

**Agenda
Remuneration Committee
Thursday 29 February 2024**

1 Apologies for Absence and Chair's Announcements

2 Declarations of Interests

Interim General Counsel

Members are reminded that any interests in a matter under discussion must be declared at the start of the meeting, or at the commencement of the item of business.

Members must not take part in any discussion or decision on such a matter and, depending on the nature of the interest, may be asked to leave the room during the discussion.

**3 Minutes of the Meeting of the Committee held on 9 November 2023
(Pages 1 - 4)**

Interim General Counsel

The Committee is asked to approve the minutes of the meeting of the Committee held on 9 November 2023 and authorise the Chair to sign them.

**4 Matters Arising, Actions List and Use of Delegated Authority
(Pages 5 - 8)**

Interim General Counsel

The Committee is asked to note the updated actions list and the use of Chair's Action.

5 Performance Awards 2023/24 (Pages 9 - 16)

Commissioner

The Committee is asked to authorise the Chair of the Committee, following consultation with available Committee Members, to approve the performance awards for 2023/24 for the Commissioner, Chief Officers and Directors specified under the Committee's Terms of Reference, subject to the final validated 2023/24 TfL and divisional scorecards outturn; and note that the same principles will apply in relation to performance awards for other eligible TfL staff.

6 Executive Committee Remuneration Benchmarking (Pages 17 - 36)

Chief People Officer

The Committee is asked to note the paper and the exempt supplementary information on Part 2 of the agenda and provide any feedback in relation to the Report.

7 Performance Award Scheme 2024/25 (Pages 37 - 40)

Chief People Officer

The Committee is asked to: endorse the proposal to continue to operate performance award schemes for senior management for 2024/25 with the continuation of a financial criterion; note how Chief Officer and Director performance awards will be aligned to a single scorecard approach (TfL scorecard) for the performance year 2024/2025; and note the proposal to continue to operate performance award schemes for the performance year 2024/25 under the TfL Pay for Performance framework with the continuation of a financial criterion.

8 Chief Officer Remuneration 2024 (Pages 41 - 42)

Commissioner

The Committee is asked to note the paper and the exempt supplementary information on Part 2 of the agenda and consider the proposals as set out in the paper on Part 2 of the agenda.

9 Approach to Reward (Pages 43 - 52)

Chief People Officer

The Committee is asked to note the paper.

10 Members' Suggestions for Future Discussion Items (Pages 53 - 56)

Interim General Counsel

The Committee is asked to note the forward plan and is invited to raise any suggestions for future discussion items for the forward plan and for informal briefings.

11 Any Other Business the Chair Considers Urgent

The Chair will state the reason for urgency of any item taken.

12 Date of Next Meeting

TBC June 2024

13 Exclusion of Press and Public

The Committee is recommended to agree to exclude the press and public from the meeting, in accordance with paragraph 3 of Schedule 12A to the Local Government Act 1972 (as amended), in order to consider the following items of business.

Agenda Part 2

Papers containing supplemental confidential or exempt information not included in the related item on Part 1 of the agenda.

14 Performance Awards 2023/24 (Pages 57 - 66)

Exempt supplementary information relating to the item on Part 1 of the agenda.

15 Executive Committee Remuneration Benchmarking 2024
(Pages 67 - 110)

Exempt supplementary information relating to the item on Part 1 of the agenda.

16 Chief Officer Remuneration 2024 (Pages 111 - 112)

Exempt supplementary information relating to the item on Part 1 of the agenda.

Transport for London

Minutes of the Remuneration Committee

**Conference Rooms 1 and 2, Ground Floor, Palestra,
197 Blackfriars Road, London SE1 8NJ
10.00am, Thursday 9 November 2023**

Members

Kay Carberry CBE (Chair)
Peter Strachan (Vice-Chair) (via Teams)
Seb Dance
Dr Nelson Ogunshakin OBE (via Teams)

Executive Committee

Andy Lord	Commissioner
Fiona Brunskill	Chief People Officer
Andrea Clarke	Interim General Counsel

Staff

Stephen Field	Director of Pensions and Reward
Shamus Kenny	Head of Secretariat

23/11/23 Apologies for Absence and Chair's Announcements

Peter Strachan and Dr Nelson Ogunshakin OBE attended the meeting via Teams and were able to participate in the discussion but did not count towards the quorum. The meeting was quorate.

The Chair welcomed everyone to the meeting. The meeting was broadcast live to TfL's YouTube channel, except for the discussion of the information on Part 2 of the agenda, which was exempt from publication, to ensure the public and press could observe the proceedings and decision making.

The Chair reminded those present that safety was paramount at TfL and encouraged Members to raise any safety issues during discussions on a relevant item or with the appropriate member of the Executive Committee after the meeting.

24/11/23 Declarations of Interests

Members confirmed that their declarations of interests, as published on tfl.gov.uk, were up to date. There had been one update since the last meeting: Dr Nelson Ogunshakin OBE had been appointed as a non-executive director of High Speed 2 Limited.

There were no interests to declare that related specifically to items on the agenda.

25/11/23 Minutes of the Meeting of the Committee held on 12 June 2023

The minutes of the meeting of the Committee held on 12 June 2023 were approved as a correct record, and the Chair was authorised to sign them.

26/11/23 Matters Arising, Actions List and Use of Delegated Authority

Andrea Clarke introduced the item. There had been six uses of Chair's Action since the last meeting of the Committee on 12 June 2023: four were in relation to the approval of salaries of £100,000 or more; one was in relation to updating non-permanent labour contractual arrangements; and one was in relation to streamlining the approval of salaries of £100,000 or more process.

The Committee noted the updated Actions List and use of delegated authority.

27/11/23 Resourcing at TfL

Fiona Brunskill introduced the item, which provided an update on how TfL was addressing its green, digital and leadership skills challenge through its Strategic Workforce Planning Activities.

A review of critical and hard to fill roles had taken place and identified 250 unique roles and a succession planning exercise had concluded at the end of October 2023 to help ensure that a talent pipeline was developed. Members would be provided with an update on succession planning at a future meeting, which would include details of skills shortages, hard to fill roles and the work to improve representation across TfL.

[Action: Fiona Brunskill]

The Independent Investment Programme Advisory Group had identified Technology and Data (T&D) and Engineering as areas where hard to fill roles had an impact on delivery. This often resulted in a high use of non-permanent labour (NPL) staff. While TfL sought to reduce NPL levels by developing its own staff, the Committee recognised that some hard to fill roles attracted people who preferred to be NPL and that this provided them and TfL with flexibility, particularly as the skills needs in T&D were often changing. TfL was focussed on determining the core skills it should have and where external support, with appropriate governance, could fill the other roles. T&D would have its own strategic workforce plan, due to the challenges in filling specialist roles due to market rates, and this would be submitted to a future meeting.

[Action: Fiona Brunskill]

The Executive Committee was also reviewing notice periods for senior staff and those in hard to fill roles. Many notice periods were very short, and filling the roles was also impacted by the time to go through the remuneration approval process. The Committee also noted that leaver surveys identified a key reason for leaving TfL was a lack of career opportunities.

Members welcomed the update and the progress that had been made on addressing talent, inclusion and reward. Members also welcomed the progress that had been made to convert the arrangements of many NPL staff, to ensure that they were compliant with

updated HM Revenue and Customs guidance and thanked all of the staff involved in that work.

Members would receive an update on TfL's Reward Strategy at a future meeting.

[Action: Fiona Brunskill]

The Committee noted the paper and the exempt supplementary information on Part 2 of the agenda.

28/11/23 Executive Committee Remuneration Benchmarking

Fiona Brunskill introduced the item, which provided the Committee with an updated benchmarking report. The unique nature of TfL's role and governance arrangements meant there were no direct comparators, so benchmarking was against a broad range of organisations.

As with previous benchmarking exercises, all of TfL's Chief Officer roles were below the benchmarked medians, and this was further entrenched when total compensation packages were included.

While officers were attracted to TfL for a variety of reasons, including the sense of social purpose, opportunities, and the experience of working for a world leading transport authority, it was recognised that continued or widening pay disparity did impact on TfL's ability to retain and attract the best talent. The impact of below median Chief Officer remuneration also compressed remuneration throughout the organisation.

There had been a lot of turnover in senior roles recently. Further work was required on finalising accountabilities and benchmarking of some roles, which would include changes to accountabilities and job descriptions, and it was anticipated that changes to the remuneration of a small number of roles may be required and these would be submitted to the Committee for approval. Members suggested that benchmarking for the Commissioner's role should also include international comparators.

The Committee noted the paper and the exempt supplementary information on Part 2 of the agenda.

29/11/23 Pay Outcomes of £100,000 or more Approvals

Fiona Brunskill and Stephen Field introduced the item. A process was in place for the Committee to approve full-time equivalent salaries of £100,000 or more per annum for permanent and non-permanent labour positions. The item provided an update that compared the salary approved by the Committee with that given on actual appointment, for the period covering August 2022 to September 2023

On 18 September 2023, the Chair approved, in consultation with Committee Members a streamlined remuneration approval process and the paper therefore included roles that had been internally approved under the new process and not previously seen by the Committee. The approval templates and internal clearance processes were also being reviewed to ensure the process was more efficient to reduce the risk of losing potential candidates due to delays in approving salaries. Once the new processes had bedded in,

Members suggested that the £100,000 baseline should be reviewed as annual pay increases through collective bargaining meant many more roles than anticipated were falling within the process.

