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Remuneration Committee update
2023 AGM season – FTSE 100 early insights

April 2023

Key takeaways

This report provides insights on remuneration trends from the first 55 FTSE 100 companies to publish their 2022 annual reports⁺.

1

Executive salary increases for 2023 typically set below average workforce rate

- Over 90% of FTSE 100 CEO salary increases set below the average workforce rate. Median CEO salary increase of 3.5%, versus 6% average increase for the wider workforce.
- Over 85% of FTSE 100 CFO salary increases set below the average workforce rate. Median CFO salary increase of 4%.

2

Continue to see higher annual bonus out-turns, slightly above pre-pandemic levels

- Median CEO annual bonus out-turn of 76% of maximum (quartile range 68% - 88%). Range of bonus out-turns lower than 2021 (median: 85%), but slightly above typical pre-pandemic levels.
- Four companies used downward discretion to adjust formulaic bonus out-turns, to reflect health and safety events or the wider economic environment.

3

Strong long-term incentive vesting levels, with some adjustments for 'windfall gains'

- Median vesting of long-term incentive plan (LTIP) awards of 58% of maximum (quartile range 30% - 81%).
- Four companies applied downward discretion to reflect potential 'windfall gains' in respect of awards granted in 2020.

4

Increase in median CEO 'single figure' total remuneration of c.12%

- Median CEO 'single figure' total remuneration increases by c.12% to £4.15m (2021: £ 3.72m).
- Median CEO : median employee pay ratio of 80:1 for 2022 (2021: 76:1).

5

Over 50% of companies putting new remuneration policy to vote at the 2023 AGM

- Of those companies, around one-half making minimal changes to the remuneration policy.
- c.40% seeking approval to increase the maximum incentive opportunity, typically in the range of 0% - 50% of salary. Four companies with a significant global footprint are proposing more significant increases to incentive opportunities (e.g. 100% of salary+).

6

Pay freeze for over 40% of non-executive chair and non-executive director (NED) fees

- 47% of non-executive chairs and 40% of NEDs received no increase to the base fee for 2023. Median non-executive chair fee increase of 1.5%. Median non-executive director base fee increase of 3.5%.

7

Continued adoption of ESG metrics, with focus on climate

- Over 90% of all FTSE 100 companies now include ESG metrics in incentive plans, with over 45% of companies including metrics in the LTIP. 5 companies now incorporate Scope 3 emissions reduction in the LTIP, as companies increasingly look to address their most material carbon impacts.

⁺ Based on 55 FTSE 100 companies with financial years ending on or after 15 September 2022.

1 Salary increases

Salary increases – CEO, CFO and average workforce

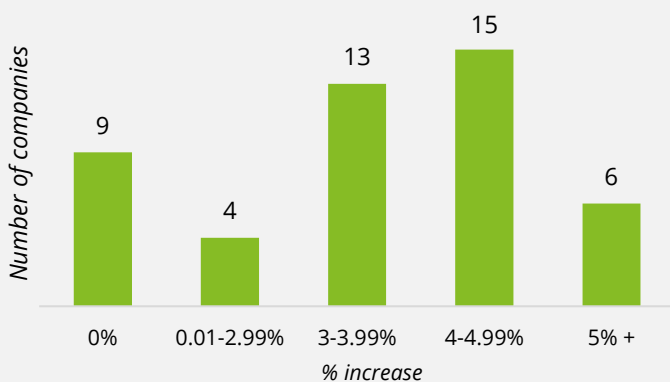
% increase	CEO	CFO	Average workforce
Upper quartile	4.5%	5%	6.7%
Median	3.5%	4%	6%
Lower quartile	2.6%	3%	5%
% with zero increase	19%	11%	-

* Excludes new appointments in the year or delayed salary review dates.

- Over 90% of CEO increases, and over 85% of CFO salary increases, are set below the average workforce rate for 2023.
- Median CEO salary increase of 3.5%, versus 6% average increase for the wider workforce. Median CFO salary increase of 4%.
- c.20% of FTSE 100 CEOs received no salary increase for 2023.

