

Date: 15 March 2016

Item: Future TfL Executive Remuneration

This paper will be considered in public

1 Summary

- 1.1 At its meeting in June 2015, the Committee requested a paper be prepared highlighting the concerns of the Committee and the Commissioner about the current positioning of TfL executive remuneration within the context of TfL's market remuneration benchmarking and the changing nature of TfL through its evolving business strategy. This paper addresses that request and points out some of the deficiencies and risks with current internal executive remuneration arrangements.
- 1.2 The paper provides high level recommendations for how these deficiencies in current arrangements might be tackled and seeks the commitment and support of the Committee for treating the development of an improved executive remuneration proposition within TfL as a key priority for the Committee to address in 2016/17.

2 Recommendations

- 2.1 **The Committee is asked to note the paper and:**
 - (a) **note the current deficiencies and risks within TfL's existing executive remuneration arrangements; and**
 - (b) **agree to a review and the potential development of improved executive remuneration arrangements as a key priority for 2016/17.**

3 TfL's Executive Remuneration Market Position

- 3.1 Over a period of several years, and with the support of two independent executive remuneration benchmarking specialist companies, (first, Towers Watson and currently, New Bridge Street) it has been consistently established that TfL's executive remuneration is significantly below market norms.
- 3.2 The 2016 benchmarking report for the Commissioner and Managing Directors provided by New Bridge Street is attached in Appendix 1 of this paper.
- 3.3 Using an approach agreed by the Remuneration Committee in March 2015, TfL uses a 'combined position' from which to assess its executive remuneration against the external market, calculated from a 60 per cent weighting of a Listed Companies Group, and a 40 per cent weighting of a

Publicly Accountable Group. This provides an appropriate blend of private and public sector comparison. While being a 'publicly accountable' organisation, TfL primarily competes for its executive talent with the private sector.

- 3.4 Whether assessing Base Pay on its own or Total Target Remuneration (base pay + benefits + target performance award + long term incentive) the remuneration benchmarking shows that against each of the Commissioner and Managing Director roles TfL's remuneration levels are below market median levels and in most cases significantly below.
- 3.5 The 'percentage of market level' (or compa ratio) is the way in which the market comparison is expressed, where a ratio of 100 per cent represents the market median level. A normal market median range for roles at this level is considered to be between 85 per cent and 115 per cent of the market median.
- 3.6 For base pay TfL's 2016 benchmarking comparison ranges between 56 per cent and 93 per cent across the existing Commissioner and Managing Director roles assessed.
- 3.7 The comparison for Total Target Remuneration is significantly lower with the ratio being between 35 per cent and a maximum of 72 per cent of market only (with four of the seven roles at a position of below 50 per cent the market median level).
- 3.8 Furthermore, TfL's relative position is likely to only decrease further in the oncoming years as the 2016 report from New Bridge Street comments: 'The Office of Budget Responsibility forecasts that pay in the private sector will continue to outstrip the public sector in the period 2014 – 2018. If this prediction proves to be correct, the gap between public and private sector pay will increase to levels last seen around the Millennium when there were recruitment and retention problems in the public sector.'
- 3.9 This market differential in TfL's executive remuneration is mainly driven by significantly lower annual 'short term incentive' opportunities (i.e. TfL's annual 'performance awards') and also the lack of any form of long term incentive plan (LTIP).
- 3.10 In such circumstances it might be considered that not only is TfL's executive remuneration deficient in terms of its overall quantum and poor market relativity, but also in the fact that it fails to use a standard form of incentive arrangement (i.e. a long term incentive) to leverage executive performance effectively.

4 The impact of TfL's Evolving Business Strategy

- 4.1 TfL is experiencing a period of rapid change, as its funding arrangements alter significantly and it transitions towards greater commercialisation.
- 4.2 Currently 23 per cent funded by Government grants and subsidies, TfL will lose its operational subsidy by 2019 and will self-fund operational activity from that point forward through fares and other revenues.

- 4.3 TfL's recently formed Commercial Development directorate epitomises this transition. Commercial Development generates non-fares revenue for TfL. This includes revenue from sponsorship, advertising, retail and property development. By 2024, it aims to have generated £3.4bn to reinvest in improving the transport network.
- 4.4 With this greater commercialisation comes the need to bring in new skills and capabilities to the organisation. TfL is therefore increasingly competing with private sector businesses for the specialised, skilled and sometimes scarce resources that can fulfil the new roles.
- 4.5 TfL is already hiring a far wider variety of roles than ever before. Recent hires into Commercial Development have demonstrated the specific challenges faced where in order to attract candidates of the appropriate experience and calibre to take on TfL's market leading development projects. TfL has had to establish new performance based incentive arrangements, and occasionally, individualised remuneration packages to simply compete with the prevailing market and to have any chance of hiring.
- 4.6 TfL also needs to attract individuals who are not only capable of successfully running its commercial and operational enterprises but who also have the capability to help TfL to transform the organisation to meet 'Our Ambition' to be a customer-focused, commercially driven service provider and the envy of transport authorities, cities and Governments around the world and the six associated priorities. London Underground is currently going through such transformation with 'Fit for the Future Stations' placing a renewed focus on the customer. Leadership with the capability to effect transformation in this way normally comes at a market premium. TfL has already experienced issues in structuring reward packages for senior director hires into leadership roles that maintain an appropriate differential to the role they report in to. A number of senior directors are already being paid at or above our internal managing director level.
- 4.7 It is normal for commercial organisations to structure a significant proportion of its executive reward around the achievement of commercial targets. Directly aligning the interest of the individual with that of the organisation in this way is both common sense and common practice and most organisations use a variety of short term and long term performance based incentive arrangements to do this.
- 4.8 With greater demands placed on TfL to achieve financial independence for its operations and hence be more commercial, it would also be appropriate for TfL to manage its executive remuneration in the same way in order to allow it to compete more effectively for critical talent. This would mean that internal remuneration will need to be managed and more closely aligned to market forces. This might include greater variation, differentiation and magnitude in some executive reward packages.

5 Risks

- 5.1 While TfL's executive remuneration has been in this position for a number of years, following the recent changes in its most senior leadership, the need to rapidly increase its commercial focus and the evolving business strategy around this, leaves the organisation exposed through its constrained and limited executive remuneration proposition.
- 5.2 A remuneration proposition that continues to be so significantly below market will seriously impinge on TfL's ability to attract and retain leadership of the calibre required. This is already being experienced in executive recruitment immediately at and below managing director level.
- 5.3 It is becoming increasingly difficult to maintain appropriate differentials between Commissioner and Managing Director roles and roles that report into these and therefore a rational remuneration structure overall.
- 5.4 TfL is currently failing to use executive remuneration effectively by harnessing it as a lever to drive high performance through both effective short term and long term incentive arrangements.

6 Recommended Future Focus

- 6.1 It is recommended that a full review of TfL's executive reward arrangements is conducted under the auspices of the Committee.
- 6.2 This review should look at all key remuneration elements including base pay, non-consolidated performance awards (both short term and long term) and benefits with a view to establishing a more competitive remuneration proposition going forward.
- 6.3 It is recommended that any future development of TfL's executive remuneration should focus on Total Target Remuneration, with the aim of achieving an improved market position overall for this measure.
- 6.4 It is proposed that there should be a greater emphasis placed on performance based incentive arrangements. To this extent, the review should consider the appropriateness of the existing short term (annual) arrangements as well as the feasibility of establishing a long term incentive arrangement.
- 6.5 It should be acknowledged that little can be achieved in respect of the above without increasing the overall value of the remuneration proposition. Simply deferring existing remuneration in order to provide a longer term focus will not achieve the fundamental changes that are required.