The Committee noted the paper and the exempt supplementary information on Part 2 of the agenda.

30/11/23 Members' Suggestions for Future Discussion Items

Andrea Clarke introduced the item. No additional suggestions were raised for future discussion items on the forward plan or for informal briefings, other than those already noted during the meeting.

The Committee noted the forward plan.

31/11/23 Any Other Business the Chair Considers Urgent

There was no other urgent business to discuss.

32/11/23 Date of Next Meeting

The next scheduled meeting of the Committee would be held on Thursday 29 February 2024 at 10.00am.

33/11/23 Exclusion of the Press and Public

The Committee agreed to exclude the press and public from the meeting, in accordance with paragraph 3 of Schedule 12A to the Local Government Act 1972 (as amended), when it considered the exempt information in relation to the items on: Resourcing at TfL; Executive Committee Remuneration Benchmarking; and Pay Outcomes of £100,000 or more Approvals.

The meeting closed at 11.10pm.

Chair: _____

Date: _____

Remuneration Committee



Date: 29 February 2024

Item: **Matters Arising, Actions List and Use of Delegated Authority**

This paper will be considered in public

1 Summary

- 1.1 This paper provides information on any use of Chair's Action and the progress against actions agreed at previous meetings (Appendix 1).
- 1.2 There have been two uses of Chair's Action since the last meeting of the Committee on 9 November 2023, both in relation to the approval of salaries of £100,000 or more (as set out in Appendix 2).

2 Recommendation

- 2.1 **The Committee is asked to note the updated Actions List and the uses of Chair's Action.**

3 Use of Delegated Authority

Salaries of £100,000 or more

- 3.1 The Terms of Reference for the Committee require it to approve salaries of £100,000 or more and forms part of TfL's overall governance of pay at Senior levels. TfL has experienced high turnover of senior staff over recent months and requests include replacements for those that have left or are leaving.
- 3.2 Requests have also been made following changes to role under TfL's change programme. These include circumstances where individuals have increased accountability and scope following merging of roles and activity.
- 3.3 Other requests include extensions to existing contracts of highly skilled or technical staff where not retaining this resource would have a significant detrimental impact on TfL's ability to achieve its financial or operational deliverables.
- 3.4 Requests relating to Places for London are self-funding.
- 3.5 A business case justification was provided to the Committee for each role. Following consultation with members of the Committee, the Chair approved salaries of £100,000 or more for the roles set out in Appendix 2.

4 Actions List

4.1 Appendix 1 sets out the progress against actions agreed at previous meetings.

List of appendices to this report:

Appendix 1: Actions List

Appendix 2: Use of Chair's Action to approve salaries of £100,000 or more

List of Background Papers:

Minutes of previous meetings of the Committee

Chair's Action papers issued on 23 November and 15 December 2023.

Contact Officer: Andrea Clarke, Interim General Counsel

Email: AndreaClarke@tfl.gov.uk

Remuneration Committee Actions List (reported to the meeting on 29 February 2024)

Actions arising from the meeting held on 9 November 2023

Minute No.	Description	Action By	Target Date	Status note
27/11/26 (1)	Resourcing at TfL: Succession Planning Members would be provided with an update on succession planning at a future meeting, which would include details of skills shortages, hard to fill roles and the work to improve representation across TfL.	Fiona Brunskill	June 2024	On forward plan.
27/11/26 (2)	Resourcing at TfL: Technology and Data Succession Plan Technology and Data would have its own strategic workforce plan, due to the challenges in filling specialist roles due to market rates, and this would be submitted to a future meeting.	Fiona Brunskill	June 2024	On forward plan.
27/11/26 (3)	Resourcing at TfL: Reward Strategy Members would receive an update on TfL's Reward Strategy at a future meeting.	Fiona Brunskill	February 2024	Completed. An Approach to Award paper is on the agenda for this meeting.

Actions from previous meetings

Minute No.	Description	Action By	Target Date	Status note
05/03/23	TfL Remuneration: Total reward framework Considerable work was underway to review the total reward framework to create a fairer system with job families established against external benchmarking. Progress on this work would be reported to the Committee.	Fiona Brunskill	February 2024	Completed. An Approach to Award paper is on the agenda for this meeting. (See 26/11/24 (3) above).

Appendix 2

Use of Chair's Action to approve salaries of £100,000 or more

This includes changes for recruitment to existing roles or where the responsibilities of the role have changed.

The information contained in the papers remain not for publication to the public or press by virtue of paragraph 3 of Schedule 12A of the Local Government Act 1972 in that it contains information relating to the financial affairs of TfL.

Request 23 November, approved 27 November 2023

- 1) Chief of Staff to Commissioner;
- 2) Chief of Staff to Chief Officer (Capital);
- 3) Chief of Staff to Chief Officer (Operating);
- 4) Chief of Staff to Chief Officer (Customer & Strategy);
- 5) Chief of Staff to Chief Officer (Finance); and
- 6) Chief of Staff to Chief Officer (People).

Request 15 December, approved 16 December 2023

- 7) Director of Diversity and Inclusion.

Remuneration Committee

Date: 29 February 2024



Item: Performance Awards 2023/24

This paper will be considered in public

1 Summary

- 1.1 TfL operates performance award schemes for many of its staff, as part of its overall reward arrangements, which are designed to enable the recruitment and retention of staff with the skills and experience required to deliver London's public transport network, whilst recognising TfL's status as a public body.
- 1.2 This Committee has responsibilities in relation to the design and approval of performance awards in respect of the Commissioner, Chief Officers and specific Director roles (as covered by the Committee's Terms of Reference). Arrangements for other TfL staff (including Directors and Senior Managers) are reported to the Committee for information.
- 1.3 Decisions on whether to make performance awards, and if so their quantum, depend on TfL's overall financial performance, TfL's wider performance as measured against the TfL and divisional scorecards, and individual contributions. Necessarily, these decisions can therefore only be taken after the end of the relevant financial/performance year, in this case the year ending 31 March 2024.
- 1.4 The consideration and payment of the performance awards for the Commissioner and Chief Officers needs to be brought forward for 2023/24 to ensure that appropriate oversight and governance is applied by the existing Remuneration Committee ahead of the Mayoral election (2 May 2024). This advance consideration was similarly followed in 2020 and is what applies in the final year of a mayoralty.
- 1.5 With no meeting scheduled during April 2024, which in any event forms part of the pre-election period when public meetings should not be held, the Committee is asked to authorise the Chair of the Committee, following consultation with Committee Members who are available to comment, to approval any performance awards. Any payments would only be made in accordance with the criteria previously agreed by the Committee.
- 1.6 A paper is included on the Part 2 agenda which contains supplementary information that is exempt from publication by virtue of paragraphs 1 and 3 of Schedule 12A of the Local Government Act 1972 in that it contains information relating to individuals and the business affairs of a person or TfL. Any discussion of that exempt information must take place after the press and public have been excluded from this meeting.

2 Recommendations

2.1 **The Committee is asked to note the paper and the exempt supplementary information on Part 2 of the agenda and:**

- (a) authorise the Chair of the Committee, following consultation with available Committee Members, to approve the performance awards for 2023/24 for the Commissioner, Chief Officers and Directors specified under the Committee's Terms of Reference, subject to the final validated 2023/24 TfL and divisional scorecards outturn; and**
- (b) note that the same principles will apply in relation to performance awards for other eligible TfL staff.**

3 Background and Summary of Scorecard Achievement

3.1 Final scorecard results will be known following the performance year-end in April 2024. Ordinarily, Period 10 (P10) forecasts are published; however, current challenges with some of the scorecard measures mean that the P10 forecasts are unlikely to be as reliable an indicator of the year end position as in previous years and have not, therefore, been published. Early indicators are, instead, included in the related paper on Part 2 of the agenda. The finalised scorecard results to be agreed by the Audit and Assurance Committee will be used to calculate the actual value of performance awards payable as per an end of year validation process as explained in Section 4.

3.2 The performance awards for the Commissioner, Chief Officers and Directors are determined via a combination of TfL-wide, division and individual performance measures This paper is concerned primarily with the calculation of payments for the Commissioner, Chief Officers and Directors specified under the Committee's Terms of Reference.

How performance awards are calculated: Commissioner, Chief Officers and Directors

3.4 For the year 2023/24 there are three performance elements being used to determine performance award outcomes:

- (a) how TfL performs against the critical priorities set out in the business scorecards;
- (b) how individuals personally contribute to these, as defined by a performance rating; and
- (c) the financial criterion.

3.5 The financial criterion is a separate overriding financial performance condition (independent of the annual scorecard and individual performance rating conditions) built into our performance award schemes for 2023/24 and all performance award schemes going forward.

3.6 It requires TfL to achieve operating breakeven (i.e. a TfL operating surplus >£0) for 2023/24, without the application of the £565m Department for Transport base funding provided by the current funding settlement to the operating account.

