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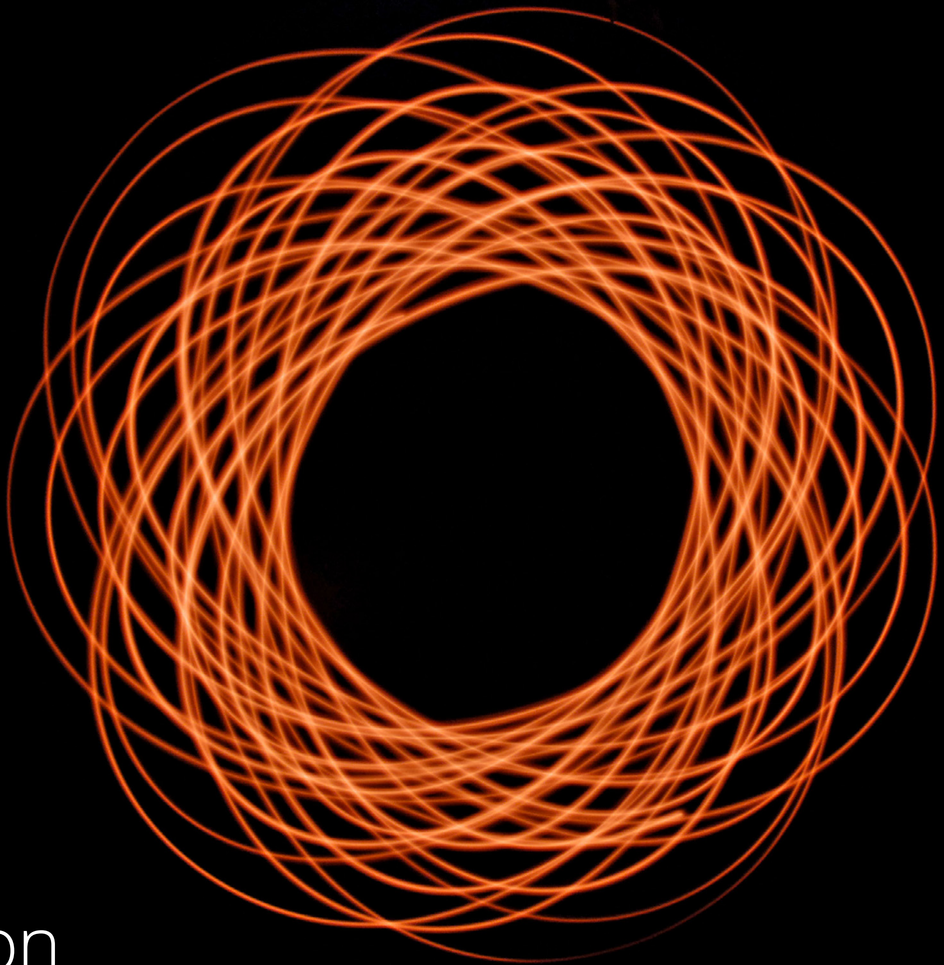

Your Guide

Directors’ remuneration in FTSE SmallCap companies

December 2021

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Introduction

Welcome to Your Guide – Directors' remuneration in FTSE SmallCap companies.

With a new interactive format, this report provides detailed analysis of executive and non-executive remuneration in FTSE SmallCap companies including base salary, annual bonus and long-term incentives, pensions, shareholding requirements, pay ratios, non-executive director fees and other aspects of remuneration policy. This analysis is based on 107 companies with financial years ending up to and including 28 February 2021.

Foreword

Foreword by Juliet Halfhead

As anticipated, 2020 was a year of restraint in the UK executive remuneration landscape. Pay out-turns were significantly reduced, reflecting both the impact of COVID-19 and the increased use of remuneration committee discretion to ensure that executives were not insulated from the wider impact of the pandemic. Investors issued clear guidance during 2020 that decisions on executive pay should be consistent with the experience of the wider workforce, shareholders and society and we saw the majority of companies make pay decisions in line with this guidance.

There has been a continued increase in the number of companies adopting the executive remuneration related provisions of the UK Corporate Governance Code. Almost 85% of FTSE SmallCap companies now have formal post-cessation shareholding requirements in place for their executive directors. More than 90% of companies have aligned, or have committed to align, incumbent executives' pension contributions with the wider workforce rate.

