



Appendix 1

# Transport for London

Executive Committee market benchmarking  
Public version



September 2023



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# Introduction and Methodology (1/4)

## Introduction

- Transport for London (TfL) has engaged WTW to assist in providing market executive 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 & Environmental Officer*
- *General Counsel*
- *Director of Comms & 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.
- We have presented market data using WTW's 2022 United Kingdom compensation surveys data and benchmarked these roles using two peer groups which were presented to and agreed with TfL Reward:
  - **Peer Group 1 – Private Sector:** 311 peers of comparable private and public sector companies with a focus on transport, construction, engineering, energy and utilities; and
  - **Peer Group 2 – Publicly Accountable:** 23 peers across a range of UK organisations deemed to have some degree of public accountability.
- The participant lists may be found in Appendix I.
- Our assessment methodology for our survey data factors in role scope and known pay determinants such as revenues, board membership, reporting level and international responsibility.
- Incumbent pay, revenues and incentives data have been provided by TfL. International scope is assumed to be negligible due to the national scope of benchmarked roles.

# Introduction and Methodology (2/4)

## **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.
- Roles have been matched based on job description and discussions with TfL. These job matches may be found in Appendix II.

# Introduction and Methodology (3/4)

## Our market assessment presents the following elements of pay:

- **Base Salary** – reflects the current full-time equivalent annual base salary, prior to any deduction such as salary sacrifices and excluding any contribution to a retirement vehicle (e.g., pension or superannuation fund).
- **Target Bonus** (as a % of base salary) – the percentage payable for on-target or 'on-budget' performance.
- **Target Annual Pay (TAP)** – the sum of base salary and target bonus.
- **Expected Value of Long-Term Incentives** (as a % 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 III for more detail on our LTI methodology.
- **Target Total Direct Compensation (TDC)** – the sum of base salary, target bonus and the EV of LTI.
- **Pension** (as a % of base salary) – reflects the value of the company pension contributions or a defined benefit equivalent.
- **Target Total Remuneration (TTR)** – the sum of target total direct compensation and pension arrangements.

*Where possible we have used the raw market assessment data and not a build-up method. However, where there is not enough data available, a build-up method has been used in order to determine TDC.*

# Introduction and Methodology (4/4)

## Presentation of results and notes

- We have presented an Executive Summary of the compa-ratio of all the roles before presenting the detailed market references for each individual position. This has been presented for Base Salary and TAP for both peer groups and TDC for Peer Group 1 – Private Sector.
- We have provided the distinct data points from our surveys and where there has not been sufficient data points to provide benchmarking analysis at upper or lower quartile or for consistency reasons, we have only shown median data positions. On the summary charts this is shown as a single line representing the median position.
- As agreed with TfL, we have assumed that these roles are at Global Grade (GG) 19 under the WTW GG approach, except for the Chief Financial Officer and Chief Operating Officer which we have benchmarked against GG 20, the Commissioner role which is assumed to be a GG 21 role and the Director of Comms & Corporate Affairs which has been benchmarked as a GG 18.
- Similarly, where the data does not give sufficient indication that an LTI award made to a specific job match, we have included a dash.
- As agreed with TfL for a limited number of executive roles which are less common in Peer Group 2 – the Publicly Accountable data set, and where this limited data may mean the analysis is less reliable, we have instead benchmarked these roles against an average of GG 19 for a range of executive roles (except the CEO and CFO).
- The impact of pension contributions are considered in the Role Market Assessments in the Target Total Remuneration amounts, but not in the Executive Summary analysis. This is because peer group compensation data does not include specific executive employer contributions for all peer group companies, and we have therefore used proxy pension contribution amounts for both Peer Group 1 – Private Sector and Peer Group 2 – Publicly Accountable taken from the wider WTW compensation survey data (12% at the median – refer below for quartiles).