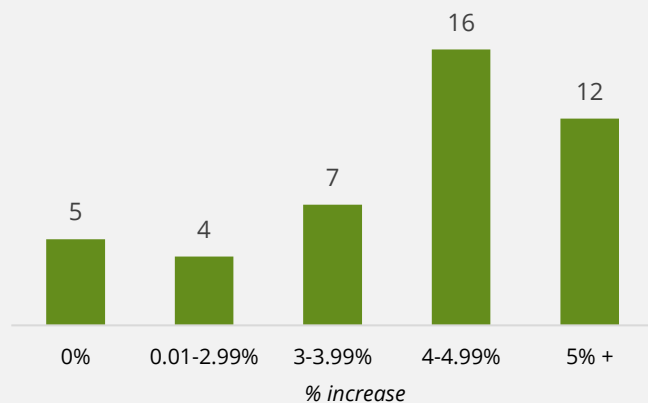
CEO salary increases

% increase, number of companies



CFO salary increases

% increase, number of companies

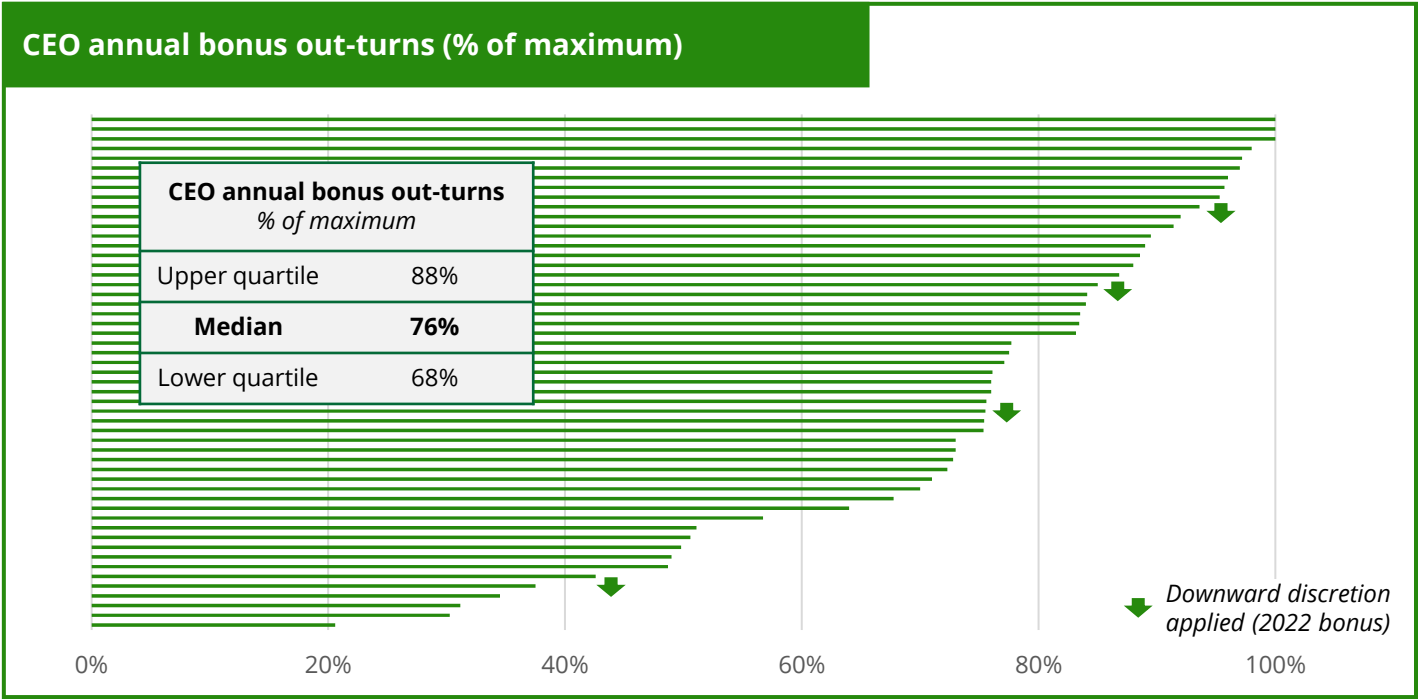


* Excludes new appointments in the year or delayed salary review dates.

