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