

Remuneration Committee

Date: 19 March 2015

Item 6: Chief Officer Benchmarking

This paper will be considered in Public

1 Summary

- 1.1 The Committee is asked to note the paper, which provides a transparent comparison of remuneration levels and mix for senior executives within the peer group organisations against the remuneration of incumbent TfL executives. The benchmarking report, attached as Appendix 1, was produced by external remuneration advisors, New Bridge Street.

2 Recommendation

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

3 Benchmarking Exercise

- 3.1 TfL Pensions & Reward is 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. This contract is competitively retendered from time to time in accordance with the TfL's procurement practices and policies. The outcome of the latest procurement exercise was that the contract was awarded to New Bridge Street, part of Aon Hewitt.
- 3.2 The research undertaken for the Commissioner and Chief Officer roles is bespoke and involves analytical judgement of data from a number of sources including published annual accounts as well as proprietary survey sources.
- 3.3 The report from New Bridge Street is attached. It provides information on trends in private and public sector pay, role matching, market matching, the methodology, a proposal to distil a single benchmark from the data and the benchmark results.
- 3.4 As requested by the Committee, the composition of the peer group for this review has included significantly more public sector facing organisations. The benchmark is calculated on the basis of a 60:40 split between a Listed Companies Group, consisting of a bespoke selection of large transport and infrastructure companies and a Publicly Accountable Group, consisting of a bespoke selection of companies accountable to the UK public, owned, or overseen by, the government, and with a degree of sensitivity around pay. Information is contained on the results of the benchmarking for both base salaries and total target remuneration.
- 3.5 The analysis by the external remuneration advisors indicates that base salaries of the Commissioner and all Chief Officers is below the benchmarked market level.

3.6 Having considered the views of the Committee on the benchmarking analysis, the Commissioner will make recommendations at the next scheduled meeting on both base salaries and performance awards for the Committee's approval.

List of appendices to this paper:

Appendix 1: Chief Officer Remuneration Review report by New Bridge Street, dated February 2015

List of Background Papers:

None.

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Chief Officer Remuneration Review

Transport for London

February 2015

Introduction

- New Bridge Street has been asked to benchmark the remuneration of the Chief Officers of Transport for London (the “Company” or “TfL”).
- 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. This group reflects a projected revenue of £8,821m¹ and 28,000 employees for the Company (as advised).
 - The Publicly Accountable Group, consisting of a bespoke selection of companies accountable to the UK public, owned, or overseen by, the government, and with a degree of sensitivity around pay.
- This report sets out the rationale for these groups, a comparison with the 2014 peer group and a proposal to distil a single benchmark from the data as well as providing the detailed benchmarks for each role in Appendix 3.
- 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.

Background – trends in private sector remuneration

2014 was the first full year in which the BIS² reporting regulations were enforced and this provided greater transparency for executive compensation. The following are the key trends:

- There was restraint in base salary movement with most organisations mindful not to award executive increases greater than those awarded to the general workforce. Based on 2013/14 report and accounts data for the FTSE 100, 22% of companies froze base salaries for executive directors and the median increase (including zeros) was 2.7%.
- There was little change in annual incentive opportunity. Many organisations have adopted a ‘one bonus plan, one LTIP’ approach and incentive pay structures are now more simple and transparent.
- Pay for performance considerations are now central to incentive plan design and long term incentive pay is largely linked to the attainment of financial metrics or share price, although there is also increasing use of non-financial and strategic performance indicators. Annual bonus is usually largely based on financial performance (usually profit) with a minority on strategic/individual objectives.
- For variable pay generally, there is increased scrutiny on the relationship between pay and performance – this is likely to be a focus in 2015, as companies balance the needs of commercial sensitivity with calls for greater transparency from investors. There is also pressure to set more demanding targets now that they will be publicly disclosed, at least retrospectively.
- Bonus deferral has been increasing over recent years and in 2013/14, around 80% of FTSE 100 companies required part of the bonus to be deferred into company shares. This is viewed as an effective way to retain executives and create more alignment with shareholders.
- There is now widespread adoption of clawback and malus provisions which allow the recovery and withholding of incentive pay awards. In the FTSE 100 in 2013/14, 83% of plans included such provisions.

Background – trends in private sector remuneration (2)

- The decline in Defined Benefit (DB) pension plans continues. In the FTSE 100 only around 15% of Directors are still accruing benefits in a DB plan. The most common pension provision is a cash supplement, typically around 20 -35% of salary.
- There is greater focus on share ownership through share ownership guidelines. Over 90% of FTSE 100 companies disclose details of shareholding requirements which are viewed as increasing executives' alignment with shareholders.

