

# The Fair Reward Framework (FRF): Public Consultation, Sept-Nov 2023

## Contents

<b>Introduction</b> .....	2
<b>Section 1: Rationale for developing a Fair Reward Framework (FRF) and consultation</b> .....	3
Consultation questions – Participant background .....	6
Consultation questions – Sections 1, 2 and 3 .....	6
Consultation questions – for each of Sections 4 A,B,C,D .....	6
Consultation questions – Concluding comments .....	6
<b>Section 2: The FRF approach</b> .....	7
<b>Section 3: Proposed FRF assessment process</b> .....	8
<b>Section 4 (A): Proposed indicators – COMPANY CHARACTERISTICS</b> .....	9
A1. Financial year end.....	9
A2. Sector/Economy class and industry.....	9
A3. HQ country .....	9
A4. Market capitalisation.....	9
A5. Net profit margin .....	10
A6. CEO tenure.....	10
A7. Employee headcount.....	10
A8. Accreditation: Living Wage .....	10
A9. Accreditation: Living Hours.....	11
A10. Accreditation: Fair Tax.....	12
A11. FRF verification response .....	12
<b>Section 4 (B): Proposed indicators – measures of robust PAY SCRUTINY PROCESSES</b> .....	13
B1. Remuneration Committee discretion .....	13
B2. Workforce director on the Board .....	14
B3. Trade union relations.....	14
B4. Worker consultation on top pay.....	15
B5. History of shareholder dissent.....	16
<b>Section 4 (C): Proposed indicators – measures of fair REWARD OUTCOMES</b> .....	17
C1. CEO pay level .....	17
C2. CEO pay ratios.....	17
C3. Potential pay-outs in the proposed pay policy.....	19
C4. Pension awards.....	20
C5. Pay of the Chief Financial Officer.....	20
C6. Gender pay gap.....	21

# The Fair Reward Framework (FRF): Public Consultation, Sept-Nov 2023

C7. Ethnicity pay gap.....	22
C8. Worker share ownership .....	23
C9. Non-executive directors’ remuneration .....	23
C10. Cash returned to shareholders .....	24
<b>Section 4 (D): Potential additional indicators .....</b>	<b>24</b>
D1. Capital expenditure .....	24
D2. Remuneration consultants .....	24
D3. High pay beyond the executive team.....	25
<b>Annex: Definitions/Key terms .....</b>	<b>25</b>
<b>Annex: UK-relevant legislation and reporting initiatives .....</b>	<b>26</b>

## Introduction

The **Fair Reward Framework** has been drafted on behalf of and with ongoing input from a group of 11 UK Asset Owners, including Brunel Pension Partnership, Church of England Pensions Board, Friends Provident Foundation, Local Pensions Partnership Investment, Nest, Pension Protection Fund, People’s Partnership, Railpen, Scottish Widows, and Universities Superannuation Scheme.

Building on meetings held in 2022 and 2023, this asset owner group’s collective objective is embodied in the framework’s title: namely, focusing on and encouraging fair reward as it is applied across the holistic corporate body, which includes board members and shareholders as well as the highest-level executives that can bring valuable insight and leadership to a company’s success.

This consultation is an invitation for you to review and comment on the proposed indicators and the assessment process. We particularly welcome feedback from those who are involved in pay-setting discussions and dialogue between companies and their stakeholders on this issue, such as RemCo chairs and committee members, remuneration consultants, asset managers and owners, and trade union representatives.

Please share your feedback via the online survey by Friday 10 November 2023, 09.00 GMT:

[www.surveymonkey.co.uk/r/FairReward2023](http://www.surveymonkey.co.uk/r/FairReward2023)

# The Fair Reward Framework (FRF): Public Consultation, Sept-Nov 2023

## Section 1: Rationale for developing a Fair Reward Framework (FRF) and consultation

- 1) At all levels of a company, remuneration is a key tool for attracting, motivating and retaining a high-calibre workforce and creating shareholder value. Regardless of the level at which an individual is operating, pay levels, transparent structures and relativity to both internal and external comparators matter to employees and other stakeholders, and can have an impact on company performance in various ways. The Fair Reward Framework (FRF) provides a ‘dashboard’ that compiles different indicators of fair reward, robust pay setting processes and consultative engagement with shareholders, and enables the ranking of individual companies against each of these ‘fairness indicators.’ Investors can then use this information to inform their own stewardship priorities and proxy voting decisions in line with their fiduciary duties.
- 2) The FRF has been developed as a response to the long-standing debate about executive pay, and what can be tensions on this issue between companies, shareholders and wider stakeholders about who and what contributes to creating value and how that is rewarded. In the five years from 2018 to 2022 an average of 79 remuneration-related resolutions per year generated ‘significant’ shareholder opposition of over 20% in non-binding votes across the FTSE All-Share index (currently comprising around 600 companies).<sup>1</sup> Asset owners are long-term stewards of investments, whose diversified holdings and commitments to beneficiaries tend to give them a multi-year and economy-wide view of financial value and a company’s contribution to addressing systemic risk factors such as inequality.<sup>2</sup> We recognise that many executives and board members will identify with these concerns, as do broad-based investor networks<sup>3</sup>. By identifying reward outcomes and processes that matter to asset owners, and highlighting these to companies, the FRF is intended to support efficiency in investors’ stewardship and facilitate dialogue with companies to further improve disclosure, process and practice, with the ultimate aim of ameliorating these tensions.<sup>4</sup>
- 3) The FRF aims to compile indicators of reward in a holistic sense to present an overview of how this is shaped and applied across a company. The intention is that the FRF brings to the surface how motivation, performance and retention is incentivised across a company at multiple levels, in recognition that long-term corporate performance is down to the efforts of employees and a variety of stakeholders across a firm, as well as external factors such as public infrastructure and services. This objective is embodied in the framework’s title: focusing on fair reward as it is applied across the holistic corporate body, which includes board members and shareholders as well as the highest-level executives that can bring valuable insight and leadership to a company’s success. No single indicator should be taken in isolation but in combination they provide insights. This reflects a belief among asset owners that by considering value distribution across multiple stakeholders and assessing the inputs a company applies to scrutiny of pay awards it is possible to identify better practice and areas for improvement, which can ultimately bring benefits to the company as well as its stakeholders. To

---

<sup>1</sup> High Pay Centre analysis of the Investment Association ‘Public Register:

<sup>2</sup> For an elaboration on this issue see for example, ‘Socio-economic inequality can contribute to systemic and systematic financial risk’ in UNDP (2023) *From Fragmentation to Integration: Embedding Social Issues in Sustainable Finance*, available at [www.undp.org/sites/g/files/zskgke326/files/2023-09/from\\_fragmentation\\_to\\_integration\\_embedding\\_social\\_issues\\_in\\_sustainable\\_finance\\_0.pdf](http://www.undp.org/sites/g/files/zskgke326/files/2023-09/from_fragmentation_to_integration_embedding_social_issues_in_sustainable_finance_0.pdf)

<sup>3</sup> See for example the International Corporate Governance Network, *Global Governance Principles* (2021, p.20), which note that a company’s approach “should be defensible relative to social considerations relating to income inequality.” [www.icgn.org/sites/default/files/2022-04/ICGN%20Global%20Governance%20Principles%202021.pdf](http://www.icgn.org/sites/default/files/2022-04/ICGN%20Global%20Governance%20Principles%202021.pdf)

<sup>4</sup> Edmans, A., Gosling, T. and Jenter, D., ‘CEO Compensation: Evidence From the Field’ (May 8, 2023). *European Corporate Governance Institute – Finance Working Paper No. 771/2021*, Available at SSRN: <https://ssrn.com/abstract=3877391> or <http://dx.doi.org/10.2139/ssrn.3877391>

# The Fair Reward Framework (FRF): Public Consultation, Sept-Nov 2023

this end, the FRF seeks to provide a broad spectrum of data points on which shareholders can base their assessments and comparisons: given that executive pay awards are subject to non-binding shareholder votes, this is one of the markers of potential inequality within a company that investors can most directly seek to influence.