- 3.7 The financial criterion has no bearing on the quantum of the annual performance award budgets but acts as a trigger that determines whether performance awards can be paid in respect of 2023/24.
- 3.8 If TfL achieves the financial criterion by 1 April 2024 and has successfully delivered against its business scorecards for 2023/24, we would pay performance awards during 2024/25.
- 3.9 Chief Officers who lead one of our two divisions (Capital & Operations) have their performance award budget determined by a combination of the TfL scorecard result and their division scorecard result. The calculation method uses the same matrix for both scorecard results to produce a weighted average score 60:40; TfL scorecard: division. This is expected to be the final year of a dual scorecard approach for Chief Officers.
- 3.10 For all levels of scheme there is currently a minimum TfL scorecard threshold, of 60 per cent, below which no performance award budget is released. This is regardless of the division scorecard result.
- 3.11 The same threshold of 60 per cent is set for the division scorecards.
- 3.12 In a situation where the TfL scorecard result is above the minimum 60 per cent threshold but the divisional scorecard is below that level, those in the division will still receive an element of award for the TfL scorecard result.
- 3.13 For performance years 2023/24 onwards, Directors and Senior Manager performance award budgets will be based on local Chief Officer budgets.
- 3.14 Appendices 1 and 2 set out how performance award schemes are designed and calculated.

4 End of Year Validation Process

- 4.1 The consideration and payment of the performance awards for the Commissioner and Chief Officers has been brought forward for 2024 to ensure that appropriate oversight and governance is applied by the existing Remuneration Committee before the Mayoral election (2 May 2024).
- 4.2 The timing described below mirrors what was followed in 2020 and is what applies in the final year of a mayoralty.
- 4.3 To facilitate an earlier governance process, year-end performance scorecard outturn results are ordinarily forecast based on P10 actual results. An end of year validation process will then take place based on the final results at year-end to ensure that any dependent performance payments are kept accurate. That validation process is particularly important this year as the P10 results are not considered to be as reliable an indicator of year-end results as in previous years.
- 4.4 The Chair of the Audit and Assurance Committee, in consultation with available members of the Committee will exercise Chair's Acton to approve the scorecard results by the end of April 2024.
- 4.5 To ensure final scorecard outturn results are accurate, an end of year validation process will be undertaken immediately at year-end in April.

- 4.6 Any scorecard results that change following this process will result in a recalculation of the performance award value due, in line with the percentage stated in the published matrices.
- 4.7 This process will be managed centrally by the Reward team, with Chief Officers informed of the value they will receive when the performance award outcome letters are distributed to them.
- 4.8 Timelines for the validation (true-up) process are indicated in Appendix 3.

List of appendices to this report:

Appendix 1: Performance Award Design 2023-24
Appendix 2: The Performance Award Matrix Explained
Appendix 3: End of year validation process timelines

Supplementary information is provided in a paper on Part 2 of the agenda.

List of Background Papers:

None

Contact Officer: Fiona Brunskill, Chief People Officer
Email: fionabrunskill@tfl.gov.uk

Contact Officer: Stephen Field, Director of Pensions & Reward
Email: stephenfield@tfl.gov.uk

Appendix 1

Performance Award Design 2023-24

Chief Officer Performance Awards 2023-24

The potential maximum performance award that Chief Officers can achieve is 30 per cent of base salary. The structure for Chief Officer Performance Awards is set out below.

Business Area	TfL Scorecard Weighting %	Division Scorecard Weighting %	TfL Scorecard Minimum % Performance Threshold	Division Scorecard Minimum % Performance Threshold	Maximum Performance Award %
Operations, Capital and Places for London	60%	40%	60%	60%	30%
All Other Divisions	100%	-	60%	-	30%

Performance Awards for Directors under the Remuneration Committee's Terms of Reference 2023-24

The potential maximum performance award that Directors can achieve is 20 per cent of base salary. The structure for Director Performance Awards is set out below.

Business Area	TfL Scorecard Weighting %	Division Scorecard Weighting %	TfL Scorecard Minimum % Performance Threshold	Division Scorecard Minimum % Performance Threshold	Maximum Performance Award %
Operations, Capital and Places for London	60%	40%	60%	60%	20%
All Other Divisions	100%	-	60%	-	20%

Commissioner's Performance Award 2023-24

The potential maximum performance award that the Commissioner can achieve is 50 per cent of base salary. The structure for the Commissioner's Performance Award is set out below.

Business Area	TfL Scorecard Weighting %	Division Scorecard Weighting %	TfL Scorecard Minimum % Performance Threshold	Division Scorecard Minimum % Performance Threshold	Maximum Performance Award %
All Other Divisions	100%	-	60%	-	50%

Performance Awards for Directors, Senior Managers and Others

Arrangements for employees below Chief Officer level are set out below and are agreed by the Commissioner.

Directors: Arrangements for Directors not covered by the Committee’s Terms of Reference are the same as for those that are covered, as set out above.

Senior managers: Arrangements for Senior Managers (Payband 4 and 5) use exactly the same methodology as for Directors, Chief Officers and the Commissioner, however, the maximum performance award opportunity is 15 per cent of base salary. Performance Award matrices will be set at a Chief Officer budget level in the same way as for Directors.

Business Area	TfL Scorecard Weighting %	Division Scorecard Weighting %	TfL Scorecard Minimum % Performance Threshold	Division Scorecard Minimum % Performance Threshold	Maximum Performance Award %
Operations, Capital and Places for London	60%	40%	60%	60%	15%
All Other Divisions	100%	-	60%	-	15%

Non-operational employees in other grades: performance is reflected by a combination of rises to base salary and/or lump sum performance awards (Performance Related Pay and Pay for Performance).

Appendix 2

The Performance Award Matrix Explained

The Director Performance Award Matrix is used below to illustrate the underlying principles for how the matrix is used for all levels of senior management (from Payband 4 through to the Commissioner).

Examples from the Annual Performance Award Scheme 2022/23 matrix

- 1 A minimum scorecard threshold of 60 per cent is set – this delivers the minimum percentage budget of 12 per cent.
- 2 Each performance rating has a multiplier associated with it. The multiplier is applied against the budget amount to calculate the individual percentage award.
- 3 A scorecard result of 75 per cent has been set as the 'on target' level – this delivers a budget of 15 per cent. An individual with a performance rating of 'I am advancing' would receive a fixed performance award of 16.1 per cent, while an individual rated as 'I am achieving' would receive a performance award of 10.1 per cent.
- 4 Above 75 per cent represents 'stretch performance'. The budget increases in line with the increased scorecard result to a maximum budget of 20 per cent at a scorecard result of 100 per cent.

Director		Percentage award by performance rating			
Scorecard result	% Budget	I am being supported	I am achieving	I am advancing	I am exceeding
		x0.27	x0.67	x1.07	x1.25
60	12.00	3.2	8.0	12.8	15.0
61	12.20	3.3	8.2	13.1	15.2
62	12.40	3.3	8.3	13.3	15.5
63	12.60	3.4	8.4	13.5	15.8
64	12.80	3.5	8.6	13.7	16.0
65	13.00	3.5	8.7	13.9	16.3
66	13.20	3.6	8.8	14.1	16.5
67	13.40	3.6	9.0	14.3	16.8
68	13.60	3.7	9.1	14.6	17.0
69	13.80	3.7	9.2	14.8	17.3
70	14.00	3.8	9.4	15.0	17.5
71	14.20	3.8	9.5	15.2	17.8
72	14.40	3.9	9.6	15.4	18.0
73	14.60	3.9	9.8	15.6	18.3
74	14.80	4.0	9.9	15.8	18.5
75	15.00	4.1	10.1	16.1	18.8
76	15.20	4.1	10.2	16.3	19.0
77	15.40	4.2	10.3	16.5	19.3
78	15.60	4.2	10.5	16.7	19.5
79	15.80	4.3	10.6	16.9	19.8
80	16.00	4.3	10.7	17.1	20.0
81	16.20	4.4	10.9	17.3	20.0
82	16.40	4.4	11.0	17.5	20.0
83	16.60	4.5	11.1	17.8	20.0
84	16.80	4.5	11.3	18.0	20.0
85	17.00	4.6	11.4	18.2	20.0
86	17.20	4.6	11.5	18.4	20.0
87	17.40	4.7	11.7	18.6	20.0
88	17.60	4.8	11.8	18.8	20.0
89	17.80	4.8	11.9	19.0	20.0
90	18.00	4.9	12.1	19.3	20.0

Appendix 3

Proposed end of year validation process timelines

Activity	Date	Accountability
Confirmation of performance ratings for Chief Officers	1 March to 20 April	Commissioner
Final scorecard results confirmed	By 26 April	Audit & Assurance Committee
Recalculate performance awards in line with matrix & share results with Remuneration Committee	26 April	Reward
Remuneration Committee Chair delegated decision (in consultation with available members) to approve recalculated performance awards	By 10am 30 April	Remuneration Committee
Mail merge and distribute pay review letters	30 April – 1 May	Reward
Payment by BACS transfer	By 2 May	Payroll

Remuneration Committee

Date: 29 February 2024

Item: Executive Committee Remuneration Benchmarking

This paper will be considered in public

1 Purpose

- 1.1 Following on from the papers on Executive Remuneration Benchmarking discussed by the Committee at its meeting on 9 November 2023, this paper provides the Committee with a new updated benchmarking report.
- 1.2 The full benchmarking report is included on Part 2 of the agenda, which contains exempt supplemental information. The information is exempt by virtue of paragraph 3 of Schedule 12A of the Local Government Act 1972 in that it contains information relating to the financial affairs of a person or TfL. Any discussion of that exempt information must take place after the press and public have been excluded from this meeting.

