



Unite submission to the High Pay Commission

Introduction

This evidence is submitted by Unite the union. Unite is the UK's largest trade union with almost 1.5 million members across the private and public sectors. The union's members work in a range of industries including manufacturing, financial services, print, energy, construction, transport, local government, education, health and not for profit sectors.

Unite welcomes the opportunity to contribute to the work of the High Pay Commission, a body which the union's first national policy conference called for. The evidence sets out the union's broad position on pay and illustrates our concerns with evidence from within the sectors in which our members work.

Executive Summary

- Unite is opposed to the inherent unfairness demonstrated by the increasing gap between rich and poor in society and supports the consideration of the introduction of a national maximum wage.
- Unite believes that the issue of high pay has different impacts in the private and public sectors.
- Unite believes that the failure of government to adequately address the excessive bonus culture in the banking sector for senior employees and executives is a significant contributing factor to the undermining of fair pay in British society.
- Unite also believes that whilst pay ratios have a role to play in helping to promote fairness as a tool it does not address the problems of low pay and could be seen to hold down pay at the lowest level.
- Unite supports greater scrutiny of executive pay through worker participation on remuneration committees as one means of ensuring that pay transparency plays its part in highlighting excess and bringing public pressure to bear both on recipients and those in government with the power to regulate.
- Unite believes that trade unions and collective bargaining have a key role to play in tackling high pay.
- Unite believes that there is an inevitable conclusion that voluntary methods for addressing excessive high pay are unlikely to work. The role of government and regulatory bodies are key to placing some restraint on excess and contributing to the establishment of a fair pay regime and addressing the pay poverty faced by so many workers.

1. Unite policy on high pay

- 1.1. At its 2010 Policy Conference, Unite noted that the gap between rich and poor had doubled in the last 30 years and recognised the huge inequality in pay levels in the UK. This inherent unfairness in the distribution of wealth is at the expense of ordinary workers, and must be addressed. In order to close the gap and contribute to the restructuring of the economy necessary after the economic crisis, Unite supported the proposal that government should consider the introduction of a maximum wage.
- 1.2. The Conference also agreed that a High Pay Commission should be created to review and consider proposals to restrict disproportionate remuneration such as maximum wage ratios and bonus taxation across both the private and public sectors.
- 1.3. The de-nationalisation of industries, the break up of manufacturing, agriculture and fishing, the privatisation of utilities and increasing privatisation of public services have all lead to increased profits for the few, but uncertainty and instability for the general workforce. Britain has witnessed the most excessive inequality of wealth for nearly half a century.
- 1.4. In the context of this broad policy, Unite recognises that there significant differences between the public and the private sectors when considering pay differentials. When discussing the pay differentials between the high and low paid across the economy, and the difference between the public sector and the private sector it is important to distinguish what definition of these sectors we are using. Currently, state-owned banks fall under the definition of public sector (and are recorded by ONS in this way). Public *sector* is obviously different to public *services*, which have been increasingly subject to privatisation. We have seen the development of the public services industry, companies such as Serco and Capita, whose business is based on winning public sector contracts but their business models and pay reflect private sector practice.
- 1.5. The Government has bolstered its case for a pay cut in real terms for public sector workers by perpetuating the false impression that public sector workers are 'overpaid' – a narrative that has also been further promoted by groups such as the Taxpayers Alliance and much of the media. The Hutton Interim Report on 'Fair Pay in the Public Sector' cited a 2009 YouGov/ITN poll which found that "just 36 per cent of those surveyed thought that people who ran public sector organisations were paid less than their private sector counterparts".
- 1.6. There are estimated to be 20,000 people out of the approximately 6 million public sector workers who are in the top 1% of earners (above £117,523); this equates to 0.3% of the workforce. (Hutton Review)

2. Fair pay

- 2.1. Unite has presented evidence to the Hutton review of Fair Pay in the Public Sector and as part of that evidence drew attention to the terms of reference which excluded certain sectors and organisations where the issue of high pay differentials appeared to be starkest.
- 2.2. Unite takes the view that fair pay is not just an important issue for individual and organisational performance, but needs to be seen in the wider context of economic inequality and the serious implications it has for society.