- 4) Executive pay is systemically relevant for the economy and society. It is publicly disclosed, meaning it can act as a general reference point for pay in other high earning professions. The prevalence of companies weighting their decision inputs on executive pay more towards benchmarks of industry peers rather than internal corporate pay dynamics can contribute to escalating rewards<sup>5</sup>, which may or may not have a positive impact on motivation and company performance. For long-term investors as with Board members and executives, the emphasis must be on whether pay structures within and across a company stimulate responses that add to the company's success.<sup>6</sup> The gap in the pay of the workforce and senior managers employed by large businesses is a significant contributor to the historically high levels of income inequality within firms.<sup>7</sup> Additionally, the wider socio-economic consequences of economic inequality and the concentration of incomes continue to be a source of considerable concern,<sup>8</sup> which impacts the societies in which companies operate and on which they depend.
- 8) Top pay has also proved a significant reputational risk for business – in polling for the High Pay Centre, more respondents were likely to say that they felt large businesses did not have a beneficial impact on society than those that believed they did.<sup>9</sup> Of those respondents, 63% cited the proportion of pay and profits captured by executives and investors as a basis for their view, while over 60% of all respondents felt that CEOs should be paid no more than ten times their average employee. By providing greater clarity on the range of factors that feed into decision-making on executive pay the FRF is intended to mitigate these issues and help put company-wide reward processes on a footing that can enjoy greater confidence among stakeholders.
- 5) Convened by the Church of England Pensions Board and Brunel Pension Partnership, the FRF has been developed as a collaboration between the High Pay Centre on behalf of and with input from a group of 11 UK Asset Owners including Friends Provident Foundation, Local Pensions Partnership Investments, Nest, Pension Protection Fund, People's Partnership, Railpen, Scottish Widows, and Universities Superannuation Scheme. The tool's development has been informed by Deborah Gilshan during her time as an independent consultant and Luke Hildyard of the High Pay Centre, with the HPC acting as administrators for the development of the tool and ongoing assessments. The proposed purpose and model, as set out in this paper, has been shaped by the asset owner group,

---

<sup>5</sup> Elson C and Ferrere ., (2013) 'Executive Superstars, Peer Groups and Overcompensation: Cause, Effect and Solution' *Journal of Corporation Law*, C <https://weinberg.udel.edu/files/2022/10/Executive-Superstars-Peer-Groups-and-Overcompensation-Cause-Effect-and-Solution-2.pdf>

<sup>6</sup> SHARE (2019) *Aligning compensation: An investor brief on fair pay and income inequality* <https://share.ca/wp-content/uploads/2022/01/AligningCompensation-02-2019-1.pdf>

<sup>7</sup> See for example Pepper A and Willman P (2020), *The role played by large firms in generating income inequality – UK FTSE 100 pay practices in the late 20<sup>th</sup> and early 21<sup>st</sup> centuries*, London School of Economics via [http://eprints.lse.ac.uk/103809/1/WILLMAN\\_AND\\_PEPPER\\_LARGE\\_FIRMS\\_AND\\_INCOME\\_INEQUALITY\\_AS\\_SUBMITTED\\_TO\\_ECONSOC\\_170320\\_2.pdf](http://eprints.lse.ac.uk/103809/1/WILLMAN_AND_PEPPER_LARGE_FIRMS_AND_INCOME_INEQUALITY_AS_SUBMITTED_TO_ECONSOC_170320_2.pdf)

<sup>8</sup> See Satz, D. and White, S. (2021), 'What is wrong with inequality?', *IFS Deaton Review of Inequalities*, <https://ifs.org.uk/inequality/what-is-wrong-with-inequality/> for a summary of research highlighting the socio-economic problems resulting from or exacerbated by economic inequality

<sup>9</sup> High Pay Centre via <https://highpaycentre.org/six-out-of-ten-people-think-ceos-should-be-paid-no-more-than-ten-times-their-typical-employee/>

# The Fair Reward Framework (FRF): Public Consultation, Sept-Nov 2023

with the process instigated by a Summit on Executive Pay involving various stakeholders in December 2022 and will be consolidated with a further Stakeholder Summit in Q4 2023.

- 6) We are now consulting with a wide group of stakeholders and would welcome both general and specific comments on all aspects of the tool, from the need it is intended to meet to the choice of indicators and the design of the assessment framework. We particularly welcome feedback from those who are involved in pay-setting discussions and dialogue between companies and their stakeholders on this issue, such as RemCo chairs and committee members, remuneration consultants, asset managers and owners, and trade union representatives.
- 7) The consultation will run from early September to 10 November 2023. Following public consultation, the FRF will be further refined for presentation and it will be applied to annual reporting on a pilot basis during the 2023/24 AGM season, with the resulting data published on a rolling basis. The pilot year's focus will be on FTSE100 companies. Once finalised, all companies are encouraged to note the final indicators that will be published in December 2023 and use these as the basis for internal self-assessment regarding their own disclosure and performance in relation to these.
- 8) After the first year's assessment cycle the tool will undergo a review in Q3 2024 focused on its clarity of communication and effectiveness. In particular, the review will explore the suitability of the pilot indicators for expansion to a wider universe of companies, including from the UK to other markets such as the US.
- 9) To participate in the consultation please provide your feedback by Friday 10<sup>th</sup> November 9am GMT (midday) via: [www.surveymonkey.co.uk/r/FairReward2023](https://www.surveymonkey.co.uk/r/FairReward2023)

# The Fair Reward Framework (FRF): Public Consultation, Sept-Nov 2023

## Consultation questions – Participant background

*\* Asterisk denotes a mandatory question*

Note: No attributions will be made without first asking for and receiving your permission.

1. \*Name
2. \*Contact email
3. \*In what region are you based?
4. \*Organisation name
5. \*Organisation type
6. \*Sector / industry
7. \*Role / job function
8. \*Would you like to be kept informed about the result of the consultation and the Fair Reward Framework? Yes/No

## Consultation questions – Sections 1, 2 and 3

9. Do you have comments you would like to share about Section 1: Rationale for the Fair Reward Framework?
10. Do you have comments you would like to share about Section 2: The FRF approach?
11. Do you have comments you would like to share about Section 3: Proposed FRF assessment process?

## Consultation questions – for each of Sections 4 A,B,C,D

12. Do you agree these are appropriate indicators for assessing company characteristics/fair reward practices? If not, please provide an explanation.
13. Are there any indicators you would want to add? If yes, please specify.
14. Are there any amendments you would want to make to the proposed indicators in this section (e.g. change indicators, remove indicators, adjust the historic time period, add contextual information, adjust the data source or assessment criteria)? If yes, please specify.

