

Fair Pay Disclosures - Implementation guidance (Revised 2021)

1. Summary

- 1.1 For several years the FReM required the disclosure of the median remuneration and the ratio between median remuneration and the of the banded remuneration of the highest paid director. The FReM now requires the disclosure by public sector entities of top to median, lower quartile and upper quartile staff pay multiples (ratios) as part of the Remuneration Report. Additional requirements are included for financial years 2021-22 onwards for:
- The percentage changes in the highest paid director's:
 - salary and allowances; and
 - performance pay and bonuses payable.
 - For employees of the entity taken as a whole, the average percentage changes from the previous financial year of:
 - salary and allowances; and
 - performance pay and bonuses payable.
 - The ratio between the highest paid director's remuneration and the pay and benefits of the employee on the 25th percentile of pay and benefits of the entity's employees for the financial year. [see [section 3](#) for further guidance]
 - The ratio between the highest paid director's remuneration and the pay and benefits of the employee on the 75th percentile of pay and benefits of the entity's employees for the financial year. [see [section 3](#) for further guidance]
- 1.2 These changes were made due to changes made to the 'Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008', applicable for companies. The changes made to the FReM ensure alignment with the remuneration reporting requirement of listed companies.
- 1.3 This note provides additional guidance on applying the FReM requirements.
- 1.4 This note should be read in conjunction with:
- Chapter 6 of the FReM for the relevant financial year;
 - the annual Employer Pension Notice (EPN) for the relevant financial year, covering resource accounts disclosure of salary, pension and compensation information; and
 - the annual PES guidance on preparing annual reports and accounts for the relevant financial year.

2. Guidance on percentage change disclosures

- 2.1 Amendments were made to SI 2008/410 requiring listed companies to disclose annual percentage changes in remuneration of the highest paid director and employees¹. When performing the calculations for the highest paid director, the values should be consistent with those disclosed in the single total figure of remuneration for directors table (i.e. the values calculated to comply with para 6.5.8 of the FReM, excluding pension benefits).
- 2.2 When calculating the average percentage changes for employees of the entity, the highest paid director should be excluded from these calculations.

¹ [SI 2008/410, Sch 8](#), s19

3. Guidance on pay ratio disclosures

Principles

- 3.1 The disclosure is intended to hold organisations to account for remuneration policy, and in particular, the remuneration of the highest paid director compared with the median, lower quartile and upper quartile remuneration of staff.
- 3.2 The disclosure will also allow some comparability over time and across the public sector and private sector, where similar disclosures of Chief Executive remuneration and pay multiples are made. Direct comparisons should, however, be treated with caution given the different services provided, workforce skills, geographical locations and organisational structures. A balance is therefore needed between standardising calculations and the supporting narrative giving sufficient explanation and justification to ensure users can understand the intricacies of the organisation's pay policy.
- 3.3 Guidance issued by the Relevant Authorities is expected to be consistent with the FReM, unless statute dictates otherwise.

Basis of calculation

- 3.4 This disclosure is an additional task in the preparation of year end Annual Reports and Accounts. Entities should consider the most practical way in which the necessary information can be collected and analysed. As the financial audit of the Remuneration Report will cover this disclosure, early engagement with external auditors is encouraged to discuss the proposed approach such that any estimates used in the calculation are supportable and robust.
- 3.5 If a reporting entity believes that any pay arrangements will give rise to distorted results, such as the use of agency staff or shared executives, the supporting narrative should be used to provide clarification.
- 3.6 To ensure that information is comparable the following specifications should be applied as appropriate:

Lower quartile, Median, and upper quartile – The median remuneration of the reporting entity's staff is the total remuneration of the staff member(s) lying in the middle of the linear distribution of the total staff, excluding the highest paid director. Similarly, lower quartile remuneration is the total remuneration of the staff members(s) on the 25th percentile of the linear distribution and the upper quartile on the 75th percentile of the linear distribution; for both, excluding the highest paid director. This is based on annualised, full-time equivalent remuneration as at the reporting period date. Further details on the calculations have also been included in Chapter 6 of the FReM. These calculations will not be significantly affected by large or small salaries that may skew an average (mean) – hence it is more transparent in highlighting whether a director is being paid significantly more than the lower quartile, median and upper quartile staff in the organisation.

Boundary: For departments, the calculation should not include staff employed by arm's length bodies, as this may distort the disclosure where pay arrangements are made independently of departmental control, and the boundary should thus be limited to the core department and agencies. Whilst the lower quartile, median and upper quartile calculations should include employees within agencies of the department, the scope of the highest paid director is limited to the directors of the departmental group and does not include directors of the agencies, unless they are present on the departmental group management board.

3.7 Most ALBs are required to follow the principles of the FReM and provide the additional disclosures required by the Manual where these go beyond the Companies Act or Charities SORP (where the entity is a company and/ or a charity). For charities, the scope of the definition of the highest paid director should include the senior management team, not just the Board of Trustees. Other ALBs should be encouraged by their sponsor departments or equivalent to provide similar disclosure, as recommended by the Hutton Review, to ensure transparency and accountability.

