ELLASON LLP

LENS ON:

2024 pay decisions (September year ends)

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The 2024 AGM season is fast approaching, with FTSE companies soon to be putting their remuneration reports – and in a few cases their remuneration policies – to a shareholder vote. In this Lens, we review the pay decisions for FY23 and FY24 for those (twenty-one) FTSE companies with September year ends who have published annual reports thus far, to determine any early trends for this AGM season.

Salary increases for Executive Directors are closer to the workforce average compared to last year

Almost all companies in our sample have awarded salary increases to their Executive Directors for FY24; the exceptions are generally either where there is a newly-appointed director or an existing director is soon to be stepping down. This is in line with what was observed for FY23, and represents a break in the trend of previous years where we had consistently seen around a quarter of companies award no salary increase to their most senior executives. For Executive Directors, the median FY24 salary increase is currently tracking at 4.7%, up from 4.0% observed for FY23.

Average workforce salary increases for FY24 remain higher than Executive Director increases, with a median reported increase of 5.0% (upper quartile: 6.4%; lower quartile: 4.8%). However, this is lower than those seen in FY23 (median: 6.0%; upper quartile: 7.0%; lower quartile: 5.0%), reflecting an easing in the high-inflation related wage increases made to the workforce last year. The narrowing gap between Executive Director and workforce salary increases is also reflected in the observation that c.60% of companies in our sample set the salary increase for at least one of their Executive Directors below the workforce increase for the forthcoming year, down from c.75% last year. This may be an early sign of a gradual return to the typical practice before the onset of the cost of living crisis of aligning Executive Director and workforce salary increases.

Notably, five companies in our sample have awarded salary increases to at least one of their Executive Directors significantly above the workforce average:

- **AJ Bell** awarded its CFO a salary increase of 24% for FY24 in recognition of his relatively uncompetitive salary on appointment in November 2021 having fallen significantly in real terms amid cumulative UK CPI inflation of 20.1% to September 2023 (and which had not been increased in the interim).
- **Auction Technology Group** awarded its CEO a 7.6% salary increase (as part of a three-year plan to increase his salary by 22%), and its CFO a one-off salary increase of 17%. These increases are above the stated workforce average of 4.6%, and have been made in order to move base pay closer to the median of the FTSE250 for both roles.

- **Diploma** moved into the FTSE100 in August 2023, and has reported salary increases of 8.8% to its CEO and 13.3% to its CFO (compared to an average workforce increase of 5%) in order to pay competitively relative to a new peer group.
- **Future** implemented the second of a two-stage adjustment to the salary of its CFO (a 9.8% increase for FY24, compared to an average workforce salary increase of 5%) to position salary more appropriately in the context of the broader nature of the role at the Company and the incumbent being a consistent above-median performer.
- **Sage Group** has reported a 9.9% salary increase to its CEO for FY24 (compared to an average workforce salary increase of 5%). The Remuneration Committee cited the Group's significant outperformance of the FTSE100 since his appointment, as well as the need to compete in a global technology talent market, as the justification for this increase.

Fewer companies are paying annual bonuses but the average pay-out remains the same

There has been a decrease in the number of companies paying annual bonuses, with two companies in the sample not paying any this year (2022: none). Across these companies, the median CEO bonus pay-out has decreased to 70% of maximum (2022: 80%). Eight companies (40%) have paid lower bonuses than last year, eight (40%) have paid higher bonuses, whilst four companies (20%) have reported the same bonus pay-out as last year. Economic conditions toughened over the last half of 2023 for many companies, with reductions in profit forecasts compared to the start of the year for c.60% of the FTSE – consequently, we expect a general trend for FY23 bonuses to be lower than in FY22.

Across our sample, there is a single instance of downwards discretion being applied to annual bonuses for FY23, as a result of high-priority objectives not being achieved. This is slightly lower than the trend observed amongst this sample last year (with c.10% of companies applying downwards discretion in respect of FY22 bonus outcomes).

LTIP vesting levels look to be recovering

Of those companies reporting on an LTIP cycle based on performance over periods ending September 2023, 75% report some vesting, materially up from that observed last year (c.60%). The mean LTIP vesting outcome has also increased, at 54% of maximum (FY22: 36%), with an increase observed in the median outcome to 59% (FY22: 23%). A recovery in vesting levels can also be seen in the year-on-year trend in LTIP outcomes; eight companies (44%) report a higher vesting outcome in FY23 than in FY22, five (28%) report a lower outcome and five (28%) report the same outcome (typically zero or full vesting).

In our sample, only one company, **Treatt**, reported applying downwards discretion to its LTIP outcome. The Committee determined the adjustment necessary to better align pay with shareholders' overall long-term experience across the LTIP performance period.

Ellason commentary

Early indications are that some of the trends observed during 2023 will subsist into 2024, notably in relation to salary inflation and a recovery in LTIP outcomes. However, we expect economic conditions will dampen bonus pay-outs, following relatively high outcomes on average in the past two years post-pandemic.

More broadly, it will be interesting to see the extent to which pay proposals in 2024 evolve to reflect the initial stages of the ongoing 'big tent' discussion on the competitiveness of the UK market. Following publication of CMIT's recent open letter, we anticipate those companies which compete in talent markets extending beyond the confines of the FTSE may begin to review pay philosophy and package structure more fundamentally, particularly in the run-up to another round of Policy votes in 2025. We will be actively monitoring developments in the coming months and will provide further updates as the AGM season unfolds.

Please do not hesitate to contact any of the Ellason team should you wish to discuss this issue further.