## Consultation questions – Concluding comments

15. In your opinion, which of these indicators are the most important for assessing whether reward practices across a company are both robust and fair (please specify between 10 and 15 indicators)?
16. Do you have any additional comments about executive pay or a framework to assess fair reward that you haven't yet had chance to share? (e.g. priorities for future development, such as of scoring systems)
17. \*Would you be happy for your name and/or affiliation to be included in a list of respondents to the consultation (this will be an indication of participation only)?
18. \*Would you be happy for us to contact you to follow up on any of the points you have raised? Yes/No

# The Fair Reward Framework (FRF): Public Consultation, Sept-Nov 2023

## Section 2: The FRF approach

- 1) The dashboard model for the FRF tool was developed from the premise that (i) certain indicators taken together can help to identify the appropriateness of reward across a company, coupled with (ii) greater understanding of how pay permeates from the Board and executives outwards across the company could foster a clearer understanding of how value-creators associated with the firm's success are motivated and retained, as well as how the company contributes to the society on which its success depends. Therefore, asset owners that shared this ambition determined that it would be useful to compile these indicators into a single online profile for each company, where investors can readily gain insight on performance with respect to each indicator, and comparatively to a company's peers. The proposed tool features 26 indicator groups (+3 tentative) across 3 sections: (A) Company characteristics; (B) Pay scrutiny processes; (C) Reward outcomes.
- 2) Indicators have been selected as a means of measuring outcomes (quantitative data on pay at the assessed companies) and processes (a more qualitative assessment of how pay outcomes have been achieved). This is intended to provide users with:
  - a) clear and relevant data points, which can inform judgements on fairness through comparisons with sectoral or market peers, or against other benchmarks; and
  - b) qualitative information to support reasoned judgements on the outcomes, by indicating whether or not companies and their boards have determined pay awards through robust and rigorous processes.
- 3) The FRF will be based entirely on publicly available information. In such a way it does not promote collusion amongst investors, or provide privileged insights into corporate practices. Similarly, it does not provide AGM voting recommendations – it will be for investors to judge a company's performance across the range of indicators and adapt their stewardship practices and voting decisions accordingly.
- 4) Debates about executive pay have generally related to geographic or global practices rather than sectoral. The FRF is intended to provide a means for users accessing the data to view the assessed companies based on either sectoral or index comparisons. The indicators have been chosen on the basis of their market-wide relevance, and where possible, companies will be assessed in relation to the entire index. Where index comparisons are less appropriate the summary presented by the FRF of the assessment framework will relate performance to sectoral peers.
- 5) The chosen indicators are intended to serve as a basis for engagement and dialogue. By setting out markers of best practice they can inform investors and challenge companies, encouraging positive changes to practice that are both meaningful and achievable in the immediate term. Most of the indicators have been selected on the basis of their ubiquity and in many cases, disclosures are a regulatory requirement within the UK, or evolving voluntary norms and could be reasonably assumed to become commonplace or mandatory in the future. The FRF intends to collate and publicise these as a means of promoting good practice and fuller disclosure, where this doesn't otherwise exist as a mandatory requirement. Where a company has not publicly disclosed the information necessary to assess performance against the relevant indicator this will be indicated in their assessment under the FRF, with the assessed company having the opportunity to verify any perceived gaps prior to publication of the FRF assessment.

# The Fair Reward Framework (FRF): Public Consultation, Sept-Nov 2023

- 6) The FRF is (initially) UK focused and will cover companies in the FTSE 100 (comprising the 'Focus company' list for the pilot year) . The intention is that once the tool has been tested in one index, it can be adapted and applied to a larger universe of companies both in the UK and other markets – especially Europe and the US. We will review indicators periodically, and examine the suitability of existing and new metrics for other markets as the tool evolves.

## Section 3: Proposed FRF assessment process

The FRF will be launched for its pilot year in Q4 2023, during which time the list of focus companies will be comprised of FTSE100. Following the publication of each focus company's annual report the FRF will be updated on a rolling basis, with the dashboard clearly labelled to indicate the most recent year's assessed data. The assessment timeframe is governed by the intention for the FRF to inform investors' decisions on engagements with companies ahead of AGMs, including their votes at those AGMs, and the typical two-to-three month time period between the publication of the annual report and the subsequent AGM.

A majority of the indicators are based on quantitative data published in annual reports and associated pay-related resolutions are voted on at AGMs, with the qualitative criteria subject to an objective and transparent process. Each focus company is provided with the opportunity to review the FRF's assessment of its publicly reported data ahead of the FRF finalising this and publishing it online. Any sector comparisons will be based in the pilot year on the sectoral definitions assigned by FTSE Russell. On this basis the FRF does not anticipate significant scope for companies to contest the resulting assessments. However, we recognise the importance of allowing a company sufficient time to comment on the initial assessment, and the need to reconcile this imperative with the objective of completing the assessment in time to inform investor engagement ahead of the AGM.

Each focus company will have the opportunity to provide a formal written response to the FRF assessment if they wish to provide additional context, which will be included on the webpage. Any feedback received after the assessment has been uploaded to the FRF site will be considered and taken into account by the FRF administrators.

The proposed timeline for the assessment process is as follows:

- 1) In Q4 annually all focus companies receive advance notification of the FRF assessment process and timeline, so the review period can be factored into workplans and an appropriate corporate contact specified for verification of the assessment.
- 2) At the time of the company's annual report being published, each focus company will be sent a courtesy reminder that the FRF will be applied to their disclosures over the coming fortnight before the draft assessment is shared with the company for review.  
*[Annual report publication week]*
- 3) Within two weeks of the publication of their annual report each focus company will be assessed against the identified indicators by FRF administrators. During this period a note will be added to the online tool to indicate a new assessment is pending.  
*[Annual report publication +2wks]*
- 4) Results of the initial assessment shared privately with the company to enable verification, or any additional contextual commentary, with a two-week window available for feedback. During this period a note will be added to the online tool to indicate the draft assessment has been sent to the company for review.  
*[Annual report publication +4wks]*



# The Fair Reward Framework (FRF): Public Consultation, Sept-Nov 2023

5) Dependent on feedback from the company:

*[Annual report publication +5wks]*

- a. If no feedback has been received from the company, proceed to step 6.
- b. The FRF administrators will review the assessment in light of any feedback from the company, within one week of receipt. Any adjustments to the assessment must be based on data that is in the public domain. Final decision on the assessment to rest with the FRF's asset owner steering group, but feedback from the company to be a key consideration.

6) Assessment published as part of the online tool and FRF mailing list notified of published updates. The assessment will include an indication of whether the company responded during the pre-publication feedback period, with a maximum one-page written response from the company included on the webpage should the company wish to provide that.

*[Annual report publication +5–6wks maximum, dependent on feedback from company]*

## Section 4 (A): Proposed indicators – COMPANY CHARACTERISTICS

### A1. Financial year end

**Source**

Company's annual report

**Rationale**

A company's assessment will be updated on an annual basis within the period immediately after the company publishes its report. Inclusion of the company's stated financial year-end enables users to gauge this at a glance. The most recent year-end data for each company will be used to formulate rankings within the assessed group.

### A2. Sector/Economy class and industry

**Source**

Company's index listing

**Rationale**

Enable users to compare similar companies with one another or see sector trends.

### A3. HQ country

**Source**

Company's index listing

**Rationale**

Enable users to compare similar companies with one another or see geographic trends.

### A4. Market capitalisation

**Source**

Public listing record at year end

**Rationale**

# The Fair Reward Framework (FRF): Public Consultation, Sept-Nov 2023

Provides users with an indication of a company's value at the end of a given financial year, in a standard format that can be compared within sectors.

## A5. Net profit margin

### **Source**

Company's annual report

### **Rationale**

The net profit margin, expressed as a percentage, provides users with an indication of the change in a company's year-on-year profitability, in a standard format that can be compared within and across sectors.

## A6. CEO tenure

### **What will the FRF compile?**

Name of CEO and their year of appointment

### **Source**

Company's annual report

### **Rationale**

The duration of the CEO's tenure may have a material influence on the overall value of their reward package.

## A7. Employee headcount

### **What will the FRF compile?**

The company's reported number of full-time equivalent employees

- a) Current year
- b) Previous year

### **Source**

Company's annual report

### **Rationale**

Provides users with a an overview of the contribution the company makes in terms of employment opportunities and the number of people contributing to their success.

## A8. Accreditation: Living Wage

### **What will the FRF compile?**

Whether the company is an accredited Real Living Wage employer.

### **Source**

The public list of accredited living wage employers<sup>10</sup> maintained by the Living Wage Foundation.