- 2.3. In noting the Hutton Review's proposed pay differential between highest and lowest earners of 20:1 as a means of promoting pay fairness, Unite commented that fair pay in all sectors is not simply a matter of ratios. Whilst such ratios can be a useful tool to promote fairness, fair pay is also about the lowest paid and the National Minimum Wage has played a major role in lifting some of the lowest earners out of poverty wages.
- 2.4. For Professor Richard Wilkinson and Professor Kate Pickett, authors of *The Spirit Level*, the use of multiples to limit maximum pay are vulnerable to changes in government and it is the concentrations of power at the heart of economic life that need to be addressed in order to ensure that greater equality is more deeply rooted¹. They report that it is hard to escape the conclusion that the high levels of inequality in our societies reflect the concentrations of power in our economic institutions – it is, after all, the institutions in which we are employed that are the main source of income inequality, and trade unions can make a difference.
- 2.5. Professor Stephen Machin of University College London and the London School of Economics' Centre for Economic Performance has identified that the sharpest burst of rising wage inequality in the UK occurred in the 1980s. In the 1990s, wage inequality continued to rise but at a more muted pace and in the 2000s, 'lower tail inequality' (the gap between the 10th percentile and the 50th percentile) narrowed but 'upper tail inequality' (the gap between 90th percentile and the 50th percentile) continued to expand². He concludes that changes in the role of labour market institutions – specifically the decline of trade unions and the introduction of the National Minimum Wage – are key to explaining this, and that both could be important in reversing the trend in inequality.

3. Public sector pay

- 3.1. While they are not directly comparable, and we have to be careful about generalisations, we can broadly say that the public sector has a more compressed pay structure. The public sector proportionally employs more graduates and professionals in its workforce than the private sector. While some people in the public sector are on low pay, this is generally above the minimum wage; the private sector has a much greater share of the employees on the lowest pay as well as the highest.
- 3.2. This cannot be divorced from the much higher coverage of collective agreements and trade union density in the public sector compared to the private sector as a *whole*. Trade union presence in the public sector is 85.8% compared to 30.2% in the private sector. Collective agreements cover 68.1% of employees in the public sector compared to 17.8% in the private sector.³
- 3.3. Estimates of the extent of excessive pay in the public sector suggest that in many public sector organisations the lowest salary is of the order of £13,000, not much higher than the national minimum wage. A twenty times multiple would set an upper limit of £260,000 a year, a sum earned by very few public servants. The same analysis asks: "*Given the complexity of the organisations in which these executives are employed, any multiple might appear to be arbitrary. And in the context of a financial crisis created by*

¹ *The Spirit Level* by Richard Wilkinson and Kate Pickett, page 249 (Penguin, 2010)

² *Big ideas: rising wage inequality*, CentrePiece, Autumn 2008, pages 8-10

³ Trade Union Membership 2009, BIS, Apr 2010

bankers taking risks to secure bonuses worth millions of pounds, why is the focus on a couple of hundred executives in the public sector?’⁴

- 3.4. The Public Administration Select Committee found that “*top pay can be both significantly too low and much too high, depending entirely on perspective. Judged against the private sector the public sector has exercised considerable restraint on executive pay...But pay for public sector executives has been increasing far more quickly than average pay in the economy as a whole.*”⁵
- 3.5. In the higher education sector, where the average pay for a vice-chancellor is about £250,000, Unite has warned about employers’ refusal to engage in meaningful national negotiations to address the position of the low-paid within the sector and failure to consider measures to improve equality in the sector⁶.
- 3.6. In 2009 Unite highlighted the case of a housing association chief executive whose pay of £391,000 in 2008/09 greatly exceeded that of his employees earning just above the minimum wage⁷.
- 3.7. The problem of unfair pay and unjustifiable multiples is most significant in the private sector. This is an important issue in itself and not just because of the knock on effects for pay determination in the public sector.
- 3.8. Unite concurs with the view expressed by the House of Commons Public Administration Select Committee that measures to address executive pay in the public sector “...will only be effective in the longer term if senior salary restraint in the public sector is matched in the private sector”⁸. As the Fair Pay Review acknowledges in its own terms of reference: “*distortions and market failures in private sector pay create pressure for unfair pay multiples in the public sector*”.

