and why much higher expenditure on top pay is necessary to persuade competent candidates to take on senior roles in business.

[16] Gender pay gap service, via1 https://gender-pay-gap.service.gov.uk/
[17] Institute for Government (2022), Civil Service Fast Stream via https://www.instituteforgovernment.org.uk/article/explainer/civil-service-fast-stream

Additional pay reporting

Regulatory and stakeholder interventions

The pay ratio reporting requirements (introduced in 2018) and the requirement to publish a 'single figure' for CEO pay and other executive pay related disclosures (introduced in 2013) have been implemented alongside a number of other legislative and regulatory changes promoting more extensive disclosures on pay by UK-listed companies. [18, 19]

For example, since 2018, the Corporate Governance Code has stipulated that businesses should explain how they invest in and reward their workforce.[20] The 2018 edition of the Code also set out a direct responsibility for remuneration committees to review workforce pay and incentives and their impact on culture. Mandatory 'Gender Pay Gap' reporting was introduced (for all large UK employers) in 2017.[21]

The requirement for companies to publish 'strategic reports' introduced in 2013 also mandates discussion of particular aspects of the companies' business model and strategy that include employee relations, while since 2018 companies have been required to report on how their directors have complied with Section 172 of the Companies Act setting out a duty to have regard for stakeholders including their employees in their actions as directors. [22, 23] These measures might be expected to encourage more detailed pay reporting, on the basis that pay practices are a key driver of relationships with the workforce.

However, despite these developments, beyond the pay ratio disclosures corporate reporting on workforce pay remains limited.

Remuneration reports

High Pay Centre analysis of the remuneration reports of the 30 largest FTSE 100 companies by market capitalisation found that they were on average 29 pages long, but were typically focused on directors' pay with pay outside the boardroom barely featuring.

The companies in our sample spent an average of 17 pages each explaining their executive pay outcomes for the year and how their pay policy would apply in future years. This was mostly disclosed in narrative form describing the different components of pay, the multiple different performance metrics and the business context. The remainder of the reports were generally taken up by other disclosures relating to directors' pay – for example the non-executive directors' fees, directors' shareholdings and CEO pay and company performance over the longer term.

Alongside the pay ratio disclosures, companies are required to provide contextual explanation for pay levels across the workforce (specifically, how the pay ratio, including the median employee's pay level, is consistent with the company's pay and reward policies). However, companies rarely expend more than a sentence on narrative context to the pay ratio, typically stating that employees pay levels are set according to the market rate. Similarly, the Corporate Governance Code provisions state that companies should say how pay and conditions across the company are taken into account when setting executive pay. Again, this requirement is usually dealt with in little more than a sentence saying that the remuneration committee was updated on pay and conditions across the group and took this into account when determining executive pay awards.

The wider annual report

Elsewhere in their annual report, companies report their total staff costs in their financial accounts but the headline figure is rarely broken down into more detail showing how total expenditure on staff is distributed by geography, level of earnings or seniority, for example. Gender pay gap reporting provides detail on relative earnings of male and female UK employees, but not what they are paid in absolute terms.

[18] UK Government (2018), The Companies (Miscellaneous Reporting) Regulations 2018 https://www.legislation.gov.uk/ukdsi/2018/9780111170298/pdfs/ukdsi_9780111170298_en.pdf
[19] UK Government (2013), The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 via https://www.legislation.gov.uk/uksi/2013/1981/pdfs/uksi_20131981_en.pdf
[20] Financial Reporting Council (2018), The UK Corporate Governance Code, 2018 via https://media.frc.org.uk/documents/UK_Corporate_Governance_Code_2018.pdf
[21] Government Equalities Office (2017), Gender Pay Gap Reporting: Guidance for Employers Published via https://www.gov.uk/government/news/gender-pay-gap-reporting
[22] Financial Reporting Council (2013), Staff Guidance Note: The Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013, https://media.frc.org.uk/documents/FRC_Staff_Guidance_Note_-_Strategic_Report_Regulations.pdf
[23] UK Government (2018) The Companies (Miscellaneous Reporting) Regulations 2018, https://www.legislation.gov.uk/ukdsi/2018/9780111170298

