EXECUTIVE SUMMARY

Who Won? Who Lost? The Distributional Impact of COVID-19 Government Support for Business.

Background

Government support to business during the COVID-19 pandemic was consistently justified on the basis of general interests, such as ‘protecting jobs and livelihoods’ and helping to ‘ease the financial burden for businesses and the UK population’ (Chapter 1). But these rather abstract, universal goals potentially gloss over important questions about the redistributive effects of government subsidies.

The pandemic had uneven economic effects, which government support schemes at best only weakly addressed. Low-paid, part-time, and young workers – those least able to afford it – were significantly more likely than others groups to be furloughed with reduced pay. In April 2020, more than half of employees in the lowest decile of hourly earnings (less than £8.72 per hour) were on furlough with reduced pay. In the same month, 1.3 million furloughed employees were paid below the minimum wage. This included a third of people working in the accommodation and food sector (Chapters 1 and 2).

Government supported loan schemes, meanwhile, baked in existing economic inequalities between smaller businesses and major banks. Schemes targeting smaller businesses underwrote loans made by banks and other lenders, and also covered lender fees and interest payments in the first year at a combined cost of £1.5 billion (Chapter 2). In addition to their obvious macro-economic stabilisation effects, they allowed banks to profit from new streams of interest payments and moderated the impact of growing loan books on retained capital requirements (Chapter 2).

But whilst lenders were given guarantees against default, borrowers have remained fully liable for their debts. Debt among smaller businesses has increased significantly, driven primarily by government backed loan schemes (Chapter 1). SMEs took on £47 billion in additional finance between April 2020 and March 2021, equating to an increase in the stock of SME debt of around 30% from prior to the pandemic (Chapter 1). Towards the end of 2021, the Bank of England reported that the share of SMEs with debt had doubled since the onset of the pandemic, 33% had debt levels more than 10 times their cash balance or were in overdraft, up from 14% before the pandemic (Chapter 1). This is reflected in a sharp upturn in corporate insolvencies. Total company insolvencies in England and Wales in the second quarter of 2022 were 81% higher than the second quarter of 2021, with the number of creditors’ voluntary liquidations having increased to the highest quarterly level since 1960 (Chapters 1 and 2).

Given present efforts to tackling public sector debt, how money under government support schemes has been used, and to whose benefit, are key questions. How, for example, did large businesses in receipt of subsidies adjust executive compensation packages and payments to shareholders when economic disruption was at its peak? Equally, how did they respond once the worst of the economic disruption passed, and how have they treated their workers?

Scheme Design and Transparency

Private Gain or Public Benefit – who decides?

These questions are particularly important given that few schemes contained restrictions on executive pay or capital distributions. Those restrictions that did apply were limited, subject to exemptions, and characterised by weak enforcement mechanisms (Chapter 2). This has effectively given companies ultimate discretion to determine where the line between private gain and public losses should be drawn.

Whilst, for example, a significant minority of companies returned grants obtained under the Coronavirus Job Retention Scheme (CJRS), which supported employees on furlough leave, we found no statistically significant association between whether companies paid back grants and company earnings, dividends to shareholders, or executive pay.

In practice, many companies that retained CJRS grant income – which allowed them to save on large direct and indirect costs of redundancies – made large profits, paid out large sums in dividends to shareholders, and awarded board executives large pay rises. For instance, just 5 companies that furloughed employees in 2020/21 (at a total value of £333.4 million) generated £6.0 billion in profits (EBITDA) in that year (Chapter 2). Likewise, the 5 highest dividend paying companies that held on to grants under CJRS received in 2020/21 (at a total value of £352 million) paid out £1.3 billion to shareholders in that year (Chapter 2). Significantly, a large proportion of the shareholdings of these companies are owned by overseas investors. As at February 2023, non-UK ownership of traded shares in Compass Group (£427 million to shareholders in 2020/21), Tui (£289 million to shareholders in 2020/21), and EasyJet (£174 million to shareholders in 2020/21), for example, was at least 52%, 42%, and 27% respectively (source: Eikon Refinitiv). Finally, CEOs at 5 companies which did not pay back grants taken under CJRS in 2020/21 received increases in total pay above 99% between 2019/20, before the economic disruption caused by the pandemic took effect, and 2021/22. The largest increase in total pay

over the period was 260%. This went to the CEO of transport company, FirstGroup, which received over £50 million under CJRS (Chapter 2).