Background – trends in public sector remuneration

- The public sector continues to operate under a high level of scrutiny from the media and the public. Public sector pay increases have been minimal in recent years and have resulted in a real decrease in pay for most. The Treasury has stated that continued restraint reflects the government priority of protecting existing jobs and the Chancellor in his March 2014 Budget indicated that public sector increases would continue to be limited to 1% until 2016.
- Although there is a general election in May 2015, the Labour party has indicated it is likely to continue the current Government's spending restraint.
- However, in November 2014, a 2.2% increase effective 1 January 2015 was agreed for Local Government employees, as they were widely seen as the lowest paid in the public sector. Despite the recent reduction in inflation (RPI fell to 1.6% in December 2014 and is predicted to remain between 1.8 and 2.7% through 2015³) pressure on pay will remain, particularly as private sector pay increases are anticipated to be around 3%⁴ in 2015.
- The payment of performance-based pay (i.e. annual bonus and LTIP awards) is by no means universal in the public 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.
- Prevalence of annual bonus and long term incentives is greater in Public Corporations and larger NDPBs where greater autonomy on pay decisions is allowed. The highest median bonus payments for 2013/14 were amongst Public Corporations.

Role matching

- As agreed with the Company, roles at TfL have been matched to market and survey data on the following basis:

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

Market matching

- One of the fundamental elements of market pay benchmarking is the determination of the comparator group of organisations. An ideal pay benchmarking group would comprise a suitable number of comparator organisations, so as to be statistically robust, which share similar characteristics in terms of operations, size, complexity and ownership structure. This is relevant, as organisations which share similar characteristics are likely to be a key source from which a company will compete for talent.
- In practice, companies do not always have a large number of other organisations that are directly comparable to them – for example because their key competitors may be significantly larger or smaller than them. A further problem can be that not all organisations will fully disclose their pay arrangements – only listed companies are legally required to comply with the reporting requirements on remuneration. While a number of non-listed companies do elect to, either fully or partly, comply with the regulations, some do not.
- There are a number of factors which we have taken into account in selecting benchmarking group(s):
 - Ownership Structure - As a local government body TfL's pay structures are reported and are subject to public, political and media scrutiny. As such, consideration should be given to looking at pay levels and structures in other government owned and publicly accountable organisations.
 - Commercial Goals - It is important that TfL is able to attract and retain senior executives of a suitable calibre and with relevant experience to fulfil its goals. It may be necessary to attract executives from other companies in the listed space. Accordingly, pay in listed PLCs which share similar characteristics should be considered so that TfL understands the market in which it may need to compete for key senior talent.
 - Previous approach - Previously the Commissioner and Chief Officers were benchmarked against a mixed group of listed companies and public bodies (the 2014 Group), and it would be helpful for TfL to be able to compare and contrast the 2015 benchmarks with the approach taken last year.

Market matching (2)

- Considering these issues we have completed the market benchmarking in this report using two separate groups. This gives a clear understanding of the similarities and differences between the two markets. We also provide a read across to the previous approach.
- In summary, the recommended comparator groups are:
 - **Listed companies with operational similarities**
 - A group comprising the listed companies from 2014 as a separate group. This is because the structure of pay in listed companies differs markedly from unlisted companies (eg. use of share based long-term incentives (listed), prevalence of legacy DB pension provision (public sector)). We consider that the use of a combined group blurs the distinction between the two and gives a result that is reflective of neither type of organisation.
 - We have based the listed companies group (Appendix 2) on the 2014 peer group listed companies with the following amendments:
 - ♦ Exclude - Land Securities and British Land – We understand the rationale that these organisations have significant asset management, domestic focus and extensive capital expenditure. However, these companies have no turnover; their income is generated from investments by a small number of employees, packages are highly leveraged to the income generated, which differs from the other companies and does not appear to add to the robustness of the peer group.
 - ♦ Include – Thomas Cook Group - travel organisation with significant operational complexity, consumer service orientation and similar employee numbers to TfL.
 - ♦ Include – Capita – diverse support services, domestic focus and large employee population.
 - Overall, these amendments do not radically change the quartile turnover and employee statistics from the 2014 group, but we consider that the consistent ownership structure within the group provides a more robust benchmark result.

