

People and Remuneration Committee

Date: 24 February 2025

Item: Executive Committee Remuneration Benchmarking

This paper will be considered in public

1 Purpose

- 1.1 This paper provides the Committee with an updated benchmarking report for TfL's Executive Committee roles for 2025.
- 1.2 The Committee is provided with the report to support their decision making on individual pay positioning as part of the Annual Pay Review process for 2025 and for any ad hoc pay positioning decisions required during the year.
- 1.3 The full benchmarking report is included on Part 2 of the agenda, which contains supplementary information that is exempt from publication by virtue of paragraph 3 of Schedule 12A of the Local Government Act 1972 in that it contains information relating to the financial or business affairs of TfL. Any discussion of that exempt information must take place after the press and public have been excluded from the 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 their observations and feedback in relation to the report.**

3 Background

- 3.1 The Reward team has 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 used in the report.
- 3.2 Appendix 1 provides an introduction and outlines the methodology underpinning the report, the background and market context along with information 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 elements:
 - (a) Base Salary;
 - (b) Total Target Annual Compensation (base salary + on-target bonus + individual retention arrangements where applicable);

- (c) Total Target Direct Compensation (base salary + on-target bonus + retention + expected value of Long-Term Incentive (LTI) awards); and
 - (d) Total Target Remuneration (base salary + on-target bonus + retention + expected value of LTI awards + benefits + pension).
- 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 Executive Committee roles was last produced in full in February 2024.

4 Peer Groups and the Methodology 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 272 comparable peer organisations including companies with similar business activities such as transport, construction and engineering. The report also looks at peers within other sectors that have a similar scale and complexity to TfL and includes some from utilities, telecommunications, fast moving consumer goods (FMCG), natural resources and manufacturing industries (see pages 11 and 12 in the report).
- 4.3 Peer Group 2 – Publicly Accountable comprises 26 UK organisations deemed to have some degree of public accountability.
- 4.4 As far as possible, WTW has mirrored the peer groups used in the 2024 report. There are some changes due to some companies no longer participating in the WTW surveys with new organisations added to replace those lost. The WTW 'global grades' of the companies (which are central to the benchmarking methodology) have been carefully considered when forming these peer groups to deliver comparators of appropriate scale and complexity.
- 4.5 WTW also produced a separate benchmarking report for TfL's 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 Directors' report is derived from WTW's General Industry survey (excluding Financial Services) which also includes organisations within 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 salary through to Total Target Remuneration). Comparative 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. These include other factors beyond market benchmarking that are relevant in pay setting decisions. Market data therefore provides a useful 'snapshot' of information that can help guide decisions on pay setting but no single salary amount, e.g. 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 2025

- 7.1 Analysis of base salary reveals that most Executive Committee roles are behind market when compared to the private sector peer group median. TfL roles tend to be positioned below the lower quartile or between the lower quartile and the median when looking across the peer group. There is similar pattern of positioning for base salary of TfL roles when looking at the Publicly Accountable Group (although greater variation for the Chief Capital Officer and Chief Customer and Strategy Officer depending on the benchmark used).
- 7.2 WTW has provided two separate benchmarks for the Chief Capital Officer and Chief Customer and Strategy Officer roles due to the broader than normal span of activities that these roles cover in TfL. Both benchmarks should be considered for pay positioning purposes for these roles.
- 7.3 Due to the volatility experienced with some of the datapoints, WTW has applied a 'constant incumbent' sample benchmark as an additional viewpoint that smooths out significant change caused by the sample being used (and therefore not necessarily representative of general market movement).
- 7.4 The comparison of Total Target Remuneration in general reveals a lower market position for TfL roles than the base salary analysis when comparing against the private sector. 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 (STIs)) as well as arrangements for LTIs. TfL's STI 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 at TfL. The longest-term variable pay arrangements used within TfL are personal retention schemes which can be up to four years duration.
- 7.5 The comparison of Total Target Remuneration against the public sector reveals a stronger market position for TfL roles than the base salary analysis, although three roles including the Commissioner, Chief Finance Officer and Chief Operating Officer remain significantly behind.

- 7.6 This pattern of market relativity is similar across most TfL senior management roles, from payband 4 through to Director level, although more marked at senior levels.

8 Future Executive Benchmarking Requirements

- 8.1 The next executive remuneration benchmarking report with WTW will be produced in 2026.
- 8.2 Some data in this paper will be reflected in TfL's Annual Report in 2026.

List of appendices to this report:

Appendix 1: Willis Towers Watson Executive Benchmarking Report 2025, with redactions.

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

List of Background Papers:

None

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