2 Recommendation

- 2.1 **The Committee is asked to note the paper and the exempt supplementary information on Part 2 of the agenda, and provide any feedback in relation to the report.**

3 Background

- 3.1 The Reward team have worked with Willis Towers Watson (WTW) to agree the benchmarking methodology and define the peer groups for both the private sector and the publicly accountable groups.
- 3.2 Appendix 1 sets out the introduction and methodology, background and market context and the appendices detailing the peer groups and long-term incentive valuation methodology. The full benchmarking report is included on Part 2 of the agenda.
- 3.3 The report surveys remuneration under the following categories:
 - (a) Base Salary;
 - (b) Total Target Annual Compensation (base salary + on-target bonus);
 - (c) Total Target Direct Compensation (base salary + on-target bonus + expected value of Long-Term Incentive (LTI) awards); and
 - (d) Total Target Remuneration (base salary + benefits + pension + on-target bonus + expected value of LTI awards).

3.4 Defining the market, i.e. the 'peer group' of businesses and organisations that are appropriate to compare against, is critical in formulating the report as it has a significant impact on the benchmarking results that are derived.

3.5 The benchmarking report for the Executive Committee was last produced in full in November 2023.

4 Peer groups and the method for generating comparable data

4.1 The report surveyed the market from the perspective of two separate peer groups.

4.2 Peer Group 1 – Private Sector comprises 274 peers of comparable companies with a focus on transport, construction, engineering, utilities, telecommunication, goods, natural resources and manufacturing industries (see pages 11 and 12 in the report).

4.3 Peer Group 2 – Publicly Accountable comprises 21 peers across a range of UK organisations deemed to have some degree of public accountability.

4.4 Where possible WTW have mirrored the peer groups used for the benchmarking conducted throughout 2023. There are some differences due to companies no longer participating in the WTW surveys as well as additional organisations added to replace those lost. The survey grades of the parent companies have also been considered when forming these peer groups.

4.5 WTW also produced a separate benchmarking report for TfL Director roles that are not under the Committee's Terms of Reference. This report is used by the Commissioner and Chief Officers to understand the relative positioning of pay of their direct reports. The information in the Director's report is derived using 295 peers of comparable private and public sector organisations. This is a combination of both Peer Groups 1 and 2 as detailed above.

5 Report format

5.1 The report as set out in Appendix 1 provides relevant data from the peer groups discussed above along with supporting commentary on the state of the market and key trends in executive compensation in both the private and public sector environments.

5.2 The full report contains detailed tables for each TfL role surveyed outlining the relative position of the current incumbent compared to the market under each of the four remuneration categories (base pay through to Total Target Remuneration). Compa ratios show the specific position in percentage terms against the market quartiles and the median position.

6 Interpreting the benchmarking data

6.1 Caveats for interpreting benchmarking data are included on page 8 of the appended report and should be noted. These include other factors beyond market benchmarking that are relevant in pay setting decisions. Market data

therefore provides a useful 'snapshot' of information than can help guide decisions on pay setting but no single salary amount, e.g. such as the actual median (if that is determined as the market position most relevant), should be automatically interpreted as being the 'correct' positioning.

7 Observations on benchmarking results from February 2024

- 7.1 As agreed with TfL, WTW have adapted their methodology in this benchmarking exercise from the benchmarks provided in November 2023. Instead of benchmarking each role against a specific job match at the specified survey grade, WTW have applied a tailored assessment approach where the most comparable position(s) from each company in the custom peer groups have been selected based on functional title and level. This approach is more sustainable and will provide TfL with more consistency year-on-year, especially from changes in peer groups.
- 7.2 Due to these changes in methodology, there are differences at base salary to the benchmarks WTW provided in November 2023. These differences are not only attributed to the change in methodology but the change in peer group as well. Some companies in TfL's peer groups did not participate in WTW's 2023 surveys and this has had an impact in the data presented.
- 7.3 All of our Executive Committee roles are still behind market when compared to either the private or publicly accountable peer groups. From a base salary perspective, all roles sit below the lower quartile or are positioned between the lower quartile and the median when looking across the peer groups.
- 7.4 Due to the volatility of some of the datapoints some roles have constant sample benchmarks which have been provided as an additional viewpoint to align with the methodology used for the benchmarks presented in 2023. The previous methodology used was narrower in terms of scope, specifically job code matching and survey grades while we have changed our approach as detailed above for 2024.
- 7.5 The comparison of Total Target Remuneration is unsurprisingly even less favourable than base salary against the data. In the private sector, as well as higher salaries, roles at this level also receive higher levels of variable pay in the form of annual bonuses (Short Term Incentives (STI)) as well as typically arrangements for LTIs. TfL's short-term equivalent, its annual performance award scheme, generally does not deliver a percentage of salary equivalent to market based STI arrangements and there are no LTI arrangements in TfL. The longest arrangements currently offered are retention schemes which can be up to four years long.
- 7.6 This pattern of relativity is similar across all TfL senior management roles, from Payband 4 through to Director level, although more marked at the highest levels. It is important to note from the benchmarking report that we remain behind the market.

8 Future Executive Benchmarking Requirements

8.1 The next executive remuneration benchmarking report with WTW will be produced in 2025.

8.2 The data in this paper will be reflected in TfL's Annual Report in 2025.

List of appendices to this report:

Appendix 1: Willis Towers Watson Executive Benchmarking Report 2024, with redactions.

A paper containing exempt supplementary information is included on Part 2 of the agenda.

List of Background Papers:

None

Contact Officer: Fiona Brunskill, Chief People Officer
Email: fionabrunskill@tfl.gov.uk

Contact Officer: Stephen Field, Director of Pensions & Reward
Email: stephenfield@tfl.gov.uk

Transport for London

Executive Committee Benchmarking

Page 21



February 2024

Contents

Introduction and Methodology	3
Background and Market Context	7
Appendices	10
1. Peer groups	11
2. LTI valuation methodology	14

Introduction and Methodology (1/4)

- Transport for London (TfL) has engaged WTW to assist in providing market pay assessments for the following roles:

- *Commissioner*
- *Chief Finance Officer*
- *Chief Operating Officer*
- *Chief Capital Officer*
- *Chief Customer & Strategy Officer*
- *Chief Officer – Pensions Review*
- *Chief People Officer*
- *Chief Safety, Health & Environment Officer*
- *General Counsel*
- *Director of Communications & Corporate Affairs*

- This report presents a summary of our findings, high-level commentary on how to interpret our market assessments as well as details of our methodology.

Peer Groups

- We have presented market data using WTW's 2023 United Kingdom compensation survey data and benchmarked these roles using three peer groups which were presented to and agreed with TfL Reward and can be found in Appendix I:
 - **Peer Group 1 – Private Sector:** 274 peers of comparable companies with a focus on transport, construction, engineering, utilities, telecommunication, goods, natural resources and manufacturing industries.
 - **Peer Group 2 – Publicly Accountable:** 21 peers across a range of UK organisations deemed to have some degree of public accountability.
 - **Director Peer Group - Private Sector and Publicly Accountable:** 295 peers of comparable private and public sector. This is a combination of both Peer Groups 1 and 2.
- Where possible we have mirrored the peer groups used for the benchmarking conducted throughout 2023. Whilst there are some differences due to the companies no longer participating in our surveys as well as the addition of companies who have not previously participated. The survey grades of the parent companies have been considered when forming these peer groups and we have aligned the participating industries.

Introduction and Methodology (2/4)

Methodology

- As agreed with TfL, WTW have adapted the methodology in this benchmarking exercise from the benchmarks we provided in October 2023. Instead of using a specific job match at the specified Survey Grade, we have applied a tailored assessment approach where the most comparable position(s) from each company in the custom peer groups have been selected based on functional title and level. The starting point for this is always to assign an overall survey match. This allows us to leverage the appropriate market data from our surveys. We then refer to relevant data points outside of the primary job match, and in doing so we will consider the level of the role, scope factors such as corporate/noncorporate and geographic scope and the position title. This ensures we are capturing a full view of the marketplace. Conversely, we have excluded individual data points that we judge not to be similar although the job area and level may suggest otherwise. This approach is more sustainable and will provide TfL with more consistency year-on-year.
- In addition to this change in methodology, and to align with market practice, we have used a build-up approach instead of independently arrayed data for each element of compensation. This enables us to be consistent across all benchmarks and produce a robust output.
- Due to these changes in methodology, there are differences at base salary to the benchmarks we provided in October 2023. These differences are not only attributed to the change in methodology but the change in peer groups as well. Some companies in TfL's peer groups didn't participate in our 2023 surveys and this has had an impact in the data presented.
- For the roles where a significant difference at base salary has been observed, we have provided an additional benchmark using a constant sample. The constant sample is formed for each respective role by replicating the sample from the benchmarks provided in 2023 (2022 survey data) and inputting the latest data from the companies who participated in WTW's 2023 surveys. For those that did not participate in our 2023 surveys, we have applied a 4.8% aging factor taken from WTW's salary budget planning report.
- In line with previous benchmarks, we have used proxy pension contribution amounts taken from the wider WTW compensation survey data (12% at median).

