

**Date: 24 February 2025**

**Item: Performance Awards 2025/26**

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## **This paper will be considered in public**

### **1 Summary**

- 1.1 This paper proposes the continuation of performance award schemes for senior management (Commissioner, Chief Officer, Director and payband 5 and 4 Senior Managers) for the performance year 2025/26.
- 1.2 Performance awards are a vital part of TfL's total remuneration package for senior management, supporting our ability to attract and retain essential talent within the organisation.
- 1.3 TfL's performance award schemes play a crucial role in driving high performance across the organisation. By directly linking rewards to business performance, as reflected in our scorecards, these schemes emphasise the key priorities in delivering the Mayor's Transport Strategy and unify senior management in delivering our critical goals. They ensure that rewards are commensurate with the level of success achieved, providing a fair and value-for-money approach.
- 1.4 The Committee is asked to endorse the proposal to maintain performance award schemes for senior management for the 2025/26 period, including the continuation of a financial criterion. It is proposed to maintain performance award schemes for TfL employees in paybands 1-3 for the 2025/26 performance year, under the TfL Pay for Performance framework, with the continuation of a financial criterion.

### **2 Recommendation**

- 2.1 **The Committee is asked to note the paper and endorse the proposal to maintain performance award schemes for senior management for the 2025/26 period, including the continuation of a financial criterion.**

### **3 Background**

- 3.1 For the performance year 2025/26, three performance elements will be used to determine performance award outcomes:
  - (a) TfL's performance against the critical priorities outlined in the business scorecards;

- (b) individual contributions to these priorities, as defined by a performance rating; and
  - (c) the 'financial criterion'.
- 3.2 The financial criterion is an overarching financial performance condition, separate from the annual scorecard and individual performance rating conditions, integrated into all our performance award schemes.
- 3.3 The financial criterion has no bearing on the calculation of annual performance award budgets or individual awards but serves as a condition that determines whether the process for calculating performance-based awards should proceed.
- 3.4 If the financial criterion is met, the actual budget amount (up to a prescribed maximum) is determined based on a one-year performance period using TfL's annual business scorecard results. Individual performance awards are then calculated by applying a fixed multiplier to each performance rating against the calculated budget. This ensures that everyone with the same performance rating receives the same percentage performance award. Monetary values are determined as a percentage of base salary.
- 3.5 If TfL meets the financial criterion by 1 April 2026, and successfully delivers against the TfL scorecard, performance awards for the 2025/26 performance year will be paid during 2026/27.

## **4 Proposed Annual Scheme Design 2025/26**

- 4.1 It is proposed that for the 2025/26 performance year, the performance award schemes continue to operate with a financial criterion. For 2024/25 the requirement was for TfL to achieve an operating surplus of more than £0. The financial criterion for 2025/26 will be established once the scorecards for 2025/26 are finalised.

- 4.2 In 2024, the TfL Executive Committee agreed that, at Chief Officer and Director levels the single TfL scorecard will be used, with all performance awards calculated 100 per cent based on the TfL scorecard result.

The TfL Executive Committee is currently considering the approach to calculating senior manager performance award budgets aligned to business scorecards for 2025/26. The Committee will be updated on any decision to change the current methodology.

Individual contribution, measured through personal performance ratings, will then determine the actual percentage performance award individuals receive from the available budget.

- 4.3 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.
- 4.4 All scheme documents and business rules will be updated to reflect the changes to scorecard alignment and the financial criterion for 2025/26.
- 4.5 We also intend for all other performance award arrangements, including individual performance arrangements and performance awards under the Pay for Performance framework, to maintain the same financial criterion as our senior management schemes.
- 4.6 For 2025/26 performance year onwards, the TfL Executive Committee has agreed to transition from the existing four-point rating scale to a three-point scale. This change is in response to feedback received from colleagues and aims to further streamline the process.
- 4.7 The calculation of the budget for performance awards will remain unchanged. However moving to a three-point scale will require rebalancing the distribution of awards resulting in less differentiation between the middle and highest rating and increased averaging of award outcomes across these ratings. While this simplifies the process, there is some risk that it may demotivate the highest performers who might expect a more leveraged level of award.
- 4.8 Ensuring a reasonable distribution of ratings, in line with the 'anticipated distribution' that we communicate, is key to ensuring we reduce the averaging impact of having fewer ratings and are able to provide meaningful differentiated reward outcomes for each rating.
- 4.9 Indicative matrices for senior management, aligned to the new rating scale and based on anticipated ratings distribution, will be shared with employees and the Committee when the 2025/26 scheme is communicated.

**List of appendices to this report:**

None

**List of Background Papers:**

None

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