A similar pattern applied to Business Rates Relief, which covered companies in the retail, leisure, and hospitality sectors (Chapter 2). Just 5 companies that accepted business rates relief in 2020/21 generated a total of almost £5 billion in profits (EBITDA) in 2020/21. The 5 highest dividend paying companies that accepted the relief in 2020/21 paid out £540m to shareholders in that year (Chapter 2).

'Poor scheme design has allowed less scrupulous companies to enrich owners and senior executives with public money.'

Scheme Design (continued)

As with companies that did not pay back CJRS grants, a large proportion of the shareholdings of these companies are owned by non-UK based investors. As at February 2023, overseas ownership of traded shares in W.H. Smith (£47 million to shareholders in 2020/21) and Cineworld (£38 million to shareholders in 2020/21), for instance, was at least 42%, and 27% respectively (source: Eikon Refinitiv). Finally, CEOs at 4 companies which did not pay back business rates relief taken in 2020/21 received increases in total pay above 99% between 2019/20 and 2021/22. The total pay of the CEO of betting company, Flutter Entertainment, for example, increased by 283% over the period (Chapter 2).

In short, poor scheme design has allowed less scrupulous companies to enrich shareholders and senior executives with public money (Chapter 2**).**

Public Ignorance and Private Gain

A major problem in determining the immediate distributional effects of government support is that public availability of employer-level data for support schemes has been limited. Government departments failed to publish employer-level data for all but four schemes relevant to larger businesses (Chapter 3).

This leaves company annual reports and accounts as the only method for identifying how, and how much, large public companies have benefited from government support. In practice, however, annual reports and accounts are also limited as a source of firm-level data. Many companies reported receiving supports, but not their precise value (Chapter 3). This reflects the limited scope of financial reporting standards, the fact that they do not require disclosure of grant income in consolidated accounts by scheme or country, and, in some cases, weak understanding by some companies of disclosure provisions contained in reporting standards (Chapter 3).

The sheer scale of public money involved in supporting companies during the pandemic is just one of several considerations relevant to assessing the public policy implications of this lack of transparency. Knowing which businesses benefited from government subsidies, by how much, and what they have done with the money, is not only important to fair and effective subsidy design but is also key to political accountability and public trust.

'Public availability of employer-level data for support schemes has been limited. Government departments failed to publish employer-level data for all but four schemes relevant to larger businesses.'

Executive Pay

Prior to the pandemic, total executive pay had seen consistent annual declines since 2016/17. The rate of decline deepened during the peak of the pandemic (2020/21), driven by falls in bonuses and payments under long term incentive plans (LTIP) (Chapter 4 and Figures 1 and 2 on pages 5 and 6 of this summary). Mean and median total pay for chief executive officers (CEOs) at FTSE 100 companies, for example, fell 26% and 13% respectively between 2019/20 and 2020/21, and 22% and 7% for CEOs at FTSE 250 companies. Chief financial officers (CFOs) saw broadly similar declines.

In respect of some key specific components of pay, moving into the pandemic (2019/20-2020/21) the fortunes of executives at companies propped up by the state were no worse than those whose companies weathered the pandemic without support. For example, whether companies received government support or not had no effect on the extent to which FTSE 100 executive bonuses fell between 2019/20 and 2020/21. In fact, the decrease in bonuses was marginally less for CEOs in FTSE 100 companies which arranged financing under the Covid Corporate Financing Facility (CCFF) (Chapter 4).

Nonetheless, efforts by shareholder bodies and others to ensure pay moderation for executives at companies receiving government support appear to have been reflected in pay awarding behaviour in 2020/21. For instance, between 2019/20 and 2020/21 CEOs in FTSE 100

companies that received grants under CJRS, support from overseas governments to support jobs and wages (international wage support), and which deferred tax, experienced a statistically significantly greater decrease in total pay compared to those in FTSE 100 companies that did not receive these supports.

A Post-Pandemic Restitution Culture in Executive Pay?

