

## Non-executive director fees – time for a re-set?

The changing profile and time commitment of non-executive directors in UK listed companies

November 2023

# Executive summary

As companies face an accelerating pace of change - including geopolitical, digital and environmental disruption - there is increasing board and investor focus on attracting and retaining **high calibre independent non-executive directors with a diverse range of skillsets and experience**. Non-executive directors of UK listed companies are expected to be comprehensively informed, engaged in the company and bring relevant specialist contribution.

In November 2022, the Investment Association updated its Principles of Remuneration to “*set out investor support for NEDs to be paid fees which reflect the reality of the time commitment, complexity and skillset required*”, and in the coming 1-2 years we expect more companies to look afresh at their approach to NED fees.

Historically, c.60% of companies have made no increase to NED fees in any year, and fees have generally lagged inflation. Based on a recent Deloitte survey, **the typical time commitment for a listed NED role is estimated to have increased by c. 20% - 40% in the last decade - from c. 22 - 36 days per year in 2013 to c. 35 - 45 days in 2023.**

Pay is only one factor in attracting non-executive talent, and in a challenging external environment not surprisingly we have seen a reluctance to translate increased time commitments into fees. However, with a growing investor focus on the risks of ‘overboarding’, in our view companies must ensure that fees are set at a fair and appropriate market rate to reflect the demands of the role, are competitive against other opportunities and enable companies to attract the calibre of global talent desired to oversee UK listed businesses.

**According to a recent Deloitte survey, c. 30% of companies are likely to consider a ‘re-set’ of NED fees in the coming 1 - 2 years.**

Our report includes observations and considerations based on:

- Analysis of **c. 275 FTSE 350 new non-executive director (NED) appointments** in the 12 months to January 2023.
- Consideration of a **relevant market ‘day rate’** for FTSE 350 NEDs, based on most recent or current executive backgrounds.
- **Polling data** in respect of NED time commitment and forecast fee increases for FY24.
- Analysis of UK NED fees versus **global listed markets**.
- Analysis of **historical NED fees** (base, committee chair and committee member fees) from 2014 – 2023.

# The non-executive director role – an evolving landscape

A fundamental principle of the UK governance framework includes the role of non-executive directors (NEDs), and in the last decade we have seen an evolution in the expectations of investors and regulators around the calibre and background of NEDs on UK listed company boards.

Voting guidance from proxy agencies and large institutional investors sets out detailed expectations around the criteria - and time commitments - required to meet increasing demands of the NED role. These include skillsets and experience, diversity of demographic background and agility to navigate unforeseen events in a rapidly changing business environment. When identifying diverse talent or specialist skills, companies are often competing in a relatively small talent market.



**Professional skillsets and expertise** – NEDs are expected to bring relevant skillsets and experience which add value to board discussions and serve to deepen its understanding of the company's strategy and key stakeholders. This may include industry knowledge; specialist contribution in areas such as digitalisation & AI, climate or sustainability; or experience in certain geographies. As companies become increasingly global, they are looking for boards that represent the markets they operate in.



**Diversity of characteristics such as age, gender and ethnicity** – NEDs are increasingly appointed from a range of demographic backgrounds to encourage diversity of thought, bring fresh perspectives and avoid 'group think' in board debate.



**Agility and creative mindset** – as boards face an accelerated pace of change - including geopolitical, digital and environmental disruption - NEDs are expected to bring unique insights, providing strategic guidance during periods of unforeseen change including 'crisis events'.



**Risk and governance** – the profile and personal risk associated with the UK NED role has escalated in recent years. NEDs are also expected to navigate an increasingly complex legal and regulatory environment, with an understanding of a shifting governance framework and the responsibilities and liabilities of the board.