4. Private Sector Pay

- 4.1. As a union which extends across all sector of the economy, Unite is uniquely well placed to comment upon the pay excesses which have been documented in the private sector.
- 4.2. Unite has persistently drawn attention to the unequal distribution of reward in the finance sector where those at the highest level of some organisations are paid more than 100 times the pay of those at the lowest level. The pay excesses and the executive bonus culture has been reported upon at length since the global financial crisis in 2008/09. The initial response of clamping down on bonuses has been replaced in the UK this year with a business as usual approach of senior executives in UK banks.
- 4.3. Stephen Hester, the CEO of 83% state-owned RBS is expected to receive about £2.5million as a bonus, not including payouts from share incentives plans that could more than double that. Barclay’s CEO could receive as much as £3.4million in addition to share pay outs and the departing CEO of

⁴ Alastair Hatchett, *Paying the price*, Public Finance, July 2-15 2010, pages 12-15

⁵ PASC, *Top Pay in the Public Sector*, (2009), page 14

⁶ <http://www.publications.parliament.uk/pa/cm200910/cmselect/cmpubadm/172/172i.pdf>

⁷ http://www.unitetheunion.org/news_events/latest_news/22000_jobs_could_be_lost.aspx

⁸ http://www.unitetheunion.org/news_events/2009_archived_press_releases/charity_bosses_city_pay_cult.aspx

⁸ PASC, *Top Pay in the Public Sector*, (2009), page 4

<http://www.publications.parliament.uk/pa/cm200910/cmselect/cmpubadm/172/172i.pdf>

HSBC could receive as much as £4.28million in addition to other perks. This follows the UK government spending of tens of billions of pounds to bail out these same institutions during 2008/09.

4.4. Apart from the bonuses of these executives the salary ratios are extraordinarily high as the table below illustrates:

Company	Director	2009 Pay#	Lowest starting pay	Ratio Highest to lowest
Lloyds Banking Group	J E Daniels	£1,035,000	£11,480	90x
Barclays	John Varley	£1,100,000	£12,410	89x
Royal Bank of Scotland	Stephen Hester	£1,200,000	£11,144	108x
Aviva	Andrew Moss	£925,000	£11,500	80x
HSBC	Mike Geoghegan	£1,070,000	£11,050	97x
RSA	Andy Haste	£955,000	£10,252	93x

- Information from 2009 Company Annual Reports #

4.5. Any consideration of high pay awards should also take account of the gender pay gap in the finance sector which is the largest across all industrial sectors. The EHRC conducted an Inquiry which revealed that women in the finance sector working full-time earned up to 55 per cent less annual average gross salary than their male colleagues. This compared to the economy-wide gender pay gap of 28 per cent.

4.6. Unite accepts that pay and reward packages within the finance sector are increasingly complicated recognising that remuneration systems (and many other employment practices) do not work in isolation. Research indicates that other factors, such as work organisation, ethical concerns, motivation and job satisfaction are all factors in determining performance.⁹ However it is the link between performance and targets that Unite has concerns with and which can work against positive engagement and for some can lead to low morale, de-motivation and increasing stress and absenteeism. This is supported by anecdotal evidence from Unite members and representatives and an increase in the level of performance based disciplinary hearings which Unite has been involved with.

4.7. It is evident that remuneration systems and the practices which determine reward can impact significantly on decisions which can result in undue risk and inappropriate behaviour and can create a culture within organisations where excessive risk becomes acceptable. This is especially evident when risk, which is associated with reward, is combined with unashamed greed or for those at lower levels of the organisation, the fear of disciplinary action, both of which can over-ride sound financial advice and judgement and may act against consumer or investor interests.

⁹ The Good Work Commission: 'The Meaning of Work 2009

4.8. This is magnified when those individuals with significant influence or whose decisions can have a material impact on the business take risks which can have the potential to lead a company to near collapse.

4.9. The Financial Services Consumer Panel Retail Banking Position Paper has highlighted the 'Flawed Reward System' and identified that:

*"a culture of excessive profits and bonuses is arguably not conducive to high standards of customer service on the retail side."*¹⁰

4.10. The Which organisation has produced a Banking Manifesto including a 10 point plan which aims to address key aspects of the failings in the banking system. One of the recommendations includes a ban on sales incentives and commission for sales staff.¹¹

4.11. Whilst we recognise that commission and bonuses are an important component of the reward system in the finance sector, Unite has called for decent pensionable pay and for the link between sales and reward to be removed and greater emphasis placed on the delivery of a professional service.

4.12. Performance based pay systems and a lack of transparency can leave the system open to criticism due to perceived or real discrimination, bias or personal favouritism. The Equality and Human Rights Commission (EHRC) conducted an Inquiry in 2009 into pay in financial services which identified that pay transparency was poor and in particular in relation to performance pay criteria.¹²

4.13. A survey of members in the finance sector carried out by Unite in 2008 also identified that 54% of respondents believed that their pay system discriminated against them.¹³

4.14. Unite has raised concerns regarding the unequal distribution of reward within the finance sector where those at the highest level of some organisations are paid more than 100 times the pay of those at the lowest level of the company.¹⁴ Pay disparity within the sector resulted in a motion being passed at the 2010 Unite Policy Conference which agreed to support the creation of a High Pay Commission to review and consider proposals to restrict disproportionate remuneration such as maximum wage ratios and bonus taxation across both the private and public sectors.

