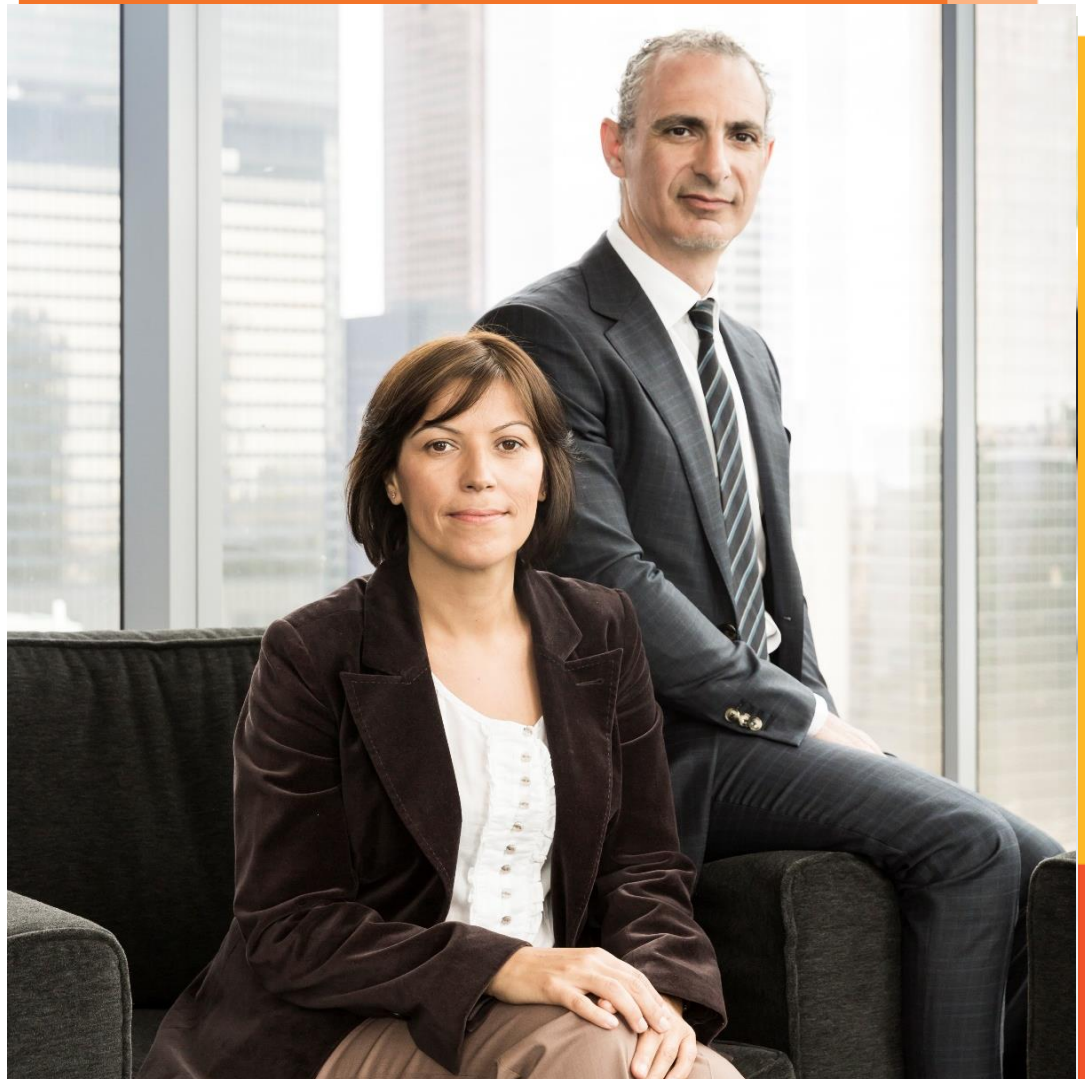


# *FTSE 250 and SmallCap Companies* Non-Executive Director Fees in 2016

February 2017



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# Foreword

Welcome to the PwC's 2016 Review of Non-Executive Director (NED) fees for FTSE 250 companies and FTSE SmallCap companies (SMC). This report provides an update on fee levels and fee increases for NEDs, Chairmen, Committee Chairmen and Committee Members.

In a year of economic uncertainty and increasing focus on executive pay, the restraint exercised at executive level is also evident with regard to NED fees. Median base fees in FTSE 250 in 2016 remained at the same level as the previous year at £50,000 per annum. Our analysis found that in 2016, a lower proportion of companies increased NED base fees, and of those that did, fee increases were lower, at a median increase of 3%, compared with a median of 5% in 2015. NED fees in SMC increased at the same pace as last year, at a median of 3%. For SMC Chairmen, however, the median increase was lower in 2016 at 3%, compared with 7% in 2015. Similar to FTSE 250, fewer SMC companies increased fee level.