Market matching (3)

– Publicly accountable organisations

- This group comprises other organisations in which there is a high degree of public accountability and political and media sensitivity around pay. While the companies do not all share the same oversight as TfL, most are owned or overseen by the government.
 - The larger organisations in this peer group, operate with significant commercial focus and encounter similar issues in needing to recruit and retain employees from domestic and international commercial organisations.
 - The group expands upon the public organisations included in 2014. We selected organisations on similar criteria to those considered previously by the Remuneration Committee.
 - ♦ NATS & Manchester Airport Group are included because of their commercial focus and complex ownership structure, as well as transport sector focus. NATS is partly owned by the government and partly by independent commercial investors, it has to balance the safety and strategy regulation imposed by government and the commercial return required by investors. Manchester Airport Group is owned by a syndicate of local government boroughs surrounding Manchester Airport. It also runs Stansted Airport and together both airports handle nearly 40m passengers per year.
 - ♦ Nuclear Decommissioning Authority because of its large capital expenditure and commercial approach (even though Government funded).
 - ♦ Post Office is added due to its size, public service and commercial focus.
 - We excluded the CAA which had been included in 2014 as in size terms it was much smaller than TfL and performs a regulatory rather than an operational role, in the aviation industry.
 - We also considered including Port of London and London Ambulance Service but did not include them due to their size being so much smaller than TfL.
- We have also included benchmarks based on the **2014 peer group**. This group is included for comparison purposes.

Methodology

- We match each role as closely as possible to similar roles within the peer group organisations.
- For main board roles we have used publicly disclosed data from the latest report and accounts of the organisations in the peer group. This applies to the Commissioner, MD Finance and the MDs of Surface Transport and, Rail and Underground.
- For the executive committee roles we have used our New Bridge Street Executive Total Reward Survey. In most cases we have analysed the reported data for the closest matching role. In the case of the MD, Customer Experience, Marketing & Communications, it was not possible to find a direct match, thus we have blended roles with similar combined aspects at the executive committee level.
- As requested by TfL, we have used a combined capital expenditure and operational expenditure budget as a proxy for actual annual revenue. For 2015/16 this is projected to be £8,821m.
- When valuing the remuneration of current incumbents, we would like to note the following:
 - We have used the average payment of annual bonus from the last few years as the on-target level of payment. In the case of the Commissioner, maximum bonus opportunity is 50% (42.6% on target) and for other Chief Officers the maximum is 30% (27.6% on-target). This differs from our standard survey approach which is described in Appendix 1.
 - We have used a valuation for the DB pension provision based on standard actuarial assumptions. We recognise that actual funding by employer and employee may vary from this, based on the particular pension plan the incumbent is a member of and their personal circumstances in terms of length of service and age etc. Again, this is described in Appendix 1.
 - In addition to the value of allowances (provided), we have valued healthcare benefits for each role at £1,300.

Consideration of a single benchmark

- In this report we have provided two separate market viewpoints – UK listed companies and publicly accountable organisations. Not surprisingly, the quantum and composition of the packages are divergent.
- We have considered approaches for combining the benchmarks to provide a single recommendation. In doing so, we have reviewed the approaches taken by several of the organisations in the publicly accountable group whom we have advised in the last couple of years.
- All of these organisations take multiple market soundings to inform their remuneration levels. In most cases including listed companies and publicly accountable groups.
- In the five organisations we reviewed, we found all considered a position between the benchmarks provided based on judgement which took into account their size, operational complexities and commercial circumstances.
- The previous approach was a blended approach that was heavily weighted towards the listed companies (as 21 of the total sample of 24 companies were listed).
- We have reviewed the benchmarks we are providing in this report and, as some other similar organisations have done, considered a positioning between the two benchmarks.
- We understand from TfL that a significant reduction in government funding requires the organisation to be increasingly self sufficient, relying on commercial activity and revenue generation. Thus, in consultation with TfL, and considering the approaches taken by other commercially focused publicly accountable organisations, a positioning based on a 60% weighting of the Listed Group and a 40% weighting of the publicly accountable group would be justified.
- The table on the next page, includes the benchmarks when this combined approach is applied.
- We would caution that our benchmarks are not a recommendation of pay level but should be considered in combination with other factors such as internal relativities, the strategic impact of the role at TfL, and the skills and sustained performance of the incumbent.

Summary of Benchmarking Results

- The table below summarises benchmark **base salaries** for each role. Benchmark data for both comparator groups is shown, with data for the 2014 Comparator Group shown for information only.
- 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.
- Detailed benchmarking results are provided in Appendix 3.