# Background and Market Context

# Market Context and Trends on Executive Pay (1/4)

## Background

- Our annual investor outreach exercise carried out at the end of 2022 highlighted three major areas of focus for 2023:
  - **Executive Director salary increases:** in the context of current high levels of inflation and increases in the cost of living, there is an expectation that salary increases for EDs should be below those of the wider workforce and that companies should be focusing particularly on pay for the lower paid, as they are disproportionately affected.
  - **Windfall gains:** companies should clearly disclose the approach they have taken to assess whether EDs have benefitted from windfall gains, i.e. that a relatively large number of shares may have been granted under long-term incentive plans in early 2020 following significant COVID-19 induced share price falls, and apply downwards discretion as appropriate.
  - **ESG:** while there are differing views from investors on how/where ESG measures should be incorporated into variable remuneration, it is clear that they should be aligned to a company's wider messaging on ESG, be quantifiable and robust (see later in this paper for additional ESG considerations)
- Given the macro-economic environment of the last few years – the COVID-19 pandemic, the invasion of Ukraine by Russia, soaring inflation and the associated cost of living crisis – most companies have increased their disclosure regarding the Remuneration Committee's awareness and oversight of the remuneration of and actions taken for the wider workforce. By April 1<sup>st</sup> 2023, 82% of all FTSE 100 companies had made reference to some kind of change and/or intervention of the broader employee population.



# Market Context and Trends on Executive Pay (2/4)

- On 24<sup>th</sup> May 2023 the Financial Reporting Council (FRC) launched its consultation on an updated version of the Corporate Governance Code. This will run until September and then it is intended that the new Code will apply to accounting years commencing on or after 1 January 2025 – in practice companies will be first required to report on compliance with the new Code in annual reports published in early 2026. The most significant changes relate to malus and clawback provisions and there is new wording on what companies are required to report on this:
- *The annual report on remuneration should include a description of its malus and clawback provisions, including:*
  - *the minimum circumstances in which malus and clawback provisions could be used*
  - *a description of the minimum period for malus and clawback and why the selected period is best suited to the organisation; and*
  - *whether the provisions have been used in the last reporting period. If provisions have been used, a clear explanation of the reason should be provided in the annual report.*
- *Companies should set out the use of their malus and clawback provisions in the last five years.*
- Other changes are more minor, including:
  - The Principles at the start of the Remuneration section have been reordered to improve the logical flow and explicitly emphasise the need for executive remuneration arrangements to be aligned with environmental, social and governance objectives and decision making to take into account wider workforce pay and conditions.
  - The current Provision 40, which requires companies to explain how the Remuneration Policy addresses a number of specific factors (clarity, simplicity, risk, predictability, proportionality, and alignment to culture), has been removed as the FRC noted that companies had often used the Code wording as template language in annual reports. They hope that companies will report on these factors in a way that is specific to their own circumstances.

# Market Context and Trends on Executive Pay (3/4)

The trends analysis is based on FTSE 350 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** increases for Executive roles have been higher than last year however, there has been general adherence to the Investment Association's call for Executive Director salary increases below the wider workforce with a few notable exceptions. The wider workforce median salary increase within the FTSE 350 is 6%, while increases for CEO and CFO are seen at 4-5%.

## Annual Bonus:

- Market trends across the FTSE 350 show that bonuses are paying out lower than last year however, median remains in line with long-term levels.
- In the FTSE 100, median annual bonus opportunity is 200% with median bonus pay-out 76% of maximum. In the FTSE 250, median annual bonus opportunity is 150% with median bonus pay-out as 70% of maximum.
- **LTI** vesting outcomes vary widely across FTSE 350, but median remains in line with long-term levels. 6 companies have adjusted LTI vesting outcomes for windfall gains.
- To date, 19 companies have increased LTI maximum opportunity across the FTSE 350 with median LTI vesting being 58% of maximum in the FTSE 100 and 53% of maximum in the FTSE 250.
- The Performance Share Plan (PSP) remains the market standard model for listed companies. In 2023 to date, 5 companies in the FTSE 350 have moved from an alternative LTI vehicle to a market-standard approach and 4 companies have switched from a market standard LTI vehicle to an alternative approach, most commonly a move to RSP (Restricted Share Plan) (1 in case 4-year block award) or a stretched PSP (Performance Share Plan) award.
- **Pension:** Over 90% of Executive Director roles are now aligned with wider workforce rate