Presentation of results

- We have presented an Executive Summary of TfL's compensation package versus the market quartiles for all the roles before presenting the detailed market references for each individual position. This has been presented for base salary and total target remuneration for all roles across both peer groups. Please note we have presented the Director of Comms & Corporate Affairs market quartiles for the Director Peer Group on the Peer Group 1 – Private Sector graphs.
- The detailed market references for each individual position show the lower quartile, median and upper quartile target market data. Reporting target compensation provides a view of data that is not affected by year-on-year, individual or company performance, and should provide a more stable assessment than actual total compensation figures.

Introduction and Methodology (3/4)

- In the market assessments the following compensation elements build up the assessments to provide a total remuneration, the definition of each element is below:
 - **Base Salary** – the current full-time equivalent (FTE) annual base salary, including any guaranteed additional fixed payments such as holiday pay and any extra-contractual months required by law, collective agreement or organisation practice. This is a fixed amount, typically paid in monthly payments.
 - **Target Annual Incentive % of Base Salary** – the target bonus/annual incentive (i.e., to be paid for target/on-budget performance) as a percentage of current annual base salary.
 - **Target Total Annual Compensation (TAC)** – the sum of base salary and target annual bonus/incentive.
 - **Expected Value of Long-Term Incentives % of Base Salary** - Long-Term Incentive (LTI) levels are reported as an 'Expected Value' (EV) percentage of base salary to allow for consistent comparison across companies and plan types. EV represents a best estimate of the value that executives may receive annually at the time of grant. See Appendix II for more detail on our LTI methodology.
 - **Target Total Direct Compensation (TDC)** – the sum of target total annual compensation and expected value of long-term incentives.
 - **Pension % of Base Salary** – reflects the value of the company pension contributions or a defined benefit equivalent.
 - **Total Target Remuneration (TR)** – the sum of target total direct compensation and pension arrangements.

Introduction and Methodology (4/4)

The assessments are intended to be self-explanatory, however, it is important to note:

- The market assessments are intended to reflect pay levels for fully competent and experienced individuals. However, it is usual for pay levels to vary around our assessment depending on the individual's experience, profile, time in job, level of performance and any premium paid on recruitment.
- Our experience suggests that salaries can vary by 15% to 20% of our mid-market reference and still be considered competitive once factors such as experience, length of service and overall contribution are taken into account.
- Our assessments are not recommendations but are intended to provide one of a number of reference points to assist companies in determining pay levels; we expect companies to apply judgement in reaching individual pay decisions and to bear in mind conditions across the broader employee group.
- The detailed role market assessments present compa-ratios for the current level of the incumbent's base salary as a percentage of our corresponding assessments. For example, a compa-ratio of 90% means that the incumbent's pay is 10% below our mid-market assessment for this position.

Background and Market Context

Market Context and Trends on Executive Pay (1/2)

The following slides show trends analysis based on FTSE 250 listed company 2023 AGM activity. Whilst we appreciate that TfL is not a listed company, we consider that many of these trends are also likely to have applicability for the wider market, including private companies.

Base salary

- 4.7% median CEO and 5.0% median CFO increases
- 14% of CEOs and 11% of CFOs received no increase (18% of CEOs and 13% of CFOs in prior year)
- Around 80% of CEOs and 70% of CFOs received an increase lower than that of the wider workforce (where disclosed)
 - At median, increases are around 2.0% of salary lower for CEOs / CFOs than for wider workforce

	LQ	Median	UQ
CEO	3.6%	4.7%	5.7%
CFO	4.0%	5.0%	5.8%

Annual bonus

- 27 companies [17%] have increased annual bonus opportunity (18 companies [11%] prior year)
- Median annual bonus opportunity 150% (150% prior year)
- 90% paid a bonus (92% prior year)
- Median bonus pay-out 70% of maximum (85% prior year)
- 4% applied upwards discretion and 14% downward discretion (3% and 13% respectively prior year)

Annual bonus payout (% of max)		
LQ	Median	UQ
39%	70%	86%

LTI

- 22 companies [14%] have increased LTI maximum opportunity (24 companies [15%] prior year)
- Median PSP award value 200% (200% prior year)
- 62% of LTIs vested (61% prior year)
- Median LTI vesting 58% of maximum (50% prior year)
- 4% applied upward discretion and 4% downward discretion (3% and 4% respectively prior year)

LTI vesting (% of max)		
LQ	Median	UQ
11%	58%	90%

Pension

- Over 95% now aligned with wider workforce rate
- CEO median pension level 10% (10% prior year)

Share ownership

- Around 95% now operate a post-cessation holding requirement
- Over 60% comply with Investment Association guidance (lower of: actual shareholding or 100% of in-employment guideline for 2 years after leaving).

Market Context and Trends on Executive Pay (2/2)

Policy renewals

- 70 companies (44%) have put their directors' remuneration policy to shareholder vote in 2023.
- 40% have made major changes to one or more elements of remuneration – see next box.
- The other 60% have made minor changes focussing on updating policy items, such as malus / clawback triggers and post-employment shareholding guidelines, or formalising previously implemented changes, for example pension reductions.

Major policy changes

- Twenty companies are making increases to variable pay levels, fifteen to annual bonus and fourteen to LTI (nine to both).
- Two companies have replaced their SVPs with market-standard PSPs and annual bonus plans; one company has replaced a VCP with a market-standard PSP; one company has replaced bonus banking with a market-standard bonus, and another has replaced bonus banking and deferred share structure with market-standard PSP and annual bonus plan; another company has replaced the backward-looking long-term element of its SVP with a market-aligned forward-looking one.
- Three companies have replaced market-standard PSPs with RSPs; one company has introduced a multiplier/stretch element to the PSP; one company has introduced an SVP in lieu of its previous annual bonus and VCP; and one company has introduced an additional one-off award alongside the existing PSP.
- One is amalgamating Role Based Allowances (RBA) into salary.

Windfall gains

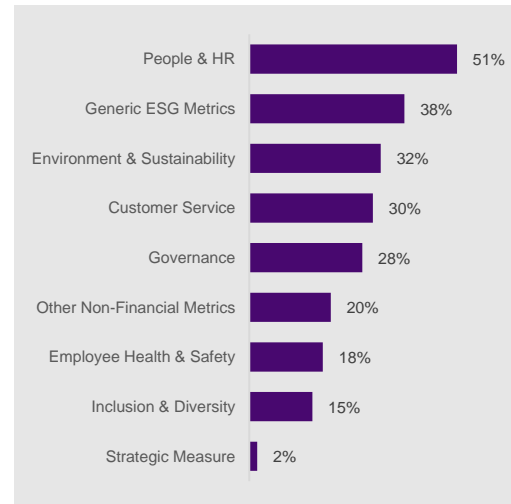
- Only three companies have made an adjustment to the vesting of LTI awards to compensate for potential 'windfall gains'.
- These adjustments have all been at or around -10%; the companies' respective share price falls on grant ranged from 25% to 65% vs prior year awards.
- Companies with December year ends onwards are most likely to have made their FY20 LTI awards during the period of depressed share prices due to Covid-19.
- 63% of applicable companies* have made reference to reviewing outcomes for windfall gains.

[* applicable companies: those with December year ends onwards and some portion of LTI vesting.]

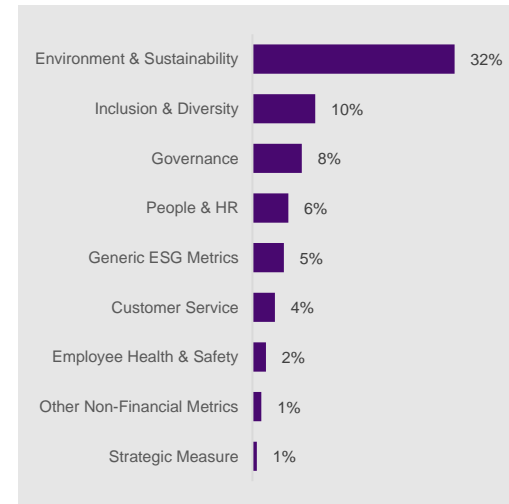
Environmental, Social and Governance

- Around 85% of companies now have ESG metrics in annual bonus and around 40% in LTI.
- 25% have introduced, expanded or otherwise modified ESG-related measures in annual bonus this year.
- 17% have introduced, expanded or otherwise modified ESG measures into their LTI this year.
- People & HR related metrics are most common in annual bonus, although a wide range of other ESG metrics are also used by over one third of companies.
- Environment & sustainability related metrics are by far the most commonly found ESG metrics in LTIs.

Annual bonus ESG metrics



LTI ESG metrics



Chairman and Non-executive Directors (NEDs) fees

- Around 50% of companies are increasing Chairman and/or basic NED fees for 2023.
- Median increases are 5.0%/4.6% for Chairman and NEDs respectively, in line with salary increases for CEOs/CFOs and below those for the wider workforce.