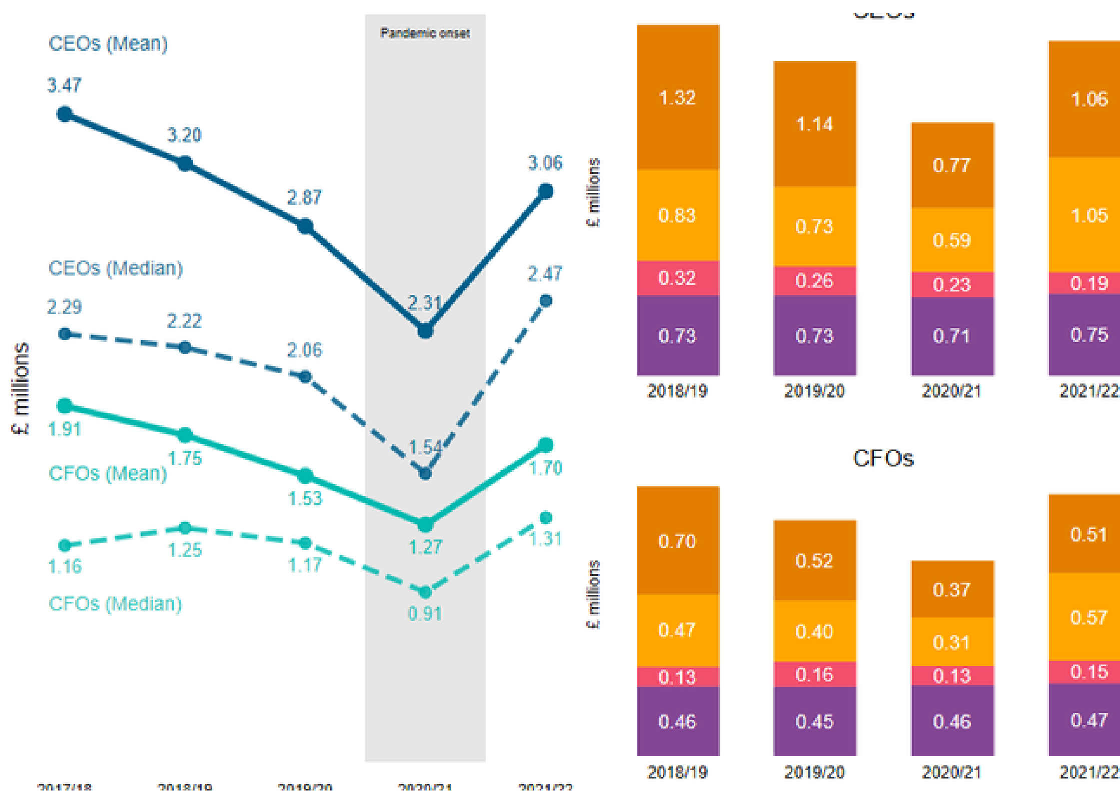
Coming out of the pandemic, moderate pay restraint among CEOs and CFOs came to an abrupt halt at many companies. The data support the existence of a post-pandemic restitution culture in executive pay, where companies across the FTSE 350 have sought to make up losses in CEO and CFO pay experienced during the peak of the pandemic. This restitution culture has reversed the longer run decline in executive pay and, significantly, appears greater in companies that participated in government support schemes, which have seen substantial executive pay increases.

On most indicators, big increases in total pay took executive pay well beyond pre-pandemic levels (Chapter 4 and Figures 1 and 2, Pages 5 and 6 of this summary). These increases were driven by big upturns in bonuses and LTIP payments. Bonus awards – which are determined on an annual basis – were instrumental in enabling executives to claw back

Executive Pay (continued)

losses in pay during the pandemic. In 2021/22, mean and median bonus pay for CEOs at FTSE 100 companies were both 51% higher on average than those paid out in the year prior to the pandemic. At FTSE 250 companies mean and median bonus pay increased 37% and 43% over the same period (Chapter 4, Figures 1 and 2). In some cases, bonus plans were specifically adjusted to reflect the increased difficulties executives faced in meeting financial targets under more challenging economic conditions (Chapter 5). Although average increases in LTIP payments to FTSE 100 CEOs did not take them beyond 2019/20 levels, average LTIP payments to CEOs at FTSE 250 companies and CFOs at FTSE 100 and FTSE 200 companies were significantly higher than before the pandemic (Figures 1 and 2). Mean and median LTIP payments to FTSE 250 CEOs in 2021/22, for example, exceeded pre-pandemic payments by 63% and 56% (Chapter 4).LTIP payments to FTSE 250 CEOs in 2021/22, for example, exceeded pre-pandemic payments by 63% and 56% (Chapter 4).