"...Annual increases in salary are expected to be low and ideally lower proportionally than general increases across the broader workforce." **ISS 2023 policy guidelines for UK and Ireland**

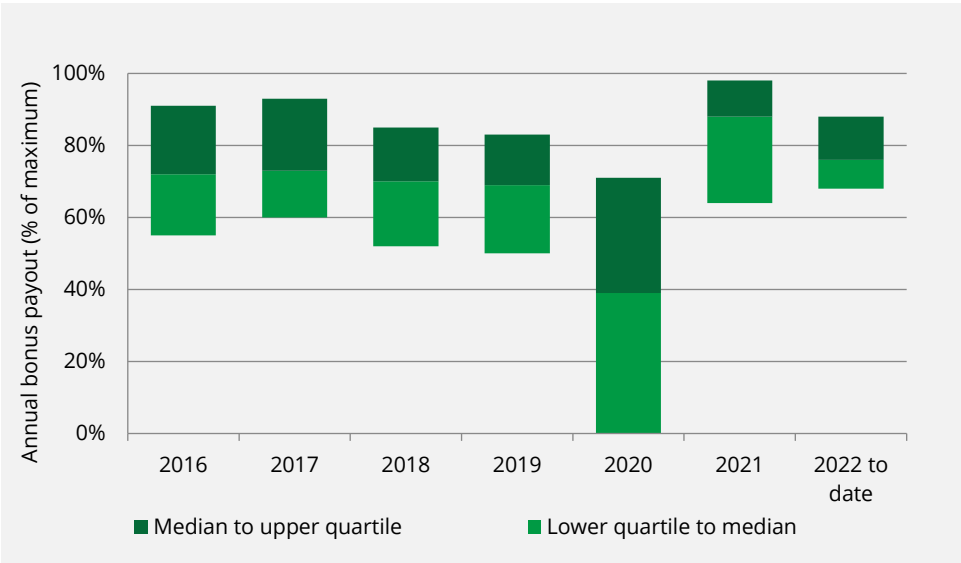
2

Annual bonus out-turns



- Median CEO annual bonus out-turn of 76% of maximum (quartile range 68% - 88%). Range of bonus out-turns lower than 2021 (median: 85%), but slightly above typical pre-pandemic levels (typical median of 65% - 75%).
 - Four companies used downward discretion to adjust formulaic bonus out-turns, to reflect health and safety events or the wider economic environment.
- * Excludes financial services risk adjustments.

Historical annual bonus out-turns

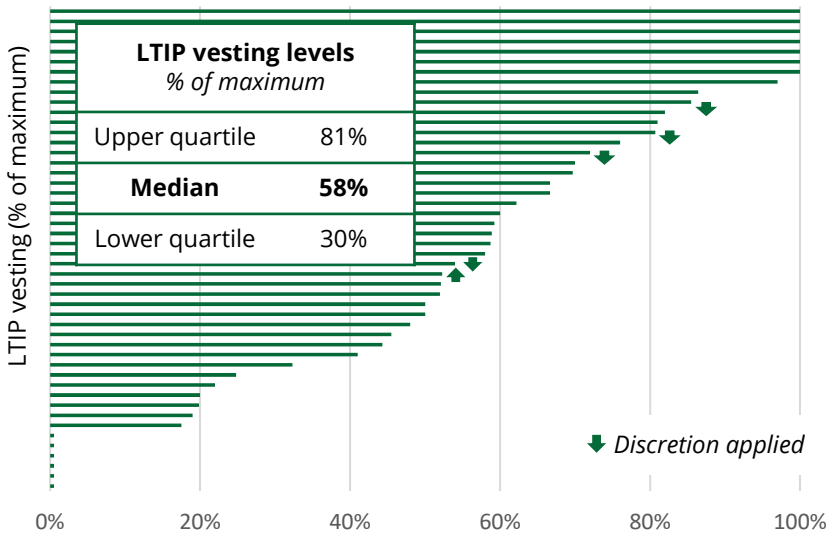


“Whilst judging remuneration outcomes, we encourage Remuneration Committees to be clear on disclosing the issues and different performance drivers they have considered when judging the overall performance achieved and [...] put outcomes in the context of the wider stakeholder experience.”