'Highest paid director or highest paid employee'

3.8 There are arguments for using either of these titles as the basis for the pay multiple. The latter provides an absolute figure that would provide useful information where individuals not responsible for directing the organisation receive the highest remuneration, usually due to the specialist skills or expertise held.

3.9 However, although this may be applicable in certain industries, limiting the highest paid to director-level will allow for more consistent comparison across organisations within the public sector and with the private sector. Legislative precedents (e.g. Dodd-Frank Wall Street Reform and Consumer Protection Act (USA), Localism Act (UK)), and Will Hutton's recommendation all advocate using the most senior officer's remuneration in the executive pay disclosures. It is the directors who have significant responsibility for remuneration policy and act in the long-term interests of the organisation. There may also be legal concerns involving the disclosure of the salaries of some non-directors, leading to an inconsistency in approach across the public sector. It is important to keep this link between executive remuneration and strategy and performance disclosed in the annual report.

3.10 Limiting the highest-paid solely to Chief Executive remuneration might limit the effectiveness of pay multiples in respect of Civil Service organisations – particularly central departments – where the most senior officer, i.e. Accounting Officer (Permanent Secretary or Chief Executive) may not be the most highly-paid employee, or in ALBs where director-level positions are shared across more than one organisation. Broadening the basis of the calculation to include the highest-paid director gives some scope to avoid either of the above complications. This scope should be limited to those directors responsible for the organisation's strategy, consistent with Remuneration Report disclosure.

3.11 Additional disclosure of non-director level employees with remuneration in excess of the highest paid director is encouraged to be provided as part of the narrative accompanying the calculation, to the extent that this does not contravene the General Data Protection Regulation (GDPR). Organisations should seek legal advice where disclosure may cause harm to an individual in accordance with GDPR (or equivalent legislation). Chapter 6 of the FReM includes guidance on how GDPR interacts with remuneration reporting in annual reports and accounts.

'Total remuneration'

3.12 For all remuneration calculations, this is the sum of the amounts already required to be disclosed for Director's as per the FReM at 6.5.8 – this includes, 'salary', non-consolidated performance-related pay, benefits-in-kind allowances and other items of remuneration where columns have been added. This should not include severance payments that will impact on comparability.

3.13 The calculation should exclude employer pension contributions and cash equivalent transfer values. Inclusion of pension figures will likely exaggerate the pay multiple in an

area where there is less organisational control. This exclusion should be noted in the narrative disclosure.

3.14 Rounding - The calculation should be rounded appropriately to provide users with clarity on the information without breaching: GDPR legislation; confidentiality agreements; prejudice the rights, freedoms or legitimate interest of the individual; or cause or be likely to cause unwarranted damage or distress to an individual. On this basis, it is suggested that:

- As the highest paid director remuneration is already disclosed as a banded amount (£5,000), using the mid-point remuneration of this band rather than the exact remuneration in calculating the pay multiple should ensure a level of anonymity consistent with the rest of the Remuneration Report; and
- The lower quartile, median and upper quartile employee remuneration should be disclosed to the nearest £1, or as otherwise appropriate, to identify significant changes in these values between reporting periods. These calculations should exclude the highest paid director.

Full-time equivalent and annualised remuneration

3.15 The **full-time equivalent (FTE)** measurement of staff is specified to ensure a level of comparability that would otherwise be distorted if a member of staff represented a whole unit, irrespective of the hours worked.

3.16 Total remuneration should be calculated on an **annualised** basis to remove any fluctuations caused by employee turnover, which do not reflect changes in pay policy. Any premium paid to an employee to cover a vacancy on a short-term basis should be included within the lower quartile, median and upper quartile calculations.

3.17 In determining the highest-paid director, where a director's services are shared between two or more separate reporting entities, the cost to each entity of remunerating the director is key, not the overall remuneration received by the director.

3.18 In determining the highest-paid director, where non-executives receive an annual remuneration for a time-commitment below the reporting entity's normal contractual hours, the annualised, FTE calculation should reflect the different employment terms. For example, if the Non-executive receives £5,000 remuneration for each monthly Board meeting, the total annualised remuneration is £60,000pa, and should not be based on a daily rate of £5,000.

3.19 The calculation should **include agency and other temporary employees** covering staff vacancies, but exclude consultancy services. Only the remuneration paid to the employee should be included, not agency fees. An estimate may be appropriate to ascertain a reasonable split where this information is not available on entity payroll systems.

Narrative disclosure

3.20 Narrative disclosure in the annual report should accompany the calculations included in the Remuneration Report to ensure appropriate information is provided to assist users' understanding of the calculations and the reporting entity's scope for controlling pay policy arrangements.

3.21 To maintain consistency across departments, Public Expenditure Systems (PES) guidance will be issued, requiring additional narrative to explain the basis of the calculation, as appropriate, and to provide a context for users, such as where contractors and agency staff have a significant impact on the calculation. The suggested narrative should be tailored to the needs of other reporting entities as appropriate. Where an organisation has more than one pay structure, disclosing lower quartile, median, upper quartile and

pay multiple calculations for each rather than a lengthy narrative may provide greater clarity to users.

Please contact your usual departmental or HMT Financial Reporting Policy representative for further guidance.