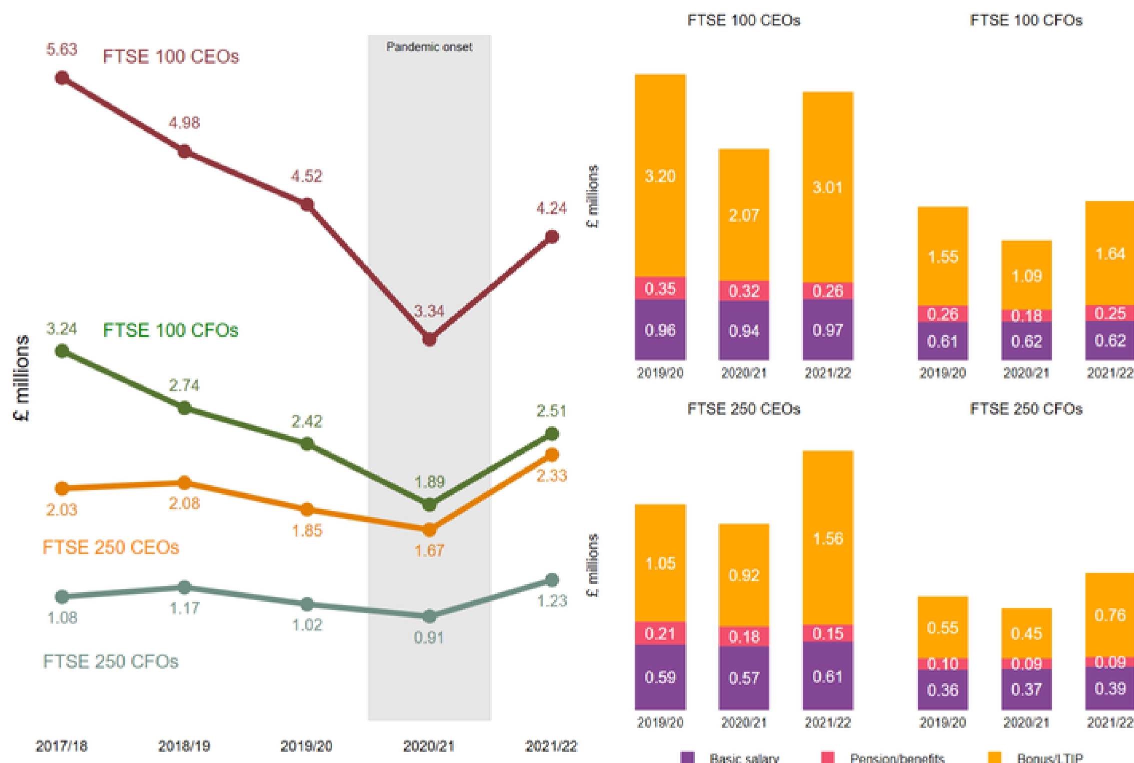
Figure 1: Trends in Mean and Median Total Executive Pay 2017/18-2021/22 (FTSE 350)



'Moderate pay restraint among CEOs and CFOs came to an abrupt halt in 2021/22. The data support the idea of a post-pandemic restitution culture in executive pay at FTSE 350 companies, which is particularly acute at companies that took government support. In simple terms, executive pay awards at FTSE 350 companies in 2021/22 reversed the pre-pandemic trend in executive pay and executives have begun to claw back temporary losses experienced during the pandemic.'

Executive Pay (continued

Figure 2: Trends in Mean Total Executive Pay 2017/18-2021/22 (FTSE 100 and FTSE 250)



A Restitution Culture in Executive Pay at Companies that took Government Support

Importantly, the resurgence in executive pay at companies supported by the government during the pandemic was particularly marked. Figures 3 (FTSE 350) and 4 (FTSE 100 and FTSE 250) on page 7 of this summary illustrate the degree to which pay rebounded in 2021/22 among companies that received government support. For the most part, losses in pay experienced during the peak of the pandemic have been clawed back by executives and, as with FTSE 350 companies generally, the short-run decline in executive pay (since 2017/18) leading up to the pandemic has been reversed, with pay awards in 2021/22 greater than they were prior to the pandemic.