The lower fee increases can partly be explained by a rise in the number of companies opting for annual reviews rather than periodic reviews. This year, of the 46% that reviewed and increased NED rates in FTSE 250, over one-half (60%) had also increased fees in 2015. As a result, base fee increases are falling closer to the rest of the employee population. This trend is not just confined to basic NED and chairmen fees but fees across all other NED roles. For example, Senior Independent Directors (SIDs) in FTSE 250 received a median increase of 14% this year (where adjustments were made), whereas in 2015, the median was 33%.

Should the Government's proposals on executive pay, published in the Green Paper on Corporate Governance Reform, go through, this will place extra responsibilities on NEDs. For example, the establishment of a shareholder committee, chaired by a designated NED to ensure that executive decision-making takes appropriate account of employee, supplier or consumer issues, would lead to an increased burden for NEDs taking on such duties. Similarly, there may be a designated NED from the remuneration committee that liaises with the wider workforce so that considerations are brought to bear on decisions about executive pay.

The role and responsibilities of NEDs have undergone immense changes over the years. But it is not just the scope of NED roles that are being challenged. Last year, we commented that there will be a continued focus on board diversity that includes not only a range of talent, skills and experience but also gender and ethnic diversity. While the progress on gender diversity is now on an upward trajectory, the recent Parker Review found that the boardrooms of Britain's leading public companies do not reflect the ethnic diversity of either the UK population or the stakeholders that they seek to engage and represent. It recommends that each FTSE 250 company should have at least one ethnic minority director by 2021.

We believe that the increased demands of the Non-executive Director roles will continue and the time commitment and scrutiny will grow further. Companies will be digging deeper for the right set of skills and experience, alongside the need for a more diverse set of candidates. Unsurprisingly, in the current environment, this has not yet impacted fees.

This report sets out a summary of the data and trends which I hope you find interesting. Please do contact me or any of the contacts on the back of this report if you would like more tailored information.



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# Data Snapshot

This report provides an analysis of Non-Executive fee levels and trends in FTSE 250 and SMC companies in 2016.

The following roles are covered:

- Chairman
- Deputy Chairman
- NED
- Senior Independent Director (SID)

Committee chairmanship and membership fees are also presented. Unless otherwise stated, all figures shown are median values. Where '-' is shown there is insufficient information to show market data.

## Summary of fee levels and fee increases in FTSE 250 companies in 2016

FTSE 250 role	£'000 median fee level	% Median increase (where made)*
Chairman (total fee)	193	5%
Deputy Chairman (total fee)	95	-
NED (base fee)	50	3%
SID (additional fee)	10	14%
Audit Committee Chairman (additional fee)	10	6%
Remuneration Committee Chairman (additional fee)	10	6%
Nomination Committee Chairman (additional fee)	10	-
Risk Committee Chairman (additional fee)	10	-
Other Committee Chairman (additional fee)	10	-
Audit Committee Member (additional fee)	5	15%
Remuneration Committee Member (additional fee)	5	15%
Nomination Committee Member (additional fee)	5	15%
Risk Committee Member (additional fee)	8	-
Other Committee Member (additional fee)	8	-
% of companies increasing Chairman fees		52%
% of companies increasing NED base fees		46%
% of companies making changes to Committee fees		25%

\* Details of the percentage of companies making changes are on page 8

## Summary of fee levels and fee increases in SMC companies in 2016

SMC role	£'000 median fee level	% Median increase (where made)*
Chairman (total fee)	135	3%
Deputy Chairman (total fee)	55	-
NED (base fee)	42	3%
SID (additional fee)	6	30%
Audit Committee Chairman (additional fee)	8	3%
Remuneration Committee Chairman (additional fee)	8	-
Nomination Committee Chairman (additional fee)	8	-
Audit Committee Member (additional fee)	5	-
Remuneration Committee Member (additional fee)	4	-

*\*Insufficient number of companies provided Nomination Committee Member fees to calculate median fee levels and median % increase.  
Details of the percentage of companies making changes are on page 14.*