4.15. Bonuses, which form part of performance based pay schemes, are a key feature of the pay systems operating within the finance sector. Bonuses can be contractual or discretionary. Contractual bonuses are negotiable, however these are rare in the sector with anecdotal estimates of around 5% of all bonus awards paid in this way. It is the discretionary bonus which is, by far, the most prevalent method used.

¹⁰ FSCP Retail Banking Position Paper October 2010

¹¹ <http://www.which.co.uk/documents/pdf/the-which-banking-manifesto-217594.pdf>

¹² EHRC Financial Services Inquiry Sex discrimination and gender pay gap 2009

¹³ Unite Finance Sector Members Survey 2008

¹⁴ Stephen Hester CEO RBS – basic pay in 2009 was £1.2 million. The basic pay of the lowest grade in RBS was £11,144 (equates to 108 times highest to lowest pay).

4.16. However, discretionary bonus structures can be subject to criticism over the lack of transparency; are open to discrimination and can harbour claims of favouritism in the distribution of bonus.

4.17. The finance sector is not alone in setting disproportionately high salaries for executives. As the leading transport union, Unite represents many workers in the passenger and road transport industries where hourly rates make dismal comparisons with the salaries of those in charge a demonstrated below:

Passenger transport

Company	Highest Paid Director	Latest Accounts	Driver Hourly Rates
Stagecoach Group PLC	£852,000	30/04/10	Hull £8.55ph
National Express Group PLC	£644,000	31/12/09	Dundee £8.20ph starter rate £9.64ph driver rate
FirstGroup PLC	£643,000	31/03/10	Leeds £7.38ph general duties rate 2 (Days)
Arriva PLC	£744,000	31/12/09	Derby £8.11ph new starter

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Company	Highest Paid Director	Latest Accounts	Driver Hourly Rates
Wincanton PLC	£140,000	31/03/10	Matalan Contract £11.18ph driver days
TNT UK Ltd	£739,000	31/12/09	-
TDG Ltd	£320,000	31/12/09	Wrexham Contract £7.33ph days
DHL Services Ltd	£145,000	31/12/09	Iceland Distribution £10.64ph driver

4.18. More recently press reports¹⁵ highlighted the earnings of the ex Chief Executive of Network Rail amounting to a total in excess of £7million over an eight year period.

5. Addressing High Pay

5.1. Unite policy has previously been referred to in this paper and the fact that the union believes that the introduction of a maximum wage is a proposition worthy of serious consideration. The method by which this could be introduced without creating problems of lack of labour market competitiveness requires careful and sensible deliberation. What may suit one sector may not of itself suit all sectors of the economy and, almost certainly, the fixing of a specific maximum sum in a similar way to the determination of the National Minimum Wage would do nothing to address the issue of fair pay or relativities.

¹⁵ Daily Mail, Saturday, 29th January 2011

- 5.2. Unite also believes that as previously stated that whilst pay ratios have a role to play in helping to promote fairness as a tool it does not address the problems of low pay and could be seen to hold down pay at the lowest level.
- 5.3. It is apparent that public distaste for excessive, and some may say obscene, salaries as grown as a result of the global financial crisis which highlighted the banking excesses. However this was not a new phenomenon as excessive pay growth for high earners had been most marked in the 1980s but was less in the public eye. Greater scrutiny of executive pay through worker participation on remuneration committees may be one means of ensuring that pay transparency plays its part in highlighting excess and bringing public pressure to bear both on recipients and those in government with the power to regulate.
- 5.4. Trade unions have a key role to play in tackling high pay. The evidence in the public sector, where trade union collective bargaining is far greater than in the private sector, has led to a lesser degree of pay inequality and the more recent decline in trade organisation in the private sector has led to greater inequality arising between the middle and top end of the labour market during the 2000's.
- 5.5. The evidence in this paper, particularly relating to the latest news from the finance sector, leads to the inevitable conclusion that voluntary methods for addressing excessive high pay are unlikely to work. The role of government and regulatory bodies are key to placing some restraint on excess and contributing to the establishment of a fair pay regime and addressing the pay poverty faced by so many workers.

6. Conclusion

- 6.1. Unite would be happy to add to this evidence verbally or in response to further questions from the Commission for purposes of clarification.

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