*“As the role of director is increasingly demanding, directors must be able to commit an appropriate amount of time to board and committee matters. Given the nature of the role, it is important a director has flexibility for unforeseen events and therefore only takes on the maximum number of non-executive mandates that provides this flexibility.”*

**Blackrock EMEA Investment Stewardship Guidelines 2023**

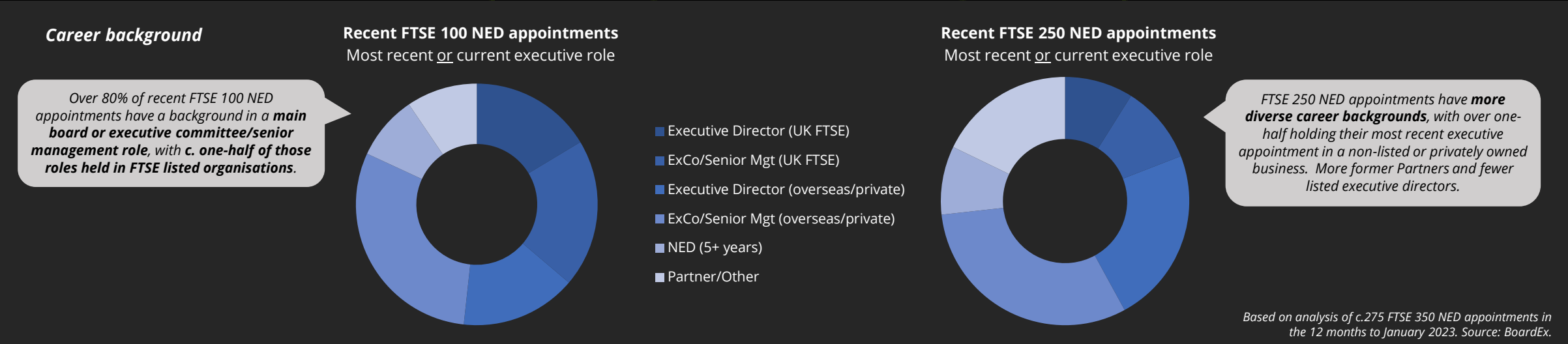
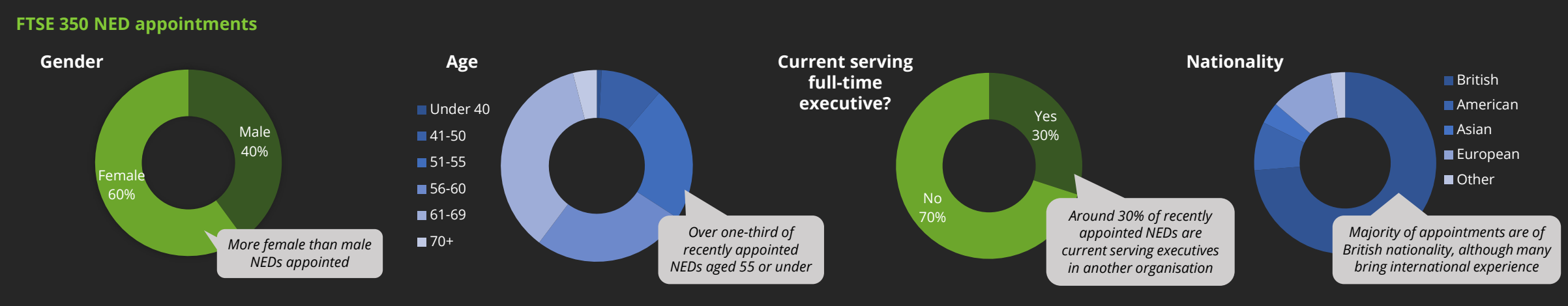
## Non-executive director mandates and 'overboarding'

- While proxy agencies including Institutional Shareholder Services (ISS) and Glass Lewis typically consider directors with **more than five mandates<sup>1</sup> on listed boards** to be 'overboarded', investors such as Blackrock and Aviva now consider the maximum appropriate number to be **four mandates or less** in order to effectively meet the increasing demands of the role.
- Proxy guidance generally states that executive directors should hold **no more than one non-executive role**. This is aligned with the UK Corporate Governance Code which requires that 'full-time executive directors should not take on more than one non-executive directorship in a FTSE 100 company or other significant appointment'.

<sup>1</sup> Non-executive directorship counts as one mandate, a non-executive chair counts as two mandates, and an executive director position (or a comparable role) is counted as three mandates.