Role at TfL	Base Salary				Combined Position	Percentage of Market Level
	Current	Listed Companies Group	Publicly Accountable Group	2014 Comparator Group		
	£'000	£'000	£'000	£'000	£'000	%
Commissioner	£348	£691	£467	£691	£601	58%
Managing Director; Finance	£270	£454	£294	£450	£390	69%
Managing Director; Rail & Underground	£290	£475	£320	£423	£413	70%
Managing Director; Surface Transport	£278	£475	£320	£423	£413	67%
Managing Director; Crossrail 2	£220	£275	£165	£267	£231	95%
General Counsel	£238	£277	£218	£249	£253	94%
MD; Customer Experience, Marketing & Comms	£229	£325	£187	£201	£270	85%

Summary of Benchmarking Results (2)

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

Role at TfL	Total Target Remuneration				Combined Position	Percentage of Market Level
	Current	Listed Companies Group	Publicly Accountable Group	2014 Comparator Group		
	£'000	£'000	£'000	£'000		
Commissioner	£599	£2,305	£694	£2,222	£1,661	36%
Managing Director; Finance	£399	£1,247	£541	£1,233	£965	41%
Managing Director; Rail & Underground	£426	£1,556	£411	£1,081	£1,098	39%
Managing Director; Surface Transport	£391	£1,556	£411	£1,081	£1,098	36%
Managing Director; Crossrail 2	£317	£649	£255	£674	£491	65%
General Counsel	£358	£576	£351	£542	£486	74%
MD; Customer Experience, Marketing & Comms	£329	£817	£302	£479	£611	54%

APPENDICES

Appendix 1

Benchmarking methodology

Element	Method of calculation
Salary	Reported current salary data.
Benefits	Reported cash value.
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

Comparator group constituents – Listed Companies Group

Company Name	Index	Market Cap (31 Jan 2015) £m	Turnover £m	PBT £m	No. of Employees	Sector
National Grid	FTSE100	£35,177	£14,809	£2,748	23,909	Gas, Water & Multiutilities
BT Group	FTSE100	£34,039	£18,287	£2,312	87,800	Fixed Line Telecommunications
SSE	FTSE100	£15,891	£30,585	£575	19,894	Electricity
Centrica	FTSE100	£14,598	£26,571	£1,649	36,966	Gas, Water & Multiutilities
International Consolidated Airlines Group	FTSE100	£11,102	£15,764	£193	60,089	Travel & Leisure
Capita	FTSE100	£7,399	£3,896	£215	56,468	Support Services
easyJet	FTSE100	£7,396	£4,527	£581	8,987	Travel & Leisure
United Utilities	FTSE100	£7,003	£1,705	£545	5,329	Gas, Water & Multiutilities
Bunzl	FTSE100	£6,349	£6,098	£290	13,675	Support Services
Severn Trent	FTSE100	£5,157	£1,857	£283	7,992	Gas, Water & Multiutilities
Royal Mail	FTSE100	£4,350	£9,456	£363	166,251	Industrial Transportation
Pennon Group	Mid250	£3,542	£1,321	£207	4,451	Gas, Water & Multiutilities
Amec Foster Wheeler	Mid250	£3,097	£3,974	£255	23,572	Oil Equipment & Services
Stagecoach Group	Mid250	£1,967	£2,930	£158	35,470	Travel & Leisure
Thomas Cook Group	Mid250	£1,877	£9,315	-£158	26,448	Travel & Leisure
Balfour Beatty	Mid250	£1,531	£8,745	£32	49,785	Construction & Materials
Carillion	Mid250	£1,474	£3,333	£111	25,915	Support Services
National Express Group	Mid250	£1,307	£1,891	£64	42,262	Travel & Leisure
FirstGroup	Mid250	£1,200	£6,718	£59	116,497	Travel & Leisure
Go-Ahead Group	Mid250	£1,065	£2,702	£91	23,792	Travel & Leisure
Serco Group	Mid250	£848	£5,144	£107	94,980	Support Services
Lower Quartile		£1,531	£2,930	£107	19,894	
Median		£4,350	£5,144	£215	26,448	
Upper Quartile		£7,399	£9,456	£545	56,468	
Transport for London	Unlisted		£8,821		28,000	Transport

Appendix 2

Comparator group constituents – Publicly Accountable Group

Company Name	Index	Market Cap (31 Jan 2015) £m	Turnover £m	PBT £m	No. of Employees	Sector
BBC	Unlisted	-	£5,066		20,736	Media
Manchester Airport Group	Unlisted	-	£671		4,231	Transport
NATS	Unlisted	-	£938		4,519	Transport
Network Rail	Unlisted	-	£6,333		34,000	Infrastructure
Nuclear Decommissioning Authority	Unlisted	-	£8,439		284	Energy
Post Office	Unlisted	-	£1,179		7,950	Retail
Lower Quartile			£998		4,303	
Median			£3,123		6,235	
Upper Quartile			£6,016		17,540	
Transport for London	Unlisted		£8,821		28,000	Transport

