

Date: 13 January 2014

Item 6: Remuneration of the Commissioner and Chief Officers

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

### **1 Summary**

- 1.1 The purpose of this paper is to outline the key components of remuneration that make up the total remuneration package of the roles under the Remuneration Committee's scope and indicates the level of involvement and decision making that the Committee has with these components.

### **2 Recommendation**

- 2.1 **The Committee is asked to note this paper.**

### **3 Terms of Reference**

- 3.1 The Terms of Reference of the Committee are:
- (a) to review the remuneration of the Commissioner and Chief Officers on behalf of the Board.
  - (b) to approve any agreement relating to the departure of the Commissioner, Chief Officers and those Officers appointed by the Board.

### **4 The Role of the Remuneration Committee**

- 4.1 The primary role of the Committee is to ensure that competitive remuneration is maintained for the roles within its scope such that TfL can attract and retain the highest calibre individuals necessary to successfully manage such a large and complex business and effectively incentivise and reward high performance.
- 4.2 In pursuing its primary role it is expected that the Committee will be guided by TfL's general Reward Strategy and Reward Principles. However, given the unique nature of the Commissioner and Chief Officer roles ("TfL Leadership roles") it is also expected that the Committee will form specific remuneration strategies and approaches as deemed appropriate and necessary to maintain effective remuneration for these roles.
- 4.3 In particular, the Committee will concern itself with two important aspects of remuneration management:
- (a) Ensuring that 'total remuneration' for each role remains competitive within the context of the external market and in comparison to 'peer' organisations i.e. ensuring that overall remuneration value received is proportionate, justifiable, fair and rewards the level of contribution to the business in a way that enables TfL to attract and retain high calibre individuals in these positions.

- (b) Ensuring that effective remuneration mechanisms are in place that incentivises high performance from TfL's Leadership team; and the monitoring and approval of outturn awards proposed from any incentive arrangements in place for these roles on an annual basis (for annual performance awards) or as required for any other form of incentive scheme that may be instigated.

4.4 In practice the normal 'cyclical' of business of the Committee requires it to:

- (a) review, note and act as appropriate on annual remuneration benchmarking for the Commissioner and Chief Officers provided by TfL's Reward & Recognition team with support from external specialist remuneration advisors;
- (b) approve any base pay increases proposed by the Commissioner for any individual Chief Officer as part of the annual pay review process;
- (c) approve annual performance awards proposed by the Commissioner for any individual Chief Officer;
- (d) determine the level of any base pay increase for the Commissioner as part of the annual pay review process;
- (e) determine the level of annual performance award for the Commissioner within the parameters of the performance award arrangement in his contract of employment;
- (f) approve the TfL Performance Scorecard ahead for the new performance year; and
- (g) approve the outturn results for the TfL Performance Scorecard at the end of the performance year.

4.5 The Committee has discretion over the design, implementation and performance outturn of any incentive arrangements proposed or established for the in-scope roles. This covers both short term incentives (STI) such as annual performance awards and any Long Term Incentives (LTI) that may be instigated.

4.6 As noted in the Terms of Reference, the Committee will also approve any agreement relating to the departure of the Commissioner, Chief Officers and those Officers appointed by the Board – namely the Commissioner, the Chief Finance Officer, the General Counsel and the Director of Internal Audit.

## **5 Remuneration for TfL Chief Officers**

5.1 **Base Pay:** Base pay is set for each individual role commensurate with an external market comparison and internal relativities. Each role therefore has its own 'spot rate' – there are no pay ranges or other parameters specified for roles at this level.

5.2 **Annual Performance Award:** The Chief Officers currently each share the same annual performance award opportunity at a maximum of 30 per cent of base pay. The award is made up of a build up of three separate components:

- (a) TfL Performance as determined by the TfL Scorecard result – maximum of five per cent of base salary (based on a 100 per cent TfL scorecard outturn)

- (b) Business area performance as determined by the business area scorecard – maximum of 10 per cent of base salary (based on a 100 per cent business area scorecard outturn)
- (c) Individual performance – a discretionary award determined by the Commissioner up to a maximum of 15 per cent of base salary

5.3 Benefits: The main components of the Chief Officer benefits package are:

- (a) 30 days annual leave plus public holidays;
- (b) concessionary travel benefits – The ‘Chief Officer Travel Policy’ provides retention of travel benefits for the Chief Officer and their partner or spouse for life once they have 12 months’ service as a Chief Officer;
- (c) private medical cover for self, spouse and dependent children (up to the age of 21 or 25 in full time education);
- (d) annual health check;
- (e) TfL Pension Scheme – Defined benefit pension plan (with contributions capped at £141,000 of annual pensionable pay 2013-14);
- (f) directors’ Supplementary Pension Scheme; and
- (g) life assurance via TfL pension scheme – four times pensionable salary;

5.4 There are currently no Long Term Incentive (LTI) arrangements in place for the Commissioner or Chief Officers which is unusual for roles at this level.

## **6 Remuneration for the Commissioner**

6.1 Base Pay – As with Chief Officers, base pay for this role is treated as a spot rate.

6.2 The Commissioner has a maximum performance award opportunity of 50 per cent of base salary (based on a 100 per cent TfL scorecard outturn).

