Your Say on High Pay Campaign

PARLIAMENTARY BRIEFING

The Problem

There is now a cross party consensus on the need to tackle excessive executive pay. Over recent decades, pay packages at the UK's largest companies have risen out of all proportion to company performance or the pay of average workers. In a speech in January, Prime Minister David Cameron concluded: "*There should be a proper, functioning market for talent at the top of business... But that is a world away from what we've seen in recent years*".

Executive Pay: Key Facts and Figures

- In 2010 to 2011, mean FTSE 100 executive pay rose by 49%, compared with 2.7% for the average employee.[1]
- The median total remuneration of FTSE 100 CEOs rose an average of 13.6% a year between 1999 and 2010, while the FTSE index rose by just 1.7% a year over the same period.[2]
- In 2011, the average lead executive earned 63 times the amount of the average employee. In 1979 the multiple was 16.5.
- At Barclays, which faced a media storm in April over CEO Bob Diamond's remuneration[3], top pay is now 75 times that of the average worker: in 1979 it was 14.5.[4]
- In the aftermath of the 2008/9 financial crisis, FTSE 100 companies lost almost a third of their value but the base salaries of their executives still rose by an average of 10%.[5]

The High Pay Commission's final report[6] found that "*rewards for failure continue and pay levels appear to be increasingly disconnected from the performance of the company*", demonstrating the "*deeply damaging*" and "*corrosive*" effects of excessive pay on society and business.

The Government's Proposals

The government's approach to tackling excessive remuneration rests largely on giving shareholders the tools they need to hold companies to account. Key measures in the package announced by Vince Cable in January include:

- requiring clearer and more informative reporting on remuneration,
- including a single figure on total pay for each director and a distribution statement comparing executive pay to dividends, tax, investment and staff costs;
- giving shareholders a binding vote on executive pay and severance packages; addressing conflicts of interest on remuneration committees and in the use of remuneration consultants.[7]

Labour has supported these measures but also calls for employee representation on remuneration committees and mandatory voting disclosure for institutional investors.[8]

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The accountability gap

Moves to give shareholders more power are welcome but will not be enough to bring excessive pay under control. There is also a need to address the underlying problem of shareholders' reluctance to exercise their existing powers. Proposals to require a 75% threshold for the new binding vote on pay stem from a recognition that a 50% threshold is highly unlikely to be passed even where shareholders have significant cause for concern over remuneration packages. However, unless this underlying issue is addressed directly, there is a danger that a higher threshold could simply lead to correspondingly lower levels of dissent.

Shareholder Oversight: Key Facts and Figures

- The current advisory vote is rarely used to vote down remuneration reports: since its introduction in 2002, only 19 reports have been rejected by a majority of investors despite the escalation in executive pay.[9]
- In 2011, not one FTSE 100 company had its remuneration report voted down by more than 50% of its investors.[10]
- Only 27% of investors voted against Barclays' controversial remuneration report in April this year.[11]
- In May this year, Aviva became only the fourth FTSE 100 company ever to have their remuneration report defeated, with 54% of shareholders voting against. Chief executive Andrew Moss announced his resignation on 8 May as a result of the vote.

Despite the recent upsurge in shareholder dissent on pay, dubbed the 'Shareholder Spring', outright defeat of remuneration reports looks set to remain a rarity. Recent events can also be seen as a direct result of the increased attention being focussed on shareholders as government looks to them to rein in excessive pay. This simply underlines the importance of ongoing scrutiny and accountability if this year's trend is to last beyond 2012.

This suggests that giving shareholders a binding vote is only part of the solution. If shareholders are to be relied upon to hold companies to account, we must ensure that institutional shareholders – including pension funds and insurance companies – are themselves accountable to the ordinary savers whose money they manage.

The 'Your Say on Pay' campaign

FairPensions, in association with the High Pay Centre, has launched a new initiative to empower individual savers to hold their providers to account for the way voting rights are exercised on their behalf. They can use our online action tool to email their pension fund or stocks-and-shares ISA provider and ask them to take a stand against excessive remuneration at AGMs this year.