# Fee increases in financial (fs) and non-financial (ex fs) services sectors in FTSE 250

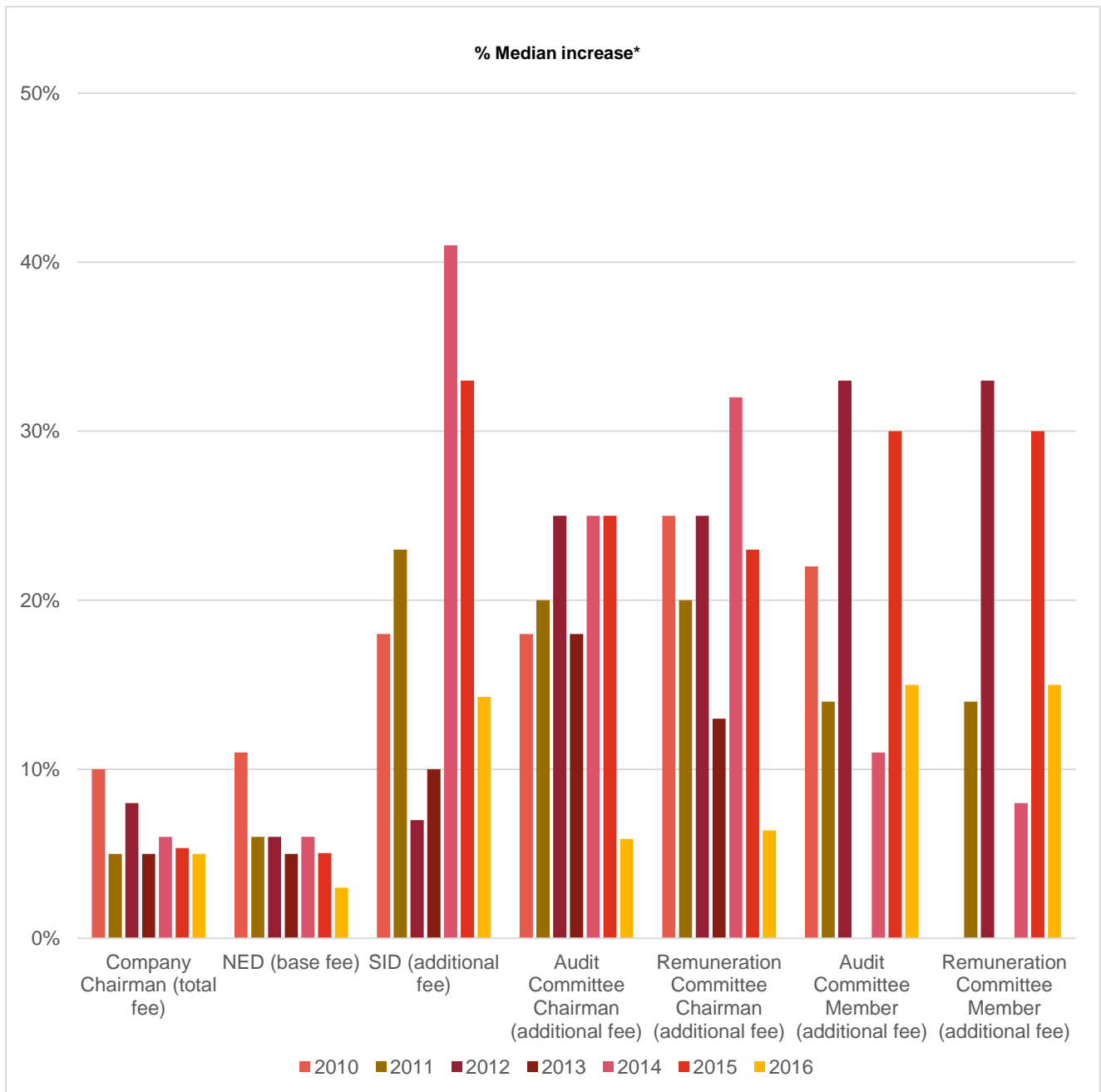
A breakdown of fee increases by NED roles in FS and non-FS shows that in 2016, Chairmen received higher increases in FS compared with their non-FS counterparts, while NED increases were the same. Conversely, increases in SIDs' additional fees were higher in non-FS compared to the FS sector.

% Median increase where made*						
FTSE 250 role	250	2016		2015		
		FS	Ex FS	250	FS	Ex FS
Company Chairman (total fee)	5%	8%	4%	5%	10%	5%
NED (base fee)	3%	3%	3%	5%	8%	4%
SID (additional fee)	14%	4%	18%	33%	50%	29%
Audit Committee Chairman (additional fee)	6%	4%	6%	25%	13%	25%
Remuneration Committee Chairman (additional fee)	6%	8%	6%	23%	22%	23%
Audit Committee Member (additional fee)	15%	9%	-	30%	30%	-
Remuneration Committee Member (additional fee)	15%	9%	-	30%	30%	-



# FTSE 250 fee increases over the past seven years

The following chart shows median fee increases (where increases have been made) for selected Non-Executive roles in FTSE 250 companies over the last seven years. This shows that the lowest level of median fee adjustments for NED base fees and additional fees for Chairmen of Audit and Remuneration committees, were in 2016.



\*Insufficient number of companies provided increase levels for Remuneration Committee Member fee in 2010 and 2013, and Audit Committee Member fee in 2013.