# Recent NED appointments – typical profile and career background

Analysis of recently appointed FTSE 350 non-executive directors shows a diverse range of gender, age and career backgrounds



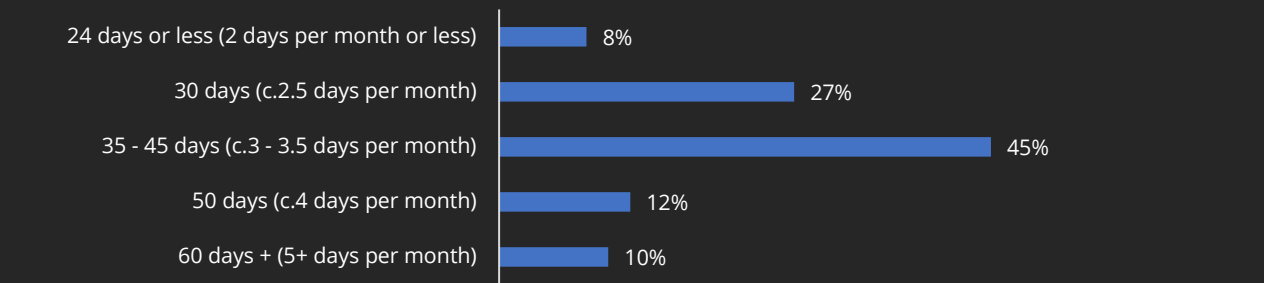
Based on analysis of c.275 FTSE 350 NED appointments in the 12 months to January 2023. Source: BoardEx.

# What is a typical NED time commitment?

Based on a recent Deloitte Academy poll, the typical time commitment for a listed NED role has increased by c. 20% - 40% in the last decade to c. 35 - 45 days per year, compared to c. 22 - 36 days in 2013

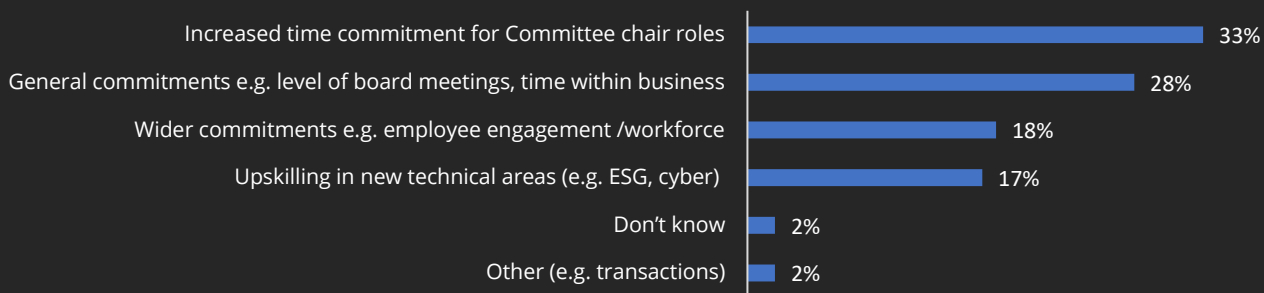
## What is the estimated NED time commitment for UK listed boards (per company)?

Based on a recent Deloitte Academy poll, the typical time commitment for a listed NED role is c.35 - 45 days per year, compared to c.22 - 36 days in 2013