Longer-standing requirements to disclose the pay of 'key management personnel' provide a limited insight into the pay of top earners. However, these disclosures are opaque, inconsistent and only relate to a small number of senior staff. The largest 30 companies in the FTSE 100 by market capitalisation reported an average number of 20 key management personnel, spending an average of £37m on these individuals in total. But, the number of individuals ranged from 9 to 27 and the total expenditure ranged from £8.3 million to £79.8 million. For each company a different mix of Executive Directors, Non-Executive Directors and/or other senior managers were covered by the disclosures. Key Management Personnel' disclosures don't enable inter-company comparisons of the pay of top earners. But they do suggest that pay for even a small number of senior employees including and beyond the CEO at large companies is very significant, of a magnitude that approaches a very significant cost to the company and equivalent to the cost of a meaningful pay increase for a much larger number of workers.

The effect of other recent efforts to promote reporting on pay has been more extensive narrative reporting, rather than increased provision of concrete, consistent, comparable data. A High Pay Centre analysis of the FTSE 100 in 2022 found that while almost every company included some discussion of their pay setting practice or pay-setting processes, the use of data to provide evidence to support narrative claims (typically portraying their pay practices in a positive light) was more piecemeal. For example, just 41% of companies highlighted living wage accreditation, 9% disclosed their ethnic pay gap and only 3% detailed use of outsourced employment.[24]

Given that there are few more important indicators of a company's socio-economic impact than the number of jobs it creates and the level of income they provide, it is really quite surprising that 200 page annual reports, typically including almost 30 pages dedicated to 'remuneration', rarely provide this information on a systematic basis (and also a slightly depressing indicator of how useful the various regulatory and industry initiatives to improve workforce-related reporting have been).

Best practice case studies

There are, however, some examples of disclosures, from specific sectors or beyond the corporate world altogether, that address some of the shortcomings of the pay ratio requirements and other reporting regulations that could be applied more widely.

For example the banking sector provides much more extensive data on their highest earners. In line with the EU Capital Requirements Regulations (which has been incorporated into UK law post-Brexit) UK banks report their number of employees earning over €1 million. Examples from the HSBC and Barclays disclosures are copied below.

Table 12: High-earning employees at Barclays[25]

Euros	Identified staff that are high earners as set out in Article 450(i) CRR
1,000,000 to below 1,500,000	301
1,500,000 to below 2,000,000	122
2,000,000 to below 2,500,000	61
2,500,000 to below 3,000,000	39
3,000,000 to below 3,500,000	29
3,500,000 to below 4,000,000	22
4,000,000 to below 4,500,000	16
4,500,000 to below 5,000,000	11
5,000,000 to below 6,000,000	7
6,000,000 to below 7,000,000	5
7,000,000 to below 8,000,000	1
8,000,000 to below 9,000,000	1
9,000,000 to below 10,000,000	3
10,000,000 to below 11,000,000	-
11,000,000 to below 12,000,000	1

Table 13: High-earning employees at HSBC[26]

Euros	Identified staff that are high earners as set out in Article 450(i) CRR
1,000,000 to below 1,500,000	246
1,500,000 to below 2,000,000	107
2,000,000 to below 2,500,000	48
2,500,000 to below 3,000,000	26
3,000,000 to below 3,500,000	12
3,500,000 to below 4,000,000	8
4,000,000 to below 4,500,000	7
4,500,000 to below 5,000,000	5
5,000,000 to below 6,000,000	6
6,000,000 to below 7,000,000	2
7,000,000 to below 8,000,000	3
8,000,000 to below 9,000,000	1
9,000,000 to below 10,000,000	1
10,000,000 to below 11,000,000	-
11,000,000 to below 12,000,000	1

[24] High Pay Centre/CIPD (2022), How do companies report on their most important asset? An analysis of workforce reporting in the FTSE 100 and recommendations for action via https://highpaycentre.org/wp-content/uploads/2022/03/Workforce-planning_WEB-1.pd

