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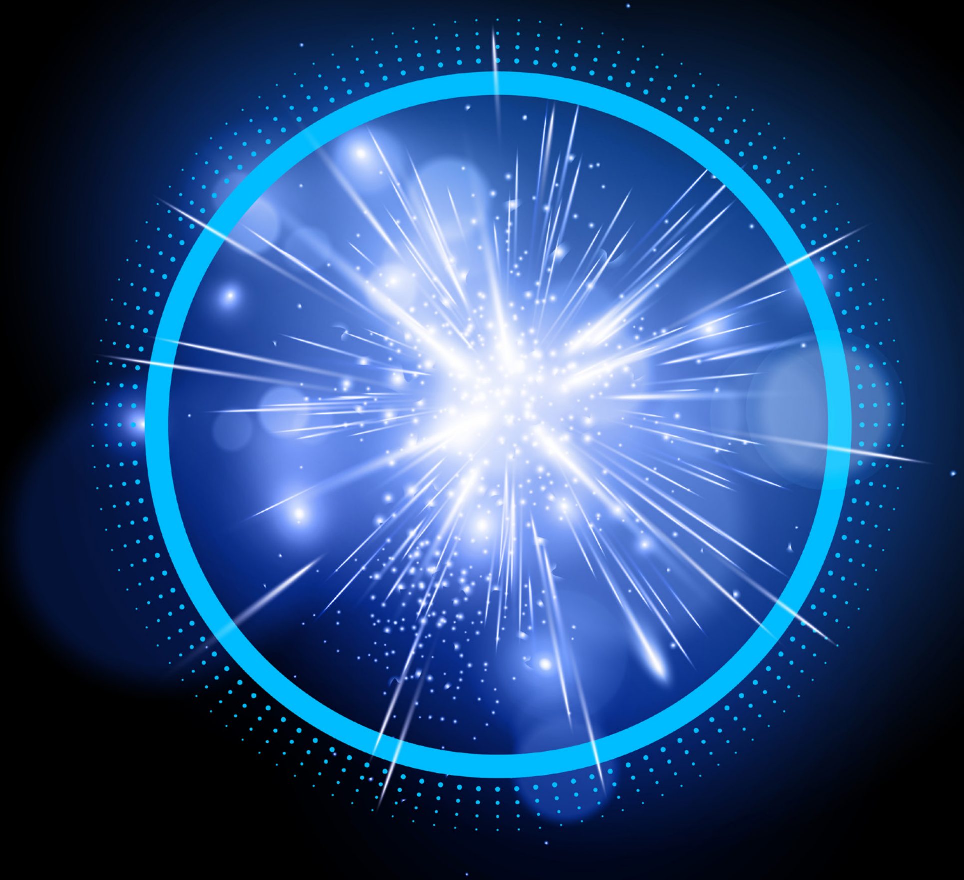

Your Guide
Directors' remuneration in FTSE 250 companies

October 2023

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Introduction

Welcome to Your Guide – Directors' remuneration in FTSE 250 companies.

With an interactive format, this report provides detailed analysis of executive and non-executive remuneration in FTSE 250 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 158 companies with financial years ending up to and including 28 February 2023.

*If you have any questions or queries about our **Your Guide reports**, please get in touch at UKExecutiveCompensationConsulting@deloitte.co.uk*

Foreword

The median FTSE 250 CEO single figure remained broadly flat at £1.77m for 2022 (compared to 2021: £1.77m), mirroring relatively flat performance in the index over the year.

Annual bonus out-turns were below those seen last year, with a median FTSE 250 CEO bonus out-turn of 75% of maximum (2021: 85%). Median long-term incentive vesting levels – the extent to which performance conditions are achieved under long-term incentive plans – were 60% of maximum, as vesting levels continued to recover post-COVID (2021: 40%). In line with the provisions of the UK Corporate Governance Code, shares will not generally be released to executives for a further two years.

Nearly all companies demonstrated restraint on executive salary increases for 2023, in light of workforce cost-of-living pressures and investor guidance at the end of last year. Around 80% of 2023 salary increases for CEOs were set below the average rate awarded to the workforce, with a median CEO salary increase of 4%, versus a median average salary increase of 6% for the workforce.