Appendix 2

Comparator group constituents – 2014 Comparator Group

Company Name	Index	Market Cap (31 Jan 2015) £m	Turnover £m	PBT £m	No. of Employees	Sector
Amec Foster Wheeler	Mid250	£3,097	£3,974	£255	23,572	Oil Equipment & Services
Balfour Beatty	Mid250	£1,531	£8,745	£32	49,785	Construction & Materials
BBC	Unlisted		£5,066		20,736	Media
British Land Company	FTSE100	£8,459		£1,110	556	Real Estate Investment Trusts
BT Group	FTSE100	£34,039	£18,287	£2,312	87,800	Fixed Line Telecommunications
Bunzl	FTSE100	£6,349	£6,098	£290	13,675	Support Services
CAA	Unlisted		£133		919	Transport
Carillion	Mid250	£1,474	£3,333	£111	25,915	Support Services
Centrica	FTSE100	£14,598	£26,571	£1,649	36,966	Gas, Water & Multiutilities
easyJet	FTSE100	£7,396	£4,527	£581	8,987	Travel & Leisure
FirstGroup	Mid250	£1,200	£6,718	£59	116,497	Travel & Leisure
Go-Ahead Group	Mid250	£1,065	£2,702	£91	23,792	Travel & Leisure
International Consolidated Airlines Group	FTSE100	£11,102	£15,764	£193	60,089	Travel & Leisure
Land Securities Group	FTSE100	£10,071		£1,109	614	Real Estate Investment Trusts
National Express Group	Mid250	£1,307	£1,891	£64	42,262	Travel & Leisure
National Grid	FTSE100	£35,177	£14,809	£2,748	23,909	Gas, Water & Multiutilities
Network Rail	Unlisted		£6,333		34,000	Infrastructure
Pennon Group	Mid250	£3,542	£1,321	£207	4,451	Gas, Water & Multiutilities
Royal Mail	FTSE100	£4,350	£9,456	£363	166,251	Industrial Transportation
Serco Group	Mid250	£848	£5,144	£107	94,980	Support Services
Severn Trent	FTSE100	£5,157	£1,857	£283	7,992	Gas, Water & Multiutilities
SSE	FTSE100	£15,891	£30,585	£575	19,894	Electricity
Stagecoach Group	Mid250	£1,967	£2,930	£158	35,470	Travel & Leisure
United Utilities	FTSE100	£7,003	£1,705	£545	5,329	Gas, Water & Multiutilities
Lower Quartile		£1,531	£2,759	£111	8,738	
Median		£5,157	£5,105	£283	23,851	
Upper Quartile		£10,071	£9,278	£581	44,143	
Transport for London	Unlisted		£8,821		28,000	Transport

Appendix 3 – Benchmarking Results

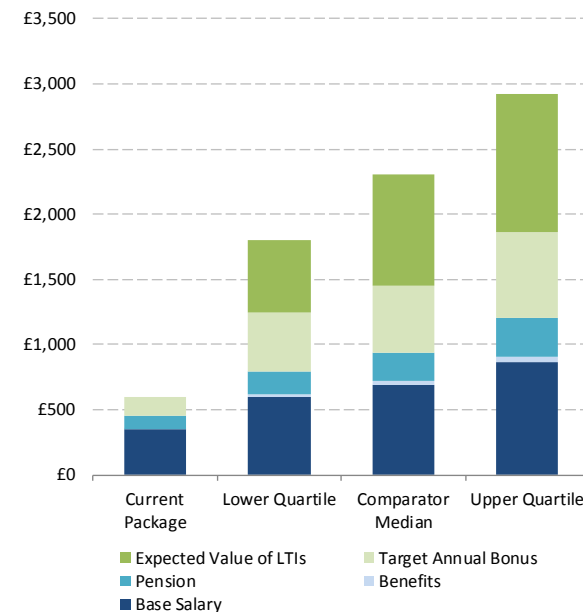
Commissioner – Listed Companies Group

Commissioner

February 2015

Sir Peter Hendy

		Current Package	Lower Quartile	Comparator Median	Upper Quartile	Percentage of Median
Base Salary	£000s	£348	£601	£691	£861	50%
Target Annual Bonus	£000s	£148	£397	£504	£655	
	% of salary	43%	60%	73%	85%	
Total Cash Compensation	£000s	£497	£995	£1,199	£1,554	41%
Expected Value of LTIs	£000s	£0	£502	£845	£1,057	
	% of salary	0%	80%	103%	142%	
Total Direct Compensation	£000s	£497	£1,567	£1,956	£2,457	25%
Benefits	£000s	£1	£17	£28	£44	
Pension	£000s	£101	£159	£215	£305	
Total Target Remuneration	£000s	£599	£1,805	£2,305	£2,921	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

