

Your Guide

Directors' remuneration in FTSE SmallCap companies

September 2024



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 95 companies with financial years ending up to and including 31 December 2023.



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

Foreword



Looking back over the past year, executive pay came into heightened focus as part of a wider debate around the UK governance environment and its impact on the competitiveness of UK capital markets.

In November 2023, the Capital Markets Industry Taskforce (CMIT) published detailed recommendations for reform in a number of governance and stewardship areas including executive remuneration, and in February 2024 the Investment Association (IA) committed to a fundamental review of its Principles of Remuneration, which are expected to be published in the autumn.

2024 AGM season

The 2024 AGM season saw around one-third (c.36%) of companies seek approval for a new remuneration policy, with one-third of these companies proposing relatively modest increases to the maximum incentive opportunity of c.25-50% of salary and/or the introduction of more innovative pay structures. 31% of the FTSE SmallCap now operate non-standard long-term incentive arrangements.

With increasing focus on the complexity of executive alignment features in the UK, another two companies reduced the level of bonus deferral where the executive shareholding guideline is met, bringing the total to nine.

We saw very strong levels of proxy and investor support for directors' remuneration policies. Only two companies received 'low votes' (less than 80% in favour), with a median of 97% of votes in favour (2023: 6 'low votes').

We also saw continued high levels of support for directors' remuneration reports. Only three companies received a 'low vote' on the directors' remuneration report with a median of 98% of votes in favour (2023: 10 'low votes'; median 96% of votes in favour).

Pay out-turns

The median FTSE SmallCap CEO package remained relatively flat year on year, with a median 'single figure' out-turn of £0.93m for 2023 (2022: £0.90m).

Annual bonus payouts were significantly lower than last year, following high payouts post-COVID, with a median payout of 45% of maximum for 2023 (2022: 61%). 19% of companies used discretion and judgement to reduce bonuses to reflect performance factors such as health and safety, ESG factors or risk and governance issues.

Foreword



Median long-term performance share plan vesting – the extent to which performance conditions are achieved – was also lower than last year at 16% of maximum (2022: 27%). Under the UK Corporate Governance Code provisions, shares will not generally be released to executives for a further two years.

In light of investor and proxy guidance issued last year, over 80% of 2024 salary increases for CEOs were set at or below the average rate awarded to the workforce, with a median CEO salary increase of 4% to date.

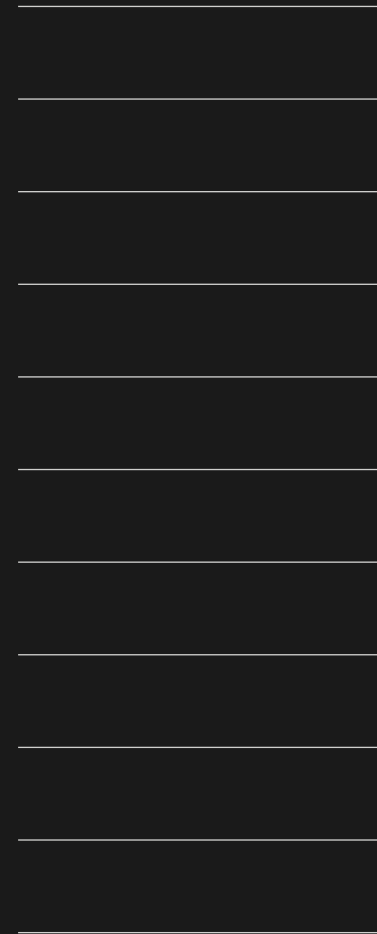
The year ahead

With an ongoing programme of reform aimed at boosting UK capital markets – and ‘green shoots’ of optimism around the outlook ahead – the new Labour government has committed to focus on growth and economic stability.

In the coming year we expect to see a continued theme of UK-listed companies ‘pushing the envelope’ on pay proposals, looking to close the gap against relevant peers and develop policies to suit a range of international footprints, talent markets and business lifecycles. While we have seen greater openness to pay policies on a case-by-case basis, investors and proxy agencies will continue to carefully scrutinise pay comparators and the rationale for change.

The changing environment presents new and different challenges for remuneration committees – navigating the evolving expectations of different stakeholders, including investors, executives and employees – as well as an ongoing focus on societal fairness and potential changes to workers’ rights. With many perspectives in the debate, the new IA Principles of Remuneration will shed further light on evolving investor views and areas of focus for the year ahead.

Deloitte LLP
September 2024



Executive summary



Total 'single figure' remuneration

£0.93m

median CEO 'single figure' total remuneration
(2022: £0.90m, 2021: £0.86m)

£0.59m

median CFO 'single figure' total remuneration
(2022: £0.65m, 2021: £0.66m)



Fixed pay

4%

median CEO salary increase so far in 2024
(2023: 3.6%, 2022: 3%, 2021: 0%)

16%

CEOs not awarded salary increase so far in 2024
(2023: 24%, 2022: 16%, 2021: 66%)

4% median wider workforce increase so far in 2024 (2023: 5.4%)



Incentive out-turns

45%

of maximum median CEO annual bonus out-turn for 2023
(2022: 61%, 2021: 75%)

19%

of companies exercised downward discretion on bonus out-turn for 2023
(2022: 13%, 2021: 18%)

16%

of maximum median PSP vesting for 2023
(2022: 27%, 2021: 0%)



Executive shareholding requirements

200% of salary

most common CEO shareholding requirement

c.190% of salary

median actual CEO shareholding

98%

of companies have a post-employment shareholding requirement



ESG and incentive plans

c.70%

annual bonus plans incorporate ESG metrics

c.30%

performance share plans incorporate ESG metrics



Alternative incentives

31%

of companies operate non-standard incentive arrangements
(2023: 24%)



2024 AGM season

98%

median vote in favour of directors' remuneration report
(2023: 96%)

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companies receiving a 'low vote' (<80% support)
(2023: 10)

36%

of companies put a new remuneration policy to vote

2

policies receiving a 'low vote'
(2023: 6)

Key issues

Lower policy votes generally associated with companies seeking significant increases to incentive levels or policy features which deviate from current mainstream UK market practice.

Consistent with prior years, shareholders also provided pushback where companies deemed to have not responded to lower voting outcomes in prior years, salary increases are considered excessive, incentive plan targets are considered insufficiently stretching, or outcomes were not deemed to be commensurate with performance.