## In which areas has there been the largest increase in time commitment?

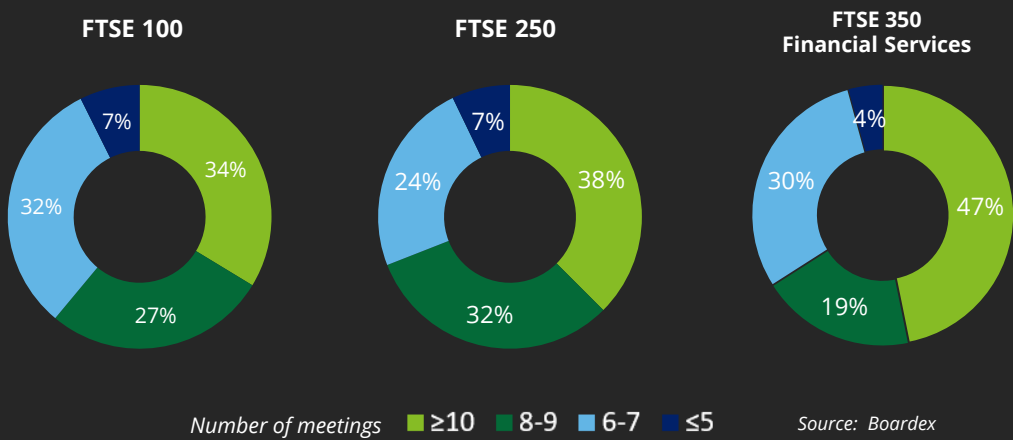
A recent poll indicates that the most significant increase relates to responsibilities for committee chair roles, and expectations around time spent in the business



Source: Deloitte Academy webinar polling results (April and June 2023)

## Number of board meetings per year

The number of board meetings is broadly comparable in FTSE 100 and FTSE 250 companies (typical range 7-11), and typically higher in financial services (FS).



## Number of committee meetings per year

The number of total committee meetings per year (e.g. audit, remuneration, nominations committees) in FTSE 350 companies ranges from 12 - 20 meetings, with financial services typically at the higher end of the range.

# How have UK NED fees moved in the last decade?

Base fees have increased at c. 2% p.a., with historically around 60% of companies awarding no increase to NED fees in any year

## NED base fee movement 2014 to 2023 - % change per annum

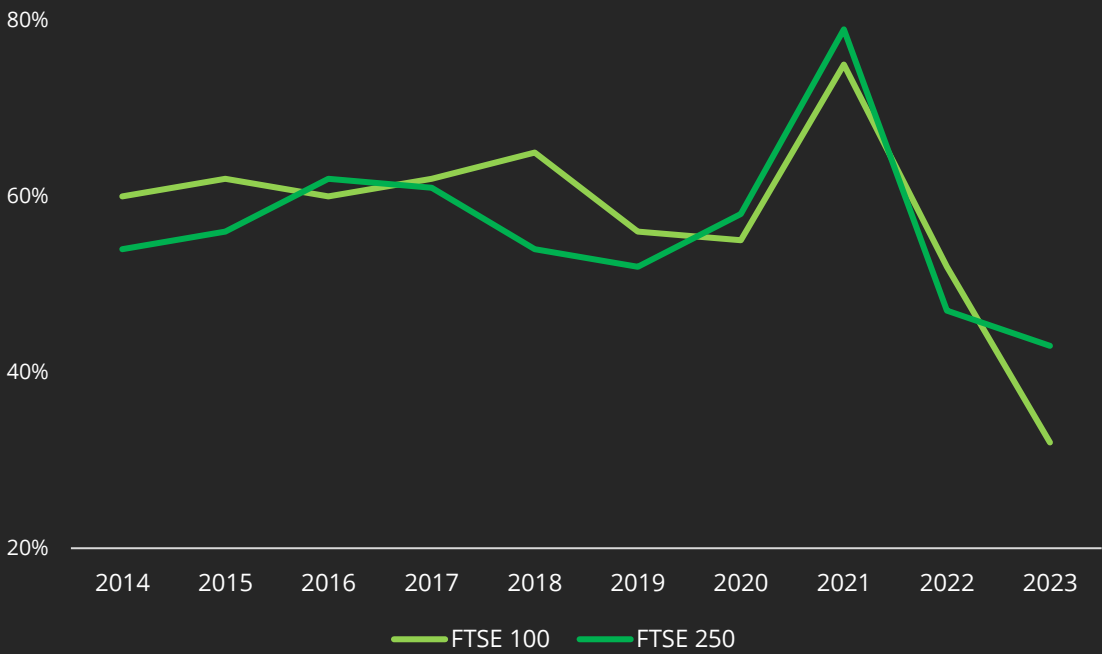
Base fees have increased at c. 2% p.a. over a ten-year period, below annualised CPI

