A Culture of Excess

The pay of FTSE 100 remuneration committee members

Introduction

There has been widespread public concern for many years about excessive levels of executive pay and the growing gap between pay at the top of Britain's companies and the pay of ordinary workers. Since the financial crisis, this concern has been heightened by the contrast between rising levels of pay for company directors while ordinary workers have suffered the longest fall in real wages in modern history.

In response to public concern, there has been increased focus from across the political spectrum on the process of setting executive pay. The government has brought in new disclosure requirements for directors' remuneration, and shareholders now have a binding vote on remuneration policy. However, although BIS included a question on broadening out the membership of remuneration committees in its 2011 Executive Remuneration Discussion Paper[1], the Government has not put in place any reforms of this important area.

Remuneration committees play a vital role is setting executive pay. While shareholders vote on remuneration reports, all the work of setting out detailed proposals for what executive directors are paid falls to remuneration committee members. The TUC has long argued that one of the problems with the executive pay setting process is that remuneration committee members are often current or former directors of other companies. They are therefore part of a world which regards as normal levels of remuneration that in the rest of society are seen as grossly excessive.

Remuneration committees have been required by successive corporate governance codes to take into account pay and conditions elsewhere in the company when setting directors' remuneration, or explain why they do not, since 1995[2]. In 2008 it became a regulatory requirement for companies to report on how they had taken employee pay into account in setting policy on directors' pay. However, as set out by the High Pay Centre[3], both the Code's provision to take the pay and conditions of other company staff into account in setting directors' pay and the 2008 regulatory requirement to report on how they have done this have been widely ignored by companies.

The reporting requirements on directors' remuneration introduced in October 2013 maintained the 2008 requirement for remuneration reports to contain a statement of how pay and conditions of employees are taken account in setting

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[1] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/31660/11-1287executive-remuneration-discussion-paper.pdf

[2] This provision was introduced in 1995 by the Greenbury Code , a precursor of the current Corporate Governance Code https://www.frc.org.uk/Our-Work/Publications/Corporate-Governance/UK-Corporate-Governance-Code-2014.pdf

[3] High Pay Centre, One Law for them: How big companies flout rules on executive pay, December 2013

the policy for directors' remuneration. In addition, the 2013 regulations require information on:

- whether, and if so, how, the company consulted with employees when drawing up the directors' remuneration policy
- the percentage change in total remuneration in comparison with the previous year for the CEO and the average percentage change for employees of the company as a whole
- an explanation of the differences (if any) in the company's policy on the remuneration of directors from the policy on the remuneration of employees generally[4].

Compliance with the spirit and the letter of these regulations is variable. Some companies have chosen very small groups of staff as the comparator group for directors and some of the explanations of the differences in the companies' policies on employee pay and directors' pay range are weak at best. What's more, there is no evidence that even these limited requirements are making any difference to the decisions of remuneration committees in setting directors' pay.

The TUC has called for workers to be represented on remuneration committees since 1995. There are now a wide range of voices supporting this call. The High Pay Commission recommended worker representation on remuneration committees in its final report[5]. The Labour Party has also called for worker representation on remuneration committees[6]. As already mentioned, the government (the Department for Business, Innovation and Skills under Liberal Democrat Secretary of State Vince Cable MP) included a specific question on worker representation on remuneration committees in its Executive Remuneration Discussion Paper in 2011, but then decided not to take this forward.

In many countries throughout Europe, workers already sit on remuneration committees. Research has shown that worker representation does help to curb directors' remuneration. One study showed that among the largest 600 European companies the presence of board level worker representation is associated with lower CEO pay and a lower probability of stock option plans. A second study also showed that within large German companies stronger worker representation on the board led to lower CEO pay and less use of stock-based remuneration[7].

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[4] Schedule 8, The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 http://www.legislation.gov.uk/uksi/2013/1981/pdfs/uksi_20131981_en.pdf

[5] The High Pay Commission, Cheques with Balances: why tackling high pay is in the national interest, Final report of the High Pay Commission, 2011

[6] http://press.labour.org.uk/post/83558618865/chuka-umunna-response-to-vince-cables-letter-to

[7] Board Level Employee Representation, Executive Remuneration And Firm Performance In Large European Companies, Sigurt Vitols, March 2010; and Arbeitspapier 163, Beteiligung der Arbeitnehmervertreter in Aufsichtsratsausschüssen, Auswirkungen auf Unternehmensperformanz

In the UK, the Corporate Governance Code stipulates that remuneration committees should be comprised of independent non-executive directors of the company. Many non-executive directors are current or former members of other company boards; some will sit on multiple boards. Through examining company annual reports it is possible to compile information on pay received by remuneration committee members in a particular year from their different board roles.

