

Date: 3 June 2013

Item 5: Chief Officer Benchmarking

This paper will be considered in public

1 Summary

- 1.1 In conjunction with Towers Watson we have prepared this paper outlining:
- (a) the methodology followed;
 - (b) summary remuneration data analysis for the Commissioner and each of the Commissioner's direct reports; and
 - (c) general observations.
- 1.2 The purpose of the benchmarking process is to provide a transparent comparison of remuneration levels and mix for senior executives within the peer group organisations against the remuneration of incumbent TfL executives.

2 Recommendation

- 2.1 **The Committee is asked to note market remuneration benchmarking of TfL's executive roles.**

3 Benchmarking

- 3.1 Applying the agreed criteria to all FTSE 100 companies and the top 50 companies in the FTSE 250 (both excluding financial services), 16 companies were identified as appropriate to include in TfL's peer group, as agreed by the Committee on 19 July 2012. A further 10 companies were also identified based on industry "fit" and / or public service orientation.
- 3.2 Using the selection criteria outlined above in 3.1, a peer group has been agreed and is listed at **Appendix 2**, together with the rationale for their selection.
- 3.3 Peer group revenues and numbers of employees for the comparator group are listed at **Appendix 3**.
- 3.4 Peer group revenues and TfL (budget as a proxy for revenue) comparison are listed at **Appendix 4**.
- 3.5 A summary of available market data with line by line data is presented for the Commissioner, the Managing Director (MD), Finance, the MD, London Rail and Underground and the MD, Surface Transport is shown below at section 5.
- 3.6 In determining the market competitive assessments of pay consideration of each TfL role is undertaken, so as to match the job as closely as possible to similar positions within the peer organisations. For the Commissioner, MD Finance, MD Surface Transport and MD London

Rail and Underground we have analysed only publicly disclosed data from annual reports and accounts for the companies in the peer group. This data has not been adjusted and reflects the true statistics of the peer group. For the remaining roles we have analysed proprietary survey data.

4 Disclosed Data Analysis

Role	Basis for Comparison	Market data (median, unadjusted)			Current incumbent data as at 31 March 2012		
		Base Salary (FTE)	Target Total Cash (TTC) ¹	Total Direct Compensation (TDC) ²	Base Salary (FTE)	TTC	TDC
Commissioner	CEOs and Managing Directors	£665,000	£1,261,750	£1,968,007	£348,444	£487,822	£487,822
MD, Finance	CFOs Finance Directors	£424,324	£691,684	£1,133,287	£270,000	£340,200	£340,200
MD, London Rail and Underground	Group Executives on the Main Board	£421,750	£674,800	£1,012,544	£289,700	£365,022	£365,022
MD, Surface Transport	Group Executives on the Main Board	£421,750	£674,800	£1,012,544	£257,768	£324,788	£324,788
General Counsel	Legal Executives	£250,000	£375,000	£490,000	£217,777	£274,399	£274,399
MD, Planning	Strategic Planning Executives	£260,000	£350,000	£495,000	£242,900	£306,054	£306,054
MD, Marketing and Communications	Marketing and Communication Executives	£235,000	£355,000	£445,000	£229,020	£288,565	£288,565