---

<sup>10</sup> Currently 13,599 UK-based employers are accredited: [www.livingwage.org.uk/accredited-living-wage-employers](http://www.livingwage.org.uk/accredited-living-wage-employers)

# The Fair Reward Framework (FRF): Public Consultation, Sept-Nov 2023

## **Rationale**

The Real Living Wage is calculated by independent academic experts, in order to establish what level of hourly wage workers need to be paid to ensure a decent and dignified standard of living. Accreditation by the Living Wage Foundation guarantees that all jobs provided by the company meet this standard. The provision of jobs at a real living-wage level or above is an example of a positive social contribution that can have commercial benefits – for example a number of public bodies are keen to incorporate the living wage into their procurement strategies.<sup>11</sup> Living wage advocates also argue that by alleviating the financial pressure on workers, paying the living wage enhances employee engagement and productivity, while reducing turnover and associated recruitment and training costs.<sup>12</sup>

## **Assessment framework**

A binary 'yes/no' assessment based on whether the company is or is not accredited.

## A9. Accreditation: Living Hours

### **What will the FRF compile?**

Whether the company is an accredited Living Hours employer.

### **Source**

The public list of accredited living hours employers<sup>13</sup> maintained by the Living Wage Foundation.

### **Rationale**

The Living Hours standard is an indication of a responsible employer that is committed to valuing the needs of its workforce, as it entails a commitment to provide workers with a guaranteed minimum number of hours to help achieve a decent income. Accreditation by the Living Wage Foundation is only open to companies that have already achieved Living Wage accreditation. In addition, this enhanced Living Hours standard means that workers are provided with decent notice periods for shifts, the right to a contract that reflects accurate hours worked, and a guaranteed minimum of 16 hours a week (unless the worker requests otherwise). As a supplement to being paid the Real Living Wage, these contractual terms provide low-paid workers with additional certainty and security regarding their work schedules and predicted income.

### **Assessment framework**

A binary 'yes/no' assessment based on whether the company is or is not accredited.

---

<sup>11</sup> For an example of public body exploring incorporation of the living wage into procurement strategies, see the Edinburgh City Council update, including the Council's own work and other initiatives in Scotland – Edinburgh City Council Finance and Resources Committee (2022), *Sustainable Procurement Strategy Annual Report – 2022 – Living Wage Update* via <https://democracy.edinburgh.gov.uk/documents/s53633/7.6%20-%20Sustainable%20Procurement%20Strategy%20Annual%20Report%20-%20Living%20Wage%20update%202023.pdf>

<sup>12</sup> See [www.livingwage.org.uk/good-for-business#:~:text=What%20are%20the%20business%20benefits,staff%20and%20attract%20new%20staff](http://www.livingwage.org.uk/good-for-business#:~:text=What%20are%20the%20business%20benefits,staff%20and%20attract%20new%20staff) for a summary of the benefits accruing to businesses that pay the Living Wage, according to the Living Wage Foundation

<sup>13</sup> Currently 100 employers are accredited: [www.livingwage.org.uk/living-hours](http://www.livingwage.org.uk/living-hours)

# The Fair Reward Framework (FRF): Public Consultation, Sept-Nov 2023

## A10. Accreditation: Fair Tax

### ***What will the FRF compile?***

Whether the company is an accredited Fair Tax Mark business, as stated on the Fair Tax Foundation website.

### ***Source***

The public database of accredited companies maintained by the Fair Tax Foundation<sup>14</sup>.

### ***Rationale***

A clear, independently verified commitment to paying fair corporate taxes is a marker of responsible business practices and helps to maintain social licence, while being reflective of a company that views fair reward of all stakeholders in the round. Corporate taxes enable nation states to support public services, economic growth and reductions in inequality. Aggressive tax planning exposes companies to reputational, governance and earnings risks, while restricting a government's potential investments in the type of education, health, and infrastructure that companies and investors rely upon. Corporate taxes also contribute to stable, well-functioning socioeconomic systems that are conducive to underpinning successful businesses and achieving investment returns.

### ***Assessment framework***

A binary 'yes/no' assessment based on whether the company is or is not accredited.

## A11. FRF verification response

### ***What will the FRF compile?***

An indication of whether each company has responded to the FRF's invitation to provide feedback on their assessment prior to its publication.

### ***Source***

Correspondence between the FRF and the company about the pre-publication FRF assessment.

### ***Rationale***

Each company will be provided with an opportunity to provide feedback on the draft FRF assessment ahead of publication. Results of the initial assessment will be shared privately with the company to enable verification, or any additional contextual commentary, with two-week window available for feedback. During this period a note will be added to the online tool to indicate the draft assessment has been sent to the company for review.

### ***Assessment framework***

A binary 'yes/no' indication of whether the company acknowledged the invitation to provide feedback. Additionally there will be facility for a company to provide a one-page response to the FRF assessment to contextualise their data if they so choose.

---

<sup>14</sup> Currently around 90 businesses are accredited: <https://fairtaxmark.net/accredited-organisations/>

# The Fair Reward Framework (FRF): Public Consultation, Sept-Nov 2023

## Section 4 (B): Proposed indicators – measures of robust PAY SCRUTINY PROCESSES

### B1. Remuneration Committee discretion

#### ***What will the FRF compile?***

Whether the company's Remuneration Committee accepted the formulaic outcome of the company's pay policy, or exercised their discretion, including to adjust the pay award in light of extraordinary contextual factors outside of the company's control.

#### ***Source***

Remuneration reports in companies' annual reports detailing, typically in narrative form, how their remuneration policy has applied in the reporting year.

#### ***Rationale***

In most cases investors would expect the terms of the policy to be followed, but there are occasions where, over the lifetime of the policy, unforeseen circumstances may invite discretion to be exercised by the Remuneration Committee. Where company performance and stakeholder experiences have been greatly affected by extraordinary factors, such as the Covid-19 pandemic and extreme share and commodity price movements, performance-related payments have proven controversial. In such circumstances, the use of discretion to adjust pay downwards can be a useful proxy for assessing whether or not a RemCo is sufficiently independent and applying appropriate critical scrutiny to pay awards. Applying discretion in these circumstances is important, and also provides greater confidence in the quality of pay governance more generally.

#### ***Assessment framework***

Binary 'yes/no' assessment with a corresponding indication of whether the adjustment was upwards or downwards. Based on whether or not the Remuneration Committee has made significant adjustments to the pay award that otherwise would have been made under the formulaic application of the pay policy, as a result of external factors beyond the control of the CEO that have aided company performance (in the case of upwards adjustment) or due to performance negative factors (in the case of downwards). Where atypical adjustments have occurred outside of the RemCo process these will be noted (for example, self-instigated downward adjustments by the executive personally).

The FRF does not propose to identify companies where discretion might be particularly appropriate (ie where companies have benefitted from circumstances beyond the CEO's control), on the basis of capacity and simplicity, and the assumption that users will be aware of industries where these factors might be relevant.

We do not propose to make a judgement on whether downward discretion is sufficiently proportionate to the extent to which the formulaic policy outcome benefits from windfall gains, again on the basis of capacity and simplicity, and that users will use the tool as a starting point for their stewardship activities, rather than it being the end point.

# The Fair Reward Framework (FRF): Public Consultation, Sept-Nov 2023

## B2. Workforce director on the Board

### **What will the FRF compile?**

Whether the company has appointed a workforce director.

### **Source**

Disclosures in companies' annual reports.

### **Rationale**

A workforce director<sup>15</sup>, also known as a worker or employee director, is a director of a company that is drawn from the company's wider workforce or employee base. They have the same set of fiduciary duties and stakeholders to consider as any other director, but they also have current experience of being part of the company's broader workforce. Including the views of a workforce director in considerations around top pay and reward across a company has the potential to enable cognitive diversity and help the executive board make informed decisions that align with the needs and concerns of the workforce, and is included in the FRF as a marker of good practice on corporate governance.

### **Assessment framework**

Binary 'yes/no' (or pass/fail) assessment based on whether or not the annual report discloses the appointment of a workforce director.