Appendices

1. Peer groups
2. LTI valuation methodology

Peer groups

Peer Group 1 – Private Sector (1/2)

- AA - The Automobile Association
- ABB (Asea Brown Boveri)
- Acteon
- Adient
- AECOM
- Affinity Water
- AGCO
- Airbus Group (EADS)
- Allegion
- Allison Transmission
- Allnex
- AMETEK
- Amey
- Anglian Water
- Apache
- APL Logistics
- Aptiv
- Arcadis
- Arconic
- Arrow Electronics
- Associated British Ports
- Associated Press
- Assystem
- Atotech
- Avery Dennison
- Avis Budget Group
- Avnet
- B&Q
- Babcock International
- BAE Systems
- Balfour Beatty
- Ball
- Bechtel
- Bentley Motors
- Biffa
- Bilfinger
- Biocair
- Boeing
- Bombardier
- Bose
- BP
- BPA
- BrandSafway
- British Airways
- CAE
- CALA Group
- Canadian Solar
- Canon (Europe)
- Capricorn Energy
- Cargill
- Cathay Pacific Airways
- Centrica
- CGG
- Cheniere Energy
- Church & Dwight
- CIRCOR International
- Clarios
- CNH Industrial
- Corning
- Dana
- De La Rue
- DHL Aviation
- DHL Express
- DHL Supply Chain
- Digby Wells Environmental
- E.ON
- EasyJet
- Eaton
- EDF Energy
- Electrium
- ELEXON
- Emerson Electric
- EnPro Industries
- Enviri
- ESB
- Evoqua Water Technologies
- Evri
- Expleo Group
- Faiveley Transport
- FANUC
- Ferguson Group Services
- Ferrari
- Finning International
- FirstGroup
- Flex
- Flix SE
- Flowserve
- Fluor
- Fortive Corporation
- Freudenberg
- Fugro
- Garrett - Advancing Motion
- Gates
- GE Aerospace
- GE Power - Gas Power
- GE Power Portfolio
- GE Renewable Energy
- General Dynamics Mission Systems
- General Electric
- GHD Consulting
- GKN Aerospace
- Globeleq
- Greater Anglia
- Greene, Tweed and Co.
- Greif
- Grosvenor Group
- GSM Association
- GXO Logistics
- Harland & Wolff
- Harley-Davidson
- Harman International Industries
- Heroux-Devtek
- Hertz
- Hexcel
- Hirose Electric
- Honeywell
- Hong Kong Aircraft Engineering Company Limited
- Horiba
- HR Wallingford
- IAG GBS - International Airlines Group Global Business Services
- IDEX Corporation
- Incora
- Indra T&D
- Ingenico
- INNIO Jenbacher
- Intelsat
- Inter Cars
- International Automotive Components
- ITV
- Iveco Group
- Jabil Circuit
- Jacobs Engineering
- Jaguar Land Rover
- John Lewis Partnership
- Johnson Controls
- Kapsch Partner Solutions
- Kingfisher
- Kion Group
- Kohler
- Komatsu

Peer groups

Peer Group 1 – Private Sector (2/2)

- KONE
- Kongsberg Automotive
- Kongsberg Precision Cutting Systems
- Krones
- Kuehne + Nagel
- L3Harris
- Laing O'Rourke
- Lear
- LeasePlan
- Leggett and Platt
- Lightsource BP
- Limbs & Things
- Lincoln Electric
- LKQ
- Lockheed Martin
- Loram Maintenance of Way
- Malaysia Airlines
- Manitou
- Marks & Spencer
- Marshalls
- MBDA
- McCrometer
- Mott MacDonald
- Multiplex Construction
- Mytilineos Energy
- National Gas
- National Grid
- National Instruments
- Nationwide Platforms
- NG Bailey
- Nissan Corporate
- Nissan Motor (NDE)
- Nissan Motor Manufacturing
- Nissan Motor Parts Center
- Nissan Technical Centre Europe
- Nokia
- Nordson
- Northrop Grumman
- Northumbrian Water
- Ocado Retail
- Ocom
- Oerlikon
- OpSec Security
- ORE Catapult
- OTT HydroMet
- Oxford Instruments
- PCCW
- Petroleum Geo-Services
- PKC Group
- Plexus
- Previa
- Protolabs
- Puma
- QinetiQ
- Rayner
- Renishaw
- Rockwell Automation
- Rolls-Royce
- Rolls-Royce SMR
- Royal Haskoning
- RS Group
- RWE Generation
- RWE Group
- S&C Electric
- Safran Landing Systems
- Safran Seats
- Schneider Electric
- ScottishPower
- Screwfix
- SEFE Marketing & Trading
- SGN - Scotia Gas Networks
- Shearwater Geoservices
- Shell
- Shell Energy
- Shure
- Siemens
- Siemens Electrical & Electronic Services
- Siemens Mobility
- Sixt Autovermietung
- SMA Solar Technology
- SNC-Lavalin
- Solenis
- Sony Music Entertainment
- Stanley Black & Decker
- Talk Solens
- Taylor Wimpey
- TE Connectivity
- Telent
- Tenneco
- Tesco
- Tesla Motors
- Test Company RDS 34
- Thales
- The Wellcome Trust
- Thomson Reuters
- Three
- Thyssenkrupp
- Topcon Positioning Group
- Toshiba Europe
- Trane Technologies
- TRUMPF
- TT Electronics
- TUI Group
- Tullow Oil
- Uber
- Ultra Electronics
- Underwriters Laboratories
- Unipeck
- Uniper
- Utilita Energy
- Valmet
- Victaulic
- Viridor
- Visteon
- Vivergo Fuels
- VOI Technology
- Voltaia
- Volvo
- Vueling
- Waitrose
- Wallbox Chargers
- Water Plus
- Westlake Chemical
- Wincanton
- Wm Morrison Supermarkets
- Wolseley
- Wood Mackenzie
- Woodward
- World Fuel Services
- XPO Logistics
- Yamaha Motor Europe
- Yazaki Corporation
- Yondr Group
- Zumtobel

Peer groups

Peer Group 2 – Publicly Accountable

- BBC
- Cadent Gas
- Calor Gas
- Channel 4
- Drax Power Group
- Financial Conduct Authority, The
- Gatwick Airport
- Heathrow Airport
- High Speed Two (HS2)
- Highways England
- London North Eastern Railway - LNER
- Network Rail
- Ofcom
- Ovo Energy
- Pennon Group
- Royal Mail
- Severn Trent
- Thames Water Utilities
- United Utilities
- Wessex Water
- Xylem

LTI valuation methodology

- The expected value of an LTI grant reflects the present value of the expected future gains from it. As LTI grants carry the risk of loss due to performance and vesting restrictions, it is appropriate to make certain adjustments to reflect the possibility that they will not vest. When calculating expected values we typically take into account factors including: type of performance measure and the ‘toughness’ of the target setting (i.e., the probability of meeting the performance target); length of performance and vesting periods; and whether dividends are re-invested or accumulated during the vesting period).
 - The expected value of **share options** is calculated using a binomial lattice model, based on a number of input assumptions. A discount is then applied to this value to take account of any applicable performance vesting conditions.
 - For **performance / restricted shares**, the expected value represents the face value of shares (i.e. the number of shares multiplied by share price) as at the date of grant, less a discount applied to take any applicable performance vesting conditions into account, less the value of dividends paid during the vesting period if participants do not receive the benefit of these.
 - In the case of **deferred bonus matching shares** and **co-investment plans**, We assume that executives seek to maximise their reward opportunity and will therefore elect to defer the maximum amount of bonus allowable. Deferred bonus matching share awards are then valued as performance share awards (see above). Note that deferrals not subject to further performance conditions are included as part of the annual bonus and are not valued as part of long-term incentives.
 - Consistent with other types of long-term incentive award, **long-term cash bonuses** are valued at date of grant (not pay-out). The value represents the target / expected pay-out level.
 - For complex or **unusual plan types** which do not fit into the categories described above, a bespoke valuation will be applied, using consistent principles and assumption setting methodology.

Disclaimer

This material was prepared for your sole and exclusive use on the basis agreed. It was not prepared for use by any other party and may not address their needs, concerns or objectives. This material should not be disclosed or distributed to any third party other than as agreed with you in writing. We do not assume any responsibility or accept any duty of care or liability to any third party who may obtain a copy of this material and any reliance placed by such party on it is entirely at their own risk

[page left intentionally blank]

Remuneration Committee



Date: 29 February 2024

Item: Performance Awards 2024/25

This paper will be considered in public

1 Summary

- 1.1 This paper sets out a proposal to continue to operate performance award schemes for senior management (Commissioner, Chief Officer, Director and payband 4 and 5 Senior Managers) for the performance year 2024/25.
- 1.2 This paper sets out the approach agreed by the Executive Committee in relation to scorecard and performance award alignment for Chief Officers and Directors for use in the performance year 2024/25 and thereafter.
- 1.3 Performance awards are a critical component of TfL's total remuneration proposition for senior management supporting TfL's ability to attract and retain critical talent within the business.
- 1.4 TfL's performance award schemes also have an important role to play in delivering high performance across TfL. Through the direct relationship with business performance (as captured in our scorecards) the schemes serve to highlight the main priorities in delivering the Mayor's Transport Strategy and unify senior management in delivering our critical goals. They also ensure that reward is only delivered that is commensurate with the level of success achieved and therefore provides a fair and value for money approach.