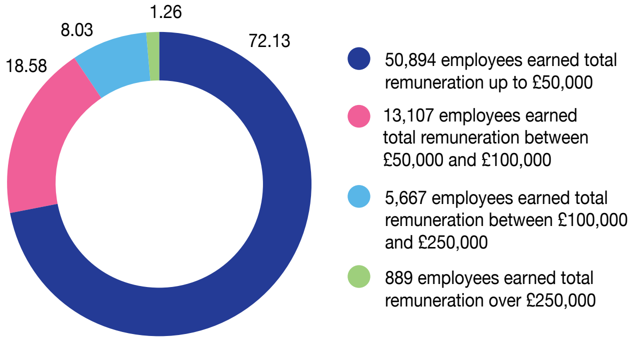
[25] Barclays (2023), Barclays Bank plc Pillar 3 Report 2022 via https://home.barclays/content/dam/home-barclays/documents/investor-relations/reports-and-events/annual-reports/2022/Pillar-3/Barclays-Bank-PLC-Pillar-3-Report%202022.pdf

[26] HSBC (2023, HSBC Holdings plc Annual Report and Accounts 2022 via https://www.hsbc.com/investors/results-and-announcements/annual-report

NatWest also supplement their data on high earners with a comprehensive statement of pay levels across their workforce, showing the number of employees in a range of different pay bands.

Figure 4: Pay distribution at Nat West

Summary of remuneration levels for employees in 2022



While the CEO's pay, even when it amounts to several million pounds, is often not a material amount for companies worth billions, the total cost of all high earners becomes more meaningful, particularly the potential opportunity costs in terms of returns to shareholders, investment in innovation and productivity or pay increases for low- and middle- income workers. The practice of detailing the number and costs of employees paid what might reasonably be considered to be very large amounts really ought to be more widely adopted, with the value that these individuals generate in return for such extraordinary pay levels discussed and debated.

Outside the private sector, UK charities are required by the Charities Commission to publish figures on high earners based on similar principles to the banks, albeit with (as one might expect) a very different definition of what constitutes a higher earner. Disclosures must show the number of employees in each band of £10,000 from £60,000 upwards.[27] Similarly, the Government Financial Reporting Manual requires 'numbers of Senior Civil Service staff (or equivalent) by pay band' to be disclosed. Examples from the United Learning Trust, one of the UK's largest charities by employee numbers, and the Home Office are copied below.

Table 14: Highest earners at United Learning Trust[28]

Euros	2022	2021
In the band £60,001 - £70,000	160	141
In the band £70,001 - £80,000	66	60
In the band £80,001 - £90,000	29	28
In the band £90,001 - £100,000	19	19
In the band £100,001 - £110,000	8	12
In the band £110,001 - £120,000	9	10
In the band £120,001 - £130,000	1	3
In the band £130,001 - £140,000	5	2
In the band £140,001 - £150,000	3	2
In the band £150,001 - £160,000	-	1
In the band £160,001 - £170,000	-	1

Table 15: High earners at the Home Office

Pay Remuneration Bands	SCS within the range as at end of March 2023	Percentage
£70,000 - £75,000	17	4.93%
£75,000 - £80,000	53	15.3%
£80,000 - £85,000	72	20.8%
£85,000 - £90,000	55	15.9%
£90,000 - £95,000	27	7.83%
£95,000 - £100,000	27	7.83%
£100,000 - £105,000	15	4.35%
£105,000 - £110,000	15	4.35%
£110,000 - £115,000	11	3.19%
£115,000 - £120,000	16	4.64%
£120,000 - £130,000	7	2.03%
£130,000 - £135,000	7	2.03%
£135,000 - £145,000	7	2.03%
£145,000 - £150,000	8	2.32%
£150,000 - £155,000	4	1.16%
£170,000 - £175,000	1	0.29%
£175,000 - £180,000	1	0.29%
£180,000 - £185,000	1	0.29%
£185,000 - £190,000	1	0.29%
Grand Total	**345**	**100%**

As a means of understanding pay inequalities and the cost and concentration of pay for high earners, the above examples are imperfect. The qualification for a high earner in banking (€1 million) seems a little high. The bands of £10,000 for charities are probably unnecessarily narrow. Conversely, the NatWest bands grouping everyone making up to £50,000 in the lowest earning category and everyone over £250,000 in the highest are too wide.

However, the principle of a pay distribution statement disclosing the number of employees across the organisation in different pay bands (on a full-time equivalent basis) is a good one. Introducing a requirement to publish something along the lines of the NatWest 'distribution statement' would provide stakeholders with useful and important information about the companies with which they are involved.