Controlling for other relevant variables, CEOs in FTSE 100 companies in receipt of money under the CJRS, for example, enjoyed significantly higher increases in total pay than those in other FTSE 100 companies. Increases in bonus payments for CEOs and CFOs at FTSE 250 companies that received money under the CJRS and deferred tax were significantly greater (Chapter 4).

Looking back to the year prior to the introduction of pandemic-related restrictions (2019/20), receipt of grants under CJRS had a positive impact on bonuses received by FTSE 100 and FTSE 250 executives. Finance arranged under CCFF in 2020 also had a positive impact on bonuses received by executives in FTSE 250 companies (Chapter 4).

Executive Pay (continued)

Figure 3: Trends in Mean and Median Total Executive Pay at Companies that took Government Support 2017/18-2021/22 (FTSE 350)

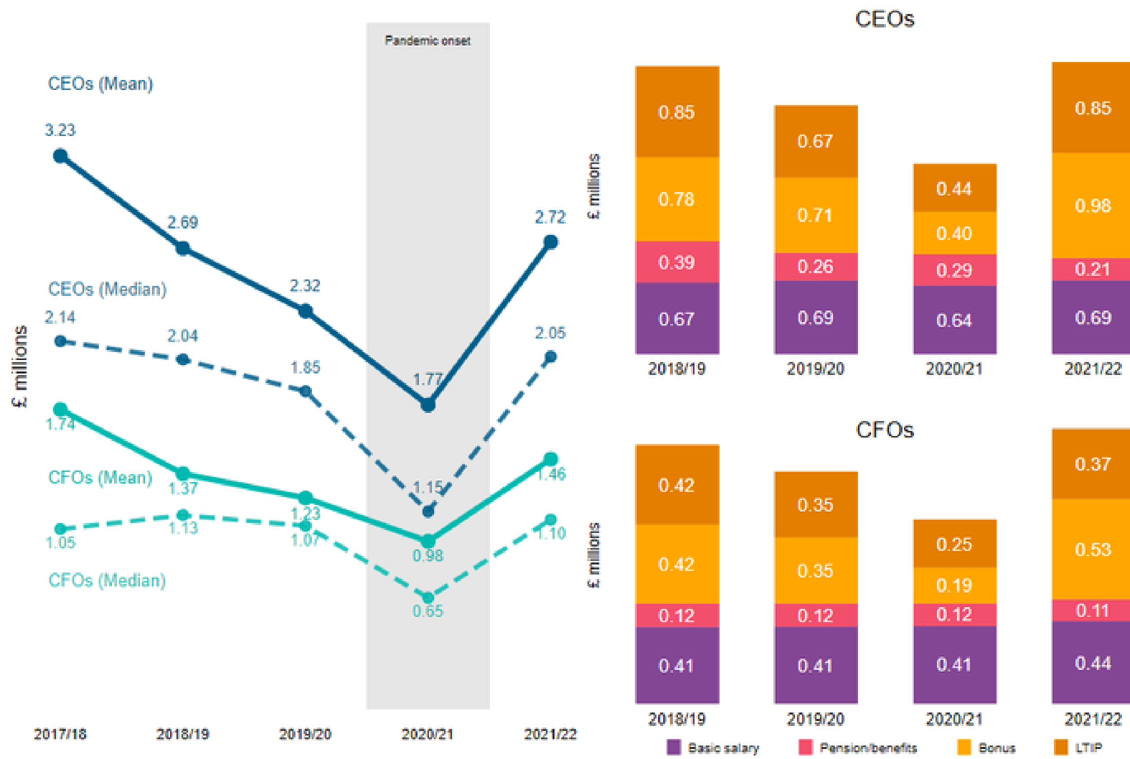


Figure 4: Trends in Mean Total Executive Pay at Companies that took Government Support 2017/18-2021/22 (FTSE 100 and FTSE 250)

Pay Ratios

Broadly, trends in pay ratios follow trends in CEO remuneration. Average pay ratios among FTSE 350 companies at all levels of the employee pay distribution decreased substantially in the first year of the pandemic compared with the previous year, as CEO pay fell (Chapter 5).