2 Recommendation

- 2.1 **The Committee is asked to note the paper and:**
 - (a) **endorse the proposal to continue to operate performance award schemes for senior management for 2024/25 with the continuation of a financial criterion;**
 - (b) **note how Chief Officer and Director performance awards will be aligned to a single scorecard approach (TfL scorecard) for the performance year 2024/2025; and**
 - (c) **note the proposal to continue to operate performance award schemes for the performance year 2024/25 under the TfL Pay for Performance framework with the continuation of a financial criterion.**

3 Background

- 3.1 TfL's annual performance award schemes continue with performance award budgets assessed for a one-year performance period determined by annual business scorecard results and with individual awards calculated by linking performance ratings to a multiplier used against the calculated budget.
- 3.2 For the performance year 2024/25 there are three performance elements being used to determine performance award outcomes:
 - (a) how TfL performs against the critical priorities set out in the business scorecards;
 - (b) how individuals personally contribute to these, as defined by a performance rating; and
 - (c) the 'financial criterion'.
- 3.3 The 'financial criterion' is a separate overriding financial performance condition (independent of the annual scorecard and individual performance rating conditions) built into our performance award schemes going forward.
- 3.4 The 'financial criterion' has no bearing on the quantum of the annual performance award budgets but acts as a trigger that determines whether performance awards can be paid.
- 3.5 If TfL achieves the 'financial criterion' by 1 April 2025 and has successfully delivered against the TfL scorecard then we would pay performance awards for the performance year during 2025/26.

4 Proposed Annual Scheme Design 2024/25

- 4.1 It is proposed that for the 2024/25 performance year, the performance award schemes continue to operate with a financial criterion. For 2023/24 the requirement was for TfL to achieve an operating surplus of more than £0. The financial criterion for 2024/25 will be set once the scorecards for 2024/25 are finalised.
- 4.2 Previously, depending on the business area worked in, either the TfL scorecard result alone or a combination of the TfL scorecard and the divisional scorecard result determined the budget available for performance awards.
- 4.3 Going forward, the TfL Executive Committee agreed, at Chief Officer and Director levels only, the divisional scorecard element will be removed and the single TfL scorecard will be used with all performance awards calculated 100 per cent on the TfL scorecard result. Individual contribution, measured in the form of a personal performance rating, then determines the actual percentage performance award received from the available budget. For Senior Managers the performance award will still follow the previous methodology for those in

certain business areas with a 60 per cent TfL scorecard and 40 per cent divisional scorecard weighting.

- 4.4 The scorecard thresholds will remain as below:
- (a) 60 per cent – minimum threshold;
 - (b) 75 per cent – on target threshold;
 - (c) 100 per cent – maximum.
- 4.5 All scheme documents and business rules will be updated to reference the changes to scorecard alignment and the financial criterion for 2024/25.
- 4.6 We also intend that all our other performance award arrangements including individual performance arrangements and performance awards under the Pay for Performance framework continue to have the same financial criterion in line with our senior management schemes.

List of appendices to this report:

None

List of Background Papers:

None

Contact Officer: Fiona Brunskill, Chief People Officer
Email: fionabrunskill@tfl.gov.uk

Contact Officer: Stephen Field, Director of Pensions & Reward
Email: stephenfield@tfl.gov.uk

[page left intentionally blank]

Remuneration Committee



Date: 29 February 2024

Item: Chief Officer Remuneration 2024

This paper will be considered in public

1 Summary

- 1.1 The Commissioner is making proposals for the Committee to consider based on the latest executive benchmarking exercise, presented elsewhere on the agenda for this meeting, while also considering internal relativities.
- 1.2 A paper is included on Part 2 of the agenda, which sets out the proposals for consideration and approval. The information is exempt by virtue of paragraphs 1 and 3 of Schedule 12A of the Local Government Act 1972 in that it contains information relating to individuals and the financial or business affairs of a person or TfL. Any discussion of that exempt information must take place after the press and public have been excluded from this meeting.

2 Recommendation

- 2.1 **The Committee is asked to note the paper and the exempt supplementary information on Part 2 of the agenda and consider the proposals as set out in the paper on Part 2 of the agenda.**

List of appendices to this report:

A paper containing exempt supplementary information is included on Part 2 of the agenda.

List of Background Papers:

Executive Committee Remuneration Benchmarking

Contact Officer Stephen Field, Director of Pensions & Reward
Email: stephenfield@tfl.gov.uk

[page left intentionally blank]

Remuneration Committee



Date: 29 February 2024

Item: Approach to Reward

This paper will be considered in public

1 Summary

- 1.1 Ensuring TfL provides a fair and attractive employee offer is an integral part of our Colleague Strategy, where we need to balance fairness and affordability with meeting the competitive challenge of attracting and retaining talent.
- 1.2 In response to this challenge, we are reviewing our approach to pay management, with this paper introducing the Job Families concept and their benefits.

2 Recommendation

- 2.1 **The Committee is asked to note the paper.**

3 Improving Pay Management at TfL

- 3.1 Pay Management is the collective term we use for pay structures, frameworks, processes and mechanisms that we use to set, manage and progress pay.
- 3.2 Feedback from our colleagues via our annual Viewpoint survey and our trade unions, coupled with data analytics show that we have fundamental issues to address, including internal pay disparity, external market relativity and the increasing perception of unfairness from our colleagues.
- 3.3 Our aim is to make pay internally fair, competitive against external industry and markets; while ensuring it is financially sustainable for the long-term.

4 Job Families

- 4.1 One component of our Pay Management is the Job Family concept and is our current area of focus. Job Families are a group of roles with common features, such as output, skills, knowledge or experiences which are consistent across the organisation.
- 4.2 We have identified 20 Job Families across TfL and 12 across our Operational areas and are in the process of mapping roles against these Job Families.
- 4.3 The benefits of a Job Family approach include:
 - (a) a consistent approach to pay setting;
 - (b) reduced pay disparities over time;

- (c) a closer market alignment in base pay that strongly supports attraction and retention;
- (d) pay becomes easier to segment and made more specific to the work being done;.
- (e) better control of costs;
- (f) reduce the need for ad hoc arrangements;
- (g) positive impact on our pay gaps.

List of appendices to this report:

Appendix 1: Approach to Reward slide deck.

List of Background Papers:

None.

Contact Officer: Stephen Field, Director of Pensions & Reward
Email: StephenField@tfl.gov.uk

Contact Officer: Fiona Brunskill, Chief People Officer
Email: Fionabrunskill@tfl.gov.uk

Approach to Reward

Page 45

Appendix I



Why do we need to change pay management?

Feedback from engagement with our people and our trade unions along with data and analytics concerning pay show that we have fundamental issues to address:

- Internal pay disparity
- External market relativity – both positive and negative to market
- Ensuring we provide a fair and attractive employee offer is one of the three pillars of our Colleague Strategy
- Employee dissatisfaction and perception of unfairness (in particular the LU / TfL divide)
- The increasing struggle to attract and retain staff in some of our key business functions
- High pay in LU Operations and the issue of affordability
- TfL Trade unions stance on Pay for Performance and wider pay management issues



Reward Strategy

Improving Pay Management in TfL

Pay Management is the collective term we use for the pay structures, frameworks, processes and mechanisms that we use to set, manage and progress pay.

Our purpose is to make pay internally fair, competitive against external industry and markets; whilst ensuring it is financially sustainable for the long-term.



Our current focus is on developing a Job Families approach to pay structure pan-TfL