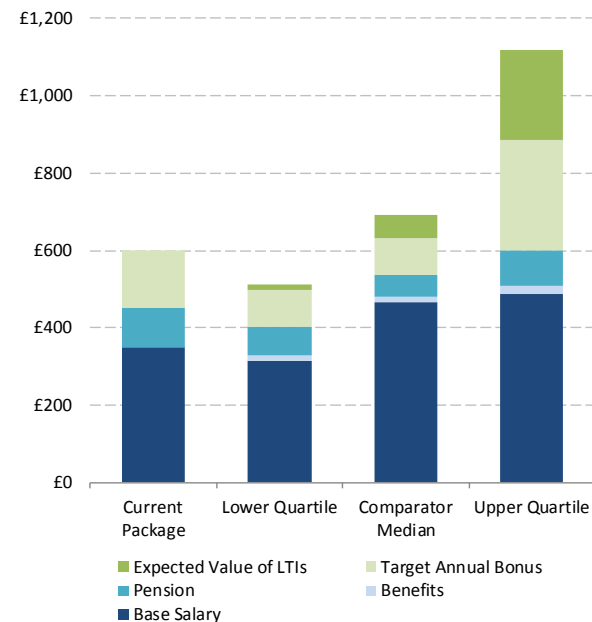
Commissioner – Publicly Accountable Group

Commissioner

Sir Peter Hendy

February 2015

		Current Package	Lower Quartile	Comparator Median	Upper Quartile	Percentage of Median
Base Salary	£000s	£348	£313	£467	£487	75%
Target Annual Bonus	£000s	£148	£67	£94	£247	
	% of salary	43%	14%	20%	45%	
Total Cash Compensation	£000s	£497	£390	£596	£735	83%
Expected Value of LTIs	£000s	£0	£9	£64	£204	
	% of salary	0%	3%	25%	46%	
Total Direct Compensation	£000s	£497	£453	£602	£1,027	82%
Benefits	£000s	£1	£11	£15	£17	
Pension	£000s	£101	£52	£58	£82	
Total Target Remuneration	£000s	£599	£512	£694	£1,120	86%



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

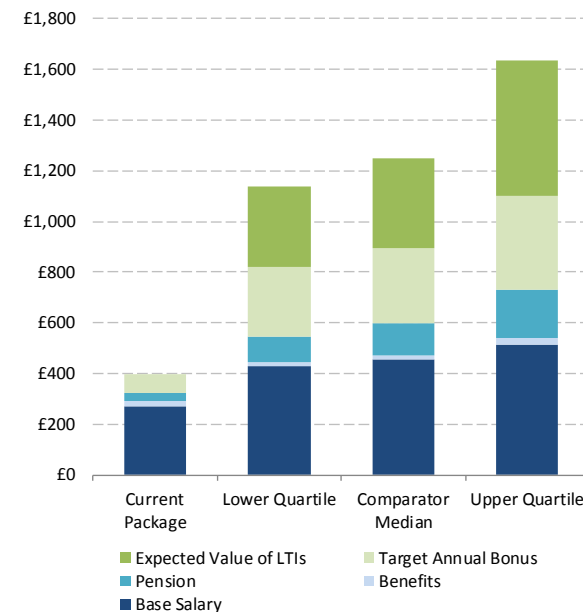
Managing Director; Finance – Listed Companies Group

Managing Director; Finance

February 2015

Steve Allen

		Current Package	Lower Quartile	Comparator Median	Upper Quartile	Percentage of Median
Base Salary	£000s	£270	£428	£454	£515	59%
Target Annual Bonus	£000s	£75	£256	£309	£375	
	% of salary	28%	60%	65%	75%	
Total Cash Compensation	£000s	£345	£680	£766	£875	45%
Expected Value of LTIs	£000s	£0	£297	£371	£530	
	% of salary	0%	66%	83%	123%	
Total Direct Compensation	£000s	£345	£972	£1,164	£1,446	30%
Benefits	£000s	£20	£15	£21	£25	
Pension	£000s	£35	£95	£129	£189	
Total Target Remuneration	£000s	£399	£1,137	£1,247	£1,633	32%