List of appendices to this report:

Appendix 1: Remuneration Review – Commissioner and Managing Directors (New Bridge Street 2016 report)

List of Background Papers:

None

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Remuneration Review – Commissioner & Managing Directors Transport for London

11 January 2016

Introduction

- New Bridge Street has been asked to benchmark the remuneration of the Commissioner and Managing Directors of Transport for London (the “Company” or “TfL”).
- As in the previous benchmarking exercise carried out in March 2015, each role has been benchmarked against two comparator groups:
 - The Listed Companies Group, consisting of a bespoke selection of large transport and infrastructure companies, all of which are listed in the UK.
 - The Publicly Accountable Group, consisting of a relatively small bespoke selection of companies accountable to the UK public, owned, or overseen by, the government, and with a degree of extra sensitivity around pay.
 - Further details on these comparator groups is shown in Appendix 2. The constituents of the comparator groups are the same as in March 2015 although there may have been some changes in incumbent or the scope of the role in some organisations.
- We have used data sourced from public disclosures in the Annual Report & Accounts for Main Board-equivalent roles. Below-Board data from our participatory Executive Total Reward Survey has been used for roles below this level.
- Remuneration has been benchmarked on a ‘target’ basis. We have valued the annual bonus at on ‘target’ performance and have included long-term incentives on an ‘expected’ or ‘fair’ value basis. This is a much less volatile approach than, say, looking at the actual bonus payments or the value of share awards on vesting. A detailed explanation on how each component is valued is provided in Appendix 1.
- Please note: our data should not be viewed as precise recommendations of remuneration levels for individuals but rather a representative range within which it is appropriate to position individual base salary and total remuneration levels.
- We have also included commentary on private and public sector pay trends and an overview of considerations for an organisation such as TfL when recruiting executives from outside the public sector.

Role matching

- Consistent with the previous benchmarking exercise, the roles at TfL have been matched to our data as follows:

Role at TfL	Role Level
Commissioner	Main Board
MD; Finance	Main Board
MD; Rail & Underground	Main Board
MD; Surface Transport	Main Board
MD; Crossrail 2	Executive Committee
General Counsel	Executive Committee
MD; Customer Experience, Marketing & Comms	Executive Committee

Summary of Benchmarking Results

- The table below summarises benchmark **base salaries** for each role. Benchmark data for both comparator groups is shown.
- A combined position, calculated using a 60% weighting of the Listed Companies Group, and a 40% weighting of the Publicly Accountable Group, is also shown for each role. This approach was agreed by the Remuneration Committee in March 2015.
- Prevailing remuneration rates at TfL for this population are significantly below the combined position for the majority of roles.
- Detailed benchmarking results for the two separate components are provided in Appendix 3.

Role at TfL	Current £'000	Listed Companies Group £'000	Publicly Accountable Group £'000	Combined Position £'000	Percentage of Market Level %
Commissioner	£356	£750	£471	£638	56%
Managing Director; Finance*	£275	£452	£297	£390	71%
Managing Director; Rail & Underground	£275	£488	£323	£422	65%
Managing Director; Surface Transport	£278	£488	£323	£422	66%
Managing Director; Crossrail 2	£220	£282	£167	£236	93%
General Counsel	£238	£285	£220	£259	92%
MD; Customer Experience, Marketing & Comms	£237	£334	£189	£276	86%

*Data shown relate to the previous incumbent, Steve Allen.

Summary of Benchmarking Results (2)

- The table below summarises **total target remuneration** benchmark results for each role:

Role at TfL	Current £'000	Listed Companies Group £'000	Publicly Accountable Group £'000	Combined Position £'000	Percentage of Market Level %
Commissioner	£569	£2,226	£701	£1,616	35%
Managing Director; Finance*	£407	£1,254	£546	£971	42%
Managing Director; Rail & Underground	£435	£1,599	£415	£1,126	39%
Managing Director; Surface Transport	£392	£1,599	£415	£1,126	35%
Managing Director; Crossrail 2	£318	£666	£255	£502	63%
General Counsel	£359	£592	£354	£497	72%
MD; Customer Experience, Marketing & Comms	£339	£838	£305	£625	54%

*Data shown relate to the previous incumbent, Steve Allen.

Trends in private sector pay

- Overall, 2015 has been a year of relatively little movement in pay levels across the FTSE 100.
- Increases in senior executive base salaries across the FTSE 100 remained modest, with a median increase of 2.5% mirroring increases that were seen elsewhere in the workforce in most organisations. Similar to 2014, 21% of companies froze base pay for their executive directors. Looking forward, this accords with Aon Hewitt's annual salary increase report which reported similar increases for 2015 and estimates 2016 salary increases to be between 2.6% and 3.0%
- Levels of bonus opportunity for the highest-paid directors have shown no increase since 2010, remaining at a median level of 180% of salary in the FTSE 100. For other executive directors, the median opportunity is 150%.
- Similarly, levels of long-term incentive award have also remained broadly static with a range of practice from 200% to 300% of salary across the FTSE 100, and a median award of 250%.
- The advent of single-figure pay reporting gives a clearer sense than ever before of the total pay actually received by executive directors. Across the FTSE 100 as a whole, on a matched sample basis, the median increase in total pay for the highest-paid director was around 5%.
- Typical pension provision for senior executives is now in the form of cash payments in lieu of pension contribution; 50% of directors in the FTSE 100 receive cash, the median value being 26% of base salary. The prevalence of cash supplements is highly likely to increase following taxation changes and the further reduction of the annual allowance (£10,000 for those earning over £210,000) from April 2016.
- From an investor perspective, the Investment Association (formerly the ABI) updated its remuneration principles in November and gave indications of its areas of focus for the 2016 AGM season. These are shown on page 6. The IA's guidelines will influence how listed companies disclose their executive remuneration and shape their future remuneration policy, thus giving us a view of potential developments.

Trends in private sector pay (continued)

Investment Association – Principles of Remuneration

- The investment Association revised its Principles of Remuneration in October 2014. In November 2015, they gave an update on certain issues they will focus on for the 2016 AGM season.
 - **Quantum remains a high profile issue:** The IA will be taking a much firmer stance on salary increases. Any base salary increases for directors within a policy period should have additional justification. This concern is amplified where salaries are increased above inflationary or workforce levels.
 - **Performance conditions:** The IA will require retrospective disclosure of annual bonus targets. This will be a focus for the 2016 AGM season. The IA will be looking for disclosure of both financial and non-quantitative targets in order to assess the relationship between performance and reward.
 - **Recruitment and leaving arrangements:** The IA highlights that for joiners, performance linked buy-out awards should not be re-issued or amended in the event that performance deteriorates. Robust justification is also expected for departing directors as to their treatment as ‘good’ or ‘bad’ leavers.
 - **Pensions** – It is suggested that the pensions of executives should be aligned with those provided to the wider workforce. The key issue relates to different structures for executive director pension provision compared to the rest of the workforce. However the IA is also of the view that higher levels of contributions (as a percentage of salary) for executives compared to the rest of the workforce are hard to justify.
 - **Service Contracts** – The IA is not adopting a position of requiring notice periods of significantly less than 12 months (up to 12 months is acceptable to most IA members). However, for new contracts they do call for equal notice periods from both the director and the company.