Median base fee	2014	2023	Change p.a.
FTSE 100 (non-FS)	£63,000	£75,000	2.0%
FTSE 100 (FS)	£65,000	£78,000	
FTSE 250 (non-FS)	£47,000	£58,000	2.4%
FTSE 250 (FS)	£57,500	£70,000	2.2%

Annualised CPI of c. 3.1% from 2014 to 2023. Source: ONS

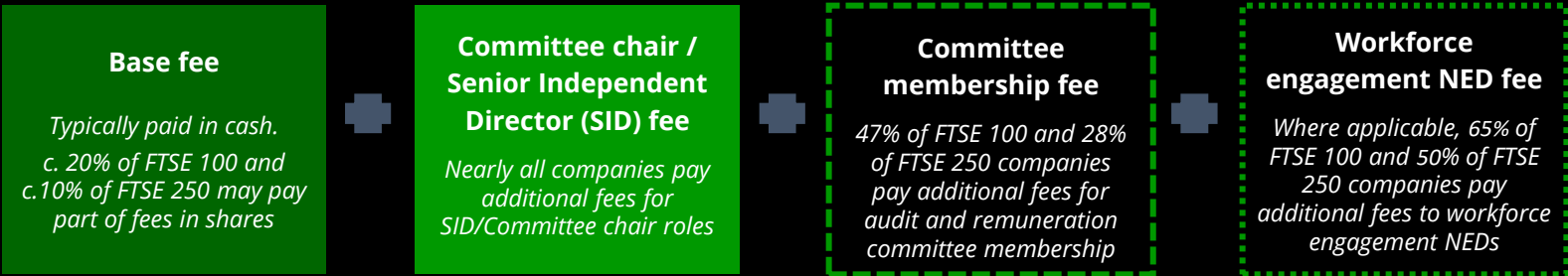
## % of companies awarding no fee increase for non-executive directors (2014 to 2023)

Historically, around 60% of companies awarded no increase to NED fees in any year. In the last 2 years, over one-half of companies have awarded increases in NED fees.



# How are UK NED fees typically structured?

NED fees typically comprise a base fee and additional fees for senior independent director and committee chair responsibilities. Around one-half of FTSE 100 and under one-third of FTSE 250 companies pay additional fees for committee membership.



## Typical relativities?

- Additional fees for the **SID and Committee chair roles** are **c. 20% - 40%** of the base fee in FTSE 100 companies, and **c.15% - 25%** in FTSE 250 companies.
- Where additional fees are paid for both Committee Chair and Committee members, **the membership fee is typically c. 40% - 50% of the Committee chair fee.**

## % of companies paying additional fees

	FTSE 100	FTSE 250
Senior Independent director	99%	90%
Committee chair fees		
Audit Committee chair	99%	93%
Remuneration Committee chair	99%	92%
ESG committee chair	c.80%	c.50%
Committee membership fees		
Audit Committee member	47%	28%
Remuneration Committee member	47%	28%
ESG committee member	c.45%	c.20%
Other roles		
NED designated for workforce engagement	c.65%	c.50%

\* As a % of companies operating an ESG committee or with an appointed Designated NED role

## Payment of fees in shares?

- In line with the UK Corporate Governance Code, remuneration for independent non-executive directors 'should not include share options or other performance-related elements'. In **North America**, over one-half of total NED fees are typically delivered under equity plans (e.g. restricted shares, share option plans).
- Around **40% and 15% of FTSE 100 and FTSE 250 companies** operate a **shareholding policy for NEDs** - in many cases share ownership is encouraged rather than required.
- A minority of companies - c. 20% and c.10% of FTSE 100 and 250 companies respectively - allow part of fees to be paid in shares under the remuneration policy. This can create complex administrative burden, in particular for overseas NEDs, therefore is not commonly operated.

