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Your guide

Directors' remuneration in FTSE 100 companies

The Deloitte Academy:
Promoting excellence in the boardroom

October 2020

Overview by Stephen Cahill

When the majority of FTSE 100 companies were finalising their 2019 year end decisions in early 2020, the global impact of COVID-19 was not yet known. Since that time, over 50% of FTSE 100 companies have announced board level pay cuts, typically a temporary reduction in salary, and investors have issued clear guidance to remuneration committees that executive pay decisions in the coming year should reflect the employee, investor and wider stakeholder experience.

Total remuneration (single figure)

Looking back to 2019, the median FTSE 100 chief executive total 'single figure' package remained relatively stable at £3.7m (£3.65m in 2018), following a fall from £4m in 2017. The median single figure for the chief financial officer fell by 12% to £1.9m (£2.2m in 2018).

In the largest FTSE 30 companies, the median total package for the chief executive fell by c.7% year on year (£5.9m in 2019 compared to £6.4m in 2018). The FTSE 30 chief financial officer median single figure for 2019 was £3.7m (£3.9m in 2018).

2019 packages reflect estimated values of share awards based on pre-COVID-19 share prices, therefore actual values are expected to fall by up to 10% when restated next year.

Policy changes

Nearly two-thirds of FTSE 100 companies put a new policy to vote during the recent 2020 AGM season. Changes have primarily focussed on the adoption of the UK Corporate Governance Code provisions such as executive and workforce pension alignment and post-employment shareholding requirements.

Following guidance issued by the Investment Association (IA) in September 2019 applicable to companies with years ending on or after 31 December 2019, we have seen a significant shift in market practice around incumbent executive pensions. Over 80% of companies have reduced incumbent pensions, with the majority committing to align executives with the workforce rate by the end of 2022. This trend is expected to continue in the coming year.

Three companies have introduced alternative incentive plans in the form of restricted shares, and we have continued to see mixed shareholder reaction in this area. As the impact of COVID-19 presents significant challenges for companies in setting performance targets, consideration of simplified incentive structures is likely to continue.

In the last year there has been a marked shift in companies incorporating non-financial measures based on environmental, social and governance (ESG) factors in their incentive plans. For example, over 40% of annual bonus plans now include metrics linked to ESG measures such as health and safety, sustainability and risk and compliance targets, compared to around 20% last year.

Incentive out-turns

Over the last five years, there has been a gradual decline in the level of annual bonus pay-outs for executive directors – a median of 68% of maximum in 2019 compared to 78% of maximum in 2015, and we have seen an increasing number of remuneration committees exercise discretion to reduce the formulaic out-turns in the context of wider factors such as overall financial performance and macroeconomic uncertainty. 19 companies used discretion to reduce annual bonus out-turns in 2019, compared to 14 last year.

Under long term incentive plans, vesting levels were slightly higher than in recent years, with a median pay out of 63% of the maximum award. These awards were typically based on three year performance from 2017 to 2019 and under the majority of plans no shares will be released to executives for a further two years. However, a significant number of 'in flight' long term incentive awards are unlikely to pay out in the future due to performance conditions set pre-COVID-19.

Shareholder voting

The 2020 AGM voting season has been mixed. Shareholder support has been generally high, with the median vote in favour of the annual remuneration report and policy at 96% and 95% respectively. Only 5% of companies received a 'low vote' (less than 80% in favour) on the annual remuneration report, the lowest level in recent years. 9% of companies received a low vote on the remuneration policy. In over a half of cases, this reflected a tougher stance from ISS around incumbent pensions at or above 25% of salary, where no credible plan to reduce by the end of 2022 has been put in place. One company lost the shareholder vote on the annual remuneration report, as shareholders demonstrated significant dissent in respect of an adjustment to 'in flight' award performance criteria.

Looking ahead

In the year ahead, executive pay will continue to be under intense scrutiny. Investors have been clear that they do not expect remuneration committees to adjust performance conditions for in-flight annual bonuses or long-term incentive awards to account for the impact of COVID-19, and discretion and judgment should be used to ensure that any pay outcomes reflect the wider stakeholder experience. A key challenge for committees will be balancing the need to attract and incentivise the leadership required to drive UK business recovery, in the context of a growing focus on building a fairer society.

Stephen Cahill

Vice Chairman

Deloitte LLP

October 2020

1 Introduction

1. Introduction

This report is one of two volumes. This volume, Directors' remuneration in FTSE[1] 100 companies, provides detailed analyses of basic salary, salary increases, annual bonus and long term incentive payments, details of annual and long term incentive design, pensions, other aspects of remuneration policy and non-executive director fees in FTSE 100 companies. The volume covering FTSE 250 companies is now also available – please email **executiveremuneration@deloitte.co.uk** if you would like a copy.