Trends in public sector remuneration

- The public sector continues to operate in an environment of funding cuts and pay restraint. Public sector pay increases have been minimal in recent years and have resulted in a real decrease in pay for most. Current pay increases are limited to 1% and expected to remain so through 2016.
- The Office of Budget Responsibility (OBR) forecasts that pay in the private sector will continue to outstrip the public sector in the period 2014 – 2018. If this prediction proves to be correct, the gap between public and private sector pay will increase to levels last seen around the Millennium when there were recruitment and retention problems in the public sector.
- The payment of performance-based pay (i.e. annual bonus and LTIP awards) remains less prevalent in the public sector than the private sector. Only around half of public-sector organisations pay annual bonuses to executives, and it is even less common for them to operate long-term incentive plans. Even if a public sector organisation has a bonus plan, it may not be feasible, in an environment of pay constraint, to make a payment under the plan.

Pay multiples ratio

- The findings of the Hutton Review in 2011, recommended that public sector organisations should publish a ratio of the pay of their highest paid director to the pay of their median employee. Following on from this the Local Government Transparency Code (LGTC) requires that this ratio is disclosed by all organisations covered by the Code and this includes TfL.
- We have provided some pay ratio comparison information in Appendix 2. It should be noted that not all of the publicly accountable organisations in the comparator group publish a ratio in the way required by the LGTC. Those that did so for 2014/15 were BBC (10.7) and Nuclear Decommissioning Authority (7.2). TfL's ratio was 9.62.
- To enable comparison across both comparator groups (disclosure of the ratio is not currently a requirement for listed companies) we have calculated a ratio for each organisation based on the total earnings of the Highest Paid Director to the average total earnings in the organisation. This provides a consistent approach across all of the organisations and is a methodology advocated by the High Pay Centre¹ as a straightforward calculation requiring nil cost to the organisation to comply. They do note however, that there may be slight differences in how organisations report their total employee costs figure and how they calculate their average employee number, but on the whole the results provide value. The resulting pay ratios for the listed group are highly variable and are influenced by size, sector and internationality of the organisation.

Considerations when recruiting from outside the public sector

- The biggest challenge facing TfL would be that private sector executives at equivalent job levels would be paid significantly more than in the public sector, particularly incentive pay, where typically there would be a potentially more generous bonus plan and a long term incentive plan. The individual may also receive some benefits, such as private medical care which may not be offered in the public sector.
- This may perhaps be overcome if the individual is attracted to TfL because of non-financial factors such as the feeling that the job is very worthwhile, the high profile nature and status of the role and possibly greater job security.
- However, it may be that a more likely alternative would be to recruit at a job level one below that at TfL - perhaps a 'rising star' - since the pay gap would be less.
- Since private sector employers typically offer deferred share bonuses and long-term incentives (which would be forfeit on resigning), TfL is likely to find that it will also need to consider whether and to what extent it would be willing to 'buy-out' entitlements forfeited. These can be very sizeable and could mean that certain candidates are considered out of reach.
- If amounts forfeited are bought out, it is best practice to structure the buy-out arrangements to match, as far as possible, the time of vesting and performance linkage of the forfeited awards.
- Typically, Main Board executives in the private sector would be on 12 months' notice, with 6 months most common at the level below. This may affect how long TfL would need to wait until a new recruit is able to start work. In addition, a new recruit is likely to consider the length of notice period offered by TfL, as well as the pay arrangements.

APPENDICES

Benchmarking methodology

Element	Method of calculation
Salary	Reported current salary data.
Benefits	Reported cash value. For TfL, in addition to the value of allowances provided we have used a value of £1,300 for healthcare benefits.
Pension	Reported Defined Contribution or cash-in-lieu payments. Defined Benefit pensions are valued using broad actuarial assumptions and a normal retirement age of 60 to derive an annual equivalent value. For TfL we have assumed a retirement age of 60, and valued the pension as a capped DB pension with an accrual rate of 1/60 th .
Total fixed pay	Salary + benefits + pension
On-target bonus	On-target bonus as a percentage of salary, if disclosed. If not disclosed, we have assumed an on-target bonus of 50% of the maximum bonus potential. If neither the on-target nor the maximum is disclosed, we have used the average of the actual bonus paid over the last three years (as a percentage of salary for each year) and applied this to the current, or most recently disclosed salary. Note that, as requested, we have used the average payout over the last five years to represent an on-target bonus for TfL.
Expected value of long-term incentives	Based on company's grant policy, if disclosed, or the actual awards of options and/or LTIPs made last year as a percentage of salary (or an average of the last three years awards as a percentage of salary if no award was made in the year). We have then applied a market norm 'expected value'. For market priced options 20% of face value, for free share awards with performance conditions (i.e. LTIPs) 55% and for free shares without performance conditions 100%.
Total direct compensation	Salary + on-target bonus + expected value of LTI awards
Total target remuneration	Salary + benefits + pension + on-target bonus + expected value of LTI awards

Appendix 2

Comparator group constituents – Listed Companies Group

Company Name	Index	Market Cap (31 Dec 2015)	Turnover	PBT	No. of Employees	Ratio of HPD to Avg Employee	Sector
		£m	£m	£m			
BT Group	FTSE100	£39,464	£17,979	£2,645	88,500	85.9	Fixed Line Telecommunications
National Grid	FTSE100	£35,098	£15,201	£2,628	24,274	59.5	Gas, Water & Multiutilities
SSE	FTSE100	£15,373	£31,654	£735	19,965	52.7	Electricity
International Consolidated Airlines Group	FTSE100	£12,365	£16,263	£668	59,484	102.8	Travel & Leisure
Centrica	FTSE100	£11,057	£29,408	-£1,403	37,530	66.4	Gas, Water & Multiutilities
Capita	FTSE100	£8,028	£4,378	£292	62,910	76.1	Support Services
easyJet	FTSE100	£6,908	£4,527	£581	8,987	121.9	Travel & Leisure
United Utilities	FTSE100	£6,379	£1,720	£342	5,278	57.2	Gas, Water & Multiutilities
Bunzl	FTSE100	£6,318	£6,157	£300	14,609	113.4	Support Services
Severn Trent	FTSE100	£5,132	£1,801	£148	7,861	44.7	Gas, Water & Multiutilities
Royal Mail	FTSE100	£4,440	£9,424	£400	160,518	44.1	Industrial Transportation
Pennon Group	Mid250	£3,550	£1,357	£211	4,558	21.2	Gas, Water & Multiutilities
Balfour Beatty	Mid250	£1,863	£7,264	-£304	39,751	14.6	Construction & Materials
Thomas Cook Group	Mid250	£1,860	£8,588	-£114	22,672	25.3	Travel & Leisure
National Express Group	Mid250	£1,703	£1,867	£67	41,927	77.0	Travel & Leisure
Stagecoach Group	Mid250	£1,701	£3,204	£165	36,809	44.4	Travel & Leisure
Amec Foster Wheeler	Mid250	£1,673	£3,993	£155	24,225	27.1	Oil Equipment & Services
Carillion	Mid250	£1,303	£3,494	£143	27,858	36.7	Support Services
FirstGroup	Mid250	£1,293	£6,051	£106	114,370	66.5	Travel & Leisure
Go-Ahead Group	Mid250	£1,148	£3,215	£79	26,160	52.4	Travel & Leisure
Serco Group	Mid250	£1,038	£3,955	-£1,354	95,455	118.8	Support Services
Lower Quartile		£1,701	£3,215	£79	19,965	44.1	
Median		£4,440	£4,527	£165	27,858	57.2	
Upper Quartile		£8,028	£9,424	£400	59,484	77.0	
Transport for London	Unlisted		£8,821		26,745	6.9	Transport