6.3 Benefits – The Commissioner shares the same benefit package as with the other Chief Officers.

## **7 Remuneration Benchmarking**

7.1 TfL Reward & Recognition are responsible for the annual co-ordination of a remuneration benchmarking process for the Commissioner and Chief Officer roles. External remuneration advisors are employed for their expertise in producing and analysing this information with the current incumbents being Towers Watson. This contract is competitively retendered from time to time in accordance with the TfL’s procurement practices and policies.

7.2 The research undertaken for the Commissioner and Chief Officer roles is bespoke and normally involves analytical judgement of data from a number of sources including published annual accounts as well as proprietary survey sources.

7.3 Peer Group: At the core of a sound benchmarking process is the determination of an appropriate comparator group (i.e. ‘peer group’) as the ‘market’ to be assessed. In the past the Committee has been asked to comment on and approve the peer group proposed for the Commissioner and Chief Officers. The current peer group

consists of a selection of Transport, Infrastructure and Engineering companies along with directly comparable publicly funded organisations such as Network Rail, Royal Mail and the BBC. The current peer group being used for Chief Officer benchmarking is shown in full in Appendix 1.

- 7.4 Total Remuneration : Benchmark information compares internal remuneration against the market at different levels of build-up and not just on base salary. TfL's current information looks at:
- (a) Base salary;
  - (b) Target Total Annual Pay (TAP) – (Base Salary + Bonus); and
  - (c) Target Total Direct Compensation – (Target Annualised Long Term Incentive + TAP).
- 7.5 Comparing remuneration across a range of measures and looking at the cumulative Total Remuneration is important because of the generally different make up of TfL's executive remuneration compared to its peer group.

## **8 TfL Reward Principles**

- 8.1 For information, in December 2012, the following general Reward Principles were agreed by the TfL Leadership Team to guide reward development across TfL for all staff other than the Commissioner and Chief Officers:
- (a) remuneration to be aligned to the external market;
  - (b) performance orientation – individuals to be recognised according to their personal contribution; clear differentiation according to performance;
  - (c) segmentation – applying different rewards for different sections of the population;
  - (d) total reward – TfL should develop a total reward proposition for its workforce to maximise value for the reward spend and enhance employee engagement with the employment proposition;
  - (e) ownership – develop line manager accountability for reward decision making; individuals are also responsible for maximising their total reward;
  - (f) alignment of reward with organisation behaviours e.g. through performance pay processes;
  - (g) reward mechanisms will support the development of our people's capability e.g. through reward specifically aligned to capability development;
  - (h) flexibility – reward structures and practices able to support specific needs of different areas of the business;
  - (i) fairness – maintained despite segmented and flexible rewards;
  - (j) reward that is cost effective and value for money;

- (k) reward structures, mechanisms and practices should be integrated and harmonised where it is appropriate to do so to create a more integrated TfL; and
- (l) clarity, simplicity and transparency is built into reward design.

**List of appendices to this report:**

Appendix 1: Peer Group Companies

**List of Background Papers:**

None

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**Chief Officer Benchmarking – Peer Group Companies**

The table below outlines the peer group that has been agreed. Please note that financial services organisations have been excluded from selection on the basis that TfL are unlikely to hire an individual from, or lose an individual to these organisations.

<b>Company</b>	<b>Rationale</b>
AMEC	Focus on infrastructure, similar headcount profile, extensive capital expenditure.
Balfour Beatty	Focus on infrastructure, similar revenue profile, high capital expenditure.
BBC	Public services orientation, captive income.
British Land	Significant asset management, domestic focus, extensive capital expenditure.
BT Group	Focus on infrastructure, extensive capital expenditure.
Bunzl	Transport industry (distribution).
Carillion	Focus on infrastructure, similar headcount profile, domestic focus, high capital expenditure.
Centrica	Infrastructure industry, domestic focus.
easyJet	Transport industry.
FirstGroup	Transport industry, similar revenue profile, domestic focus.
Go-Ahead Group	Transport industry.
International Airlines Group	Transport industry, similar headcount profile, high capital expenditure.
International Power	Focus on infrastructure, extensive capital expenditure.
Land Securities	Significant asset management, domestic focus, extensive capital expenditure.
National Express	Transport industry.
National Grid	Focus on infrastructure, similar headcount and revenue profile, extensive capital expenditure.
Network Rail	Transport and infrastructure industry.
Pennon Group	Focus on infrastructure, somewhat captive income, domestic focus, extensive capital expenditure.
Royal Mail	Public services orientation, somewhat captive income, domestic focus.
Serco	Transport and infrastructure industry.
Severn Trent	Focus on infrastructure, somewhat captive income, domestic focus, extensive capital expenditure.
Scottish & Sothorn Energy	Infrastructure industry, domestic focus.
Stagecoach Group	Transport industry, similar headcount profile.
Transport for London	Transport industry.
United Utilities Group	Focus on infrastructure, somewhat captive income, domestic focus, extensive capital expenditure.