Benchmarking Notes

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

- Base salary for this role is below the lower quartile compared to 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.
- 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

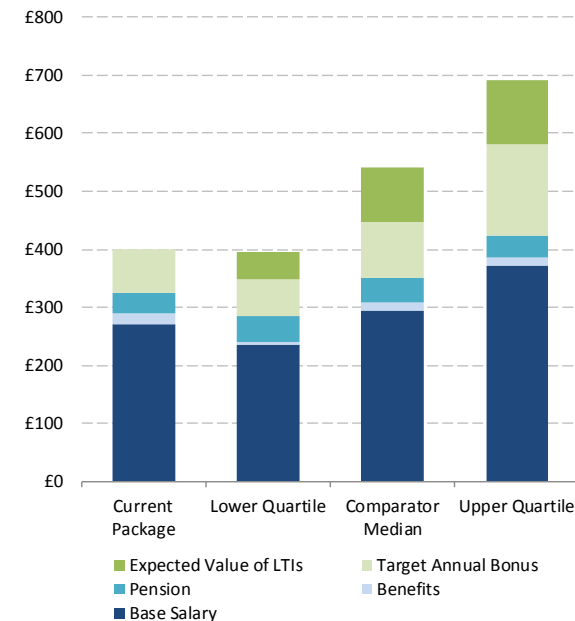
Managing Director; Finance – Publicly Accountable Group

Managing Director; Finance

February 2015

Steve Allen

		Current Package	Lower Quartile	Comparator Median	Upper Quartile	Percentage of Median
Base Salary	£000s	£270	£236	£294	£371	92%
Target Annual Bonus	£000s	£75	£45	£70	£157	
	% of salary	28%	14%	20%	30%	
Total Cash Compensation	£000s	£345	£325	£424	£473	81%
Expected Value of LTIs	£000s	£0	£33	£70	£111	
	% of salary	0%	15%	24%	33%	
Total Direct Compensation	£000s	£345	£356	£481	£605	72%
Benefits	£000s	£20	£2	£11	£14	
Pension	£000s	£35	£31	£32	£37	
Total Target Remuneration	£000s	£399	£395	£541	£692	74%



Benchmarking Notes

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

- Base salary for this role is around the median of the Publicly Accountable Group.
- On-target bonus payments, at 28% of salary, are between median and upper quartile.
- While not all comparators pay any long-term incentive, the median expected value of those which do is around 24% of salary.
- Total target remuneration is just above the lower quartile.

Appendix 3 – Benchmarking Results

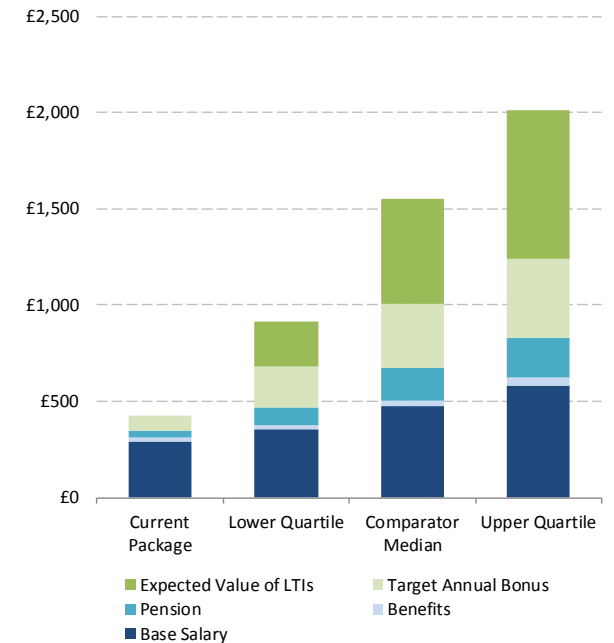
Managing Director; Rail & Underground – Listed Companies Group

Managing Director; Rail & Underground

February 2015

Mike Brown

		Current Package	Lower Quartile	Comparator Median	Upper Quartile	Percentage of Median
Base Salary	£000s	£290	£355	£475	£585	61%
Target Annual Bonus	£000s	£80	£178	£297	£421	
	% of salary	28%	60%	63%	65%	
Total Cash Compensation	£000s	£370	£533	£772	£1,024	48%
Expected Value of LTIs	£000s	£0	£195	£489	£784	
	% of salary	0%	54%	75%	110%	
Total Direct Compensation	£000s	£370	£728	£1,556	£1,711	24%
Benefits	£000s	£21	£17	£23	£41	
Pension	£000s	£35	£81	£154	£204	
Total Target Remuneration	£000s	£426	£916	£1,556	£2,012	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

