



Transport for London

Executive Committee Benchmarking



February 2024

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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.]

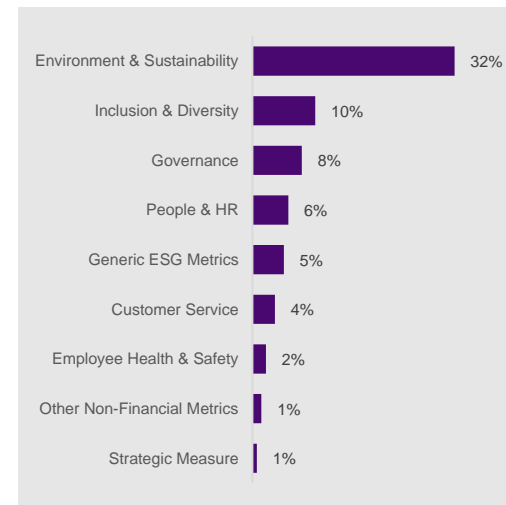
Environmental, Social and Governance

- 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
- Unipac
- Uniper
- Utilita Energy
- Valmet
- Victaulic
- Viridor
- Visteon
- Vivergo Fuels
- VOI Technology
- Volitalia
- 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.

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