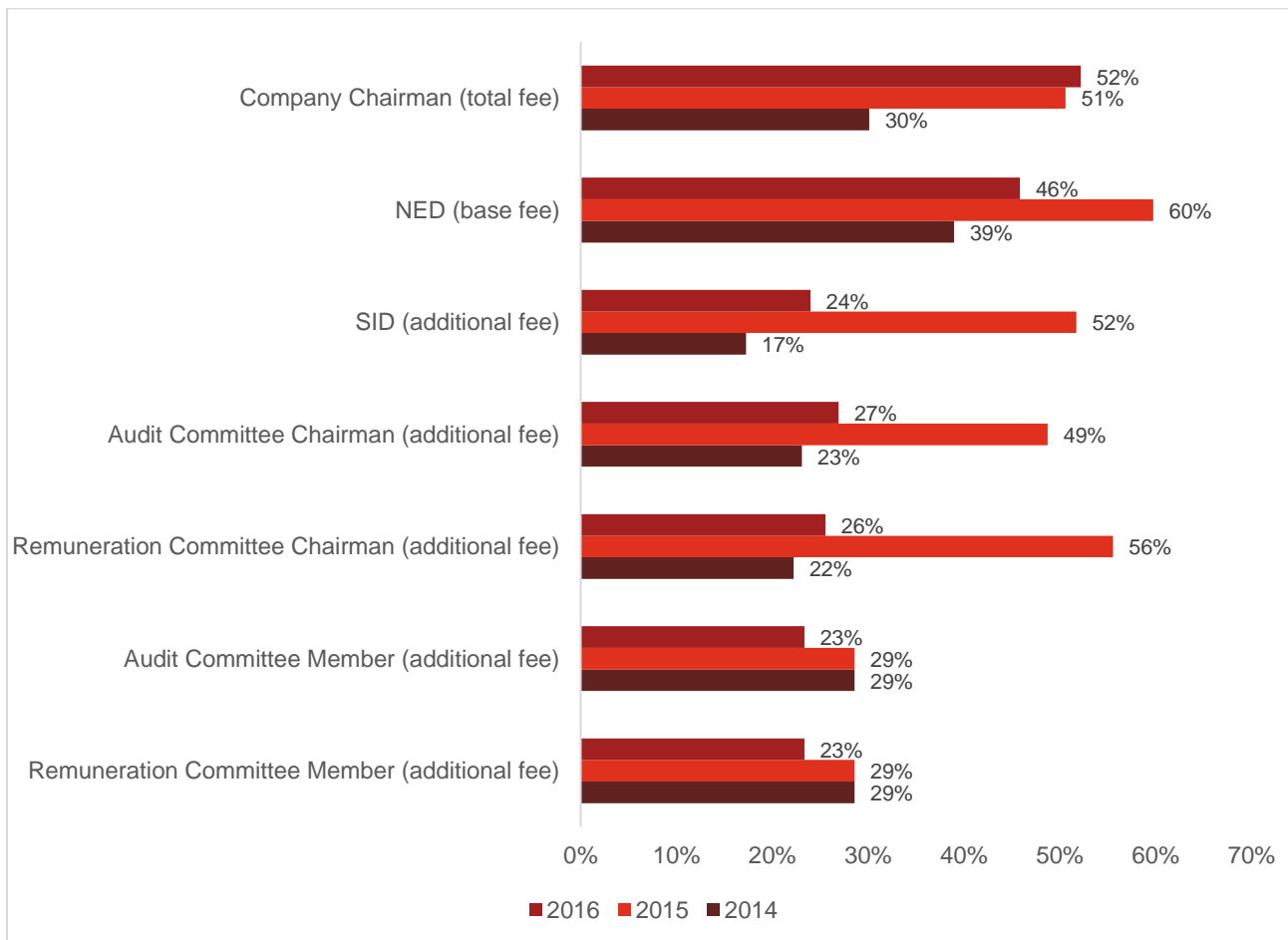
# Annual fee increases in 2016 (FTSE 250)

This graph illustrates the percentage of companies increasing fees in 2016 and shows the companies in this same sample that also increased fees in 2015 and 2014.

Our three year analysis shows that:

- 52% of companies increased Chairman fees in 2016. Of these companies, 51% also increased fees in 2015 with only 30% of these increasing fees in three consecutive years.
- 46% of companies increased NED fees in 2016, with 60% of these also increasing fees in 2015 and 39% increasing fees in three consecutive years.

## Fee increases by NED roles in FTSE 250

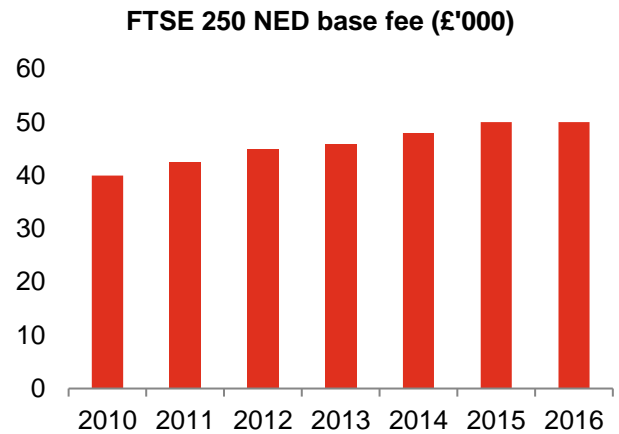
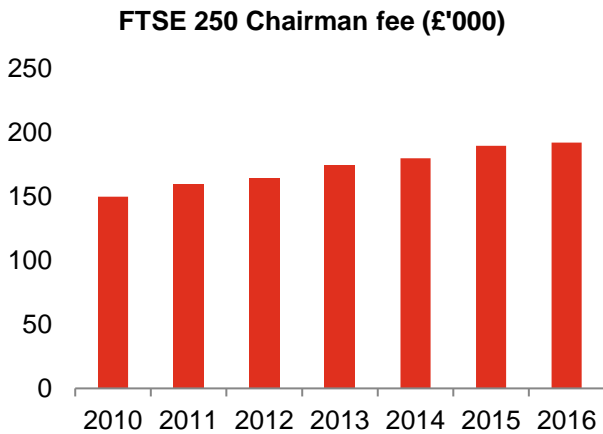