This report uses information in 2014 annual reports[8] to examine the payments received by the remuneration committee members of FTSE 100 companies. Information has been sought on *total* remuneration of FTSE 100 remuneration committee members, including pay from current executive and other non-executive directorships of FTSE listed companies. Directorships on boards of companies listed in other countries are included, but the data may not include information on all overseas positions held by FTSE100 directors due to lack of appropriate disclosure outside of UK. This means that our report is likely to be a conservative estimate of the total earnings of remuneration committee members.

The report finds that on average remuneration committee members were paid £441,383[9], which is more than 16 times average full-time earnings of £27,200[10]. The highest paid remuneration committee member was paid £9,228,248, or 339 times more than average earnings. The report also reveals that of the 383 remuneration committee members included in the sample, 246 (64 per cent) held a board position at another company during the year under review. Thus nearly two thirds of the current membership of remuneration committees is drawn from the corporate world in which high and excessive pay are taken for granted. Their own levels of remuneration are far in excess of the pay of ordinary workers within the same companies or across the economy as a whole.

It is important to remember that non-executive board positions are in no way full-time positions; time commitments will vary, but a recent report found that NEDs on the largest companies spend an average (median) of 30 days per year on their role, with the median time spent on remuneration committee work being four

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und Vorstandsvergütung, Studie im Auftrag der Hans-Böckler-Stiftung, Sigurt Vitols 2008; both available from the TUC

[8] Remuneration data was provided by PIRC http://www.pirc.co.uk and is drawn from the report and accounts of FTSE 100 companies as of July 2014.

[9] This includes remuneration that vested in 2014 (incentive pay rewarded) but not remuneration that was awarded in 2014 that will vest in future years (incentive pay awarded). If both are included, the average (mean) remuneration is £638,764, which is 23 times average annual earnings.

[10] Defined as median annual earnings for full-time employees in April 2014, Annual Survey of Hours and Earnings, November 2014 http://www.ons.gov.uk/ons/rel/ashe/annual-survey-of-hours-and-earnings/2014-provisional-results/stb-ashe-statistical-bulletin-2014.html Earnings include overtime payments, bonuses and shift premia.

days. For Chairs of the largest companies the median time commitment was 50 days per year[11].

Remuneration committees have become out of touch with the rest of society. Including company workers among their membership would change this and bring a sense of perspective to remuneration committees and inject a much-needed dose of common sense into decisions on directors' pay. Worker representatives would be able to assist remuneration committees in taking pay and conditions of staff into account when setting executive pay. If remuneration committees are to be equipped to play their part in tackling excessive executive pay, the TUC believes that widening their membership to include ordinary company workers is essential.

[11] MM&K Ltd, Life in the Boardroom, the 2013 Chairman and Non-Executive Director Survey http://boardintelligence.co.uk/_media/_uploaded/_news/PDuCpBq3kSg7eTHV.pdf

Overview

- There are 383 remuneration committee members in the FTSE 100 sample.
- Out of the 383 remuneration committee members, 246 (64 per cent) held at least one additional position at another company. The total number of positions held by the 383 remuneration committee members was 779.
- 33 were members of more than one FTSE 100 remuneration committee during 2014.
- One remuneration committee member, Johanna Waterous, sat on the remuneration committee of three FTSE 100 companies: Morrisons, Rexam and RSA Insurance Group.
- 67 FTSE 100 companies, or over two thirds, share one member of their remuneration committee with another FTSE 100 remuneration committee.
- 157 remuneration committee members held non-executive positions on other company boards.
- 53 remuneration committee members were Chair of another company's board, while five were Vice-Chair of another company's board.
- 22 served as the Senior Independent Director on another company's board.
- 38 held executive roles on other companies' boards.
- Over one third of FTSE 100 companies have executive directors from other companies sitting on their remuneration committees.
- Out of the 38 who held executive positions on other boards:
  - twenty-six served as Chief Executive Officers
  - one served as a combined CEO & Chair
  - nine served as Executive Directors
  - one served as an Executive Chair
  - one served as an Executive Vice Chair.
- 33 remuneration committee members held three or more additional positions on other company boards. Anthony Nightingale and Andrew Simon, remuneration committee members at Prudential and Travis Perkins respectively, both held eight additional board positions.
- The average (mean) total remuneration received by members of remuneration committees was £441,383[12], over 16 times average full-time earnings of £27,200.
- Excluding those who hold executive board positions elsewhere, the average (mean) total remuneration was £192,781, over seven times average earnings.