2023 AGM season

The 2023 AGM season saw similar levels of investor support for directors' remuneration reports compared to last year. 9% of FTSE 250 companies received 'low votes' (less than 80% in favour) on their annual remuneration report (2022: 12%), with median support of 96% of votes in favour of the annual remuneration report (2022: 96%).

So far, just under 50% of FTSE 250 companies have put a new remuneration policy to a shareholder vote in 2023. Of those companies, over one-third were seeking approval to increase maximum incentive levels under performance-based incentives (e.g. annual bonus or long-term incentive plans). In the majority of cases, the rationale for increases was to reflect a change in the size and complexity of the organisation. Four companies received a 'low vote' on the remuneration policy, with main issues being more significant increases to incentive quantum (100% of salary or more) and executive director pension not aligned to the workforce.

Foreword

Climate and ESG

Over 80% of FTSE 250 companies now incorporate ESG measures into their incentive plans, with c.50% now incorporating metrics in their long-term incentive plans. Environmental metrics – typically focussed on Scope 1 and 2 emissions reductions – are increasingly prevalent in long-term incentive plans. A minority of companies have moved to link incentives to Scope 3 emissions reduction, as companies look to tackle their most material carbon impacts.

Investors are increasingly looking to ensure that metrics are aligned to a company's strategy, quantifiable and avoid unnecessary complexity. In this context remuneration committees are increasingly reviewing their approach to ESG incentive metrics to ensure the approach suitably reflects the overall corporate strategy and materiality of such measures to the business.

The year ahead

While inflation in the UK, US and Euro area appears to have peaked, geopolitical and macroeconomic risks remain a significant challenge for businesses globally and this will remain at the top of the board agenda in the year to come.

In recent months, we have seen an intensifying of the ongoing debate around the long-term competitiveness and success of London's capital markets, including the role of pay and governance in creating an agile and prosperous ecosystem. For UK-listed multinational companies, competing for both talent and business in the US, the disparity in pay levels between UK and US listed markets, combined with more stringent remuneration governance standards in the UK, is increasingly raised as a challenge.

In our view, structural constraints are often more of a barrier than quantum, and a sole focus on the US oversimplifies the debate. To support an environment of greater innovation and growth, remuneration committees need greater flexibility to develop remuneration policies and incentive structures that suit a diverse range of companies with different global footprints, talent markets and business lifecycles. We have set out our thoughts on potential interventions for change in our thought-piece.

Deloitte LLP
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Executive summary

Total 'single figure' remuneration

£1.77m
median CEO 'single figure' total remuneration
(2021: £1.77m, 2020: £1.22m)

£1.09m
median CFO 'single figure' total remuneration
(2021: £0.99m, 2020: £0.70m)

41:1 median CEO pay ratio *(2021: 44:1, 2020: 28:1)*

Fixed pay

4%
median CEO salary increase so far in 2023
(2022: 3%, 2021: 1%, 2020: 0%)

18%
CEOs had salary freeze so far in 2023
(2022: 24%, 2021: 53%, 2020: 44%)

6% median wider workforce increase so far in 2023 *(2022: 3.5%)*

Incentive out-turns

3%
of companies paying no annual bonus to CEO for 2022
(2021: 9%, 2020: 38%)

75%
of maximum median CEO annual bonus out-turn for 2022
(2021: 85%, 2020: 34%)

60%
of maximum median PSP vesting for 2022
(2021: 40%, 2020: 20%)

Executive shareholding requirements

200% of salary
median CEO shareholding requirement
(2022 & 2021: 200%)

295% of salary
median actual CEO shareholding

97%
of companies have a post-employment shareholding requirement

ESG and incentive plans

c.75%
annual bonus plans incorporate ESG metrics

c.50%
long-term incentive plans incorporate ESG metrics

Alternative incentives

22%
of companies operate non-standard incentive arrangements

2023 AGM season

96%
median vote in favour of directors' remuneration report
(2022: 96%)

9%
of remuneration reports receiving a 'low vote' (<80% support)
(2022: 12%)

Key issues – remuneration report
- *Level of incentive payout relative to business performance and/or wider stakeholder experience*
- *Potential for windfall gains*
- *Windfall gains on vesting of 2020 LTIP awards*

46%
of companies put a new remuneration policy to vote

7%
of policies receiving a 'low vote'
(2022: 9%)

Key issues – remuneration policy
- *Increases to incentive opportunities*
- *Executive director pension not aligned to the workforce*