[27] Charity Commission for England Wales (2018), Charities SORP (FRS 102) via https://assets.publishing.service.gov.uk/media/5e6102c286650c513b442f14/charities-sorp-frs102-2019a.pdf
[28] United Learning Trust (2023), United Learning Trust Annual Report and Accounts 2022, https://unitedlearning.org.uk/Portals/0/adam/Content/kfn6sHH3hk-z0W5U0P

There could be some discussion over how prescriptive the requirements for these distribution statements would need to be, given that it will be appropriate for different companies and sectors to have different numbers of workers at different pay levels. But for the sake of consistency and comparability, it might be sensible to mandate the different earnings bands (subject to consultation with employers, unions, academic experts and other stakeholders). A template that companies could be required to complete is suggested below – the first five suggested bands are intended to broadly reflect low to moderately high earnings by UK standards, before the final five reflect different gradations of what might be considered very high pay to the majority of the population.

Table 16: Template pay distribution statement

Earnings Band	Number of employees	Total expenditure (£m)
0 - £20,000		
£20,001 - £30,000		
£30,001 - £50,000		
£50,001 - £75,000		
£75,001 - £100,000		
£100,001 - £150,000		
£150,001 - £250,000		
£250,001 - £500,000		
£500,001 - £1,000,000		
£1,000,001+		

These measures would no doubt meet resistance from stakeholders concerned by the ‘reporting burden’ to which UK companies are supposedly subject, and the increasingly long and impenetrable reports that they produce. This is a valid concern but, as we have noted, there is very little a company does that has more impact on and is of greater interest to wider society than the number of jobs it creates and the wages that they pay. It is indisputable that this is a matter of public importance and that reporting on the topic is not currently good enough. Anyone concerned about the reporting burden should focus on the growth of narrative reporting prompted by other regulatory and industry initiatives, rather than improvements in the provision of vital data that is not currently being disclosed.

Conclusion and recommendations

Value of pay ratio disclosures – business practice

The pay ratio disclosures give stakeholders some important insights into the pay practices and corporate culture of the reporting company, as well as providing information that is useful from a more general socio-economic perspective.

At companies with very high CEO pay ratios, where the CEO's pay alone is equivalent to the costs of significant pay increases for large numbers of employees, the ratios highlight the potential opportunity cost of high CEO pay to ordinary workers.

Intra-company pay inequality can provide incentives to work hard and attain promotion on the one hand, but can foster resentment and weaken employee engagement and commitment on the other, so the pay ratios are interesting in terms of their impact on business performance too. Workers and their representatives are likely to take great interest in how their pay compares to the rest of the organisation, and the lower quartile, median, upper quartile and CEO pay disclosures provide benchmarks enabling them to do so.

Value of pay ratio disclosures – socio-economic inequality

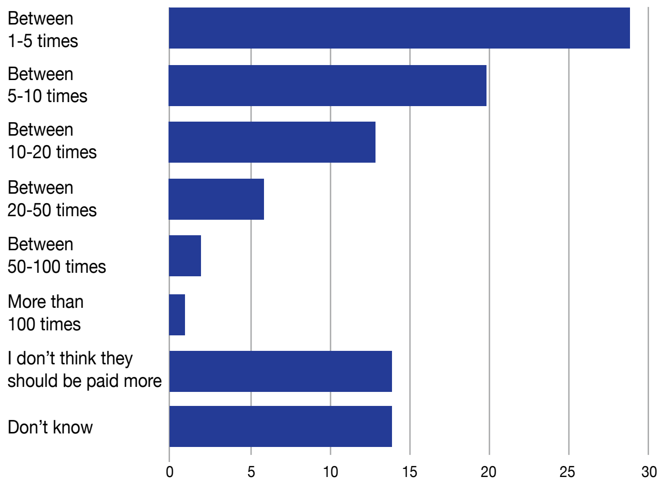
Pay gaps between the CEOs (almost always the highest-paid employee) and median and low earners at some of the UK's biggest employers also provide a real-life illustration of inequalities across the UK economy, showing what the very highest-paying, most prestigious roles pay compared to lower-, middle- or upper-middle earning jobs.

There are few more important questions to society than how the resources it generates are divided, and on what basis. It is right and appropriate that the scale of differences in incomes and living standards across society – and between colleagues within individual organisations – should be made apparent and discussed.