Job Families – Pan-TfL



Corporate Affairs & Communications



Strategy & Planning



Data & Analytics



Accounting & Business Process



Financial Analysis & Tax



General Management & Administration



Commercial Management



Human Resources



Environment, Health & Safety



Tech & Data



Marketing & Business Development



Customer Support



City & Transport Planning



Project Management



Facilities Management



Property Management & Development



Procurement



Licensing & Regulation



Legal



Engineering



Job Families – Operations Specific



Enforcement



Maintenance



Incident Response



Logistics



Control Centres



Manufacturing



Storage & Warehousing



Systems & Infrastructure



Customer Service



Built Environment Maintenance & Renewals



Drivers & Train Operators



Operational Management

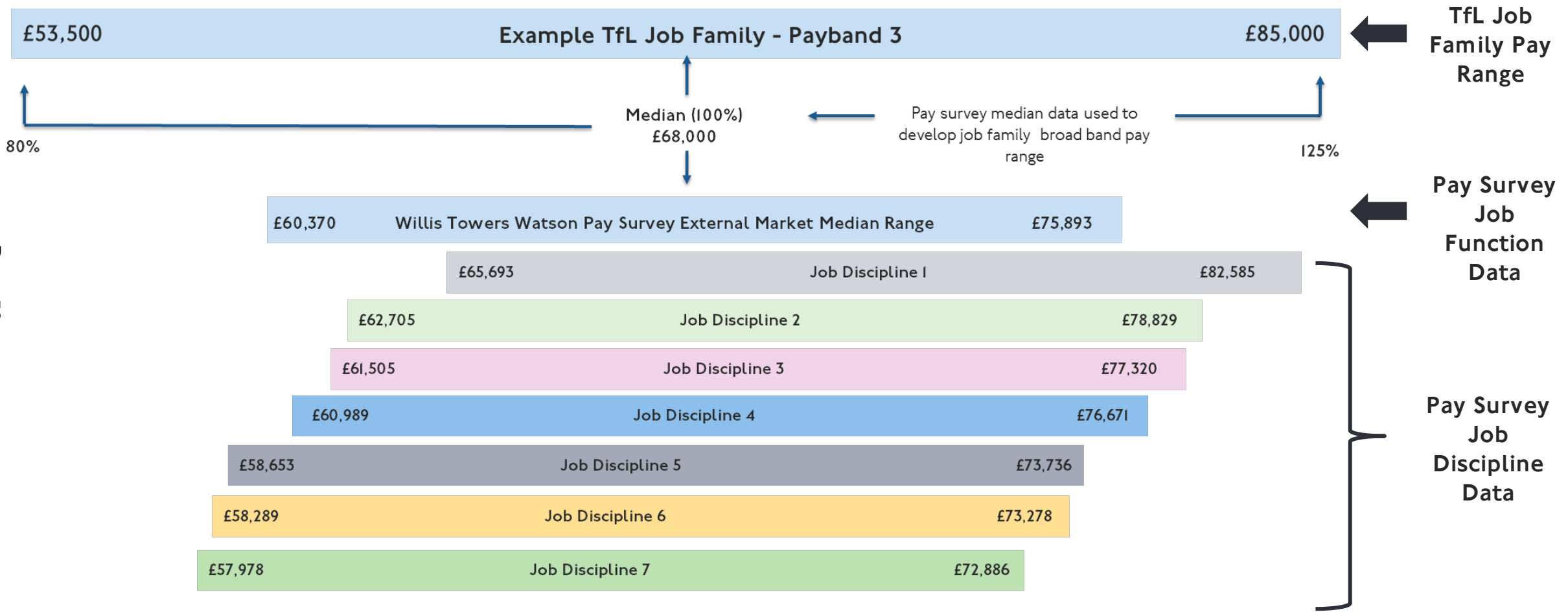
Page 49

- These are the initial Job Families identified within Operations
- Each job family potentially has a number of different disciplines defined within it
- Operations job families are subject to ongoing development work and refinement

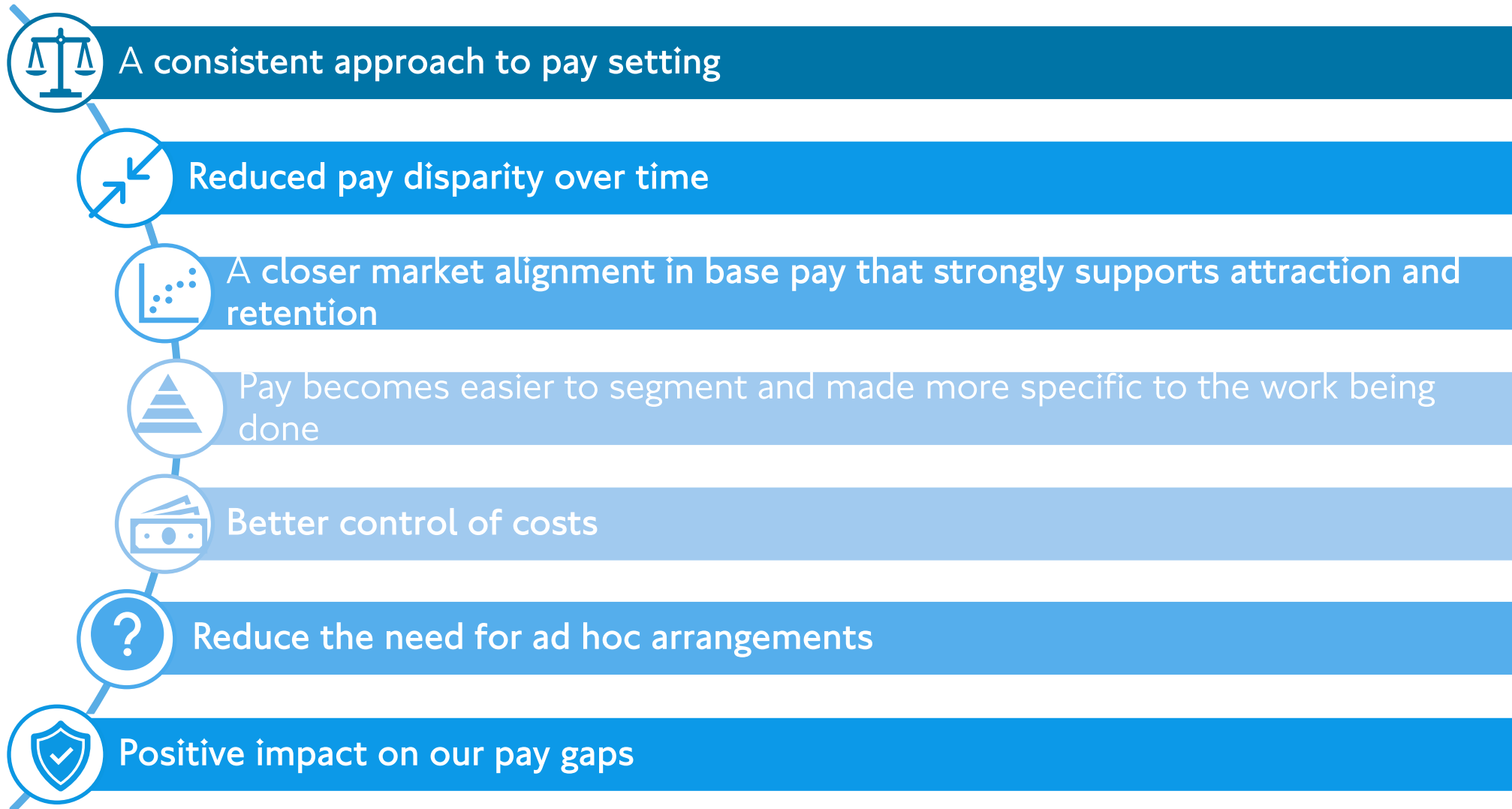


Example Job Family (Non-Operational) - Payband 3

Page 50



The benefits for TfL of a Job Families approach



Next Steps

- Resolve pay talks for 2023 LU and TfL to understand current pay position – February / March
- TfL Executive Committee engagement on pay strategy and integration with delivery of Job Families - March
- Continued work on the technical build of Job Families – mapping roles, gathering benchmarking, defining pay ranges, analysing costs and impacts for both TfL and LU business areas - Ongoing
- TfL Executive Committee further engagement on Job Families proposals for TfL and LU – April
- Where required, Reward / Employee Relations to consult with TfL and LU Company Councils - from May



Remuneration Committee



Date: 29 February 2024

Item: Members' Suggestions for Future Discussion Items

This paper will be considered in public

1 Summary

- 1.1 This paper presents the current forward plan for the Committee and explains how this is put together. Members are invited to suggest additional future discussion items for the forward plan. Members are also invited to suggest items for future informal briefings.

2 Recommendation

- 2.1 **The Committee is asked to note the forward plan and is invited to raise any suggestions for future discussion items for the forward plan and for informal briefings.**

3 Forward Plan Development

- 3.1 The Board and its Committees and Panels have forward plans. The content of the plans arise from a number of sources:
- (a) Standing items for each meeting: Minutes; Matters Arising and Actions List.
 - (b) Regular items (annual, half-year or quarterly) which are for review and approval or noting as specified in the Terms of Reference: Examples include the annual consideration of pay and performance awards for the staff listed in the terms of reference and regular reports on remuneration on a pan-TfL basis, pay gaps and TfL's approach to talent management and succession planning.
 - (c) Items requested by Members: The Deputy Chair of TfL and the Chair of this Committee will regularly review the forward plan and may suggest items. Other items will arise out of actions from previous meetings (including meetings of the Board or other Committees and Panels) and any issues suggested under this agenda item.

4 Current Plan

- 4.1 The current plan is attached as Appendix 1. Like all plans, it is a snapshot in time and items may be added, removed or deferred to a later date.

List of appendices to this report:

Appendix 1: Remuneration Committee Forward Plan.

List of Background Papers:

None

Contact Officer: Andrea Clarke, Interim General Counsel
Email: AndreaClarke@tfl.gov.uk

Remuneration Committee Forward Plan

Membership: Kay Carberry CBE (Chair), Peter Strachan (Vice-Chair) Seb Dance and Dr Nelson Ogunshakin OBE

Key: CPO (Chief People Officer), DPR (Director of Pensions and Reward)

June 2024		
Resourcing at TfL	CPO	To note.
2023/24 Scorecard Outturn	CPO and DPR	To note.
TfL Remuneration Outcomes	CPO and DPR	To note.
July 2024		
Pay Outcomes of £100,000 or more Approvals	CPO and DPR	To note.
November 2024		
Resourcing at TfL	CPO	To note.
February 2025		
Senior Management Performance Awards Scheme 2025/26	CPO and DPR	To consider the operation of the Performance Awards Scheme for 2024/25.
Pay Outcomes of £100,000 or more Approvals	CPO and DPR	To note.

Regular items each year

- Pay Outcomes of £100,000 or more Approvals (twice a year)
- TfL Performance Delivery and Performance Awards (annual approval)
- Senior Management Performance Awards Scheme
- TfL Remuneration (annual, noting of overall remuneration policy)
- Pay Gap Analysis (annual, noting of gap and actions to address)
- Resourcing at TfL (as required)

Items approved by Chair's Action if the decision needs to be taken urgently (reported to next meeting)

- Approval of base Salaries of £100,000 or more
- Approval of exit payments for any officer listed in the Terms of Reference or if over £100,000 (excluding statutory notice period)

As at 21 February 2024

[page left intentionally blank]

By virtue of paragraph(s) 1, 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted

[page left intentionally blank]

By virtue of paragraph(s) 1, 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted

[page left intentionally blank]

By virtue of paragraph(s) 1, 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted

[page left intentionally blank]

By virtue of paragraph(s) 1, 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted

[page left intentionally blank]