Pay ratios in 2021/22 increased significantly for FTSE 100 companies, with the median pay ratio returning to pre-pandemic levels. In proportionate terms, pay ratios in FTSE 250 companies increased to a much greater extent, exceeding levels reached in 2019/20.

Government Support and Post-Pandemic Pay Inequality

In some cases, whether companies received government supports was significantly associated with the rate of increase in pay ratios. For example, controlling for other factors the increase in median and upper quartile pay ratios was significantly greater for FTSE 100 companies that received Business Rates Relief. Among FTSE 250 companies, receipt of grants under CJRS, deferred tax, and Business Rates Relief were all associated with a greater increase in the pay ratio at the lower, median, and upper quartiles (Chapter 5).

Notwithstanding this, trends in pay ratios and employee quartile pay need to be understood with reference to the underlying validity of pay ratio data. Pay ratio data exclude indirectly employed workers. They are also sensitive to changes in employee composition. Both characteristics diminish their value as a method for tracking firm and sector-level income inequalities. Companies with the greatest increases in lower and median employee quartile pay between 2019 and 2022, for example, had frequently either disposed of their UK operations or made significant redundancies. In addition, pay ratio data can obscure unscrupulous employment practices. Some companies accused of 'fire and rehire' practices during the pandemic posted some of the highest annual increases in lower quartile and median employee pay. In short, major movements in reported employee quartile pay data appear to reflect major movements in employees, rather than their pay (Chapter 5).

With specific reference to the pandemic and the effect of government supports on pay ratio data, the relatively widespread practice of placing employees on furlough leave among FTSE 350 companies has had a non-trivial effect on the value of pay ratio data as a means of comparing firm-level inequalities in pay either over time in the same company, or within and between different sectors. A significant minority of companies excluded furloughed employees in their pay ratio calculations. We excluded such companies from our modelling. However, several companies also made major redundancies during the peak of the pandemic. On balance, as with the practice of excluding furloughed employees from pay ratio calculations, this is likely to have inflated lower, median, and upper quartile pay and compressed pay ratios (Chapter 5).

Dividends

Dividend pay-outs to shareholders dropped sharply during 2020/21. Importantly however, receipt of government support was not significantly associated with a greater decrease in dividend payments for either FTSE 100 or FTSE 250 companies. In fact, FTSE 100 companies in receipt of Business Rates Relief made statistically significantly higher dividend payments compared with companies that did not take the support (Chapter 4).

Although dividend payments across the FTSE 350 began to recover in 2021/22, they have yet to return to pre-pandemic levels. There is also some evidence to suggest that FTSE 100 companies that took some government supports scaled back dividend payments to shareholders. Specifically, FTSE 100 companies that accepted Business Rates Relief and took government money at home and abroad to support jobs and wages paid lower dividends to shareholders in 2021/22. However, controlling for other relevant factors, there have been no significant differences in dividend payments between FTSE 250 companies that did and did not receive government support (Chapter 4).

Key Recommendations

Conditionality: Restrictions on Support

Government support to companies should be conditional on restraint of executive pay and capital distributions to shareholders, a commitment to paying a fair effective rate of UK corporation tax, and 'fair-pay plans' (TUC, 2020), which seek to reduce the gap between high and low income earners within companies.

The above conditions should be integrated into the design of schemes and, where relevant, applied and monitored over the medium-term. Companies receiving support should be required to commit to Fair Tax Mark accreditation, which provides independent accredition that UK companies' tax contribution is in keeping with the spirit of the law (High Pay Centre, 2020). Penalties, such as forced repayment of government support, should be imposed where companies flout conditions.

Transparency in Corporate and Government Reporting (executive pay, capital distributions, and government supports)

Requirements for companies to report on the government assistance they receive should be updated to cover all forms of government support. Information specifying the support schemes relied on and amounts by scheme should be required to be disclosed in consolidated / group company accounts.

There should be stronger reporting requirements on executive pay, capital distributions to shareholders, and government support for all companies in receipt of government support.