Investment Association Letter to RemCo chairs, November 2022

3 Long-term incentive awards - vesting

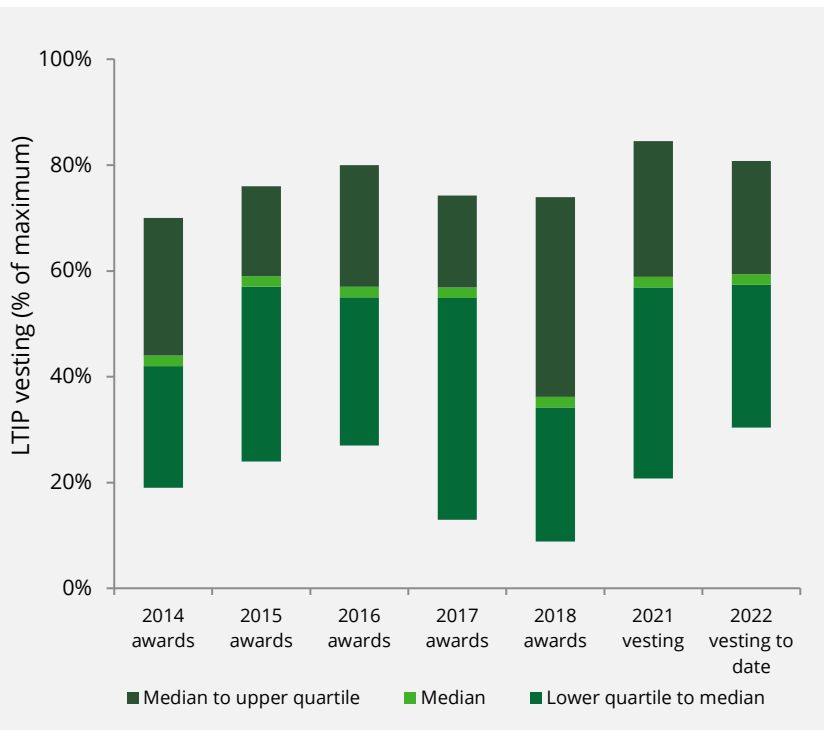
Long-term incentive awards vesting (% of maximum)



- Median vesting of long-term incentive (performance share plan) awards of 58% of maximum (quartile range 30% - 81% of maximum).
- c.15% of awards vested in full and c.15% of awards lapsed with zero vesting.
- Four companies applied downward discretion to reflect potential 'windfall gains' as a result of granting awards in 2020. One company exercised positive discretion to override a formulaic out-turn. One company exercised negative discretion in relation to a regulatory settlement.

* Based on performance share plan awards.

Historical LTIP vesting



Considering windfall gains?

- Many December year end companies granted LTIP awards in March to May 2020, very close to the 'trough' of the pandemic-related market volatility, making commitments to review the out-turn at the end of the performance period and assess whether a windfall gain occurred.
- In a letter to RemCo chairs in November 2022, the Investment Association highlighted that "Committees should clearly articulate to shareholders how they have considered the impact of any potential windfall gains when determining vesting outcomes and why any reduction is appropriate. If the Committee has decided not to adjust for windfall gains it should explain and disclose its rationale for doing so."
- **Four companies** applied downward discretion to reflect potential 'windfall gains' as a result of granting awards in 2020. Downward adjustments applied were typically in the range of c.10% - 15%.

4 CEO total remuneration and pay ratios

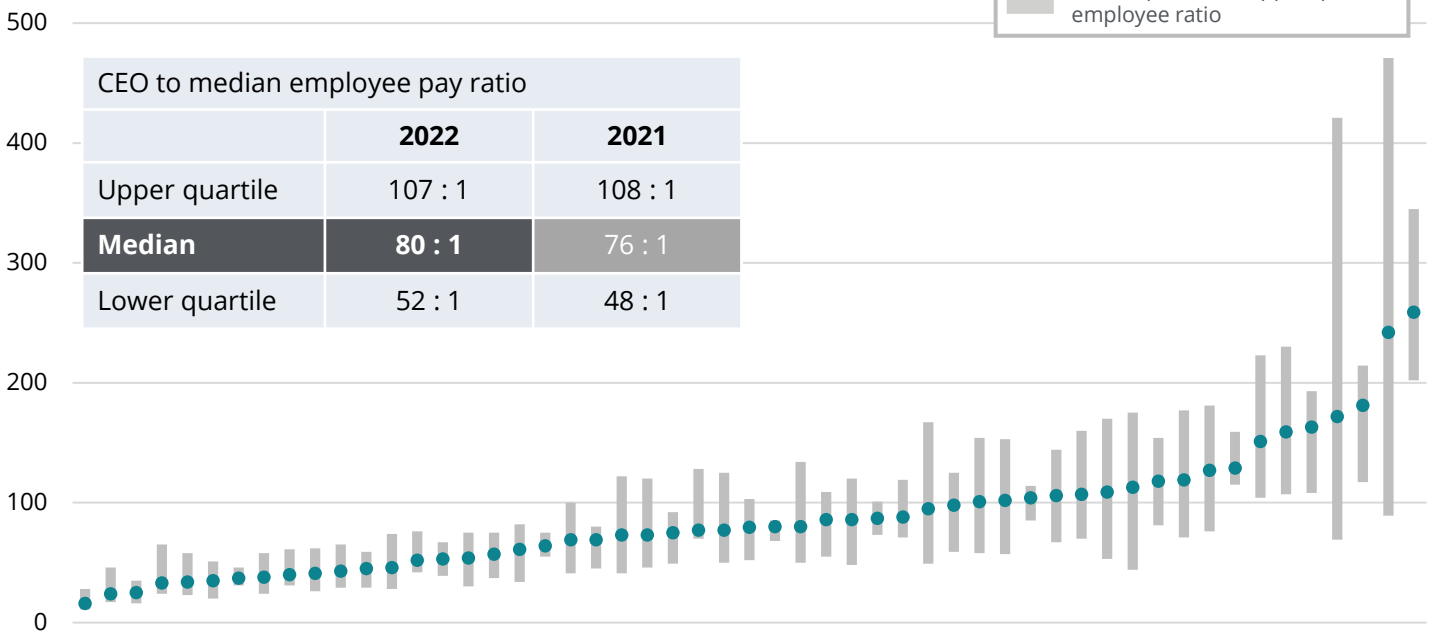
Total remuneration – CEO ‘total single figure’