## B3. Trade union relations

### **What will the FRF compile?**

Whether the company's annual report discusses engagement with trade unions and discloses the proportion of the workforce covered either by trade union membership or a collective bargaining agreement.

### **Source**

Disclosures in companies' annual reports. There is no requirement to report on trade union relations, but almost all annual reports contain substantial sections on their workforce. Where a meaningful proportion of the workforce benefits from union recognition, this would normally be disclosed. If there are limited or no details of union presence within the workforce disclosed in the annual report, this will be noted by the indicator.

### **Rationale**

The involvement of trade unions ensures that workers' rights are respected and that they have bargaining power in pay negotiations. Stakeholders can be more confident that workers represented by unions are aware of their legal rights; that concerns about pay or working conditions can be articulated freely on their behalf without fear of repercussions; that directors are accountable to their workforce; and that there is some degree of consensus across the workforce over how pay is shared throughout the organisation. At an economy wide level,

---

<sup>15</sup> For elaboration on the value of workforce directors and guidance on the role, recruitment, retention and reporting, see: Railpen (2023) *Workforce inclusion and voice – Investor guidance on workforce directors* <https://cdn-suk-railpencom-live-001.azureedge.net/media/media/gztlyqki/investor-guidance-on-workforce-directors-v8.pdf>

# The Fair Reward Framework (FRF): Public Consultation, Sept-Nov 2023

unions are a recognised bulwark against income inequality.<sup>16</sup> Therefore, a strong union presence within the company acts as a safeguard against pay practices (both at the top and bottom) that are unfair and exploitative. Where companies are willing to disclose the extent of trade union presence, this enables investors to take a more informed position on the fairness and proportionality of executive pay outcomes and the robustness of pay setting processes.

## **Assessment framework**

- a) Binary ‘yes/no’ (or pass/fail) assessment based on whether or not the annual report discloses the proportion of employees covered by trade union membership or a collective bargaining agreement.
- b) The framework will also disclose what proportion of the workforce is covered by union membership/collective bargaining agreements, but we are not proposing to make a judgement on what constitutes an appropriate level or to define a minimum threshold. This is for the purposes of simplicity and objectivity, and because users of the framework will use it as a starting point for their stewardship activities, rather than it being the end point

## B4. Worker consultation on top pay

### **What will the FRF compile?**

Whether the wider workforce is consulted on top pay as part of the executive pay setting process.

### **Source**

Disclosures in companies’ annual reports. There is no requirement to consult, but companies are required by the Large and Medium-sized Companies Regulations to consider pay and conditions throughout the workforce when setting executive pay, and to disclose whether the workforce was consulted.<sup>17</sup>

### **Rationale**

Workers on the frontline of a company can have a unique insight into the performance of senior management, and the effectiveness of initiatives they oversee. Workers’ recognition of effective leadership alongside perceptions of pay fairness can be important to their engagement level and to morale, and thus to long-term company performance.<sup>18</sup> Worker voice in the pay setting process may lead to less uneven outcomes and make executive pay outcomes more defensible, meaning reputational issues or conflicts with shareholders are less likely. Therefore, whether or not workers have been consulted provides an insight into whether the pay setting process is sufficiently robust and ultimately whether outcomes are fair and proportionate.

### **Assessment framework**

---

<sup>16</sup> Institute for Public Policy Research (2018), *Fall in trade union membership linked to rising share of income going to top 1%* via [www.ippr.org/news-and-media/press-releases/fall-in-trade-union-membership-linked-to-rising-share-of-income-going-to-top-1#:~:text=The%20fall%20of%20trade%20union,a%20significant%20fall%20in%20inequality](http://www.ippr.org/news-and-media/press-releases/fall-in-trade-union-membership-linked-to-rising-share-of-income-going-to-top-1#:~:text=The%20fall%20of%20trade%20union,a%20significant%20fall%20in%20inequality).

<sup>17</sup> Legislation.gov.uk (2013), *The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013* via [www.legislation.gov.uk/ukxi/2013/1981/schedule/made](http://www.legislation.gov.uk/ukxi/2013/1981/schedule/made)

<sup>18</sup> See for example Hendriks, M., Burger, M. & Commandeur, H (2023). *The influence of CEO compensation on employee engagement*. *Rev Manag Sci* 17, 607–633 via <https://link.springer.com/article/10.1007/s11846-022-00538-4>

# The Fair Reward Framework (FRF): Public Consultation, Sept-Nov 2023

Binary ‘yes/no’ (or pass/fail) assessment based on whether or not the annual report provides evidence of consultation with the workforce as part of the executive pay setting process.

In order to fulfil the criteria of a meaningful consultation, companies should:

- i) Pro-actively present the executive pay proposals to the workforce, or workforce representatives, through formal channels, with evidence of how they have communicated pay levels and pay differences throughout the organisation
- ii) Demonstrate evidence of how workers’ views have been taken into account and the impact this has had on pay outcomes.

Taking the pay and conditions of the wider workforce into account during the pay setting process, without directly asking workers their views, or providing forums where workers might theoretically voice concerns about top pay, without pro-actively tabling the item on the agenda with relevant information, will not count as genuine consultation.

## B5. History of shareholder dissent

### ***What will the FRF compile?***

‘Significant’ levels of shareholder opposition (taken to mean a vote of more than 20% against the resolution) to a pay-related resolution at the company’s AGM over the previous three years

### **Source**

The Investment Association’s Public Register of significant levels of shareholder dissent

### ***Rationale***

Recent historic shareholder dissent is an indicator of concern about executive pay practices and highlights companies where improving practices and shareholder relations might be a particular priority.

In the UK, under provision 4 of the UK Corporate Governance Code, a company should explain, when announcing vote results, what actions it intends to take to consult shareholders in order to understand the reasons why 20% or more of votes cast were against the board recommendation.

Votes against previous pay awards may also be the result of a pay policy that remains in place so could indicate future pay outcomes that are also concerning for shareholders.

### ***Assessment Framework***

- a) Binary ‘yes/no’ assessment based on whether or not the company has experienced significant shareholder dissent on pay in the previous three years  
If ‘Yes’:
  - b. year dissent occurred
  - c. Focus of dissent
  - d. Level of shareholder dissent
  - e. How the company responded to the shareholder dissent.



# The Fair Reward Framework (FRF): Public Consultation, Sept-Nov 2023

## Section 4 (C): Proposed indicators – measures of fair REWARD OUTCOMES

### C1. CEO pay level

#### **What will the FRF compile?**

- a) The 'single figure' of total pay received for the year by the CEO (including all forms of incentive pay, share based awards, pensions and benefits) as disclosed in the company's annual report
- b) the year-on-year change in CEO pay as measured using the single figure, expressed as a percentage increase/decrease
- c) percentage of the target outcome in policy that is fixed pay
- d) percentage of the target outcome in policy that is short-term performance related
- e) percentage of the target outcome in policy that is long-term performance related
- f) time based remuneration (reserved stock or options)
- g) disclosure of the targets that sit within the performance related pay package

#### **Source**

Mandatory 'single figure' CEO pay disclosure in companies' annual reports, detailing pay for the relevant and preceding financial years, with associated breakdown of its component parts.

#### **Rationale**

CEO pay awards are of considerable interest to investors and other stakeholders. The pay of the CEO is also one of many relevant factors in determining the fairness or appropriateness of the company's pay practices more generally, while the year-on-year change provides relevant context to the most recent pay award.

#### **Assessment framework**

The FRF would publish the pay levels and year-on-year change, together with their ranking relative to the FTSE 100 (most recent assessments as published by the FRF), showing whether their CEO pay award was in the top, upper middle, lower middle or bottom quartile of the index. The level of change in CEO pay (increase or decrease) would be assessed on the same criteria.

CEOs of larger companies or those that have performed more successfully might expect to be paid more, but being ranked in the highest quartile would not necessarily be an indicator of 'bad' practice, nor should the lowest be considered 'good.' The indicator is intended simply to highlight the highest pay awards in the assessed index, enabling stakeholders to filter by different indicators and investigate further whether they deem that the level of executive reward correlates to the company's wider value.