Private companies and subsidiaries of large overseas companies that receive government grants and assistance should be required to publish detailed and transparent data on executive pay and capital distributions to major shareholders in their group (private companies) and UK (overseas parents) accounts.

Reporting requirements for private companies in receipt of government support should stipulate the ultimate beneficiaries of capital distributions.

The reporting threshold of government support in the UK public subsidy database should be lowered and extended to all forms of support.

Pay Ratio Reporting

All UK companies should be required to provide data on the number of their UK workers in their consolidated accounts. This should include all indirectly-employed workers, such as those employed through agencies, other intermediaries, outsourced workers and workers at franchises.

Pay ratio reporting requirements should be extended to large private companies and foreign owned subsidiaries.

Indirectly employed workers (see above) of UK listed, large private companies, and large foreign owned subsidiaries should be included in pay ratio reporting requirements.

There should be higher standards and clearer expectations of narrative reporting which have regard to corporate restructuring and redundancies on employee quartile pay data and CEO-employee pay ratios.

Companies should be obliged to directly provide information on pay ratios to their workers.

Methodology (summary)

The Data

Data were collated from several sources. CEO and CFO pay (2015/16-2021/22) and pay ratio data (2019/20-2021/22) were collated from company annual reports. Firm-level government support data were obtained from government transparency releases and group consolidated financial statements. Where the value of supports was not reported or sufficiently disaggregated in consolidated financial statements financial statements of first-tier UK subsidiaries' were searched. Data on company earnings and other confounding variables were collated from Moody's FAME database.

Reflecting the more exacting reporting requirements on executive pay for publicly listed companies, our analysis focuses on 246 businesses listed on the FTSE 350. Excluded companies included those without firm-financial data for at least a year prior to March 2020 (e.g., companies subject to an initial public offering post March 2019) and companies which did not otherwise report executive remuneration data consistently post March 2019.

Data on scheme restrictions were collated from scheme terms and conditions and standard contracts.

Comparisons between Companies that did and did not receive Government Support (Executive Pay, Pay Ratios, and Dividends Payments)

Multivariate regression analysis was used to test differences in changes in executive pay, pay ratios, and dividend payments for companies receiving different forms of support in 2020 compared with those that did not receive support in 2020. The analysis focused on three two time-period comparisons. As the first lockdown and most government support took effect towards the end of the 1st quarter (q1) in 2020, we take the 2nd quarter (q2) in 2020 as the beginning point for each twelve-month period, working back two years to 2018/q2 and forward to 2022/q1. For ease of reading, we refer to these periods as 2018/19, 2019/20 etc.

Changes between 2019/20 and 2020/21 were examined to explore how the economic distribution during the peak of the pandemic (2020/21) affected executive pay, pay ratios and divdends at companies receiving support compared with those who did not participate in government support schemes. Changes between 2020/21 and 2021/22 were examined to explore how executive pay, pay ratios, and dividends at companies receiving support compared to pay, pay ratios, and dividends at companies that did not receive support as the economy recovered. The third part of the analysis compares changes before the onset of the pandemic (2019/20) and the 12-month period after the most disruptive effects of the pandemic on the economy (2021/22).

Comparisons between Companies that paid back and did not pay back Government Grants under CJRS and Business Rates Relief

Comparisons in executive (CEO and CFO) pay, earnings, and dividend payments between companies that held on to grants under CJRS and BRR were explored using independent samples t-tests, Mann-Whitney U Tests, and hierarchical regression.

Links to the full Report and Interactive Dashboard and Contacts

The full report can be downloaded here. An interactive dashboard showing which companies received supports by value can be accessed here.

Suggested citation: Fooks, G.J., Mullan, K., Willmot, J., Yates, D., Mills, T. and Davis, M. (2023) *Who Gained, who Lost? The Distributional Impact of COVID-19 Government Support for Business.* Birmingham: Aston University.

The Centre for Health and Society aims to provide high quality analysis and practical recommendations for policymakers and professionals on issues relating to health, society, and the economy.

Address: Centre for Health and Society, Aston University, Birmingham, UK, B4 7ET.

Email: g.fooks@aston.ac.uk; k.mullan@aston.ac.uk; t.mills@aston.ac.uk; d.g.yates.sheffield.ac.uk; j.willmott3@aston.ac.uk.