# FTSE 250 fee levels over the past 7 years

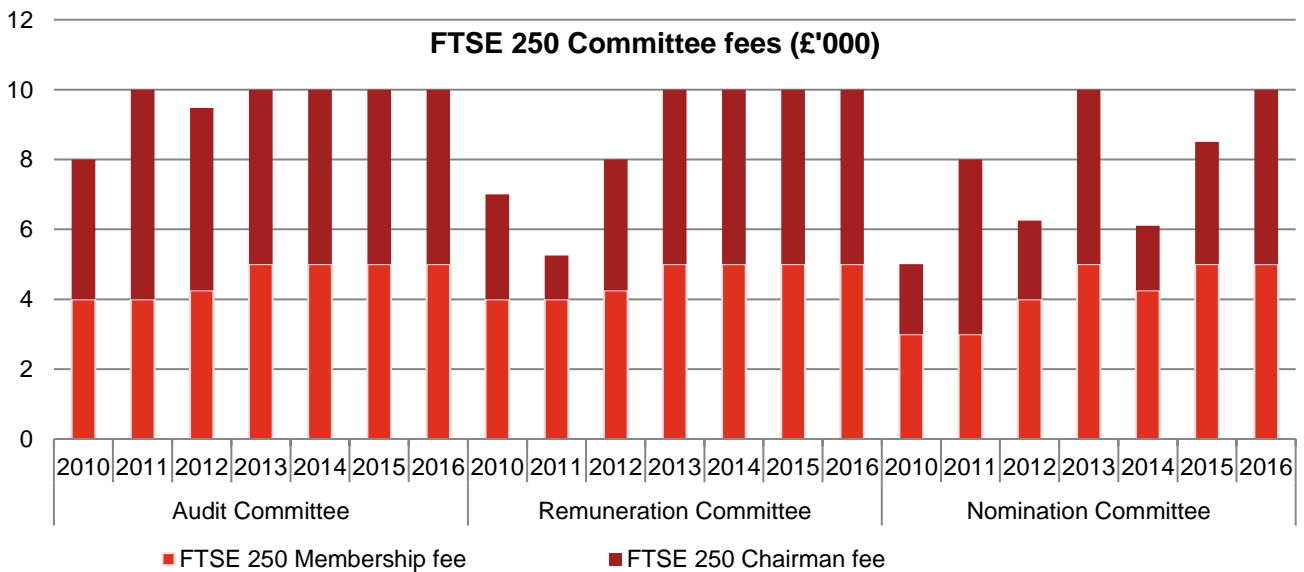
## Chairman and NED base fees

The following charts show median fee levels for Non-Executive roles in FTSE 250 companies over the last seven years. Chairman fees show a slight increase in 2016 on prior years, while NED base fee levels remained static over the last two years.



## Committee fees

Committee Chairmanship and Membership fees in FTSE 250 companies have remained broadly static in 2016, with the exception of the Nomination Committee Chairman fee which increased by £1,500.



# Summary of fee levels and additional fees in FTSE 250

An aggregate summary of NED fee levels and additional fees for extra responsibilities are shown in the tables below.

## Fee levels and additional fees for main Non-Executive positions

Position	Lower quartile £'000	Median £'000	Upper quartile £'000
Chairman	164	193	251
NED (base fee)	47	50	58
SID (additional fee)	6	10	10

## Committee Chairman's additional fees

Position	Lower quartile £'000	Median £'000	Upper quartile £'000
Audit Committee	9	10	15
Remuneration Committee	8	10	12
Nomination Committee	7	10	10
Risk Committee	10	10	18
Other Committee	8	10	15

## Committee Member's additional fees

Position	Lower quartile £'000	Median £'000	Upper quartile £'000
Audit Membership	5	5	8
Remuneration Membership	4	5	8
Nomination Membership	3	5	6
Risk Membership	5	8	10
Other Membership	5	8	11

# Other information

## *Shareholding requirements and payment in shares in FTSE 250*

The Investment Association's (IA) Principles of Remuneration encourages Non-Executive Directors to own shares in the company on whose board they sit. The IA also states that NEDs may receive part of their fees in shares bought at market price.

Based on our analysis of disclosed information, 11 FTSE 250 companies have shareholding requirements for the Chairman and ten for NEDs. The requirement ranges from 50% to 200% of fees and 67% of these companies set their requirement at 100% of fees.

Only six FTSE 250 companies pay a percentage of fees (between 20% and 50%) in shares.

## *Benefits policy*

The percentage of companies in FTSE 250 that provide additional benefits are detailed in the table below.