# Considering an appropriate market 'day rate' for UK NED roles

Analysis of career backgrounds of recently appointed FTSE 100 and FTSE 250 NEDs indicates a market 'day rate' of c. £2k - 3k and £1.5k - £2.5k respectively, based on typical fixed pay levels in prior/current executive roles

<b>Typical executive roles – salary range</b> <i>UK listed companies</i>	FTSE 100 - CEO	FTSE 100 - executive directors	FTSE 100 - executive committee
	c.£880k – £1.1m	c.£550k - £670k	c.£375k - £450k
FTSE 100 – senior management	FTSE 250 - CEO	FTSE 250 - executive directors	FTSE 250 - executive committee
c.£200k - £250k	c.£600k – £670k	c.£400k - £450k	c.£250k - £300k

\* Data shows salary benchmark data based on 40<sup>th</sup> to 60<sup>th</sup> percentile range. Source: Deloitte Your Guide 2023 report and Beyond the Board survey

## Illustrative example – calculation of day rate

Illustrative executive fixed pay

c.£400k - £450k



Day rate range\* =  
c.£1,500 - £1,800

\* Illustrative day rate based on c.260 workdays per year

## Analysis based on source of recently appointed NEDs (current/prior roles)

Indicative market 'day rate' based on blended analysis of recently appointed NEDs in FTSE 100 and FTSE 250 companies. Rate based on typical fixed pay levels in prior/current executive roles

FTSE 100 NED

Indicative day rate = c. £2k – £3k

FTSE 250 NED

Indicative day rate = c. £1.5k - £2.5k

## Market day rate – approach

- Methodology based on simplified assumptions to identify an indicative market day rate.
- Based on benchmark data attributed to current / prior role of recently appointed non-executive directors (UK listed roles) in relation to fixed pay (salary and pension) only.
- Assumes total of c.260 workdays per year in current/prior executive role.

# Illustration of current total NED fees versus indicative day rate

Comparison of indicative market 'day rate' versus current FTSE 100 and FTSE 250 NED fees implies a potential uplift of up to c. 0% - 50%, depending on actual time commitment and positioning in range

## FTSE 100 NED

Typical 'day rate'	Number of days per year	Indicative fee range based on day rate	Current total fee - FTSE 100 <sup>1</sup> <i>Quartile range</i>	Implied potential fee uplift?
All NED roles excl. committee chairs (estimated time commitment 35 – 40 days)				
£2k - £3k	35	£70k - £105k (midpoint £88k)	£73k - £117k (median £86k)	c. 0% - 5%
	40	£80k - £120k (midpoint £100k)		c. 0% - 20%
Committee chair roles (estimated time commitment 45 - 50 days)				
£2k - £3k	45	£90k - £135k (midpoint £112k)	£90k - £138k (median £102k)	c. 0% - 10%
	50	£100k - £150k (midpoint £125k)		c. 10% - 25%