### C2. CEO pay ratios

#### **What will the FRF compile?**

CEO pay compared to:

- a. the median employee within the company; as well as the year-on-year change;
- b. the lower-quartile employee within the company; as well as the year-on-year change;
- c. the estimated pay of the lowest-paid worker in the organisation, based on the annualised equivalent of the real living wage (if the company is an accredited living wage employer) or the national living wage (if the company is not an accredited living wage employer);
- d. the median UK full time worker.

# The Fair Reward Framework (FRF): Public Consultation, Sept-Nov 2023

## **Source**

Mandatory disclosures in companies' annual reports provide the internal CEO to employee pay ratios. Sources for the other comparators with CEO pay are as follows:

- i. Median UK full time worker – this is documented in the 'Annual Survey of Hours and Earnings', maintained by the Office for National Statistics, the UK government statistics agency.
- ii. Annualised equivalent of the Real Living Wage – the hourly rate for the real living wage (non-London) as detailed on the Living Wage Foundation website, annualised on the assumption of a 37 hour working week.
- iii. Annualised equivalent of the National Living Wage - the hourly rate for the National Living Wage as detailed on the Low Pay Commission website, annualised on the assumption of a 37 hour working week.

## **Rationale**

Excessive pay can undermine businesses' social license to operate – very high pay levels relative to lower paid colleagues or workers across the wider economy risk feeding negative perceptions of businesses.

Internal pay ratios – the difference between the pay of CEOs and colleagues at different points of the internal pay distribution – are most useful in terms of providing an insight into pay and conditions across the group, as well as the wealth that the company is generating for all its workforce. The pay of the median worker illustrates how the CEO pay award contributes towards societal inequality. However, there are also certain shortcomings with the pay ratio disclosures in annual reports.

- i. In a minority of cases, year-on-year comparisons of pay ratio disclosures can be affected by changes in the comparator group (e.g. if the company restructures, changing the composition of the workforce).
- ii. The formula for calculating the pay ratio also does not include indirectly employed workers, who many might consider to be de facto workers for the company, even if they are employed by an outsourcing agency.
- iii. In some cases, companies within the same sector have characteristics that distort comparisons – e.g. BP directly employ most of their low-paid petrol station staff, meaning they are included in the ratio calculation, whereas at Shell they are mostly employed by franchised outlets so they are not included in the company's calculation. In this example when CEO pay levels are equal, BP will produce a much higher ratio despite essentially similar pay practices.

The additional comparators help to address these shortcomings, and reflect the likely reality of gaps between CEOs and the lowest-paid workers at their company.

Applying an assessment based on the living wage or minimum wage provides an approximation of the highest and lowest paid workers across the company's entire workforce. Accreditation by the UK's Living Wage Foundation requires companies to pay the living wage to direct employees and regularly contracted staff, defined as anyone working at least two hours a week for the company or eight consecutive weeks per year).

# The Fair Reward Framework (FRF): Public Consultation, Sept-Nov 2023

If the company is accredited by the Living Wage Foundation, the minimum hourly rate they can pay their lowest paid employees and indirectly employed workers is the Real Living Wage, while for those that are not accredited by the Living Wage Foundation, it could be as low as the UK's state-mandated National Living Wage rate (which in the case of under 23-year-olds is even less).

## **Assessment Framework**

Indicator a) – the internal CEO to lowest-paid and median employee - would be published alongside a relative ranking based on whether the company falls in the top, upper middle, lower middle or bottom quartile of the FTSE 100.

Different sectors have different pay practices meaning that pay ratios will vary widely (for example similarly paid CEOs of a supermarket and an asset management firm would have very different CEO to median employee pay ratios). Therefore, the CEO to median and lower quartile employees would also be ranked compared to the rest of the sector, as defined by the FTSE Russell Industry Classification Benchmark.

Indicators B (lower quartile comparison) and C (lowest-paid worker comparison) would be published alongside a relative ranking based on whether the company falls in the top, upper middle, lower middle or bottom quartile of the FTSE 100.

## C3. Potential pay-outs in the proposed pay policy

### **What will the FRF compile?**

For those companies putting their pay policy to a vote at their forthcoming AGM:

- a. any proportional increase in salary beyond that experienced by the wider workforce
- b. any increase in the potential maximum pay-out for the bonus and/or LTIP increase as a percentage of salary contained in the new policy;
- c. the maximum possible pay-out under their pay policy if maximum pay-outs for all performance-related pay are made and the company's share price appreciates by 50% over the period
- d. maximum pay-out as a ranking within FTSE100.

### **Source**

Companies' annual reports, which detail both the pay policy, including the terms for the CEO's salary and variable pay awards and the maximum possible pay-out under the conditions described above.

### **Rationale**

Incentive or variable pay comprises the largest element of CEO pay packages – if the potential maximum pay-out increases this potentially increases total pay, exacerbating the issues with very high executive pay previously discussed. Salary increases beyond that experienced by the wider workforce may be justified in certain circumstances but also raise questions around how expenditure and rewards generated by the company's success are distributed. If executive salary increases are much greater than those experienced by the wider workforce, this may harm employee relations, engagement and productivity, in addition to impacting on the company's social standing.

### **Assessment framework**

For the pay policy and salary increases, a binary 'yes/no' assessment depending on whether there has been an increase or not.

# The Fair Reward Framework (FRF): Public Consultation, Sept-Nov 2023

For the maximum possible pay-out, the figure would be published alongside the hypothetical ranking relative to the FTSE 100, showing whether their CEO pay award would rank in the top, upper middle, lower middle or bottom quartile of the index based on current pay levels.

## C4. Pension awards

### **What will the FRF compile?**

Whether the company's pension award to the CEO, which is included elsewhere in the framework as part of the total pay package, matches the employer contribution for the rest of the workforce.

### **Source**

The company's annual report.

### **Rationale**

CEO pension is expressed by companies within the total pay package, however from a fairness perspective the FRF provides an indication of whether that provision is equivalent to the contribution for the wider workforce.

### **Assessment framework**

- a) Binary Y/N of whether the employer contribution to CEO pension and that to the rest of the workforce is equal.
- b) In instances where the answer to a) is No, statement of the difference between the CEO's pension award and that of the average employee.

## C5. Pay of the Chief Financial Officer

### **What will the FRF compile?**

The pay of the next highest executive, expressed as a percentage of the pay of the CEO

### **Source**

Mandatory 'single figure' executive pay disclosure in companies' annual reports

### **Rationale**

The pay of the next highest paid executive, which for consistency in assessing all companies is assumed by the FRF to be the Chief Financial Officer, is a subject of interest because this also tends to be very high relative to other workers in the company and across the wider economy.

The ratio to the pay of the CEO is of relevance from a business practice perspective. Logically, pay levels reflect an individual's value to the company, so a CEO paid many times the amount of any other senior manager is deemed to be many times more valuable, potentially indicative of over reliance on a single individual. Research suggests that a higher CEO to next highest-paid executive ratio is indicative of an external succession.<sup>19</sup> Sometimes external appointments may

---

<sup>19</sup> See for example Essman S, Schepker D, Nyberg A, Ray C (2020), *Signaling a successor? A theoretical and empirical analysis of the executive compensation-chief executive officer succession relationship* via <https://onlinelibrary.wiley.com/doi/abs/10.1002/smj.3219>

# The Fair Reward Framework (FRF): Public Consultation, Sept-Nov 2023

be appropriate, but in general companies with internal hires tend to perform better and a lack of internal candidates may reflect a lack of succession planning.<sup>20</sup>

## **Assessment framework**

The pay of the CFO would be disclosed alongside a ranking in either the top, upper middle, lower middle or bottom quartile of the FTSE 100. The pay of the CFO to the CEO would also be assessed on the same criteria.