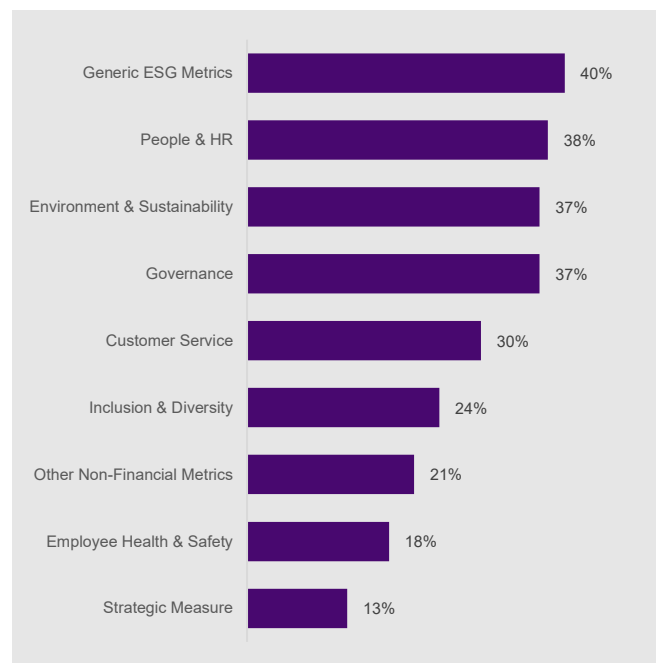
# Market Context and Trends on Executive Pay (4/4)

## Environmental, Social and Governance,

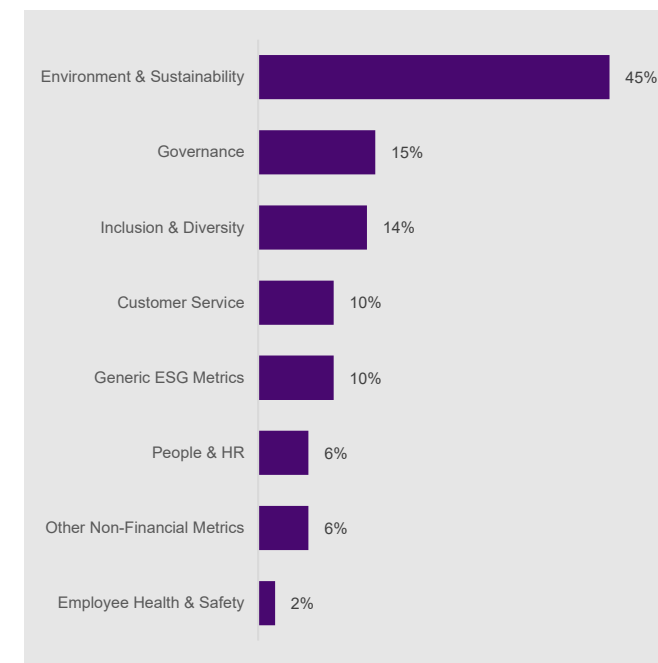
### FTSE 250

- Around 85% of companies now have ESG metrics in annual bonus and around 55% in LTI.
- 38% have introduced, expanded or otherwise modified ESG-related measures in annual bonus this year.
- 25% have introduced, expanded or otherwise modified ESG measures in their LTI this year.
- People and HR related metrics reflect the most common single ESG category in annual bonus, although a wide range of other ESG metrics are also used by over one third of companies.
- Environment and sustainability related metrics are by far the most commonly found ESG metrics in LTIs.

### Annual bonus ESG metrics



### LTI ESG metrics



# Appendix

- I. Peer groups
  - a) Peer Group One – Private Sector
  - b) Peer Group Two – Publicly Accountable
- II. Job Match
- III. LTI valuation methodology