Note:

PBT = Profit Before Tax

HPD = Highest Paid Director

Appendix 2

Comparator group constituents – Publicly Accountable Group

Company Name	Index	Market Cap (31 Dec 2015) £m	Turnover £m	PBT £m	No. of Employees	Ratio of HPD to Avg Employee Pay	Sector
BBC	Unlisted	-	£4,805		18,947	7.6	Media
Manchester Airport Group	Unlisted	-	£738		4,231	45.4	Transport
NATS	Unlisted	-	£922	£227	4,342	8.9	Transport
Network Rail	Unlisted	-	£6,087	£506	35,457	14.2	Infrastructure
Nuclear Decommissioning Authority	Unlisted	-	£8,908		1,038	7.8	Energy
Post Office	Unlisted	-	£1,136	-£80	7,281	16.0	Retail
Lower Quartile			£976		4,259		
Median			£2,971		5,812	11.6	
Upper Quartile			£5,767		16,031		
Transport for London	Unlisted		£8,821		26,745	6.9	Transport

Note:

PBT = Profit Before Tax

HPD = Highest Paid Director

Appendix 3 – Benchmarking Results

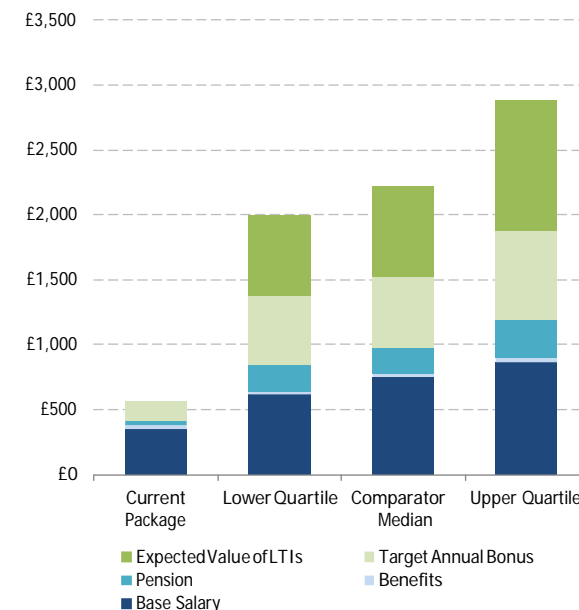
Commissioner – Listed Companies Group

Commissioner

Mike Brown

November 2015

		Current Package	Lower Quartile	Comparator Median	Upper Quartile	Percentage of Median
Base Salary	£000s	£356	£623	£750	£868	47%
Target Annual Bonus	£000s	£152	£444	£593	£660	
	% of salary	43%	60%	75%	100%	
Total Cash Compensation	£000s	£508	£1,117	£1,299	£1,596	39%
Expected Value of LTIs	£000s	£0	£502	£772	£979	
	% of salary	0%	80%	104%	132%	
Total Direct Compensation	£000s	£508	£1,689	£1,962	£2,607	26%
Benefits	£000s	£25	£16	£25	£32	
Pension	£000s	£36	£165	£229	£281	
Total Target Remuneration	£000s	£569	£1,997	£2,226	£2,882	26%



Benchmarking Notes

Role Match: Main Board Chief Executive Officers and Executive Chairmen
 Comparator Group: Listed Companies Group
 Data Source: Reports & Accounts
 Reporting Level: 1

- Base salary for this role is below the lower quartile compared to the Listed Companies Group.
- Chief Executives in large listed companies now typically receive a cash payment in lieu of pension contributions which is typically in the range of 30-35% of base salary.
- On-target bonus payments, at 43% of salary, are below market levels.
- Total target remuneration is significantly below the lower quartile.

Appendix 3 – Benchmarking Results

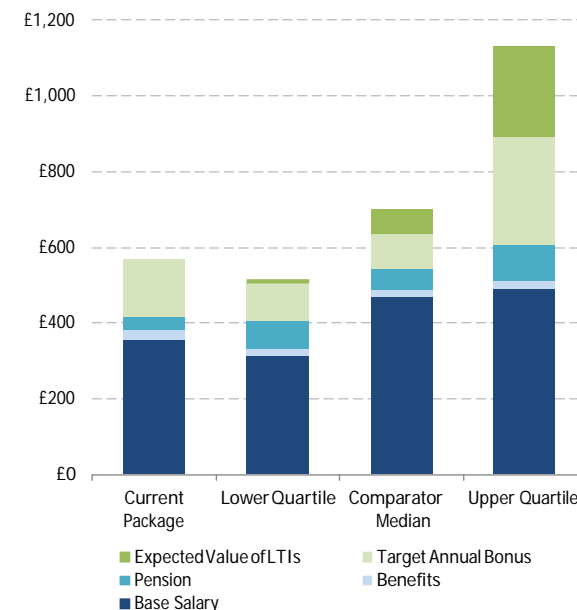
Commissioner – Publicly Accountable Group

Commissioner

Mike Brown

November 2015

		Current Package	Lower Quartile	Comparator Median	Upper Quartile	Percentage of Median
Base Salary	£000s	£356	£316	£471	£492	76%
Target Annual Bonus	£000s	£152	£68	£95	£250	
	% of salary	43%	14%	20%	45%	
Total Cash Compensation	£000s	£508	£394	£602	£742	84%
Expected Value of LTIs	£000s	£0	£9	£65	£206	
	% of salary	0%	3%	25%	46%	
Total Direct Compensation	£000s	£508	£458	£608	£1,037	83%
Benefits	£000s	£25	£11	£15	£17	
Pension	£000s	£36	£53	£58	£82	
Total Target Remuneration	£000s	£569	£517	£701	£1,131	81%



Benchmarking Notes

Role Match: Main Board Chief Executive Officers and Executive Chairmen
 Comparator Group: Publicly Accountable Group
 Data Source: Reports & Accounts
 Reporting Level: 1

- Base salary for this role is below the median of the Publicly Accountable Group.
- On-target bonus payments, at 43% of salary, are at the upper quartile.
- While not all comparators award a long-term incentive, the median expected value of those which do is around 25% of salary.
- Total target remuneration is between the lower quartile and median.