FTSE 250	Eligibility (% of companies)	
	Chairman	NED
Bonus	1%	1%
LTIs	1%	1%
Pension	0%	0%
Medical insurance	8%	1%
Permanent health insurance	1%	0%
Life assurance	2%	0%
Financial advice	0%	1%
Car benefit	6%	1%

# Gender representation

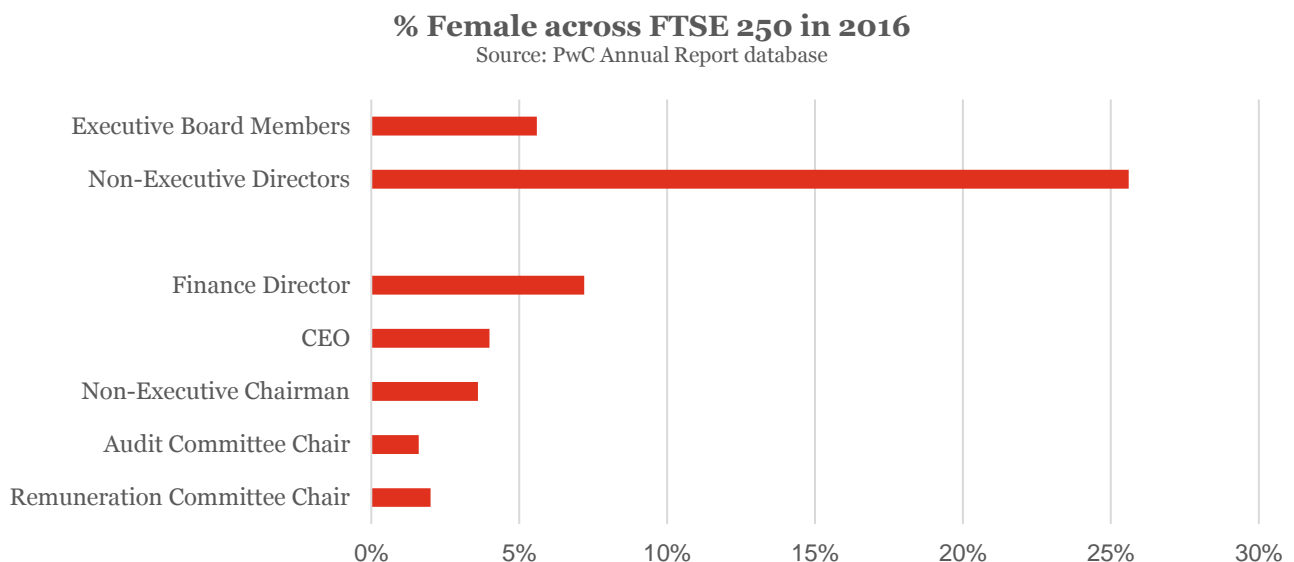
Last year, Lord Davies increased the target of female representation on the boards of FTSE 350 companies, from 25% to 33% by 2020. The table below shows that there has been a steady progress in the increase of women directors on the board of FTSE 250 companies.

In 2016, the percentage of women holding Non-Executive directorships in FTSE 250 was 25.7% increasing from 23% in 2015. The table also shows that female NEDs have fared better than their executive counterparts - only 5.6% of women are executive directors.

The average age of female NEDs in FTSE 250 is 56 compared to 61 for male NEDs.

Number and percentage of females holding board directorship 2012-2016 in FTSE 250 (Source: Cranfield School of Management/Boardex)					
	2016	2015	2014	2013	2012
Female Non-Executive directorships	371 (25.7%)	340 (23.0%)	281 (19.6%)	235 (16.6%)	168 (11.4%)
Female Executive directorships	29 (5.6%)	25 (4.6%)	29 (5.3%)	32 (5.4%)	28 (4.5%)

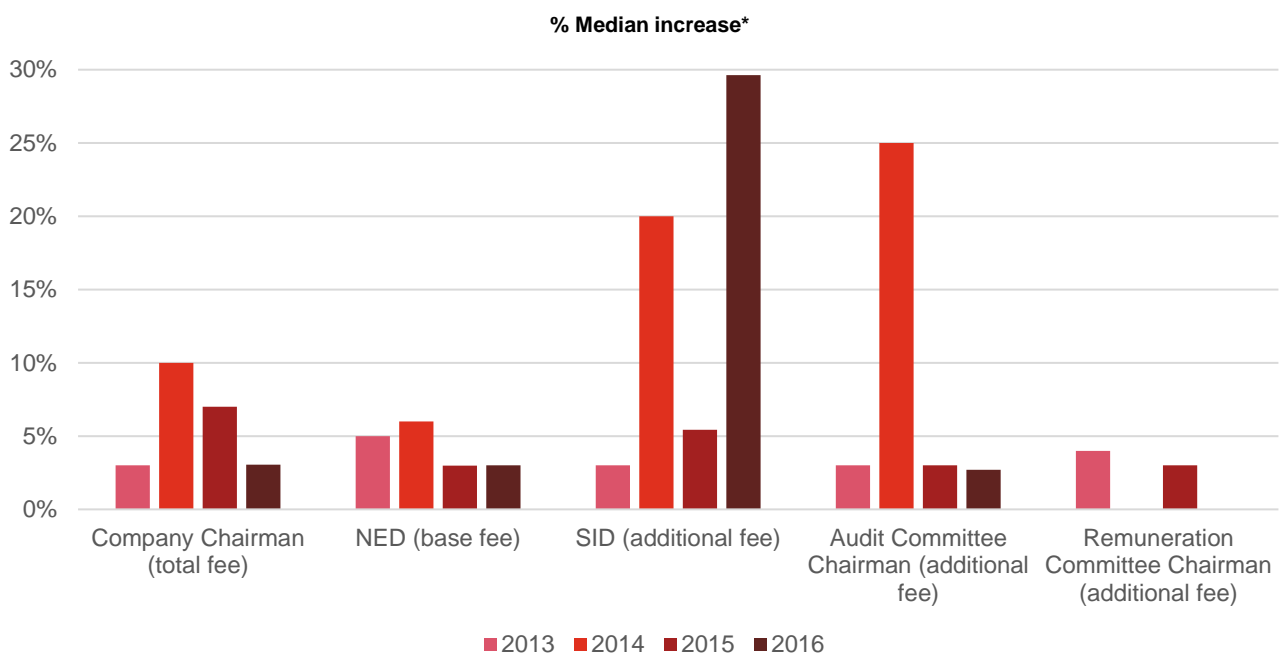
The chart below shows the percentage of female in key board positions in FTSE 250 companies.