# Peer Group 1 – Private Sector (1/3)

3M	Bell Equipment	DHL Supply Chain	Fluor
ABB (Asea Brown Boveri)	Bentley Motors	Digby Wells Environmental	Fortescue Future Industries
Adient	Bilfinger	Dormakaba	Fortive Corporation
Aegion	Blacklane	Dow Chemical	Fox Factory Holding
A-Gas	Boeing	DPD	Freudenberg
AGCO	Bolloré Logistics	Drees & Sommer	Garrett - Advancing Motion
Air Liquide	Bombardier	DuPont	Gates
Air Partner	BorgWarner	Dyson	Gazprom Marketing & Trading
Airbus Group (EADS)	Bose	E.ON	GE Aviation
Airtanker	BP	Eastman Chemical	GE Capital
Allegion	BrandSafway	EasyJet	GE Power - Gas Power
Allison Transmission	Brembo	Eaton	GE Power Portfolio
Allnex	British Airways	Ecolab	GE Renewable Energy
AMETEK	Cabot	EDF Energy	General Dynamics Mission Systems
Amey	CALA Group	Electricity North West	General Electric
Anglian Water	Cargill	Electrium	GHD Consulting
Aptiv	Cathay Pacific Airways	ELEXON	GKN Aerospace
Aramex	Celanese	Emerson Electric	Globelec
ARaymond	Centrica	EnPro Industries	Good Energy
Arconic	Ceres Power	ESB	Greene, Tweed and Co.
Arrival	CEVA Logistics	Euro Car Parts	Greif
Arrow Electronics	CF Fertilisers	Europcar Mobility Group	Guardian Industries
Arup Group	CIRCOR International	Evoqua Water Technologies	GXO Logistics
Associated British Ports	CITB	Exide Technologies	Harley-Davidson
Assystem	Clarios	Expleo Group	Harman International Industries
AT&T	CNH Industrial	Faiveley Transport	Hertz
Atotech	Coesia	FANUC	Hexcel
Babcock International	Corteva Agriscience	Ferrari	Highview Power
BAE Systems	Dana	Finning International	Hirose Electric
Balfour Beatty	DCC	FirstGroup	Honeywell
Ball	Deutsche Post	Flex	Hong Kong Aircraft Engineering Company Limited
BBOXX	DHL eCommerce	Flix SE	
Bechtel	DHL Express	Flowserve	

## Peer Group 1 – Private Sector (2/3)

Horiba	Laing O'Rourke	Nissan Motor Parts Center	RWE Generation
IAG - International Airlines Group	Lear	Nissan Technical Centre Europe	RWE Group
IAG GBS - International Airlines Group Global Business Services	LeasePlan	Nordson	S&C Electric
Iberdrola	Leggett and Platt	Northrop Grumman	S.E.A.
IBI Group	Lekela	Northrop Grumman Corporate	Safran Landing Systems
IDEX Corporation	Lend Lease	Northumbrian Water	Safran Nacelles
IMI	Lightsource BP	NSG Group	Sainsburys Group
Incora	Lincoln Electric	Oerlikon	Saipem
Indra Corporativo	Linesight	Ontic	Schneider Electric
Indra T&D	Linx Printing Technologies	ORE Catapult	Scott Bader
Ingenico TSS	LKQ	Orsted	ScottishPower
INNIO Jenbacher	Lloyd's Register	Otis Elevator Company	SEFE Marketing & Trading
Innospec	Lockheed Martin	OTT HydroMet	Sensient Technologies
Intergen	Loram Maintenance of Way	Oxford Instruments	Serco Group
International Automotive Components	Manitou	Panasonic System Communications	SGN - Scotia Gas Networks
ITM Power	Marel	PKC Group	Shearwater Geoservices
ITV	Marks & Spencer	Plexus	Shell Energy
Iveco Group	Marshalls	PPG Industries	Shure
Jabil Circuit	MBDA	Protolabs	Siegwerk Druckfarben
Jacobs Engineering	McCrometer	QinetiQ	Siemens
JELD-WEN	Meritor	Raytheon Technologies	Siemens Electrical & Electronic Services
John Lewis Partnership	MoD Defence Equipment & Support	Renault	Siemens I DT Factory Congleton
Johnson Controls	Momentive Performance Materials	Renishaw	Siemens Mobility
Johnson Matthey	Monnoyeur	Rexel	Siemens Postal, Parcel & Airport Logistics
Kent	Mott MacDonald	Ritchie Brothers Auctioneers	SIG
KONE	National Grid	Robertshaw Controls	Sixt Autovermietung
Konecranes	National Instruments	Rockwell Automation	Skanska
Kongsberg Automotive	Nationwide Platforms	ROHM	SMA Solar Technology
Krones	NG Bailey	Rolls-Royce	Smiths News
Kubota Corporation	Nissan Corporate	Ross Video	SNC-Lavalin
Kuehne + Nagel	Nissan Motor	Royal DSM	Solenis
L3Harris	Nissan Motor (NDE)	Royal Haskoning	SPX Corporation
	Nissan Motor Manufacturing	RPS Group	