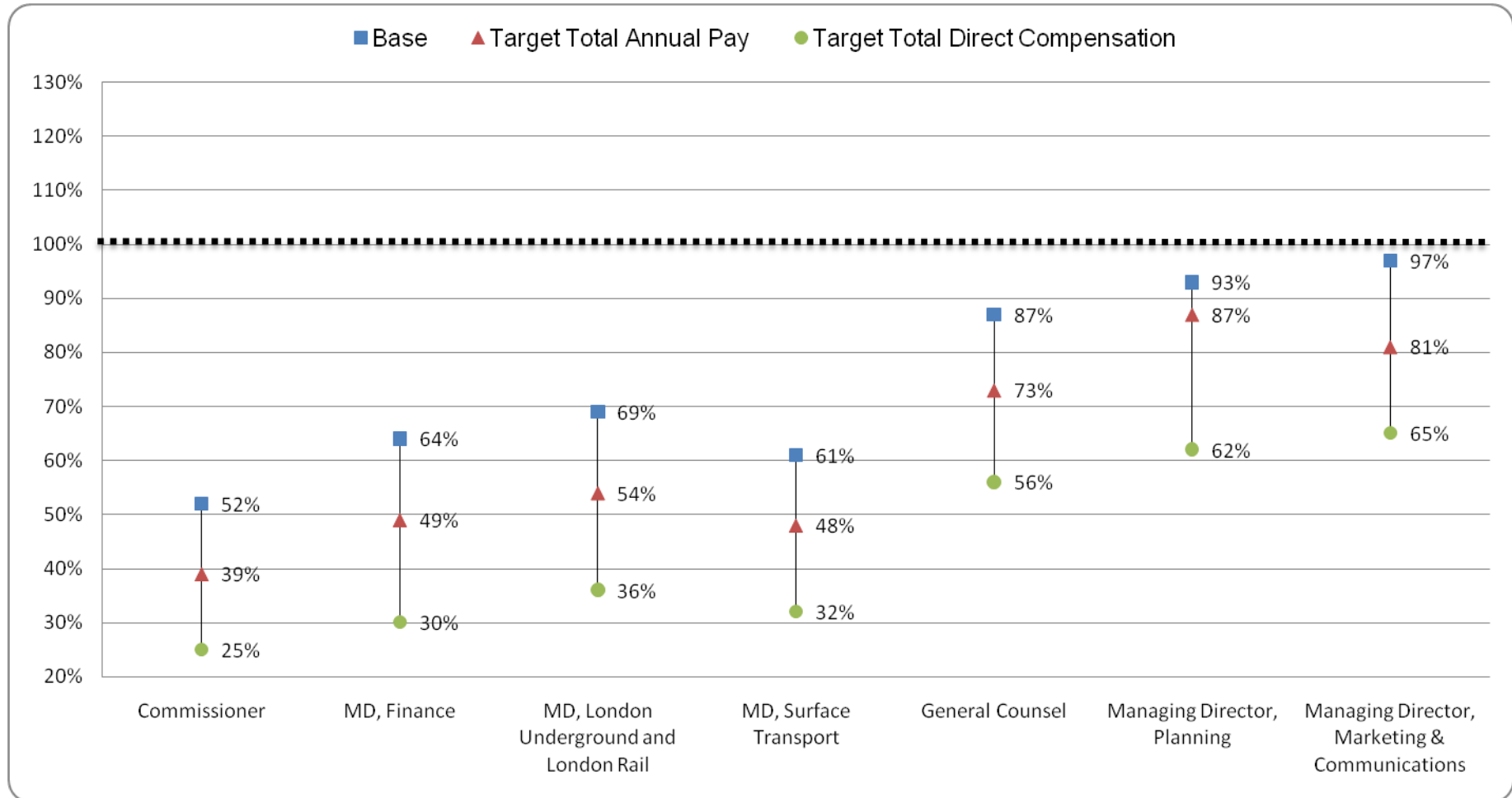
¹ TTC is the sum of base salary, plus target annual bonus.

² TDC is the sum of base salary, plus target annual bonus, plus target long term incentives.

³ Data from Towers Watson's 2012 Top Executive Compensation Survey is effective a at 1 October 2012

5 Mid-market compa-ratio analysis

Note: when interpreting the market data, we typically consider a competitive range of pay to be 15% - 20% either side of the mid-market figure.



6 Observations

- 6.1 As we have highlighted in previous updates, senior pay in the public sector (in its widest sense) remains as politically and publicly sensitive as over the last few years.
- 6.2 For those managing senior pay in this environment, the challenges remain:
- (a) recruiting and retaining talented and respected senior staff members, when there is still an active market for such talent;
 - (b) finding the right approach given the tension between political support for pay for performance but concerns over performance awards; and
 - (c) how to account externally for decisions made in the best interests of the organisation but which are at odds with prevailing guidance or public expectation.
- 6.3 These issues are particularly acute for TfL which operates commercially, in competing for talent with private companies, yet have to account for these very much as a public sector organisation.
- 6.4 Overall, base pay for the benchmarked roles are positioned below the market competitive ranged.

Restraint

- 6.5 In 2012, base pay levels for those senior public servants whose pay levels are determined by Government (including senior civil servants) remained frozen. For 2013, we have yet to see the practical implications of the Government's guidance for a maximum increase in average pay costs of one per cent.
- 6.6 In addition many of these public servants are also seeing the value of their total package being eroded by requirements to pay higher pension contributions and higher taxation (compared to 40 per cent previously).
- 6.7 Within the broader public sector, where the organisation/remuneration committee has more flexibility on senior base pay increases, it is our experience that increases for senior staff tend to be in line with those for the rest of the organisation, unless there are particular reasons to do otherwise.

Pay for Performance

- 6.8 Specific challenge exists in relation to pay for performance for senior public sector roles. While there is support for pay for performance in Government (as witnessed by the proposal to introduce pay for performance for teachers), there is the underlying public mistrust of anything that might be classed by the media as a "bonus". Hence the structure and operation of reward arrangements that are linked to performance is important.
- 6.9 As with the private sector, the Government is also concerned about the outcomes of performance-based incentives in public bodies or bodies in which it has an interest; it wants to see the outcomes reflect and be proportionate to the underlying performance.

Transparency

- 6.10 The increased transparency now required for pay actually received by senior civil servants and senior local authority staff continues to fuel local and national headlines.
- 6.11 Such transparency and comment therefore continue to encourage Remuneration Committees to be very aware of the public (and, where relevant) political response to their arrangement and the need to be able to explain their arrangements and decisions to all stakeholders.