	2022 (estimated)	2021 (re-stated)	% change
Upper quartile	£5.49m	£5.03m	-
Median	£4.15m	£3.72m	+ 11.6%
Lower quartile	£3.06m	£2.90m	-

Note: In accordance with UK reporting regulations, total CEO pay packages reported for 2022 include estimated values of long-term incentive awards. Total CEO pay packages for 2021 (median £3.72m for this sample) are based on the actual values re-stated by companies in 2022. 2022 estimated values will be re-stated by companies next year.

- CEO ‘single figure’ total remuneration increases to £4.15m (2021: £ 3.72m).
- Median CEO : median employee pay ratio increases to 80:1 (2021: 76:1).

CEO : employee pay ratio

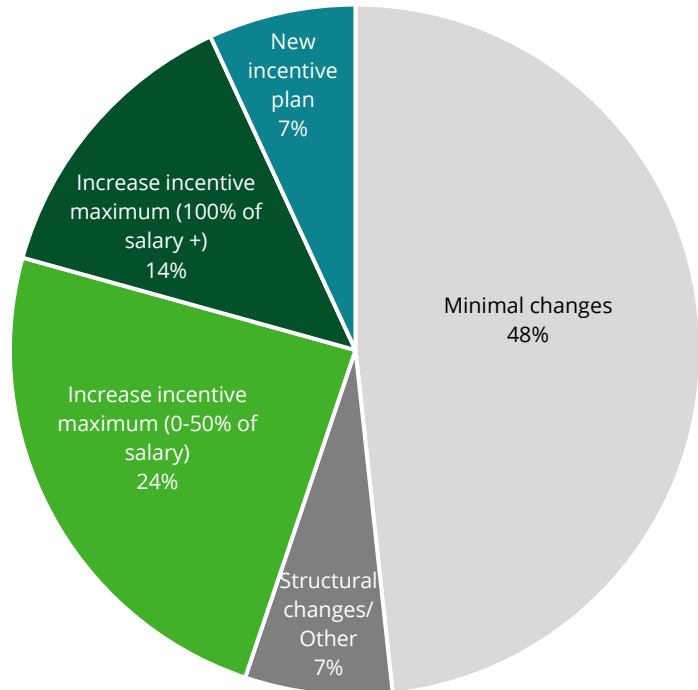


5 Remuneration policy review

New remuneration policies

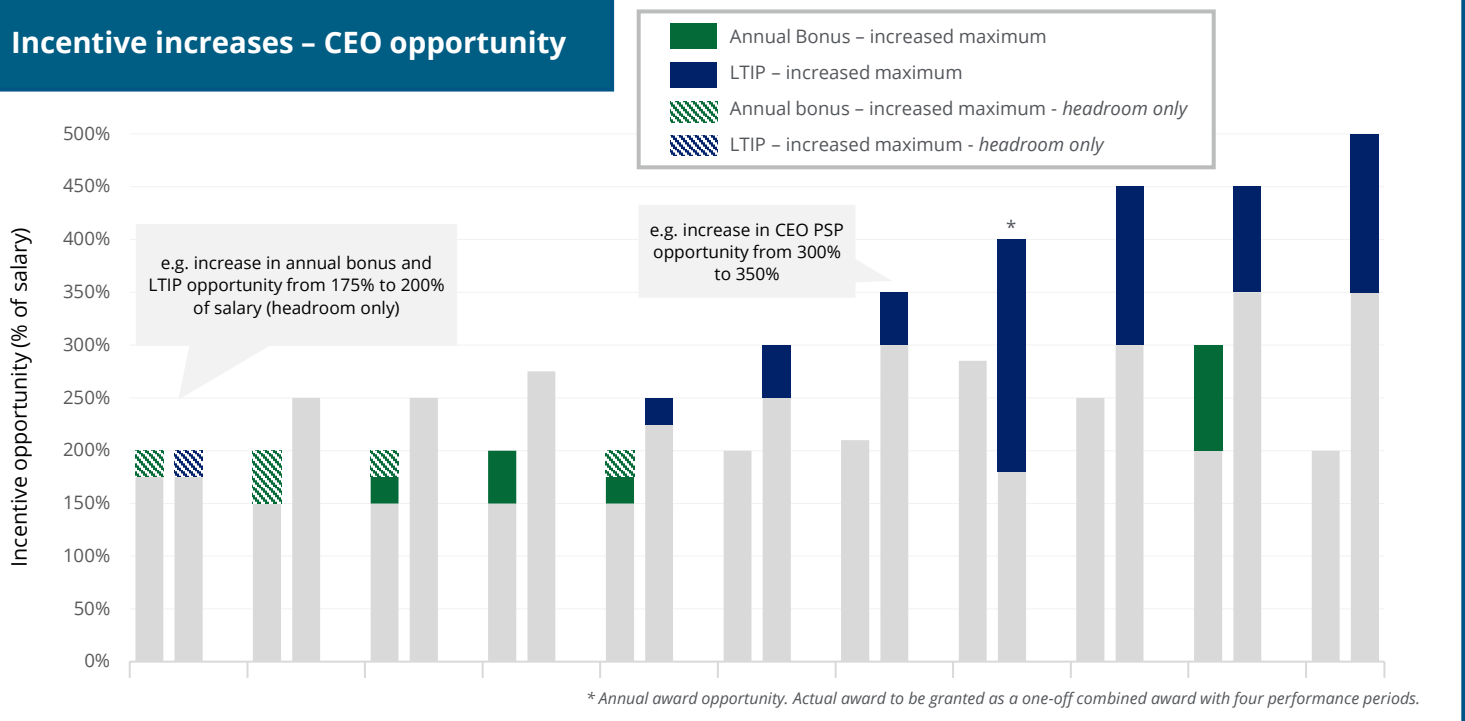
Over 50% of companies (29 companies) are putting a new remuneration policy to vote at the 2023 AGM. Of those companies:

- Around one-half making limited or minimal 'best practice' changes to the remuneration policy.
- c.40% (11 companies) seeking approval to increase the maximum incentive opportunity, most commonly in the range of 0% - 50% of salary. Four companies with a significant global footprint are proposing more significant increases to incentive opportunities e.g. 100% of salary + (see below).



"Given the external environment, IA members will expect companies to generally show restraint on the increases to variable pay opportunity in their new Policy. Any increases in opportunity should be carefully explained in the context of the business and delivery of strategy." **Investment Association Letter to RemCo chairs, November 2022**

Incentive increases – CEO opportunity



6 Non-executive chair and non-executive director fees

Chair and NED fee increases

% increase	Non-executive chair - base fee	Non-executive director - base fee
Upper quartile	4%	4.7%
Median	1.5%	3.5%
Lower quartile	0%	0%
% with zero increase	47%	40%

- 47% of non-executive chairs and 40% of NEDs received no increase to the base fee for 2023.
- Median non-executive chair fee increase of 1.5%. Median non-executive director base fee increase of 3.5%.

"IA members recognise that Non-Executive Director (NED) fees have not always reflected the increased complexity and time commitment expected of their role. Given the important oversight role which they play on behalf of the company and their shareholders, NEDs should receive fees that reflect the time commitment of their role on the Board and its sub-committees, and the scope and complexity of their role(s). However, where increases are deemed warranted, the reasons for such should be properly explained."

IA Principles of Remuneration, November 2022

7 ESG in incentive plans

- Over 90% of all FTSE 100 companies now include ESG metrics in incentive plans, with over 45% of companies including metrics in the LTIP.
- 5 companies now incorporate Scope 3 emissions reduction in the LTIP, as companies increasingly look to address their most material carbon impacts.

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