Commons Committee on the tail of the fat cats again

Rachel Reeves, the Labour MP chairing the Commons Business Select Committee, has told the Mail on Sunday that the committee is going to ramp up the attack on excessive pay as soon as Parliament re-convenes in the Autumn.

The BEIS committee last reported in March 2017, on the back of the consultation the Government department BEIS itself was having on the future of corporate governance. The cross party committee came up with a number of radical recommendations at the time to curb fat cat pay, including:

- Phasing out LTIPs as soon as possible
- Amending the UK Corporate Governance Code to establish deferred stock rather than LTIPs as best practice
- Introducing employee representatives on remuneration committees.

When BEIS published its response to the consultation it only gave half a nod to the select committee proposals – the employee representative solution was one of a number of options offered to companies. No changes were planned for LTIPs.

But Rachel Reeves is not giving up. She is driven by a belief that "levels of pay for those at the top [are] increasing at a rate that vastly exceeds increases for ordinary employees and which seeming is at odds with the value created in the company".

As well as calling in the bosses of culprit companies she is going to challenge institutional investors and examine the actions of remuneration committees.

This is what she will find if she approaches this with an open mind:

For FTSE 100 Chief executives since the global financial crisis, we have seen the following increases in total awarded pay (salary, bonus, benefits, pension and fair value of LTIP grants):

	Median total remuneration £000	**Median increase**
2009	2,573	7%
2010	3,097	0%
2011	3,803	12%
2012	3,685	7%
2013	3,520	-1%
2014	3,400	0%
2015	3,552	2%
2016	3,566	3%
2017	3,556	6%
2018	3,973	1%
Average of median CEO increases		4%
Average earnings UK national		2%

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These figures are taken from the Minerva (previously Manifest) annual executive remuneration reports. Manifest is a highly respected proxy adviser with no interest in distorting the figures. The figures are taken from the annual remuneration reports of companies.

It shows that Rachel Reeves' starting premise is just wrong.

In these figures the long-term incentive value is the fair value of the *grant* of long-term incentives to the executives. So the total figure is the amount that the much maligned remuneration committees awarded to executives. A little above average earnings, but not “a rate that vastly exceeds increases for ordinary employees”.

But there is another way of looking at executive pay. The government-defined “single total figure of remuneration” includes the value of long-term incentive awards at the point that they vest to the individual ie at the end of the performance period (usually three years). The 2018 Minerva Survey includes company data up to March 2018, with December 2017 the most common year end. In the three years to December 2017, the FTSE 100 index increased from 6566 to 7688, an increase of 17%. It is not surprising that in the latest year, the single total figure of remuneration increased by 6% at median. It has nothing to do with remuneration committee awarding excessive amounts but everything to do with the increase in share prices. On paper, at least, the value of FTSE 100 companies increased by 17%, which gives the lie to the second part of Ms Reeves’ statement “which seeming is at odds with the value created in the company”. The value increase may be due to market sentiment rather than executive performance, but her statement is still wrong.

And this is where the mischief starts. The High Pay Centre (now in cahoots with the CIPD) also run a survey along the lines of the Minerva survey. The HPC have to tell a story of executive excess – it’s their reason for existing. Their headline is “CEO mean pay has increased by 23%”. They should never report mean pay as it is grossly distorted by excessive pay in a few companies (eg Persimmon £47m including a £45m LTIP). Hidden in a paragraph further down the page is an admission that the median increase is only 6%, (the same as the Minerva figure – not surprising as it is taken from the same annual reports). But the newspapers see 23% and so, I’m afraid, does the Commons Select Committee. And so the fat cat myth is perpetuated whereas companies have really been exercising constraint for the past ten years.

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