While the economic value of someone's work does not represent a judgement on their human worth, it is no surprise that many people feel uncomfortable with some individuals being paid hundreds of times as much as others (for both economic and moral reasons). Research from the High Pay Centre has previously found that 76% of survey respondents think that CEOs should not be paid more than 20 times their low or middle earning colleagues, while just 3% support pay awards more than 50 times those of low or middle earners.

Figure 5: Public opinion on CEO to worker pay ratios[29]

How much do you think the CEOs of Britain's biggest companies should be paid compared to their lower and mid-level employees?



The fact that public opinion polls suggest that most people think prevailing pay gaps at large businesses are too high does not on its own mean that they should be reduced. But it does further emphasise the value of pay ratios disclosures, in that they show that on a very important question (distribution of incomes) widespread business practice remains at odds with public expectations. This is something that ought to be widely understood and discussed.

Limitations of the pay ratio disclosures

At the same time, it is important to acknowledge the limitations of the disclosures. These are chiefly that:

- The reporting requirements fail to cover employers other than UK- incorporated listed companies, so they provide a useful approximation of pay inequality at large employers, rather than a comprehensive insight;
- The pay ratio calculations do not include the indirectly employed workforce so probably understate the size of the gap between the highest and lowest earners;
- The ratios also fail to provide any detail on high earners between the upper quartile and the CEO, meaning that they don't show the full cost of top earners to organisations, or the share of company's expenditure on pay that is consumed by a small number of high-earning employees.

[29] High Pay Centre (2022), High Pay Centre Analysis of FTSE 350 pay ratios, https://highpaycentre.org/wp-content/uploads/2022/05/STA0422803002-001_aFFT-Pay-Ratios-Report_0522_FINAL_v4.pdf

- Narrative reporting accompanying the disclosures provides little useful information explaining companies' approach to pay and how it impacts on business performance. Reporting rarely details the number of employees covered by the disclosures, meaning the insights the ratios provide into the workforce and pay differences across it are frustratingly limited.

Recommendations

There is much that both businesses and their investors, and policymakers can do to address these shortcomings. The following recommendations identify ways that could strengthen or supplement pay ratio reporting. We would encourage businesses to implement these practices voluntarily, and investors and other stakeholders to support them in doing so. Policymakers should make them requirements through laws and regulations.

- **More granular information on pay distribution throughout the workforce.** The 'distribution statements' discussed in the previous section showing how many workers fall into different pay bands provide a model for better, more insightful reporting on their workforce. The number of jobs provided and the levels of pay resulting from these jobs is key information to most stakeholders in a company. Disclosing this information is also of great potential value to companies, in demonstrating one of the most important ways in which they benefit society.
- **More detail on outsourced workers.** Companies should show the extent to which their business model depends on indirectly-employed workers. The number, cost, role and hours worked of these workers are all obvious examples of information currently typically missing from annual reports that are crucial to understanding a company's workforce. The Living Wage Foundation counts all workers who work more than two hours a week for more than eight consecutive weeks to be part of an organisation's workforce, and requires these workers to be paid a living wage in order for the employer to be accredited as a Living Wage Employer. Including all workers who meet these criteria in pay ratio calculations and other data on pay (such as the distribution statements discussed above) would give a more accurate insight into corporate pay practices and employment models.
- **Better narrative reporting on pay.** Key concerns for stakeholders on pay include understanding that pay is fair and proportionate and conducive to employee engagement and a positive corporate culture. Trustworthy data on what employees are paid is the most important thing in this respect but can be supported by useful narrative reporting that is rarely currently provided. Key issues that narrative reporting should address include:
    - the number of workers covered by the pay ratio disclosures
    - whether and to what extent workers and their representatives are made aware of pay distribution throughout the company and given the opportunity to feed into the pay-setting process
    - what sort of range of pay gaps between high, middle and low earning employees boards think is appropriate for the company and why
    - what impact intra company pay inequality might have on employee morale
    - why any significant changes in either pay ratios or pay levels at any point across the company's pay distribution might have occurred.
- **Communicate detail on pay distribution to the workforce.** Companies should directly and individually send a dedicated communication (e.g. a letter or email) containing disclosures on pay ratios and pay distribution to all workers covered by the disclosures. Workers' views on pay levels throughout the company are critical determinants of whether or not a company's pay practices enable or obstruct better company performance. If a company actively communicates pay data to employees, that suggests confidence that its pay outcomes are fair and proportionate. Communicating pay ratios and pay distribution to the workforce also means that workers and their representatives can negotiate their own pay with a better understanding of wider spending on pay and therefore a more informed and stronger bargaining position.
- **Consistent pay reporting for large employers of all type.** The above recommendations and the principle of reporting on jobs, pay and pay inequality should apply to all major employers rather than just those listed on the stock market. Investors may value information on pay and employment practices in terms of their potential impact on business performance and financial returns, but they are not the only stakeholders in the company and these are not the only reasons pay-related issues are important. Workers, their families, their union representatives and indeed anyone who cares about fair pay and good quality working lives has a valid interest in understanding pay and pay inequality at any employer, regardless of the type of the organisation.
- **Governance mechanisms supportive of fair pay.** Alongside consistent, accurate, objective reporting, worker voice in corporate governance structures and pay-setting processes is critical to demonstrating that pay awards at all levels of a company are fair and proportionate. Examples of meaningful worker voice include an effective working relationship with trade unions where unions are allowed reasonable access to the workplace, and seats on the board for members of the company workforce. By guaranteeing the workforce has had some input into and oversight over the pay-setting process, companies can provide stakeholders with greater confidence in the pay outcomes.

