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Pay inequality

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The High Pay Centre has issued its interim report based on the first pay ratios disclosed between 1 January 2020 and 31 April 2020. Under The Companies (Miscellaneous Reporting) Regulations 2018, Quoted Companies (as defined in the Companies Act 2006) with an average of more than 250 UK employees are required to publish the ratio of their CEO's remuneration to the median, 25th and 75th quartile pay remuneration of their UK employees (based on full time equivalent pay and benefits). There are specific requirements for how the pay ratios need to be compiled – further details of these requirements can be found here.

As these pay ratios are required for the pay awarded for financial years starting on 1 January 2019, the first of these ratios are starting to be published within annual reports. The High Pay Centre makes it clear that this interim report is based on only 107 pay reports from FTSE 350 companies – and that a further report will be prepared once more ratios have been published. Whilst the interim report highlights some trends, it does set out where this is based on limited data. For example, the healthcare industry is identified within the interim report as having the highest CEO to median ratio at 129:1; however, this is based on data disclosed by only four healthcare companies, three of which disclosed very high CEO pay (ranging from £7 million to over £14 million, compared to a FTSE 100 average of £3.6 million).

The interim report also flags the extent to which the pay ratios can be skewed by the particular employment model used – for example, whether a company employs a high number of lower paid employees directly, or uses a franchise model which excludes these equivalent individuals from the ratios.

Whilst it may therefore be difficult to run direct comparisons between organisations, publishing this data will still highlight the issue of pay inequality, particularly in the current environment where so many businesses will be looking at ways to operate in the most efficient ways possible. For some business, as already widely reported in the press, this has resulted in redundancies being considered; for others, pay freezes or cuts may be implemented. Transparency in respect of pay rates and ratios may well be used in this context – a fair redundancy process necessarily involves an employer considering alternatives to redundancies and addressing pay inequality between the various quartiles may well be seen as an alternative to redundancies, particularly where cost reduction is the aim.

The highest CEO to 25th quartile ratio identified in the interim report was the CEO earning 543 times that of the 25th quartile - and bear in mind that the very definition of this means that a quarter of the employees within the workplace earn less than the 25th quartile figure. The rest of the top 10 all had CEOs earning more than 200 times that of the 25th quartile. The report accepts that redistribution of CEO earnings across lower and middle earners would not make a huge per-employee difference. However, it does include statistics on the impact of pay redistribution across the upper and lower quartiles. Whilst the report is not necessarily arguing that such adjustments should be enacted, it is flagging the impact of such adjustments as a matter that businesses and stakeholders should at least consider.

And if employers are looking to cut employment costs going forward, it certainly seems likely that data from these pay ratios will be used, particularly in unionised environments, to highlight any disparate impact of proposals across different pay quartiles, or to suggest alternatives to or ways of mitigating against redundancies.

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