Press release: UK's biggest firms will have to justify pay gap between bosses and their workers

- For the first time ever, listed companies will legally be required to annually publish and justify pay difference between chief executives and their staff
- the directors of all large companies will also have to set out how they are acting in the interests of employees and shareholders
- reporting is part of the government's modern Industrial Strategy which is helping ensure the UK remains a world-leading place to invest and do business.

Big firms will have to justify their chief executives' salaries and reveal the gap to their average UK worker, under new laws to be laid in Parliament tomorrow (Monday 11 June).

It means that for the first time, UK listed companies with more than 250 UK employees will have to disclose and explain this difference – known as 'pay ratios' – every year.

This follows concerns that some chief executives have been receiving salaries that are out-of-step with company performance.

These new regulations are part of a package of reforms which will hold big businesses to account for the salaries they pay, while giving employees a greater voice in the boardroom.

Business Secretary Greg Clark said:

> One of Britain's biggest assets in competing in the global economy is our deserved reputation for being a dependable and confident place in which to do business.
>
> Most of the UK's largest companies get their business practices right but we understand the anger of workers and shareholders when bosses' pay is out of step with company performance.
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> Requiring large companies to publish their pay gaps will build on that reputation by improving transparency and boosting accountability at the highest levels, while helping build a fairer economy that works for everyone.

The new regulations form a core part of the government's modern Industrial Strategy which aims to build on the UK's strong reputation and make sure our largest companies are more transparent and accountable to their employees and shareholders.

In addition to the reporting of pay ratios, the news laws will also:

- require all large companies to report on how their directors take employee and other stakeholder interests into account
- require large private companies to report on their responsible business arrangements
- require listed companies to show what effect an increase in share prices will have on executive pay to inform shareholders when voting on long-term incentive plans

Responding to the government’s new corporate governance laws, the chief executive of the Investment Association (IA) Chris Cummings said:

> The UK has a global reputation as a leader in corporate governance and we welcome today’s package of reforms as they focus on the long-term interest of all company stakeholders, including shareholders and employees.
>
> Investors are demanding greater director accountability and transparency on executive remuneration. Pay ratios will shine a spotlight on what executives are being paid compared with their workforce, and investors will expect Boards to articulate why the ratio is right for the company and how directors are fulfilling their duties.
>
> Through the IA’s Public Register we are seeing investors hold business to account. The IA wants to ensure UK listed companies are run in a way that delivers long-term returns for savers and pensioners.

Director of the High Pay Centre Luke Hildyard said:

> Pay ratios provide an insight into the culture and employment practices of major companies that is useful to investors, workers and wider society alike.
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> This is a welcome move that will greatly improve public understanding of the pay gap between those at the top and low and middle-income earners.
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> We hope that it will initiate a more informed debate about what represents fair, proportionate pay for workers at all levels.

Chief UK Policy Director of the Confederation of British Industry (CBI) Matthew Fell said:

> The CBI is clear that high pay is only ever justified by outstanding performance. High pay for mediocre or poor performance

> is unacceptable.
>
> This legislation can help to develop a better dialogue between boards and employees about the goals and aspirations of their business, and how pay is determined to achieve this shared vision.
>
> Ratio comparisons between sectors and firms will be as meaningless as comparing apples and oranges. What’s most important is that all businesses make progress towards fair and proportionate pay outcomes.

UK Government Minister Lord Duncan said:

> It only takes poor behaviour from a small number of companies to damage the public’s trust in big business. These new laws will ensure that differences in salary within large companies across Scotland and the whole of the UK – and the reasons for the variations – will be there for all to see.
>
> Improving transparency and accountability in this way, plus other initiatives such as giving employees a voice in the boardroom, will help create a more equal and fair society while ensuring that the UK remains a world-leading place to invest and do business.

The new laws follow last year’s corporate governance reforms which sought to increase boardroom accountability.

Subject to Parliamentary approval, the regulations will come into effect from 1 January 2019 meaning that companies will start reporting their pay ratios in 2020.

The government has already:

- supported the Investment Association’s world-first public register of FTSE-listed companies where more than one fifth of shareholders have opposed resolutions on executive pay packages, directors’ re-appointments and other issues
- appointed James Wates to lead a coalition of industry and wider society bodies in drawing up the UK’s first-ever set of corporate governance principles for large private companies
- launched research into the use of share buyback schemes to see if they are being used to artificially inflate executive pay
- asked the Financial Reporting Council (FRC) to revise its Corporate Governance Code to strengthen the voice of employees and other stakeholders in the boardroom
- proposed new reforms to ensure that directors dissolving companies to dodge debts and avoid facing accusations of misconduct will face investigation for the first time.