Appendix 3 – Benchmarking Results

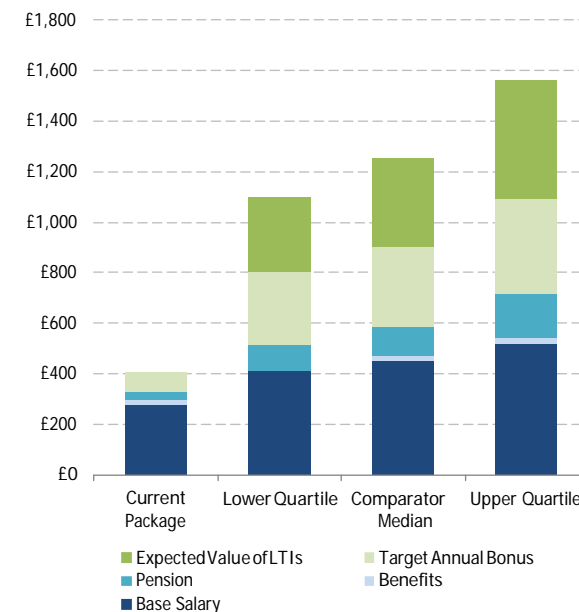
Managing Director; Finance – Listed Companies Group

Managing Director; Finance

November 2015

No incumbent (previous incumbent data shown)

		Current Package	Lower Quartile	Comparator Median	Upper Quartile	Percentage of Median
Base Salary	£000s	£275	£414	£452	£518	61%
Target Annual Bonus	£000s	£76	£256	£317	£387	
	% of salary	28%	60%	65%	84%	
Total Cash Compensation	£000s	£351	£686	£768	£896	46%
Expected Value of LTIs	£000s	£0	£259	£346	£490	
	% of salary	0%	63%	83%	97%	
Total Direct Compensation	£000s	£351	£972	£1,178	£1,358	30%
Benefits	£000s	£20	£2	£18	£23	
Pension	£000s	£36	£84	£117	£182	
Total Target Remuneration	£000s	£407	£1,102	£1,254	£1,563	32%



Benchmarking Notes

Role Match: Main Board Finance Directors
 Comparator Group: Listed Companies Group
 Data Source: Reports & Accounts
 Reporting Level: 2

- Note that as there is no current incumbent for this role, we have shown above remuneration paid to the previous MD; Finance, Steve Allen. Both base salary and total target remuneration are below the lower quartile against the Listed Companies Group.
- Finance Directors in large listed companies now typically receive a cash payment in lieu of pension which is typically around 25% of base salary.

Appendix 3 – Benchmarking Results

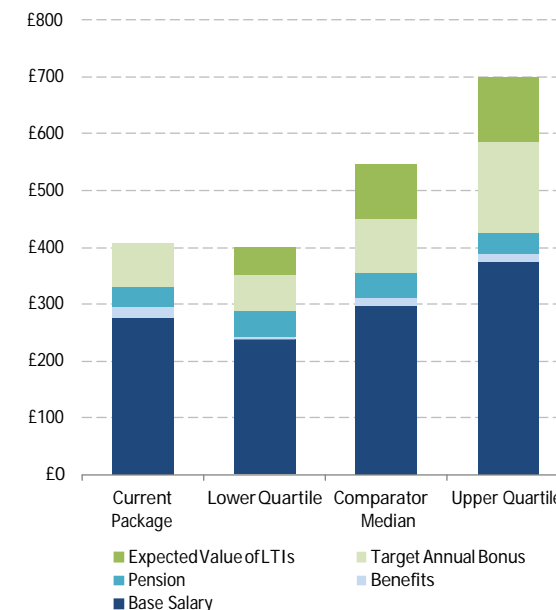
Managing Director; Finance – Publicly Accountable Group

Managing Director; Finance

November 2015

No incumbent (previous incumbent data shown)

		Current Package	Lower Quartile	Comparator Median	Upper Quartile	Percentage of Median
Base Salary	£000s	£275	£238	£297	£375	93%
Target Annual Bonus	£000s	£76	£45	£71	£158	
	% of salary	28%	14%	20%	30%	
Total Cash Compensation	£000s	£351	£328	£428	£478	82%
Expected Value of LTIs	£000s	£0	£33	£71	£112	
	% of salary	0%	15%	24%	33%	
Total Direct Compensation	£000s	£351	£359	£486	£611	72%
Benefits	£000s	£20	£2	£11	£14	
Pension	£000s	£36	£32	£33	£37	
Total Target Remuneration	£000s	£407	£399	£546	£699	74%



Benchmarking Notes

Role Match: Main Board Finance Directors
 Comparator Group: Publicly Accountable Group
 Data Source: Reports & Accounts
 Reporting Level: 2

- Note that as there is no current incumbent for this role, we have shown above remuneration paid to the previous MD; Finance, Steve Allen. Base salary is between the lower quartile and median against the Publicly Accountable Group. Total target remuneration is close to the lower quartile.
- While not all comparators pay any long-term incentive, the median expected value of those which do is around 24% of salary.

Appendix 3 – Benchmarking Results

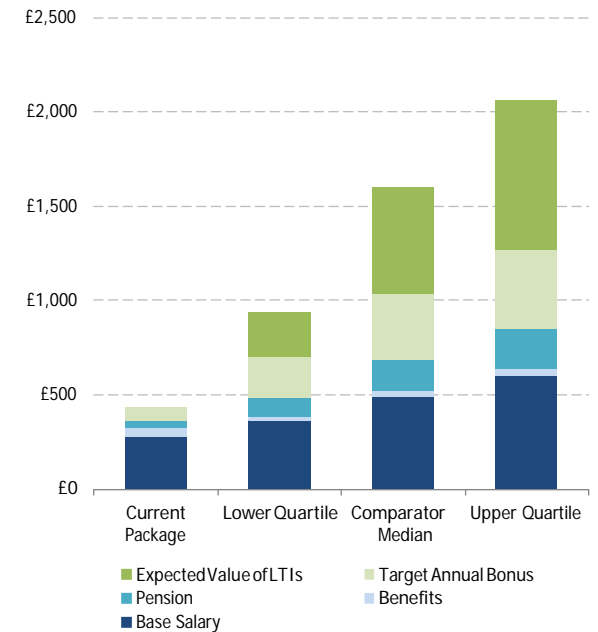
Managing Director; Rail & Underground – Listed Companies Group

Managing Director; Rail & Underground

November 2015

Nick Brown

		Current Package	Lower Quartile	Comparator Median	Upper Quartile	Percentage of Median
Base Salary	£000s	£275	£365	£488	£601	56%
Target Annual Bonus	£000s	£76	£182	£305	£433	
	% of salary	28%	60%	63%	65%	
Total Cash Compensation	£000s	£351	£547	£793	£1,052	44%
Expected Value of LTIs	£000s	£0	£201	£502	£806	
	% of salary	0%	54%	75%	110%	
Total Direct Compensation	£000s	£351	£748	£1,599	£1,759	22%
Benefits	£000s	£48	£17	£23	£41	
Pension	£000s	£36	£83	£154	£210	
Total Target Remuneration	£000s	£435	£938	£1,599	£2,062	27%



Benchmarking Notes

Role Match:	Main Board
Comparator Group:	Listed Companies Group
Data Source:	Reports & Accounts
Reporting Level:	2
Divisional Revenue:	£2,800m

- Base salary for this role is below the lower quartile compared to the Listed Companies Group.
- Pension contributions at this level are now typically paid as a cash allowance of around 25% of base salary.
- On-target bonus payments, at 28% of salary, are below market levels.
- Total target remuneration is significantly below the lower quartile.