## C6. Gender pay gap

### **What will the FRF compile?**

Gender pay gap disclosures covering

- a) mean gender pay gap between male and female UK employees at the firm, and
- b) the proportion of women in the highest paid quartile of employees.

### **Source**

The UK Government's gender pay gap reporting legislation requires all employers with over 250 employees to publish annual data on gender pay gaps within their UK workforce. Where companies report for individual subsidiaries, rather than for the group as a whole, we will use the figures for the most suitable proxy for the parent company, based on the size and stated business of the reporting entity, to publish a gender pay gap. Companies would have the opportunity to feedback on whether they think these figures are reflective of the organisation as a whole during the verification process

### **Rationale**

Gender pay equality is an indicator of fairness and corporate culture at the organisation – in terms of whether it is a modern, non-discriminatory workplace offering equal career opportunities regardless of gender. An uneven gender balance at the top of the organisation could also mean that the company is failing to attract and retain the full range of potential employees available to it, and may risk future under-performance.

The gender pay gap disclosure rules include requirements for employers to publish both a mean and median gender pay gap, as well as the proportion of men and women in each pay quartile. To ensure the FRF does not have too many indicators, we have prioritised (i) the mean pay gap, because the median may not capture extreme differences in gender pay for a small number of employees at the highest level of the company leadership; and (ii) the gender balance in the top quartile because this is the best indicator of opportunities for career progression.

### **Assessment framework**

- a) Mean gender pay gap data, alongside;
- b) a relative ranking of the average gender pay gap in comparison to the FTSE100;
- c) Percentage of women in the company's top pay quartile, alongside;
- d) a relative ranking based on the proportion of women in the upper pay quartile falls in the top, upper middle, lower middle or bottom quartile of the FTSE 100.

---

<sup>20</sup> Harvard Business Review, *Succession Planning: What the Research Says*, via <https://hbr.org/2016/12/succession-planning-what-the-research-says>

# The Fair Reward Framework (FRF): Public Consultation, Sept-Nov 2023

It is possible that even those companies with the lowest pay gaps or the highest proportion of women in the top pay quartile may still have a pay gap or under representation issues that critics would find problematic. We would particularly welcome feedback on this issue.

## C7. Ethnicity pay gap

### **What will the FRF compile?**

The gap in total pay between minority ethnic workers and white workers across the company.

### **Source**

Ethnicity pay gap reporting is not currently a regulatory requirement in the UK, although the government has issued guidance for those companies that choose to do so on a voluntary basis.<sup>21</sup> To date a minority of FTSE 100 firms do report their ethnic pay gap in their annual reports. For non-disclosing firms the FRF would note that they failed to provide the data that would enable the assessment.

### **Rationale**

As noted in the UK government's guidance, analysing ethnicity pay information is one way employers can identify and investigate disparities in the average pay between ethnic groups in their workforce. It helps employers understand whether unjustifiable disparities exist between different ethnic groups and in turn, gives them an evidence base from which to develop an action plan.<sup>22</sup> Research has found significant evidence of labour market discrimination and an 'ethnic penalty' in earnings even when controlling for qualifications and other factors. There is also evidence that diverse and equitable organisations (where ethnic minorities are proportionally represented in senior roles, for example) outperform their peers.<sup>23</sup>

### **Assessment framework**

- a) Binary Yes/No for whether the company discloses ethnicity pay gap data;
- b) If 'Yes', the mean minority ethnicity pay gap;
- c) Ethnicity pay gap data would be presented alongside either a ranking or a relative ranking based on whether the ethnic pay gap falls in the top, upper middle, lower middle or bottom quartile of the FTSE 100.

Even if an employer has a fair pay and reward policy, and even if it has equal pay, it could still have a pay gap. Given the voluntary nature of this disclosure, best practice is currently evidenced by a company disclosing its ethnicity pay gap data and providing a narrative regarding its action plan to address areas identified by the company as requiring attention.

---

<sup>21</sup> HM Government (2023), *Ethnicity Pay Gap Reporting: Guidance for Employers*  
[www.gov.uk/government/publications/ethnicity-pay-reporting-guidance-for-employers](https://www.gov.uk/government/publications/ethnicity-pay-reporting-guidance-for-employers)

<sup>22</sup> *op. cit.*

<sup>23</sup> For a summary of evidence on the economic and business case for ethnic pay gap reporting, see the Share Action briefing on the topic: Share Action (2022), *Ethnicity Pay Gap Reporting An Investor Briefing and Toolkit* via [https://cdn2.assets-servd.host/shareaction-api/production/resources/reports/Ethnicity-pay-gap-toolkit\\_2023-06-21-143903\\_sedy.pdf](https://cdn2.assets-servd.host/shareaction-api/production/resources/reports/Ethnicity-pay-gap-toolkit_2023-06-21-143903_sedy.pdf)

# The Fair Reward Framework (FRF): Public Consultation, Sept-Nov 2023

## C8. Worker share ownership

### ***What will the FRF compile?***

The proportion of issued share capital that is held by and/or offered to vehicles for employees share ownership

### ***Source***

Companies' accounts provide information on issued share capital held by vehicles for employee share ownership.

### ***Rationale***

Worker share ownership means that when the company generates significant returns to shareholders, the workforce whose labour creates those returns benefits. This has positive implications for the company, and for the reputation of business more generally when replicated on an economy wide scale. A case has been made for the intuitive link between worker ownership and enhanced productivity and company performance.<sup>24</sup>

### ***Assessment framework***

- a) Binary Yes/No for whether the company discloses worker share ownership;
- b) If 'Yes', the proportion of issued share capital held by and/or offered to vehicles for employee share ownership, in addition to;
- c) a relative ranking based on whether the company falls in the top, upper middle, lower middle or bottom quartile of the FTSE 100.

## C9. Non-executive directors' remuneration

### ***What will the FRF compile?***

Fees paid to members of the non-executive board in recognition of their contribution to the company, for the current and previous year.

### ***Source***

Company annual report.

### ***Rationale***

Non-executive directors are integral to the strategy and success of the company, and also hold considerable influence over the division of reward across all stakeholders.

### ***Assessment framework***

- a) Total number of meetings attended by all board members
- b) Total remuneration of all board members as a whole
- c) Total fee paid to Chair of the Board
- d) Total fee paid to individual basic non-executive board members.

---

<sup>24</sup> See for example Department for Business, Innovation and Skills/Cass Business School (2012), *The Employee Ownership advantage: Benefits and Consequences* via [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/31668/12-929-employee-ownership-advantage-benefits-and-consequences.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/31668/12-929-employee-ownership-advantage-benefits-and-consequences.pdf)

# The Fair Reward Framework (FRF): Public Consultation, Sept-Nov 2023

## C10. Cash returned to shareholders

### **What will the FRF compile?**

The value of dividends and the extent of share buybacks by a company.

### **Source**

Company annual report.

### **Rationale**

After having taken account of operating expenses such as executive remuneration and wider pay awards, company directors make decisions on whether and to what extent dividends and share buybacks should be awarded to the shareholders who have invested in the company's success. Although not guaranteed, dividends are what makes a particular company an attractive prospect for investors. Similarly, share buybacks can boost shareholder returns by increasing the overall return on shares held. Therefore the FRF will assess these awards alongside those to other stakeholders in the company.

### **Assessment framework**

- a) Total dividend reported for the year ended, expressed in the original currency
- b) Year-on-year growth in the dividend in comparison to the previous year
- c) Five-year growth in the dividend
- d) 10-year growth in the dividend
- e) Total expenditure on dividends and share buybacks.