## Peer Group 1 – Private Sector (3/3)

SPX Flow	Virgin Atlantic Airways
SSE	Visteon
Stanley Black & Decker	Vivergo Fuels
SUEZ Water Technologies & Solutions	VOI Technology
Sumitomo Heavy Industries	VPI
Tarmac	Vueling
Taylor Wimpey	W.R. Grace
TE Connectivity	Wallbox Chargers
Telent	Westlake Chemical
Tenneco	Wienerberger
Tesco	Wincanton
Thales	Wm Morrison Supermarkets
Thomson Reuters	Wood Mackenzie
Thyssenkrupp	Woodward
Trane Technologies	World Fuel Services
Trèves	XPO Logistics
Trojan Technologies	X-Rite
TRUMPF	Yazaki Corporation
TSI	Zumtobel
TT Electronics	
TUI Group	
Tullow Oil	
TÜV Rheinland	
Ultra Electronics	
Underwriters Laboratories	
Unipecc	
Uniper	
Univar	
Veolia Environnement	
Veolia Water Technologies & Solutions	
Vertiv	
Victaulic	

# Peer Group 2 – Publicly Accountable

Avanti West Coast

BBC

Cadent Gas

Calor Gas

Channel 4

Drax Power Group

Gatwick Airport

Heathrow Airport

High Speed Two (HS2)

Highways England

London North Eastern Railway - LNER

MTR Corporation

MTR Elizabeth Line

Network Rail

Ofcom

Ovo Energy

Pennon Group

Royal Mail

Severn Trent

Tideway

United Utilities

Wessex Water

Xylem



# Job Matches

- TfL has engaged WTW to assist in providing market executive pay assessments for the following roles:
 

• Commissioner	• Chief Customer & Strategy Officer	Officer
• Chief Finance Officer	• Chief Officer – Pensions Review	• General Counsel
• Chief Operating Officer	• Chief People Officer	• Director of Comms & Corporate Affairs
• Chief Capital Officer	• Chief Safety, Health & Environmental	
- Benchmark data for each role has been matched to roles at TfL on the basis of:
  - Job title/description - using the job descriptions provided we matched roles at TfL to the most appropriate job roles within our surveys, based on their responsibilities (although job titles may not match directly); and
  - Global Grade – TfL and WTW discussed and established a global grade range of 18 - 21 for all benchmarked roles to ensure that only roles with similar levels of responsibility are included.
- All WTW job matches were presented to and agreed upon by TfL Reward.

# Job Matches (1/2)

Job Title	Peer Group	Survey match	Global Grade
Commissioner	Peer Group One - Private Sector & Peer Group Two - Publicly Accountable	Chief Executive Officer – AAA000-EX	21
Chief Finance Officer	Peer Group One - Private Sector & Peer Group Two - Publicly Accountable	CFO/Top Financial Officer – AFA000-EX	20
Chief Operating Officer	Peer Group One - Private Sector & Peer Group Two - Publicly Accountable	Chief Operating Officer – AAA020-EX	20
Chief Capital Officer	Peer Group One - Private Sector	Top Programme Management - APM	19
	Peer Group Two - Publicly Accountable	All- EX	
Chief Customer & Strategy Officer	Peer Group One - Private Sector	Top Commercial Executive – AAA030-EX	19
	Peer Group Two - Publicly Accountable	All- EX	
Chief Officer – Pensions Review	Peer Group One - Private Sector & Peer Group Two - Publicly Accountable	Top Human Resources Executive – AHR000-EX	19
Chief People Officer	Peer Group One - Private Sector & Peer Group Two - Publicly Accountable	Top Human Resources Executive – AHR000-EX	19
Chief Safety, Health & Environmental Officer	WTW Executive survey participants*	Top Environmental Health and Safety Executive – AHS000-EX	19
	Peer Group Two - Publicly Accountable	All- EX	
General Counsel	Peer Group One - Private Sector & Peer Group Two - Publicly Accountable	Top Legal Executive – ALG000-EX	19
Director of Communications & Corporate Affairs	Peer Group One - Private Sector	All- EX	18
	WTW Executive survey participants*	Top Corporate Affairs Executive - ACA000-EX	

\*It was agreed with TfL that an All-Executive match is too generic so the correct job match has also been benchmarked against all the WTW Executive Survey participants.

# 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

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