Appendix 3 – Benchmarking Results

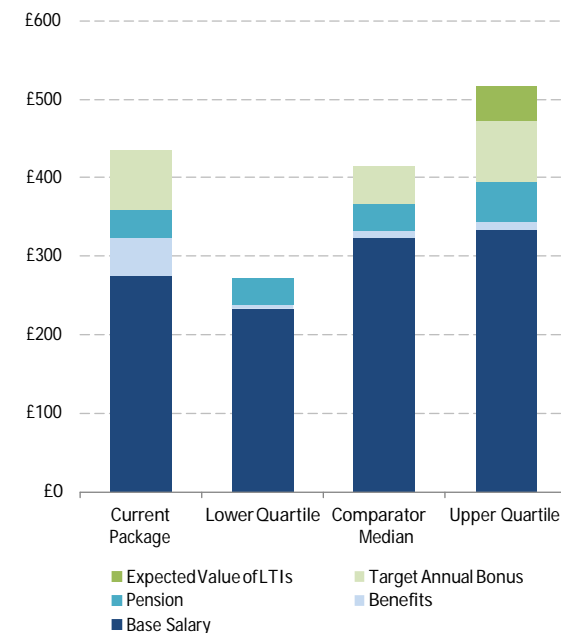
Managing Director; Rail & Underground – Publicly Accountable Group

Managing Director; Rail & Underground

November 2015

Nick Brown

		Current Package	Lower Quartile	Comparator Median	Upper Quartile	Percentage of Median
Base Salary	£000s	£275	£234	£323	£333	85%
Target Annual Bonus	£000s	£76	£0	£57	£101	
	% of salary	28%	0%	25%	30%	
Total Cash Compensation	£000s	£351	£232	£323	£435	109%
Expected Value of LTIs	£000s	£0	£0	£0	£57	
	% of salary	0%	0%	0%	30%	
Total Direct Compensation	£000s	£351	£232	£343	£492	102%
Benefits	£000s	£48	£5	£11	£13	
Pension	£000s	£36	£35	£43	£66	
Total Target Remuneration	£000s	£435	£272	£415	£517	105%



Benchmarking Notes

Role Match:	Main Board
Comparator Group:	Publicly Accountable Group
Data Source:	Reports & Accounts
Reporting Level:	2
Divisional Revenue:	£2,800m

- Base salary for this role is between the lower quartile and the median of the Publicly Accountable Group.
- On-target bonus payments, at 28% of salary, are between the median and upper quartile.
- While not all comparators pay any long-term incentive, the median expected value of those which do is around 25% of salary.
- Total target remuneration is between the median and upper quartile.

Appendix 3 – Benchmarking Results

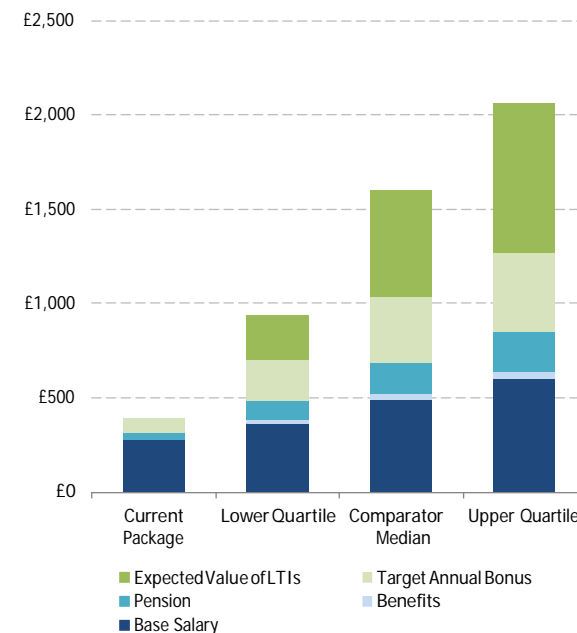
Managing Director; Surface Transport – Listed Companies Group

Managing Director; Surface Transport

November 2015

Leon Daniels

		Current Package	Lower Quartile	Comparator Median	Upper Quartile	Percentage of Median
Base Salary	£000s	£278	£365	£488	£601	57%
Target Annual Bonus	£000s	£77	£182	£305	£433	
	% of salary	28%	60%	63%	65%	
Total Cash Compensation	£000s	£354	£547	£793	£1,052	45%
Expected Value of LTIs	£000s	£0	£201	£502	£806	
	% of salary	0%	54%	75%	110%	
Total Direct Compensation	£000s	£354	£748	£1,599	£1,759	22%
Benefits	£000s	£1	£17	£23	£41	
Pension	£000s	£36	£83	£154	£210	
Total Target Remuneration	£000s	£392	£938	£1,599	£2,062	24%



Benchmarking Notes

Role Match: Main Board
 Comparator Group: Listed Companies Group
 Data Source: Reports & Accounts
 Reporting Level: 2
 Divisional Revenue: £1,935m

- Base salary for this role is below the lower quartile compared to the Listed Companies Group.
- Pension contributions at this level are now typically paid as a cash allowance of around 25% of base salary.
- On-target bonus payments, at 28% of salary, are below market levels.
- Total target remuneration is significantly below the lower quartile.

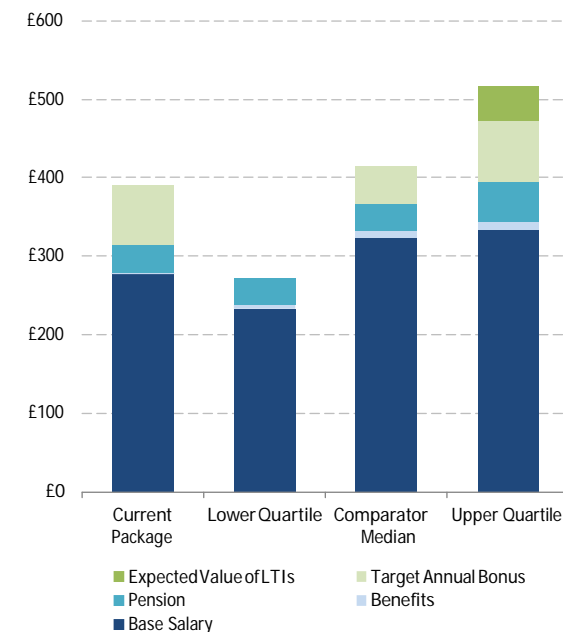
Managing Director; Surface Transport – Publicly Accountable Group

Managing Director; Surface Transport

November 2015

Leon Daniels

		Current Package	Lower Quartile	Comparator Median	Upper Quartile	Percentage of Median
Base Salary	£000s	£278	£234	£323	£333	86%
Target Annual Bonus	£000s	£77	£0	£57	£101	
	% of salary	28%	0%	25%	30%	
Total Cash Compensation	£000s	£354	£232	£323	£435	110%
Expected Value of LTIs	£000s	£0	£0	£0	£57	
	% of salary	0%	0%	0%	30%	
Total Direct Compensation	£000s	£354	£232	£343	£492	103%
Benefits	£000s	£1	£5	£11	£13	
Pension	£000s	£36	£35	£43	£66	
Total Target Remuneration	£000s	£392	£272	£415	£517	94%



Benchmarking Notes

Role Match: Main Board
 Comparator Group: Publicly Accountable Group
 Data Source: Reports & Accounts
 Reporting Level: 2
 Divisional Revenue: £1,935m

- Base salary for this role is between the lower quartile and the median of the Publicly Accountable Group.
- On-target bonus payments, at 28% of salary, are between the median and upper quartile.
- While not all comparators pay any long-term incentive, the median expected value of those which do is around 25% of salary.
- Total target remuneration is between the median and lower quartile.