This volume is based on information available in the annual report and accounts of companies in the FTSE 100, as of 1 July 2020. Two of the FTSE 100 companies currently have no executive directors, one company is domiciled in the Netherlands and has a dual board structure and one company is an investment trust. Therefore there are 96 FTSE 100 companies included in the analyses in this report.

The reports cover companies with financial years ending from March 2019 until February 2020.

The current constituents are summarised in Appendix 1 along with analyses of the sample composition by company size and industry.

Using the data

This report is intended to provide you with a guide to current levels of remuneration and the design of the different components of remuneration packages. Where possible, we have included analyses based on what companies are planning for their next financial period (i.e. for financial periods ending in 2020 or early 2021). However, it is important to note that some of the analysis is based on information disclosed in remuneration reports relating to financial periods ending on, or after, March 2019 and therefore the analyses do not always fully reflect the very latest approach.

When using the report we would strongly recommend you consult your advisers on the interpretation of the data and its relevance to your particular circumstances.

We have provided information on remuneration levels banded primarily by company size, based on market capitalisation. There is a clear correlation between salary levels and the size of a company and this provides a useful starting point in the benchmarking process. However, there are a number of points to bear in mind:

- We have included separate data for the top 30 companies and the companies ranked 31-100 but you will need to consider whether a more specific comparator group would be more relevant.
- The analyses are shown by market capitalisation bands (based on an average twelve month market capitalisation for each company) and you will need to make a judgement on where your company falls within this band taking into account any relevant factors (which might include, for example, the degree of internationality and the complexity of the business) in interpreting the data.
- You should be aware of the impact that volatility in financial markets can have on salary benchmarks. Changes in the market capitalisation of particular companies or sectors may mean that comparator groups can include companies that were substantially bigger or smaller this time last year and the salaries in place at these companies will reflect this. In volatile times, salary benchmarks must be viewed with particular caution.
- There may be very good reasons why the remuneration paid to an individual is outside the market range for a given position and it is important to assess the particular circumstances of each case. Positioning at the market median is not usually the correct starting point. In determining where to position the role consideration should be given to all the relevant factors including internal relativities and the calibre and experience of the individual.

Use of this report

This report does not constitute the provision of advice or services to any reader of this report, and therefore Deloitte LLP may not be named in a company's remuneration report as having provided material assistance to the remuneration committee based solely on the use of the information provided in this report.

1 FTSE is a trademark of the London Stock Exchange Group. All rights in FTSE indices vest in FTSE International Limited. For more information visit www.ftserussell.com.

How we can help you

The Deloitte executive remuneration consulting practice covers all aspects of senior executive remuneration and share plan services. Our well-established team comprises over 70 professional staff including remuneration, share plan, tax and accounting specialists, actuaries and lawyers. We provide advice on all aspects of senior executive remuneration with expertise in all areas including design, implementation, investor relations, corporate governance, accounting, legal and tax issues.

Design

- Strategic incentive design
- Developing strategically relevant performance conditions
- Cost effective funding and specialist advice on tax, accounting, legal and financial issues
- All-employee schemes

Remuneration committee advisers

- Insight on shareholder views and assistance with consultation
- Updates on market trends and corporate governance
- Executive pay benchmarking updates
- Assistance with drafting remuneration reports

Implementation & communication

- Drafting plan rules and all ancillary documents
- Testing of performance measures
- Developing and implementing reward communication strategies
- Global all-employee incentive design including tax, legal and regulatory advice; employee and employer guides; support with local authorities

Our practice is built around an integrated model, linking all of these areas, often separated in competitor consultancies.

We also have access to a wider knowledge base within Deloitte. This allows us to more fully understand each industry and provide genuinely strategic solutions to meet the specific needs of our clients.

We are current remuneration committee advisers to a range of different organisations across the FTSE All Share including around 30% of FTSE 100 and FTSE 250 companies and 25% of FTSE SmallCap companies, as well as a number of AIM listed and privately owned companies.

