From Lindy Sharpe, for Sustain: The alliance for better food and farming, May 2017

Pay Ratios: A framework for Sustain

1. What are pay ratios and why publish them?

Pay ratios are a way of illustrating how financial rewards for work are distributed within organisations. They show the difference (expressed as a ratio) between the total remuneration of the highest paid individual in an organisation, and median pay in the same organisation (or the median of a specified segment of employees, such as the lowest fifth). Across the British economy as a whole, pay ratios are widening. Executive pay levels are rising, while pay at the bottom end of the distribution stagnates.[1] Inequalities are particularly pronounced in the food sector. [2]

These disparities have given rise to a significant movement in favour of calculating pay ratios, ideally as part of routine company accounting procedures, and publishing them in Annual Reports and on organisational websites. Those calling for publication range from the Hutton Review of Fair Pay,[3] the High Pay Centre,[4] the NGO Pay Compare (which publishes pay ratios that have been calculated by companies themselves, mainly in the public sector),[5] and the NGO Wagemark (which is trying to establish accreditation for companies meeting a ratio of 8:1 or lower)[6], to a Working Group on executive Remuneration set up in 2015 by British business leaders,[7] and the investment management group LGIM.[8]

It is argued that publishing pay ratios would improve transparency, highlight pay disparities, substantiate arguments for fairer pay, exert downward pressure on ratios, and catalyse change towards more equitable pay structures. The director of the High Pay Centre, Stefan Stern, went further, saying publication ‘Could help bring back at least a modicum of shame or embarrassment into our boardrooms. This would be a healthy development’.[9]

2. Pay Ratios and the Third Sector

There are a number of reasons why third sector organisations might benefit from publishing their pay ratios:

1. Most third sector organisations already have relatively narrow pay ratios, so publishing it allows them to promote this fact to potential supporters, funders, staff and others.

Table 1. Ratios of top pay to 'bottom' pay:[10]*

FTSE 100 companies	130:1
Local authorities	15:1
Charities with income over £50m	10:1

2. By publishing pay ratios, third sector organisations which advocate for fairness can align their own practice with what they are advocating for other organisations. In particular, for an organisation such as Sustain, which advocates for fairer pay in the notoriously badly paid and unequal food sector, publishing the pay ratio would demonstrate its commitment to practising what it preaches.

3. Moreover, by publishing their ratios and sharing methodology, these organisations can demonstrate the feasibility of the practice and help it to become the norm.

4. More pragmatically, the Hutton Review of pay in the public sector found that narrow pay gaps contributed to employees' positive perceptions of their own organisations, and were linked to stronger performance.

3. How are pay ratios calculated?

There is as yet no standard formula for calculating pay ratios, but the Hutton Review, Pay Compare and the High Pay Centre all offer guidance on best practice. Typically, pay ratios compare the total remuneration of the highest paid worker in an organisation with either the median earnings, or the median earnings of workers in a specified portion of the overall distribution, such as the bottom fifth.

This information will be known to the organisation's accountants and auditors, who respectively calculate and audit the figure. Publishing pay ratios **does not** involve disclosing information that would otherwise be confidential.

To avoid the production of misleading data, best practice recommends that:

- Ratios should include only UK-based staff;
- Rates of pay should be expressed in hour-for-hour terms or as full-time-equivalent, so that part-time staff do not distort ratios;
- Ratios should be based on actual earnings, not on pay frameworks or salary scales;
- Expenses-only volunteers, apprentices and others exempt from minimum-wage legislation should not be included in the calculation;

- Figures should include all pay that is received by the employee during the year, including any employer's contribution to defined-contribution pension schemes, bonuses, etc.

It should be emphasised, though, that there is not (yet) a one-size-fits-all approach, and Sustain, like many organisations, will have its idiosyncrasies. The key thing is for the published ratios to be based on **robust, transparent and consistent** methods: the methodology should be published with the ratio.

3. Working out Sustain's pay ratio

It is clearly important to involve the finance team as early as possible in the process of deciding on a methodology, then calculating and updating pay ratios.

According to best practice guidelines, the ratio should be between the total actual remuneration of the CEO and either the median actual pay of all employees, or the median actual pay of a specified segment– in Sustain's case, it might be most practical to use the lowest quarter as a comparator, because Sustain has four pay grades.

As an illustration only, the following ratios are based on the Sustain Payscale, using the 2017-2018 'gross' figures.

Table 2, Sustain Payscale, gross figures, 2017-2018:

	Level	Gross Pay, 2017-2018, £
Grade 3	18	58,561
	17	56,310
	16	54,145
	15	52,058
Grade 2	14	50,059
	13	48,132
	12	46,285
	11	44,496
Grade 1	10	42,788
	09	41,148
	08	39,557
	07	38,035
	06	36,577

Admin Grade	05	32,591
	04	31,388
	03	30,133
	02	28,974
	01	27,859

The median overall is the is mean of levels 9 and 10, which are at the centre of the distribution:

41,148 + 42,788 = 83, 936 ÷2= 41,968

Ratio of top: median is therefore 58,561: 41,968

1.39: 1

Median of Admin grade is level 3 = 30,133

Ratio of top to median of Admin Grade is therefore 58,561: 30,133

1.94: 1

As noted, this example is for illustrative purposes only. The real calculation would have to be done by Sustain's finance director and ideally verified by the accountant / auditor.

---

[1] Blog by Stephen Machin for LSE, *Real wages and living standards: the UK evidence*, available at http://blogs.lse.ac.uk/politicsandpolicy/real-wages-and-living-standards-the-latest-uk-evidence/ (accessed 4.1.17).

[2] High Pay Centre (2014) *FTSE 100 bosses now paid an average 130 times as much as their staff*, available at http://highpaycentre.org/blog/ftse-100-bosses-now-paid-an-average-143-times-as-much-as-their-employees (accessed 4.1.17).

[3] Hutton Review (2011) Hutton Review of Fair Pay in the Public Sector: Final Report, available at http://webarchive.nationalarchives.gov.uk/20130129110402/http:/www.hm-treasury.gov.uk/d/hutton_fairpay_review.pdf (accessed 16.01.17).

[4] High Pay Centre 2015, *Pay ratios: Just Do It*, report by Paul Marsland, available at http://highpaycentre.org/pubs/pay-ratios-just-do-it (accessed 4.1.17).

[5] Pay Compare n.d. *About Us*, available at https://www.paycompare.org.uk/about-us/ (accessed 4.1.17).

[6] Wagemark 2017, About the Wagemark standard, available at http://www.wagemark.org/about/ (accessed 4.1.17).

[7] The Working Group on Executive Remuneration 2016, *Final Report,* available at http://www.theinvestmentassociation.org/assets/files/press/2016/ERWG%20Final%20Report%20July%202016.pdf (accessed 4.1.17).

[8] LGIM 2016 *Mind the Gap*, Research Paper in *Fundamentals* series by Angeli Benham, available at http://www.lgim.com/library/knowledge/thought-leadership-content/fundamentals/Fundamentals_Oct_2016.pdf (accessed 4.1.17).

[9] High Pay Centre 2015, *Pay ratios: Just Do It*, report by Paul Marsland, available at http://highpaycentre.org/pubs/pay-ratios-just-do-it, page 7 (accessed 4.1.17).

[10] LVSC and One Society, available at https://www.equalitytrust.org.uk/sites/default/files/Pay%20Ratios%20and%20Income%20Inequality.pdf (accessed 31.1.17). *This paper refers to 'bottom' pay but does not explain how the figure was reached, or why 'bottom' rather than median or average levels were used.