Pay out-turns

The median FTSE SmallCap CEO package for 2020 fell to £0.65m (2019: £0.86m and £0.92m in 2018). Lower CEO pay packages can be attributed to a number of factors including voluntary pay cuts at the outset of the COVID-19 pandemic, significantly reduced annual bonus payouts, and companies moving to align executive pension contributions with the rate available to the wider workforce.

The median annual bonus out-turn was zero, compared to typical payouts of 40%-60% of maximum in recent years. Around one-half of companies used discretion to reduce, cancel or waive annual bonus plans in light of the global pandemic. Over 60% of executives received no salary increase for 2021, with remuneration committees demonstrating restraint in light of continued economic uncertainty.

Juliet Halfhead
Partner

"Around one-half of companies used discretion to reduce, cancel or waive annual bonus plans in light of the global pandemic."

2021 AGM season

Despite a general theme of restraint, the number of FTSE SmallCap companies receiving 'low votes' on their annual remuneration report in the 2021 AGM season was at its highest level in recent years, with 17% receiving less than 80% of votes in favour (10% in 2020). Low votes were generally attributed to a lack of alignment between pay and business performance or the wider stakeholder experience, and executive salary increases being made above the wider workforce rate.

Around one-quarter of FTSE SmallCap companies have so far put a new remuneration policy to shareholder vote, with three companies (10%) receiving less than 80% support from investors (as at 31 July 2021). Issues related to incentive opportunity increases, a lack of alignment between executive and wider workforce pensions, and the introduction of a one-off restricted share award.

13 FTSE SmallCap companies now operate restricted share plans, reflecting greater diversification of incentive models than we have seen in recent years.

The year ahead – stakeholder focus

The UK recently hosted the 26th UN Climate Change Conference (COP26), and as part of a wider trend towards the use of Environmental, Social and Governance (ESG) metrics in executive incentive plans, companies are increasingly incorporating the delivery of climate goals under annual and long-term reward frameworks.

There is an increasing expectation on remuneration committees to challenge management around workforce pay and policies, including lower paid workers, and the diversity agenda, including gender, ethnicity and socio-economic backgrounds across the workforce. COVID-19 has undoubtedly intensified the external focus of executive pay in the context of the wider stakeholders of UK business, and this is expected to stay firmly under the spotlight of the media, investors and wider society.

Deloitte LLP
December 2021

Executive summary

Total 'single figure' remuneration

£0.65m
median CEO 'single figure' total remuneration
(2019: £0.86m)

£0.45m
median CFO 'single figure' total remuneration
(2019: £0.55m)

19:1 median CEO pay ratio

Fixed pay

66%
of companies implemented a salary freeze for CEO so far in 2021 *(2020: 55% 2019: 28%)*

>90%
of companies committed to align incumbent executive pensions with workforce rate

Incentive out-turns

55%
of companies paying no annual bonus to CEO for 2020
(2019: 25%)

zero payout
median annual bonus out-turn for 2020
(2019: 38% of maximum)

36%
of maximum median long-term incentive vesting
(2019: 50%)

Executive shareholding requirements

200%
median CEO shareholding requirement
(% of salary)

160%
median actual CEO shareholding
(% of salary)

c.85%
of companies have a post-employment shareholding requirement

ESG and incentive plans

30%
of companies incorporating ESG under annual bonus plan

12%
of companies incorporating ESG under long-term incentive plan

Restricted share plans

13
companies now operate a restricted share plan

2021 AGM season

97%
median vote in favour of directors' remuneration report
(2020: 96%)

17%
of companies receiving 'low vote' (<80% support) on remuneration report
(2020: 10%)

Key issues – remuneration report
- *Level of bonus payout relative to business performance and/or wider stakeholder experience*
- *Salary increases above workforce rate or not reflective of wider stakeholder experience*

c.25%
of companies put a new remuneration policy to vote *(2020: c.60%)*

c.10%
of policies receiving a 'low vote'
(2020: 11%)

Key issues – remuneration policy
- *Lack of pension alignment*
- *One-off restricted share award*
- *Increase to bonus and lower than standard shareholding requirement*