7. Next Steps

- 7.1 The Committee is asked to provide the Commissioner with its initial views. A further paper will then be presented in the normal business cycle to agree the actual remuneration of the Commissioner and Chief Officers at a future meeting.

List of appendices to this report:

Appendix 1 – Peer Group Selection

Appendix 2 – Peer Group Companies

Appendix 3 – Peer Group Revenue and Number of Employees

Appendix 4 – Peer Group Revenues and TfL Comparisons

List of Background Papers:

None

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Peer Group Selection

- Peer group companies are subject to several objective criteria to determine their suitability for inclusion in TfL's peer group as agreed last year. These criteria are highlighted below:

Criteria	Rationale
Industry	The extent to which companies operate in the same or a similar industry as TfL (transport and infrastructure).
Headcount	The extent to which companies have a similar headcount to TfL. Companies are considered similar if their FTE headcount sits within 40% (+/-) of TfL's headcount of c.26,500.
Revenue	The extent to which TfL's annual revenues (at TfL's request, capex + opex are used as a proxy for sales revenues) are similar to those generated by other companies. Companies are considered similar if annual revenues sit within a range of £5bn to £15bn.
Income "categorisation"	Reflecting on how companies generate their income - "captive" = limited customer choice / competition; "non- captive" = greater customer choice / competition.
Geographic span	Reviewing the global reach of company operations. Domestic companies are most similar in this context, with multi-national companies least similar.
Capital expenditure	The extent of capital spending that the company commits to on an annual basis. Companies with "extensive" or "high" capital spending are most similar in this context.
Analogous skill requirements	The extent to which similar skills (transport / infrastructure / engineering / asset management etc) exist within other companies. Note that we have not focussed on corporate roles here

- Applying the agreed criteria to all FTSE 100 companies and the top 50 companies in the FTSE 250 (both excluding financial services), 16 companies were identified last year as appropriate to include in TfL's peer group. A further 10 companies were also identified based on industry "fit" and / or public service orientation.
- Since this approach was taken two companies are now subsidiaries of foreign parent organisations (BAA and Scottish Power) and have been removed from the peer group.

Peer Group Companies

- The tables below and on the following page outline the peer group that has been tentatively agreed based on applying the selection criteria outlined on page 4. 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.

Company	Rationale
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 & Sothern 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.

Peer Group Revenues and Employees (taken from latest report and accounts)

Company	Revenues (£m)	Employees	Sector
AMEC	£3,261	21,422	Oil Equipment & Services
Balfour Beatty	£9,494	50,301	Construction & Materials
BBC	£5,087	16,858	Media
British Land	£332	521	Real Estate Investment Trusts
BT Group	£18,897	89,000	Fixed Line Telecommunications
Bunzl	£5,110	11,956	Support Services
Carillion	£4,153	29,992	Support Services
Centrica	£22,824	39,432	Gas, Water & Multiutilities
easyJet	£3,854	8,206	Travel & Leisure
FirstGroup	£6,679	124,705	Travel & Leisure
Go-Ahead Group	£2,424	22,972	Travel & Leisure
International Airlines Group	£13,663	56,791	Travel & Leisure
International Power ¹	£13,519	11,128	Gas, Water & Multiutilities
Land Securities	£672	656	Real Estate Investment Trusts
National Express	£2,238	38,921	Travel & Leisure
National Grid	£13,832	25,645	Gas, Water & Multiutilities
Network Rail	£6,004	35,253	Travel & Leisure
Pennon Group	£1,233	4,592	Gas, Water & Multiutilities
Royal Mail	£9,532	176,242	Postal Service
Serco	£4,646	76,670	Support Services
Severn Trent	£1,771	8,051	Gas, Water & Multiutilities
Scottish & Sothorn Energy	£31,724	19,489	Electricity
Stagecoach Group	£2,591	32,906	Travel & Leisure
Transport for London	£7,987	27,494	Transport Industry
United Utilities Group	£1,565	5,096	Gas, Water & Multiutilities
Maximum	£31,724	176,242	
Upper Quartile	£10,529	42,149	
Median	£4,866	24,309	
Lower Quartile	£2,377	10,398	
Minimum	£332	521	

Data is at most recent year end.

1. Data from the 2011 annual report before International Power was acquired by GDF Suez

Peer Group Revenues and TfL Comparison

Annual Revenue	Peer Group Revenue range
Peer group minimum	£332m
Peer group lower quartile	£2,377m
Peer group median	£4,866m
Peer group upper quartile	£10,529m
Peer group maximum	£31,724m
TfL 2013/14 forecast budget (<i>as a proxy for revenue</i>)	£7,987m (<i>operating income £4,749m</i>)