We are also asking investors to tell those individual savers how they have voted. Currently, they are under no legal obligation to make this disclosure, although the government has reserve powers to regulate in this area if investors do not begin disclosing voluntarily.

This initiative aims to encourage institutional shareholders to be more robust in challenging high pay, and more accountable to consumers for the way voting rights are exercised on their behalf.

The campaign has received widespread media coverage, including from the BBC, The Telegraph and The Daily Mail, and over a hundred pension providers have so far been contacted by the savers they represent.

Identifying bad practice: the five ‘red flags’

‘Your Say on Pay’ is not advocating blanket opposition to executive pay deals. Instead it asks funds to vote against remuneration reports where any one of the following five triggers are met:

- Weak linkage to strategy with single performance criteria for incentive plans
- Transaction related bonuses and “Golden Hellos” (recruitment incentives)
- Moving the performance goal-posts on incentive plans
- Variable pay which has the potential to be more than 200% of base salary
- Repeatedly refusing to engage in good faith with shareholders about remuneration whilst ignoring strong votes against remuneration proposals

These five triggers have been chosen because they have a particularly poor reputation amongst shareholders and have become a by-word for unjustifiably rewarding senior executives.

> *“For too long now many of those at the top of Britain’s biggest companies have continued to reap enormous rewards while profits and share prices fail to impress. I’m very pleased to support FairPensions’ project to give people a say on pay.”*
>
> - Sir Mike Darrington, former CEO of Greggs

What you can do

Members of Parliament can support this initiative in a number of ways. We can provide materials to help you publicise your support to your constituents. This also helps to raise awareness of the way their savings connect them to shareholder decisions in FTSE 100 companies and of the opportunities to make their voices heard.

- Sign EDM 45 in support of the campaign.
- Take our online action at *www.yoursayonpay.org.uk* and ask your own pension fund or stocks-and-shares ISA provider to take a robust approach to excessive pay.
- Use our model press materials to publicise your support for the campaign in local media.

1. http://highpaycommission.co.uk/wp-content/uploads/2011/11/HPC_final_report_WEB.pdf
2. http://www.bis.gov.uk/assets/biscore/business-law/docs/e/11-1287-executive-remuneration-discussion-paper.pdf
3. http://www.telegraph.co.uk/finance/financevideo/9231338/Protesters-demonstrate-outside-Barclays-AGM.html / http://www.guardian.co.uk/business/2012/apr/27/barclays-agm-shareholder-anger / http://www.bbc.co.uk/news/business-17860232
4. Final Report of the High Pay Commission, November 2011
5. TUC report ‘Unfair to Middling’ November 2009
6. http://highpaycommission.co.uk/wp-content/uploads/2011/11/HPC_final_report_WEB.pdf
7. http://www.publications.parliament.uk/pa/cm201212/cmhansrd/cm120123/debtext/120123-0001.htm#12012313000002
8. http://www.labour.org.uk/labour-will-address-excessive-pay
9. http://www.pirc.co.uk/sites/default/files/AGM%20primer.pdf April 2011
10. http://www.guardian.co.uk/business/2012/mar/14/vince-cable-shareholders-vote-executive-pay
11. http://uk.reuters.com/article/2012/04/27/uk-barclays-idUKBRE83Q0T720120427

www.yoursayonpay.org.uk

ABOUT FAIRPENSIONS

FairPensions is a registered charity established to promote Responsible Investment (RI) by pension schemes and fund managers, and to ensure that ultimate beneficiaries are well served by institutional investors and other professional agents in the investment world.

RI most often entails engagement with investee companies, including through the exercise of shareholder rights, to ensure that extra-financial issues which pose potential financial risks are monitored and managed.

FairPensions is a member organisation whose members include various organisations representing pension savers, including the National Federation of Occupational Pensioners, UNITE and Unison, as well as thousands of individual pension fund members.

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The campaign for **responsible** investment