## Section 4 (D): Potential additional indicators

Beyond the indicators discussed above, there were two other aspects of pay setting processes and outcomes that were deemed to be very important to delivering fair pay but were more challenging to incorporate into the framework. These were:

### D1. Capital expenditure

If this indicator is developed it would sit in 'section A: Pay Company characteristics'. Rewards in the short-to-medium term need to be appropriately balanced with the retention of capital for future investment, which is the foundation for long-term value creation.<sup>25</sup> This is what will underpin the company's ability to reward future employees and other stakeholders, so arguably the FRF should take this into account when assessing the fairness of practices in the near term. We are interested in views from consultation respondents on what measure could be meaningful for assessing how a focus company applies a sustainable balance of capital allocation and division of reward among stakeholders.

### D2. Remuneration consultants

If this indicator is developed it would sit in 'section B: Pay scrutiny'. The role of remuneration consultants in the pay-setting process. Consultants who charge for their advice in designing pay awards may have an interest in promoting more complex packages. They have also played a key role in shaping existing pay practices, which have struggled to achieve stakeholder confidence. However, consultants also contribute extensive data and understanding of market/sectoral practices that companies understandably are keen to use. In this context, identifying a simple

---

<sup>25</sup> ICGN, 'Principle 5: Remuneration' in *Corporate Governance Principles* (2021)



# The Fair Reward Framework (FRF): Public Consultation, Sept-Nov 2023

dashboard-style indicator that details the influence of remuneration consultants over pay at a particular company was difficult and we have not chosen to include one in the framework, despite recognising the importance of the topic. We are interested in views via the consultation on a binary Y/N regarding the company disclosing the services of a remuneration consultant, and if yes, additionally identifying the firm and any disclosed fee.

## D3. High pay beyond the executive team

If this indicator is developed it would sit in 'section C: Reward outcomes'. Companies make very high pay awards to staff beyond their executive team. This contributes to intra company and societal inequality, and in aggregate represents a significant cost to the business, equivalent to the cost of making a major pay increase to low and middle earners. A detailed analysis of fair pay would undoubtedly look at factors like the number of employees earning above a certain threshold for 'high pay' (£180,000 might be a suitable threshold: roughly equivalent to the amount to qualify for being among the top 1% of UK earners) or the absolute amount or proportion of total pay spent on these individuals. However, almost no company discloses these or similar figures and therefore we are again unable to include an indicator relating to pay for top earners including those beyond the board despite recognising their importance.

In addition to the indicators in sections 4(A) to 4(C) we would welcome views on any other indicators consultees might think relevant and useful in gauging the process and practice of fair reward, and particularly on how we might develop indicators relevant to capital expenditure, the use of remuneration consultants and pay for top earners beyond the executive board.

## Annex: Definitions/Key terms

**CEO Pay:** References to CEO pay refer to the total pay realised by the CEO during the reporting year, as disclosed in the 'single figure' disclosures for CEO pay published in companies' annual reports for each of their previous ten reporting years. The single figure is a regulatory requirement and is calculated according to a stipulated formula covering all elements of directors' pay including salary, variable pay, pension payments and other benefits.<sup>26</sup>

**Ethnicity Pay Reporting:** A pay gap is the difference between the median (or mean) hourly pay of employees in category A and the median (or mean) hourly pay of employees in category B, which is expressed as a percentage of one group's earnings. For ethnicity pay calculations, this would involve employers calculating whether employees in a certain ethnic group earn X% less or X% more than employees of a different ethnicity per hour. Ethnicity pay gap reporting is not currently a regulatory requirement in the UK, although the government has issued guidance for those companies that choose to do so on a voluntary basis.

**Focus company:** A constituent in the Fair Reward Framework's universe of companies that will be assessed in a given year. For the pilot year this will comprise the FTSE100 but with the intention of in 2024 scoping expansion to a broader number of companies and the feasibility of applying similar indicators to other markets.

**Gender Pay Reporting:** UK employers are legally required to publish their 'gender pay gap' detailing the gap in the average pay and median pay of male and female UK employees, as well as the proportion of male and

---

<sup>26</sup> For more information on directors' pay disclosure requirements see *The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013* via <https://www.legislation.gov.uk/ukdsi/2013/9780111100318>

# The Fair Reward Framework (FRF): Public Consultation, Sept-Nov 2023

female employees in each pay quartile and the gap in bonus pay. Companies publish their data on a dedicated UK Government website.

**National Living Wage:** The ‘National Living Wage’ is the UK minimum hourly rate that employers must pay employees over the age of 23, set by the Government on the basis of advice from the Low Pay Commission, that employers are legally required to pay employees over the age of 23. It is a de facto statutory minimum wage for workers over the age of 23. The current rate is £10.42, with lower ‘national minimum wage’ rates for younger workers.

**Other executives’ pay:** Companies are required to publish a ‘single figure’ of total pay realised by all executives during the reporting year in their annual report. The single figure is a regulatory requirement and calculated according to a required formula covering all elements of executive pay including salary, variable pay, pension payments and other benefits.

**Pay ratios:** Pay ratios detailing the ‘single figure’ for the CEO’s total pay realised in the reporting year (including salary, variable pay, pension payments and other benefits) as a multiple of the pay of comparator workers. Disclosures detailing the CEO’s pay to that of the UK employee at the 25<sup>th</sup>, median and 75<sup>th</sup> percentile of the company’s UK workforce, on a full-time equivalent basis, are a regulatory requirement.<sup>27</sup>

**Real Living Wage:** The Real Living Wage is a voluntary minimum hourly pay rate to which employers commit for all their directly and indirectly employed workers through accreditation from the Living Wage Foundation. The rate is set on the basis of academic calculations of the pay rate necessary to lead a decent and dignified standard of living. It is currently set at £10.90 an hour (£11.95 in London)

**Shareholder ‘say on pay’:** UK-listed companies are legally required to hold votes on executive pay at their AGMs. The retrospective vote on the pay report is an annual advisory vote, through which shareholders support or oppose the remuneration report, primarily detailing the directors’ remuneration including the CEO’s pay. The company is not required to act on the vote, even if a majority of shareholders oppose the pay report. The vote on the pay policy is a binding vote that must be held at least tri-annually or if there are changes to the policy. Shareholders vote to support or oppose the pay policy including salary increases; possible bonuses and incentive payments and performance conditions; or other components of pay and benefits. If a majority of shareholders oppose the policy, the company is required to present an alternative policy for their consideration.

## Annex: UK-relevant legislation and reporting initiatives

- *The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013* (CEO pay disclosure) via - <https://www.legislation.gov.uk/ukdsi/2013/9780111100318>
- *The Companies (Miscellaneous Reporting) Regulations 2018* (Pay ratio reporting requirements) [https://www.legislation.gov.uk/ukdsi/2018/9780111170298/pdfs/ukdsi\\_9780111170298\\_en.pdf](https://www.legislation.gov.uk/ukdsi/2018/9780111170298/pdfs/ukdsi_9780111170298_en.pdf)
- National Minimum Wage Entitlement (background to National Living Wage and other statutory minimum wage levels) via <https://www.acas.org.uk/national-minimum-wage-entitlement>
- Introduction to the UK living wage via <https://www.livingwage.org.uk/what-real-living-wage>

---

<sup>27</sup> For more information on pay ratio reporting requirements, see *The Companies (Miscellaneous Reporting) Regulations 2018* [https://www.legislation.gov.uk/ukdsi/2018/9780111170298/pdfs/ukdsi\\_9780111170298\\_en.pdf](https://www.legislation.gov.uk/ukdsi/2018/9780111170298/pdfs/ukdsi_9780111170298_en.pdf)

# The Fair Reward Framework (FRF): Public Consultation, Sept-Nov 2023

- *The Equality Act 2010 (Gender Pay Gap Information) Regulations 2017* (Gender Pay Gap reporting requirements) via <https://www.legislation.gov.uk/ukdsi/2017/9780111152010>
- *Enterprise and Regulatory Reform Act 2013* (Shareholder 'say on pay' regulations) via <https://www.legislation.gov.uk/ukpga/2013/24/section/79/enacted>