# FTSE SMC fee increases over the past four years

The following chart shows median fee increases for Non-Executive roles in FTSE SMC companies over the last four years where increases have been made. This shows that the median fee increase for Chairmen fell substantially in 2016 to 2013 level. Conversely, the median increase for the additional fees of SIDs increased from 5% in 2015 to 30% in 2016.



*\*Insufficient number of companies provided increase levels for Remuneration Committee Chairman fees in 2014 and 2016.*

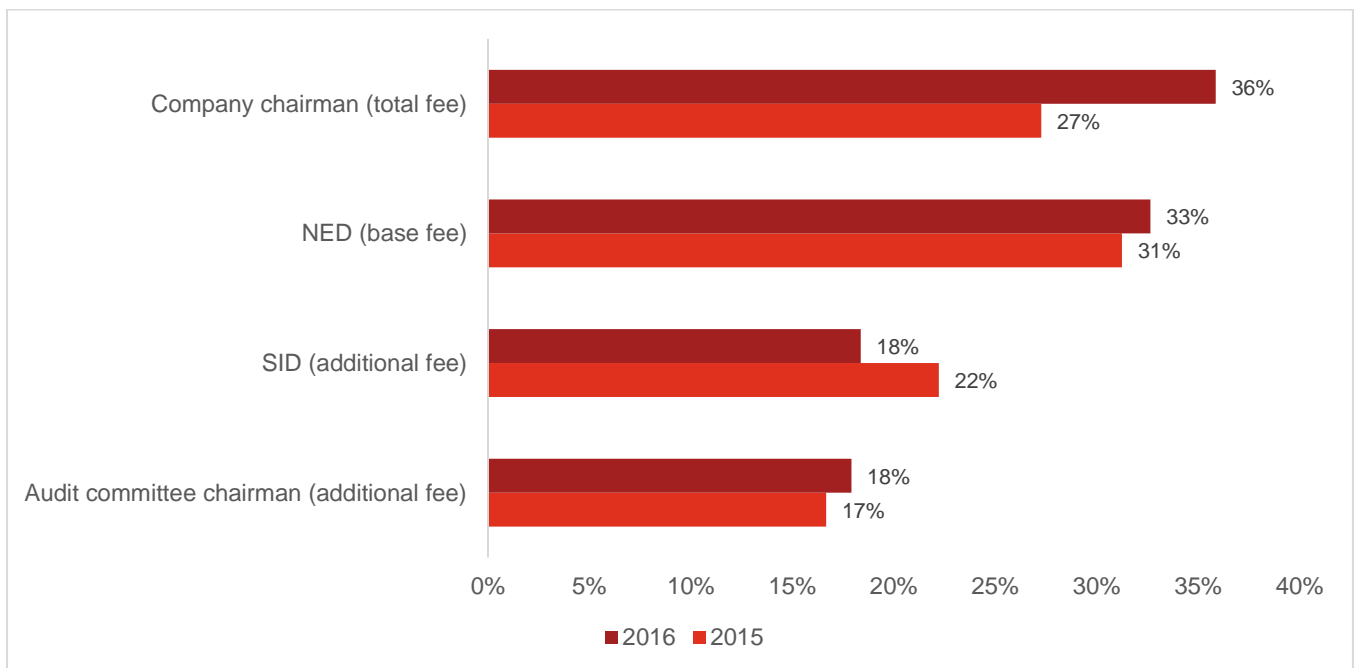
# Annual fee increases in 2016 (SMC)

The graph illustrates the percentage of SMC Companies increasing fees in 2016 and shows the companies in this same sample that also increased fees in 2015.

