

Your Guide

Directors' remuneration in FTSE SmallCap companies

October 2022

Introduction



01 Introduction and foreword

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

With an 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 2022.



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

Foreword



Pay levels rebound post COVID-19

The median FTSE SmallCap CEO total 'single figure' remuneration for 2021 returned to pre-pandemic levels at £0.88m, following significantly reduced pay out-turns in 2020 in the context of the COVID-19 pandemic.

Higher total remuneration packages were largely driven by annual bonus out-turns returning to above pre-COVID levels in the majority of sectors, with a median FTSE SmallCap bonus out-turn of 75% of maximum, generally supported by strong recovery in corporate performance.

2022 AGM season

The 2022 AGM season saw similar levels of investor support for directors' remuneration reports to date. 14% of FTSE SmallCap companies received 'low votes' (less than 80% in favour) on their annual remuneration report (2021: 17%), with median support of 95% of votes in favour of the annual remuneration report (2021: 97%).

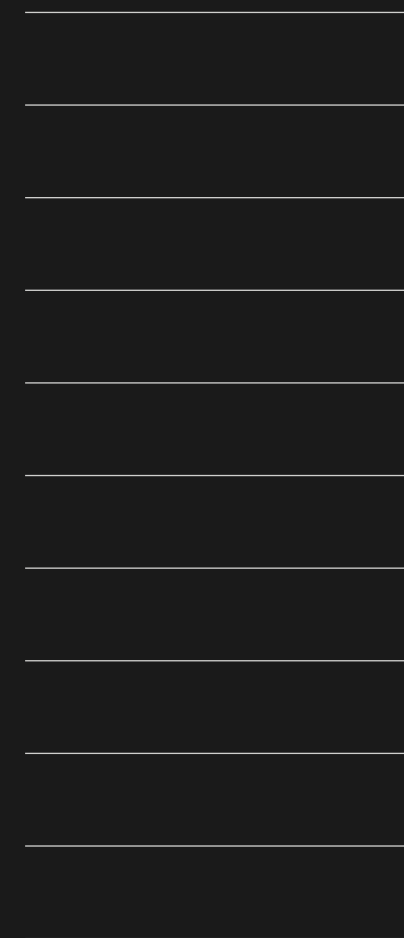
Around one-fifth of FTSE SmallCap companies put a new remuneration policy to a shareholder vote in 2022, with 20% receiving less than 80% votes in favour, primarily relating to maximum incentive opportunities.

In 2023, around half of FTSE SmallCap companies are expected to seek a triannual binding vote on the remuneration policy.

Continued adoption of ESG and climate metrics

Almost 60% of FTSE SmallCap companies now incorporate ESG measures into their incentive plans. Following COP26 and mandatory TCFD reporting for premium listed companies, companies have increasingly included carbon emissions reduction metrics under the annual bonus or long-term incentive, typically linked to Scope 1 and 2 emissions. We continue to see a wide range of ESG metrics being adopted in line with key strategic areas, including gender and ethnic diversity, workforce safety and biodiversity impact.

Where ESG measures are linked to pay, investors are raising the bar in terms of the transparency and stretch of targets to ensure pay reflects genuine progress in this area.





A more challenging year ahead

In a challenging economic environment, boards will face heightened scrutiny in the coming year around executive pay decisions and actions taken to support the workforce in light of the deepest squeeze in household living standards in decades.

With rising inflation, we expect to see remuneration committees taking a more considered approach to the annual salary review for executive directors, with early insights suggesting we will see a trend towards executive director increases being lower than the workforce rate. In a period of significant economic and market volatility and narrowing corporate margins, we expect to see a more challenging period ahead with heightened investor scrutiny of incentive out-turns to ensure that pay decisions reflect the wider stakeholder experience.

Deloitte LLP
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Executive summary



Total 'single figure' remuneration

£ 0.88m

median CEO 'single figure' total remuneration
(2020: £0.62m, 2019: £0.86m)

£0.66m

median CFO 'single figure' total remuneration
(2020: £0.42m, 2019: £0.55m)

29:1 median CEO pay ratio (2020: 19:1)



Fixed pay

3%

median CEO salary increase so far in 2022 (87% in line with or below workforce increase)

15%

implemented a salary freeze for CEO so far in 2022
(2021:66%, 2020: 40%, 2019: 36%)



Incentive out-turns

c.20%

of companies paying no annual bonus to CEO for 2021
(2020: 55%, 2019: 25%)

75%

of maximum median CEO annual bonus out-turn for 2021
(2020: 0%, 2019: 38%)

0%

of maximum median PSP vesting for 2021
(2020: 14%, 2019: 36%)



Executive shareholding requirements

200%

median CEO shareholding requirement (% of salary)

c.175%

median actual CEO shareholding (% of salary)

>90%

of companies have a post-employment shareholding requirement



ESG and incentive plans

55%

companies incorporating ESG under annual bonus plan

17%

companies incorporating ESG under long-term incentive plan



Alternative incentives

26%

of companies now operate non-standard incentive arrangements



2022 AGM season

95%

median vote in favour of directors' remuneration report
(2021: 97%)

14%

of remuneration reports receiving a 'low vote' (<80% support)
(2021: 17%)

c.1/5

of companies put a new remuneration policy to vote

20%

of policies receiving a 'low vote'
(2021: 14%)

Key issues - remuneration report

- Level of bonus payout where government support used and/or not reflective of business performance and wider stakeholder experience
- Poor disclosure of incentive outcomes and/or targets

Key issues - remuneration policy

- Quantum of awards under alternative incentives