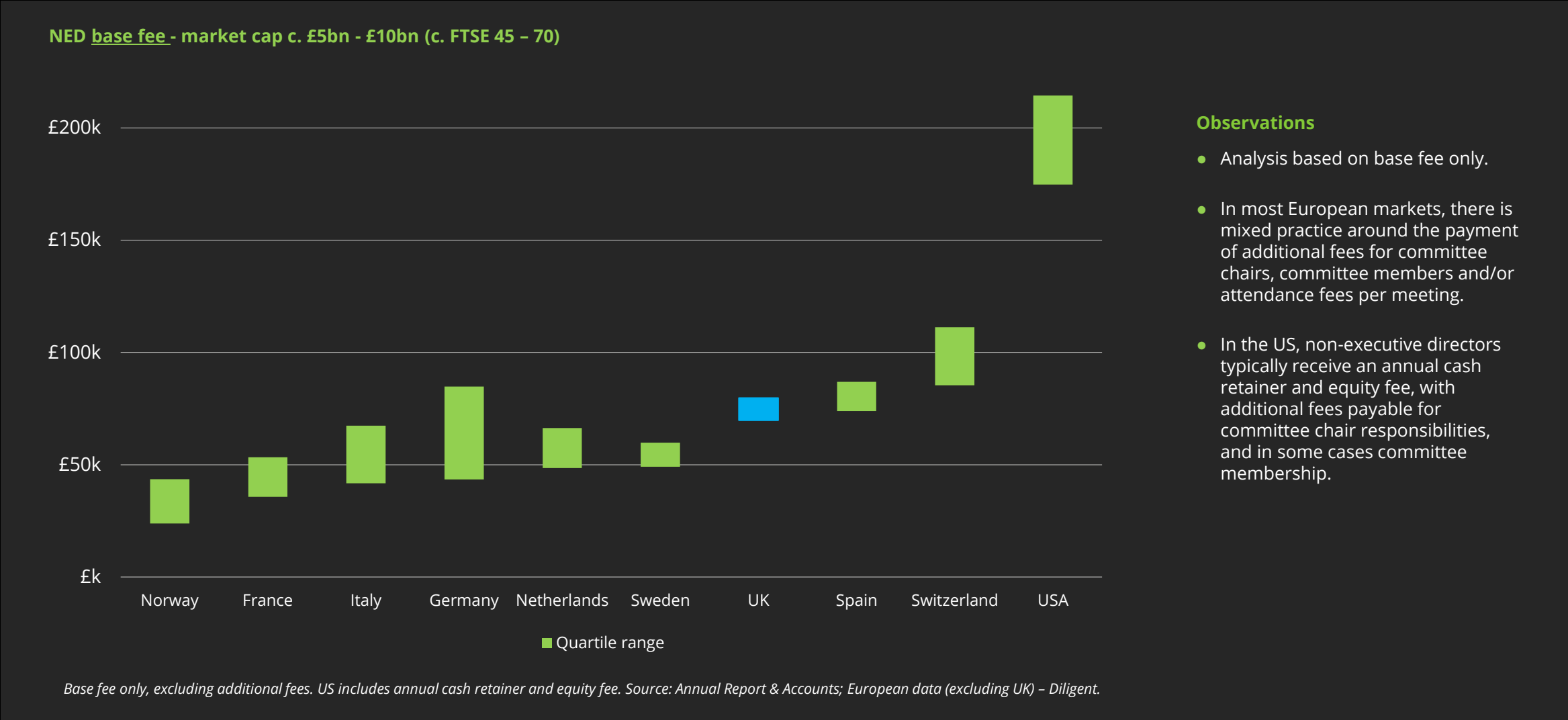
## FTSE 250 NED

Typical 'day rate'	Number of days per year	Indicative fee range based on day rate	Current total fee – FTSE 250 <sup>1</sup> <i>Quartile range</i>	Implied potential fee uplift?
All NED roles excl. committee chairs (estimated time commitment 35 – 40 days)				
£1.5k – £2.5k	35	£53k - £88k (midpoint £70k)	£55k - £71k (median £61k)	c. 0% - 20%
	40	£60k - £100k (midpoint £80k)		c. 10% - 40%
Committee chair roles (estimated time commitment 45 – 50 days)				
£1.5k – £2.5k	45	£68k - £113k (midpoint £90k)	£65k - £84k (median £73k)	c. 5% - 35%
	50	£75k - £125k (midpoint £100k)		c. 15% - 50%

<sup>1</sup> Assumes base fee + two committee membership fees (where paid) for all NED roles excluding committee chairs. Assumes base fee + committee chair fee + one membership fee (where paid) for committee chair roles.

# UK NED fees versus global markets

*UK NED fees are competitively positioned against many European markets but fall materially behind Switzerland and the US*



# NED fees – time for a re-set?

Independent non-executive directors play a critical role in the UK corporate governance regime. Attracting high-calibre talent to provide constructive challenge, strategic guidance and hold management to account is key to creating strong and effective boards.

While institutional investors recognise that *'fees have not always reflected the increased complexity and time commitment'* required, there has been no indication of what that reset might be. Our analysis of a range of indicators including increased time commitments versus an indicative market day rate, historical fee movements and global competitiveness suggest that a review of NED fees from first principles is appropriate and timely. **There is no right answer and a 're-set' of existing fees will not be required for all companies. However, viewed from a range of perspectives, there is a case for change.**

Pay is only one factor in attracting non-executive talent to UK boards. In a complex governance environment, there is increasing recognition that the level of input around governance, rather than strategic, matters is higher than in other jurisdictions. Ensuring the non-executive director role is engaging and strategic, as well as being fairly rewarded, will be important in continuing to attract high-calibre and diverse talent to UK boards.