Appendix 3 – Benchmarking Results

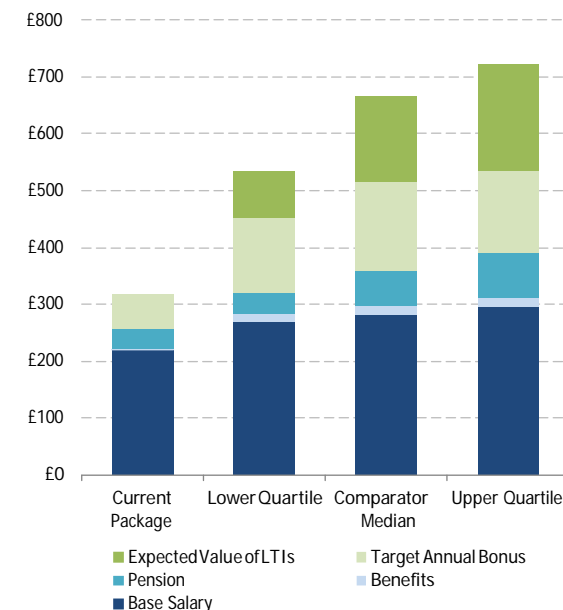
Managing Director; Crossrail 2 – Listed Companies Group

Managing Director; Crossrail 2

November 2015

Michele Dix

		Current Package	Lower Quartile	Comparator Median	Upper Quartile	Percentage of Median
Base Salary	£000s	£220	£271	£282	£296	78%
Target Annual Bonus	£000s	£61	£136	£145	£150	
	% of salary	28%	46%	50%	50%	
Total Cash Compensation	£000s	£281	£408	£438	£450	64%
Expected Value of LTIs	£000s	£0	£85	£141	£200	
	% of salary	0%	37%	46%	71%	
Total Direct Compensation	£000s	£281	£473	£597	£651	47%
Benefits	£000s	£1	£12	£14	£14	
Pension	£000s	£36	£41	£59	£86	
Total Target Remuneration	£000s	£318	£534	£666	£723	48%



Benchmarking Notes

Role Match: Executive Committee Heads of Strategic Planning & Business Development
 Comparator Group: Listed Companies Group
 Data Source: New Bridge Street's participatory Executive Total Reward Survey
 Reporting Level: 2

- Note: this benchmark takes account of the project and planning leadership dimension to this role.
- Base salary for this role is below the lower quartile compared to the Listed Companies Group.
- On-target bonus payments, at 28% of salary, are below market levels.
- Total target remuneration is below the lower quartile.

Appendix 3 – Benchmarking Results

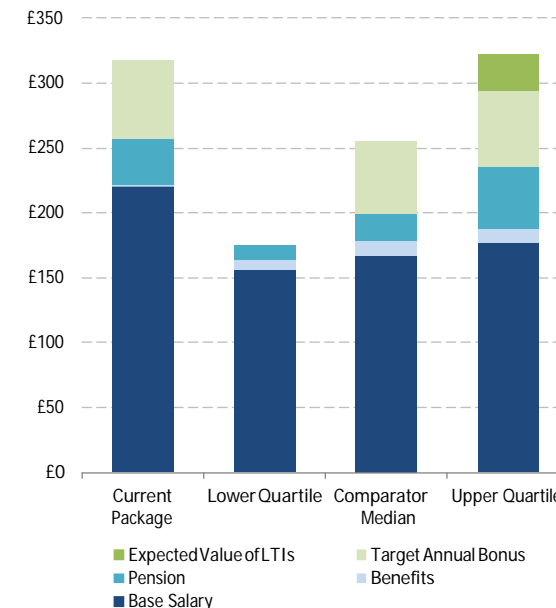
Managing Director; Crossrail 2 – Publicly Accountable Group

Managing Director; Crossrail 2

November 2015

Michele Dix

		Current Package	Lower Quartile	Comparator Median	Upper Quartile	Percentage of Median
Base Salary	£000s	£220	£157	£167	£177	132%
Target Annual Bonus	£000s	£61	£0	£45	£54	
	% of salary	28%	0%	25%	30%	
Total Cash Compensation	£000s	£281	£157	£230	£240	122%
Expected Value of LTIs	£000s	£0	£0	£0	£26	
	% of salary	0%	0%	0%	15%	
Total Direct Compensation	£000s	£281	£155	£228	£266	123%
Benefits	£000s	£1	£8	£9	£10	
Pension	£000s	£36	£13	£17	£44	
Total Target Remuneration	£000s	£318	£175	£255	£322	125%



Benchmarking Notes

Role Match: Executive Committee Heads of Strategic Planning & Business Development
 Comparator Group: Publicly Accountable Group
 Data Source: Reports & Accounts
 Reporting Level: 2

- Note: this benchmark takes account of the project and planning leadership dimension to this role
- Base salary for this role is above the upper quartile of the Publicly Accountable Group.
- On-target bonus payments, at 28% of salary, are between the median and upper quartile.
- While not all comparators pay any long-term incentive, the typical expected value of those which do is around 15% of salary.
- Total target remuneration is around the upper quartile.

Appendix 3 – Benchmarking Results

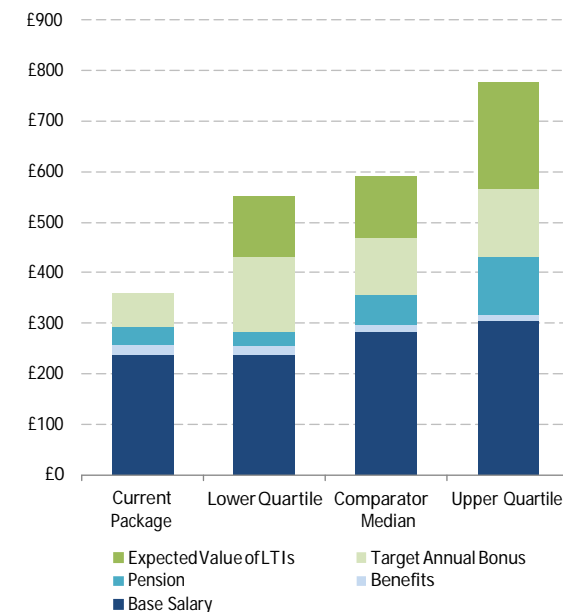
General Counsel – Listed Companies Group

General Counsel

November 2015

Howard Carter

		Current Package	Lower Quartile	Comparator Median	Upper Quartile	Percentage of Median
Base Salary	£000s	£238	£239	£285	£304	84%
Target Annual Bonus	£000s	£66	£124	£144	£151	
	% of salary	28%	48%	50%	60%	
Total Cash Compensation	£000s	£303	£380	£427	£445	71%
Expected Value of LTIs	£000s	£0	£101	£160	£238	
	% of salary	0%	45%	69%	77%	
Total Direct Compensation	£000s	£303	£491	£546	£681	56%
Benefits	£000s	£20	£12	£15	£16	
Pension	£000s	£36	£26	£80	£128	
Total Target Remuneration	£000s	£359	£549	£592	£778	61%



Benchmarking Notes

Role Match: Executive Committee Heads of Legal and General Counsels
 Comparator Group: Listed Companies Group
 Data Source: New Bridge Street's participatory Executive Total Reward Survey
 Reporting Level: 2

- Base salary for this role is at the lower quartile compared to the Listed Companies Group.
- On-target bonus payments, at 28% of salary, are below market levels.
- Total target remuneration is below the lower quartile.