Our analysis shows that:

- 36% of companies increased Chairman fees in 2016. Of these companies only 27% also increased Chairmen fees in 2015.
- 33% of companies increased NED fees in 2016, with 31% of these also adjusting fees in 2015.

## Fee increases by NED roles in SMC

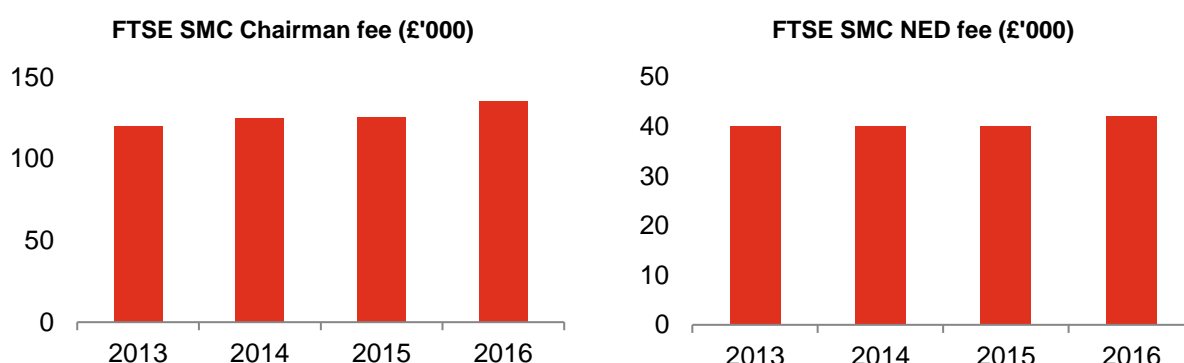




# FTSE SMC fee levels over the past 4 years

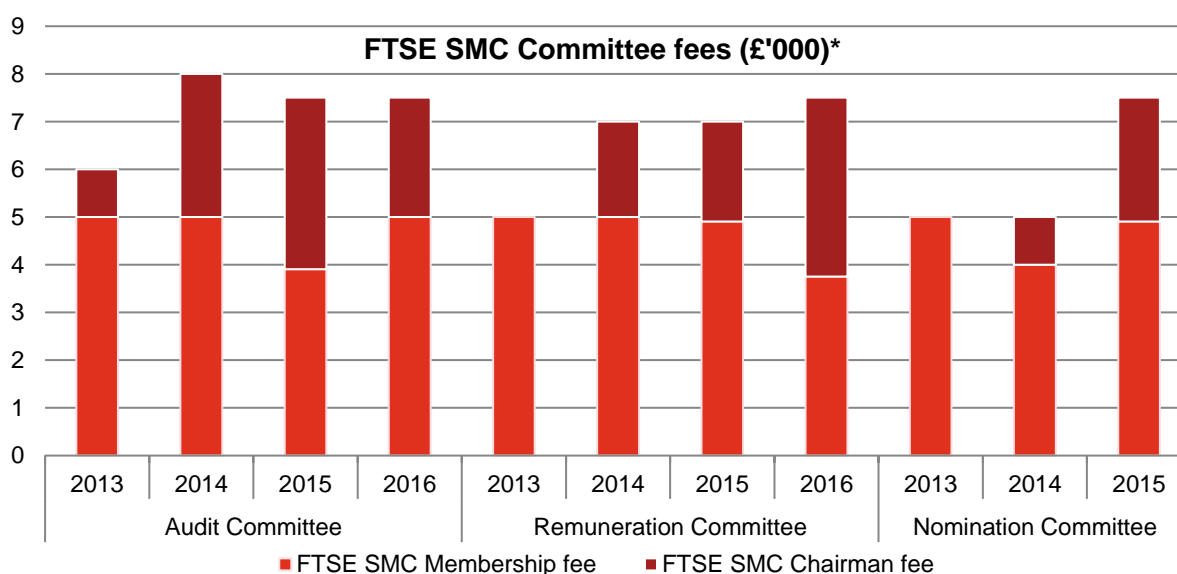
## Chairman and NED base fees

The following charts show median fee levels for NED roles in FTSE SMC companies over the last four years. Chairman fees and Non-Executive fees show a slight increase on prior years.



## Committee fees

Committee membership fees increased for those serving in Audit committees in 2016. Conversely, Audit Committee Chairmen saw a fall in fee levels. In part this is explained by the constituent change in SMC companies.



\*Insufficient number of companies provided increase levels for Nomination Committee Chairman and Membership fees in 2016 as well as Remuneration and Nomination Committee Chairmen fees in 2013.



# Summary of fee levels and additional fees

Fee levels and additional fees for Non-Executive roles in FTSE SMC companies

Position	Lower quartile £'000	Median £'000	Upper quartile £'000
Chairman	108	135	160
NED (base fee)	40	42	50
SID (additional fee)	5	6	10
<b>Committee Chairman</b>			
Audit	5	8	10
Remuneration	5	8	10
Nomination	-	8	-
<b>Committee Member</b>			
Audit	3	5	5
Remuneration	-	4	-

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# Appendix: Contacts

To discuss any of the findings in this report, please contact our Reward research team or your usual PwC contact.

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