## Reviewing NED fees – key considerations

A range of factors will be relevant in reviewing NED fees from 'first principles':



### Board composition

- How is the company looking to evolve the board in the future? For example, the need for specific skillsets, industry or international experience to enrich board composition.



### Review of actual time commitments

- **Core board responsibilities** E.g. meetings and preparation; stakeholder engagement; induction and upskilling. How do the typical number of board / committee meetings compare to market practice?
- **Committee responsibilities** – consider actual and relative additional time commitments. Our experience suggests this can be where the most significant responsibilities exist.



### Fee structure

- **Committee membership fees?** Where committee memberships are shared equally among board members (more common in FTSE 250), adjustment of the base fee may be a simpler route.
- **International travel allowance?** In some cases an additional fee is paid to recognise time commitments associated with travel for overseas NEDs.
- If structural changes are proposed, ensure flexibility exists in the binding Remuneration Policy, where applicable.



### Wider stakeholder context

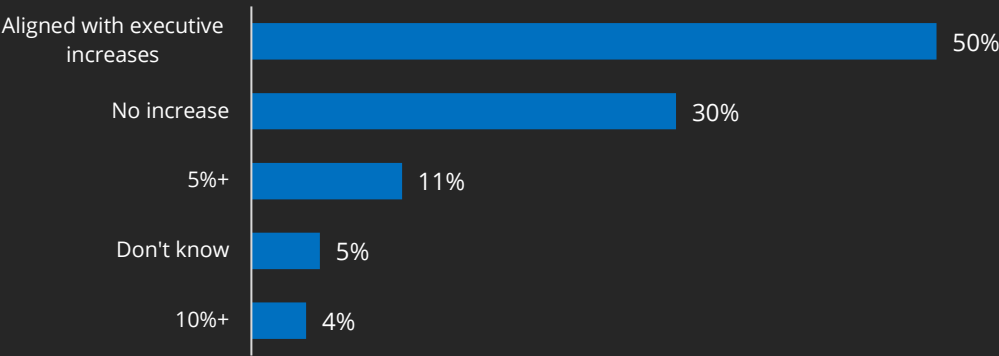
- Consideration of stakeholder experience in relation to timing of any increases. Subject to circumstances, increases may be phased. Investors will expect to see the reasons for any increases fully explained.

# Looking ahead...

Based on a recent Deloitte Academy poll, c. 30% of companies expect to 're-set' non-executive director fees in the next 1 - 2 years.

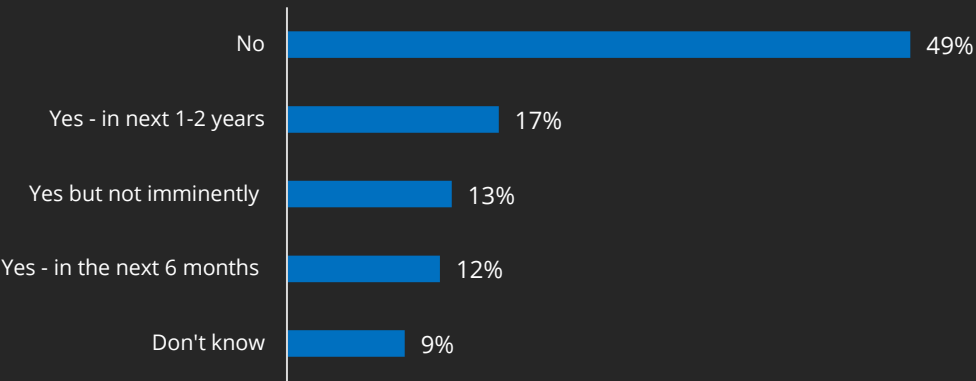
## What is your estimated non-executive director fee increase (if any) for FY24?

Based on a recent Deloitte Academy poll, c. 65% of companies expect to increase non-executive director fees for 2024, typically in line with executive salary increases (e.g. c. 3% - 5%).



## Do you expect to 're-set' non-executive director fees in the near-term?

Based on a recent Deloitte Academy poll, c. 30% of companies expect to 're-set' non-executive directors in the next 1 - 2 years.



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