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[12] This includes remuneration that vested in 2014 (incentive pay rewarded) but not remuneration that was awarded in 2014 that will vest in future years (incentive pay awarded). See footnotes 9 and 13.

- The median pay of remuneration committee members was £150,723, over 5.5 times average earnings.

Detailed findings

Table 1 Average pay levels – breakdown of remuneration

Table 1 shows the breakdown of different types of remuneration for FTSE100 remuneration committee members, inclusive of remuneration from other directorships. All figures are averages (mean).

FTSE 100 Remuneration committee members – breakdown of remuneration		
Cash	*Average*	£307,414
Pensions	*Average*	£ 15,528
Incentive pay received[13]	*Average*	£118,441
Total	*Average*	£441,383

Table 2 The five highest paid remuneration committee members

Table 2 shows the five highest paid remuneration committee members in the FTSE 100 and their total remuneration. Remuneration[14] is inclusive of remuneration from other directorships.

FTSE100 company	Director	Total remuneration	Other directorships
Compass Group Plc	Don Robert	£9,228,248	CEO at Experian Plc
Burberry Group Plc	Jeremy Darroch	£7,044,386	CEO at British Sky Broadcasting
British Land Co Plc	Dido Harding	£6,910,530	CEO at Talktalk Telecom Group Plc
Centrica Plc	Ian Meakins	£5,194,000	CEO at Wolseley Plc
BAE Systems Plc	Christopher Grigg	£4,963,926	CEO at British Land Co Plc

[13] See footnote above. Incentive pay received includes remuneration that vested in 2014 (generally called incentive pay rewarded) but not remuneration that was awarded in 2014 that will vest in future years (incentive pay awarded). Average incentive pay awarded was £197,381. If both incentive pay rewarded and incentive pay awarded are included, the average total would be £638,764.

[14] Incentive pay rewarded is included but incentive pay awarded is excluded.

Table 3 The five highest paid remuneration committees

Table 3 shows the five companies with the highest paid remuneration committees in the FTSE100. The table shows the total remuneration[15] of all the remuneration committee members combined. Remuneration is inclusive of remuneration from other directorships.

The five highest paid remuneration committees		
FTSE 100 remuneration committee	**Number of remuneration committee members**	**Total rewarded remuneration**
Compass Group Plc	4	£14,023,914
Burberry Group Plc	6	£11,688,886
British Land Co Plc	3	£ 7,242,808
Centrica Plc	7	£ 6,694,928
BAE Systems Plc	3	£ 5,381,926

Table 4 The FTSE100 Remuneration Committees with high numbers of directorships elsewhere

Table 4 shows companies whose remuneration committee members hold high numbers of company directorships elsewhere.

FTSE100 Company	Number of remuneration committee members	Number of additional directorships	Total remuneration of the committee
Experian Plc	9	13	£5,079,103
Prudential	4	13	£1,047,541
IMI Plc	6	12	£1,601,716
Centrica Plc	7	11	£6,694,928

[15] Incentive pay rewarded is included but incentive pay awarded is excluded.

Conclusion

Remuneration committee members are drawn from a narrow constituency, consisting mainly of other board members. In 2014, 246 out of 383 FTSE 100 remuneration committee members (64 per cent) held at least one other position on another board. Over of third of FTSE 100 companies have an executive director from another company on their remuneration committee. Two thirds of FTSE remuneration committees share one member with another remuneration committee from the FTSE 100.

The average pay received by FTSE 100 remuneration committee members was £441,383, which is 16 times more than average earnings[16]. The mean reflects significant variety within committees, as members who hold executive director posts have substantially higher earnings than other members. The highest paid remuneration committee member was paid £9,228,248, or 339 times more than average earnings. But even on remuneration committees where members do not hold executive positions at other companies, average earnings of committee members remain significantly above those of full-time employees in general. Such levels of pay demonstrate that remuneration committees are out of touch with ordinary people and make it harder for committees to understand how executive pay is viewed by either company staff or the general public.

The TUC is calling for workers to be represented on remuneration committees. This would bring a sense of perspective and common sense into discussions on remuneration and ensure that remuneration committees are able to fulfil their obligations to take account of the pay and conditions of ordinary company staff when setting executive pay.

[16] Defined as median annual earnings for full-time employees in April 2014, Annual Survey of Hours and Earnings, November 2014 http://www.ons.gov.uk/ons/rel/ashe/annual-survey-of-hours-and-earnings/2014-provisional-results/stb-ashe-statistical-bulletin-2014.html