Together, these mechanisms would ensure better pay reporting and better pay governance, ultimately leading to better pay outcomes, particularly for the low and middle earners that need them most. The pay ratio disclosures have shown how useful even a limited insight into the pay levels at a selection of large employers can be. It is now time to build on that success by maximising the potential of transparency and governance to raise living standards and more fully align business practice with the interests of wider society.

Resources

The High Pay Centre has published a number of resources for businesses, investors, trade unions, campaigners and others interested in influencing and improving pay governance and reporting practices at major employers

These resources are available via https://highpaycentre.org/category/resources/

Database of CEO Pay and Pay Ratio Disclosures

HPC maintains and regularly updates a searchable database compiling pay disclosures from the 'FTSE 350' index of the biggest businesses listed on the UK stock market. Investors, unions and campaigners can compare pay levels across industries, sectors and indexes.

https://highpaycentre.org/uk-pay-database/

Using pay ratio disclosures to inform stewardship practices: an investor briefing

A briefing providing information and ideas on how investors can use the pay ratio disclosures to support their stewardship activities. This includes recommendations for monitoring pay ratio disclosures in annual reports; identifying and engaging with companies whose disclosures provide grounds for concern; and voting at the AGMs of companies when engagement fails to achieve a positive resolution.

https://highpaycentre.org/using-pay-ratio-disclosures-to-inform-esg-strategies-and-stewardship-practices-2/

Pay-setting processes that benefit everyone: A model for Remuneration Committee Reform

A report by HPC and the CIPD, the professional association for people management professionals, offering practical guidance to business leaders, HR professionals and board members on how to improve their people and pay governance through RemCo reform and the inclusion of the workforce in the pay-setting process.

https://highpaycentre.org/role-of-the-remco-how-to-achieve-good-governance-of-pay-people-and-culture-2/

Incorporating worker voice into corporate governance: HPC/AFFT report

This report provides guidance on how employers can improve staff engagement and boardroom/workforce dialogue by strengthening mechanisms for worker voice in business strategy and decision-making, as well as identifying ways in which investors can support this process. The report outlines how stronger worker voice benefits businesses by establishing a more effective workforce, higher productivity and better decision making.

https://highpaycentre.org/worker-voice-in-corporate-governance-how-to-bring-perspectives-from-the-workforce-into-the-boardroom/

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High Pay Centre

An independent, non-partisan think tank focused on the causes and consequences of economic inequality, with a particular interest in top pay. It runs a programme of research, events and policy analysis involving business, trade unions, investors and civil society focused on achieving an approach to pay practices that enjoys the confidence of all stakeholders.

www.highpaycentre.org/

The full report is available at:
http://highpaycentre.org/pubs

abrdn Financial Fairness Trust

An independent charitable foundation supporting strategic work which tackles financial problems and improves living standards. Its focus is improving the lives of people on low-to-middle incomes in the UK.

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