Contacts

If you would like further information on any of the areas covered in this report or help in interpreting and using this data, please do not hesitate to contact any of the people below:

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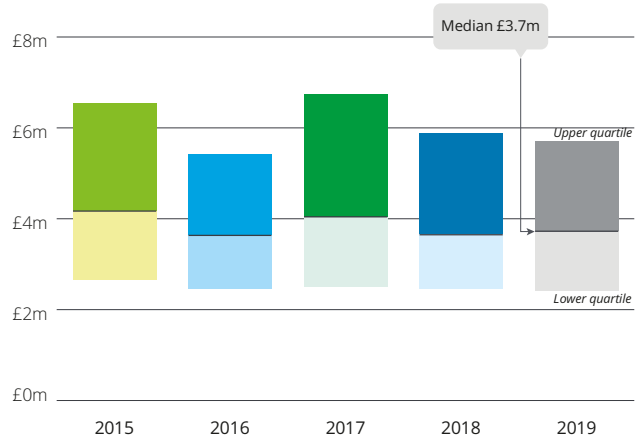
2
Main findings

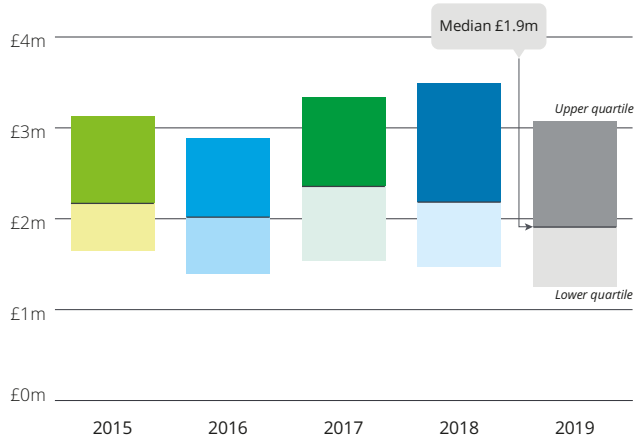
2. Main findings

Pay levels and out-turns

Chief executive – single figure



Chief financial officer – single figure



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- 41% of chief executives receiving no salary increase
- Significant reductions to incumbent pensions
- Median bonus payout 68% of maximum (lowest level in last five years)
- Discretion used to reduce annual bonus in 19 plans
- Median performance share plan vesting so far of 63% of maximum (56% last year)
- Zero vesting in 15% of performance share plans so far

Structures, policies and disclosure

- Increased use of ESG metrics (now incorporated in 40% of annual bonus plans, compared to around 20% last year)
- Post-employment shareholding requirements in place in 79 companies
- Median CEO to employee pay ratio of 75:1
- Increasing examples of alternative incentive structures such as restricted shares, with mixed shareholder support

Executive alignment

- The adoption or enhancement of 'best practice' features designed to align executives with long-term sustainable growth and investor interests has continued.
- This includes adoption of post-employment shareholding requirements.

Over one-half of chief executives hold more than 500% of salary in shares.

In 91% of performance share plans, no shares will be released until after five years (85% last year).

Nearly all companies operate a formal shareholding requirement Median of 300% of salary for the chief executive (400% of salary in top 30 companies).

79 companies operate post-employment shareholding requirements.

Median shareholding requirement of 225% of salary for other executive directors (300% of salary in top 30 companies).

Median shareholding of 810% of salary for chief executive.

Shareholder environment and voting

Annual remuneration report

Median vote 96% in favour

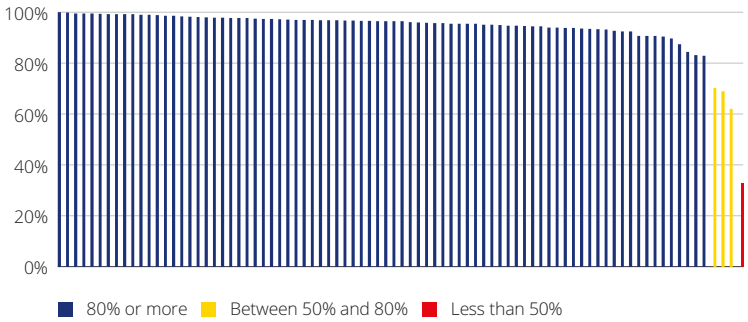
- 5% of companies received a 'low vote' (less than 80% of votes in favour), compared to 7% last year and 13% in 2018.
- ISS issued 'against' recommendations in respect of c.6% of companies (10% last year).
- IVIS issued 'Red Tops' in respect of 13% of FTSE 100 companies, primarily due to lack of executive and workforce pension alignment.
- One company lost the shareholder vote.

Remuneration policy

Median vote 95% in favour

- c.9% of remuneration policies received a 'low vote'.
- ISS issued 'against' recommendations for 14% of remuneration policies.

Annual remuneration report – voting outcomes



Areas of shareholder concern – **annual remuneration report**

- Adjustment to 'in flight' performance criteria
- Salary and/or incentive increases
- Significant incentive outcomes

Areas of shareholder concern – **remuneration policy**

- Incumbent pensions
- Incentive increases
- Alternative incentive structure