Appendix 3 – Benchmarking Results

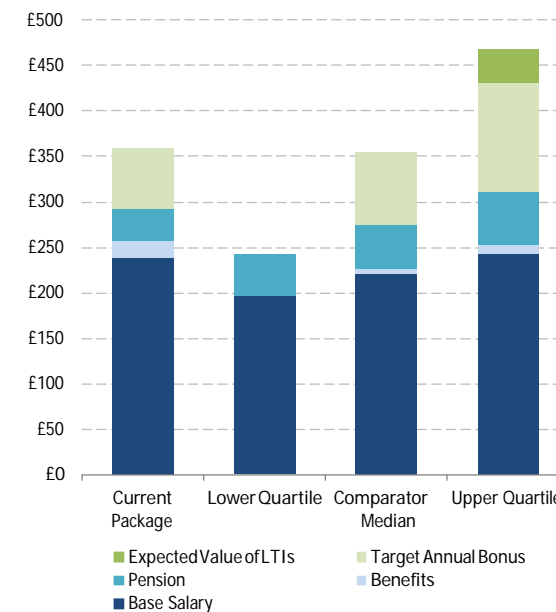
General Counsel – Publicly Accountable Group

General Counsel

November 2015

Howard Carter

		Current Package	Lower Quartile	Comparator Median	Upper Quartile	Percentage of Median
Base Salary	£000s	£238	£197	£220	£242	108%
Target Annual Bonus	£000s	£66	£0	£58	£100	
	% of salary	28%	0%	15%	30%	
Total Cash Compensation	£000s	£303	£215	£300	£343	101%
Expected Value of LTIs	£000s	£0	£0	£0	£31	
	% of salary	0%	0%	0%	20%	
Total Direct Compensation	£000s	£303	£217	£300	£394	101%
Benefits	£000s	£20	£0	£5	£9	
Pension	£000s	£36	£30	£36	£48	
Total Target Remuneration	£000s	£359	£243	£354	£468	101%



Benchmarking Notes

Role Match: Executive Committee Heads of Legal and General Counsels
 Comparator Group: Publicly Accountable Group
 Data Source: New Bridge Street's participatory Executive Total Reward Survey
 Reporting Level: 2

- Base salary for this role is around the upper quartile of the Publicly Accountable Group.
- On-target bonus payments, at 28% of salary, are between the median and upper quartile.
- While not all comparators pay any long-term incentive, the median expected value of those which do is around 15% of salary.
- Total target remuneration is around the median.

Appendix 3 – Benchmarking Results

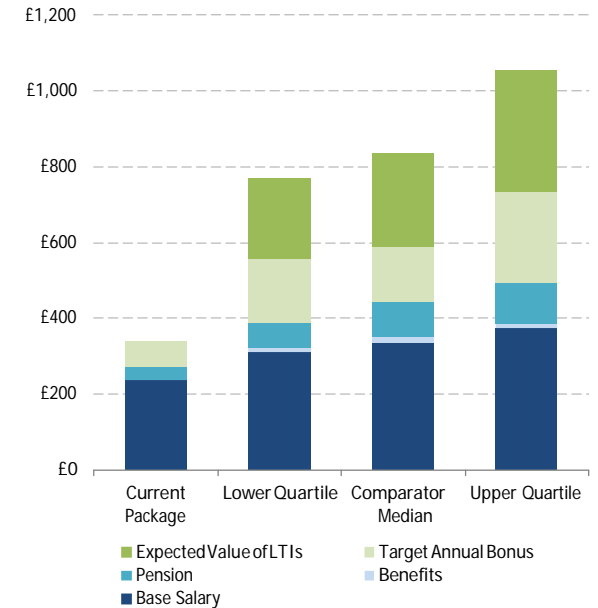
MD; Customer, Marketing & Comms – Listed Companies Group

MD; Customer Experience, Marketing & Comms

November 2015

Vernon Everitt

		Current Package	Lower Quartile	Comparator Median	Upper Quartile	Percentage of Median
Base Salary	£000s	£237	£312	£334	£373	71%
Target Annual Bonus	£000s	£65	£154	£167	£270	
	% of salary	28%	49%	50%	61%	
Total Cash Compensation	£000s	£302	£471	£500	£629	60%
Expected Value of LTIs	£000s	£0	£196	£283	£355	
	% of salary	0%	58%	83%	110%	
Total Direct Compensation	£000s	£302	£656	£781	£954	39%
Benefits	£000s	£1	£15	£17	£20	
Pension	£000s	£36	£59	£105	£118	
Total Target Remuneration	£000s	£339	£776	£838	£1,058	40%



Benchmarking Notes

Role Match: Executive Committee Heads of Sales, Marketing and Communications
 Comparator Group: Listed Companies Group
 Data Source: New Bridge Street's participatory Executive Total Reward Survey
 Reporting Level: 2

- Base salary for this role is below the lower quartile compared to the Listed Companies Group.
- On-target bonus payments, at 28% of salary, are below market levels.
- Total target remuneration is below the lower quartile.

Appendix 3 – Benchmarking Results

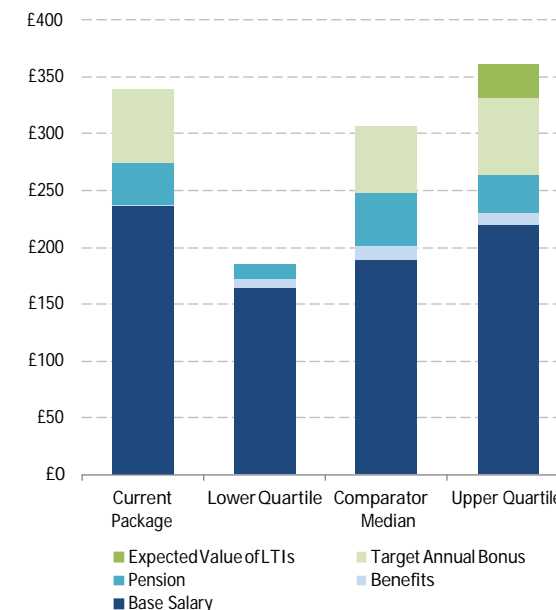
MD; Customer, Marketing & Comms – Publicly Accountable Group

MD; Customer Experience, Marketing & Comms

November 2015

Vernon Everitt

		Current Package	Lower Quartile	Comparator Median	Upper Quartile	Percentage of Median
Base Salary	£000s	£237	£165	£189	£220	125%
Target Annual Bonus	£000s	£65	£0	£28	£78	
	% of salary	28%	0%	15%	30%	
Total Cash Compensation	£000s	£302	£165	£252	£293	120%
Expected Value of LTIs	£000s	£0	£0	£0	£33	
	% of salary	0%	0%	0%	20%	
Total Direct Compensation	£000s	£302	£165	£277	£310	109%
Benefits	£000s	£1	£0	£5	£10	
Pension	£000s	£36	£13	£23	£37	
Total Target Remuneration	£000s	£339	£178	£305	£359	111%



Benchmarking Notes

Role Match: Executive Committee Heads of Sales, Marketing and Communications
 Comparator Group: Publicly Accountable Group
 Data Source: New Bridge Street's participatory Executive Total Reward Survey
 Reporting Level: 2

- Base salary for this role is above the upper quartile of the Publicly Accountable Group.
- On-target bonus payments, at 28% of salary, are around the upper quartile.
- While not all comparators pay any long-term incentive, the median expected value of those which do is around 20% of salary.
- Total target remuneration is between the median and upper quartile.

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