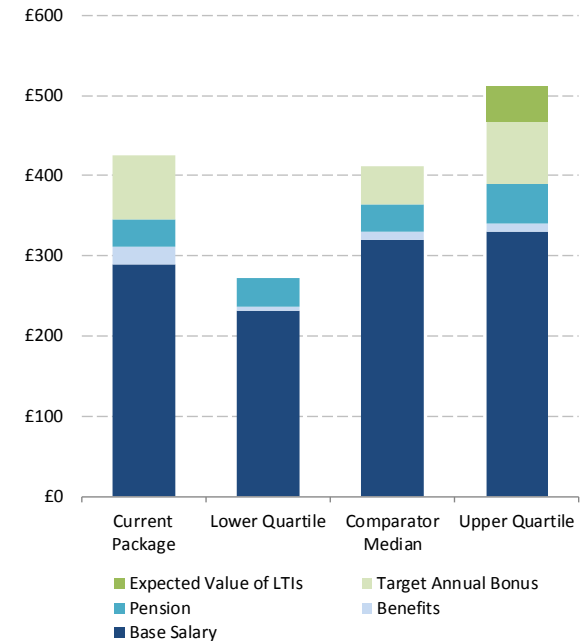
February 2015

Mike Brown

		Current Package	Lower Quartile	Comparator Median	Upper Quartile	Percentage of Median
Base Salary	£000s	£290	£232	£320	£330	91%
Target Annual Bonus	£000s	£80	£0	£56	£100	
	% of salary	28%	0%	25%	30%	
Total Cash Compensation	£000s	£370	£232	£320	£430	116%
Expected Value of LTIs	£000s	£0	£0	£0	£57	
	% of salary	0%	0%	0%	30%	
Total Direct Compensation	£000s	£370	£232	£340	£487	109%
Benefits	£000s	£21	£5	£11	£13	
Pension	£000s	£35	£35	£42	£65	
Total Target Remuneration	£000s	£426	£272	£411	£512	104%

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 around 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

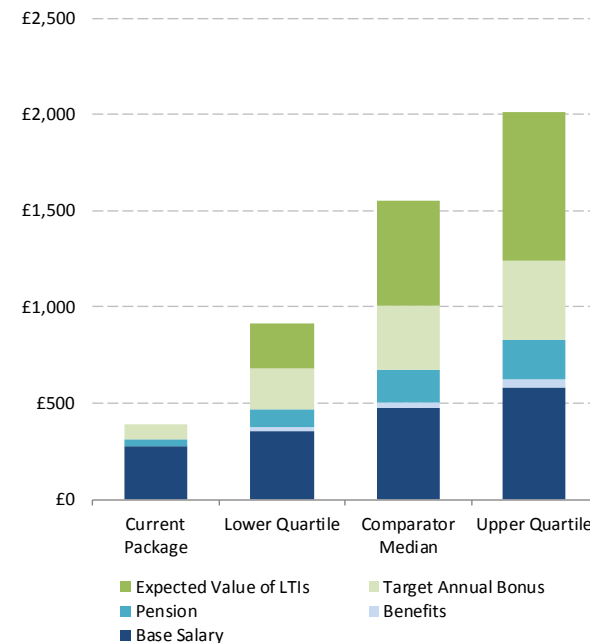
Managing Director; Surface Transport – Listed Companies Group

Managing Director; Surface Transport

February 2015

Leon Daniels

		Current Package	Lower Quartile	Comparator Median	Upper Quartile	Percentage of Median
Base Salary	£000s	£278	£355	£475	£585	58%
Target Annual Bonus	£000s	£77	£178	£297	£421	
	% of salary	28%	60%	63%	65%	
Total Cash Compensation	£000s	£354	£533	£772	£1,024	46%
Expected Value of LTIs	£000s	£0	£195	£489	£784	
	% of salary	0%	54%	75%	110%	
Total Direct Compensation	£000s	£354	£728	£1,556	£1,711	23%
Benefits	£000s	£1	£17	£23	£41	
Pension	£000s	£35	£81	£154	£204	
Total Target Remuneration	£000s	£391	£916	£1,556	£2,012	25%



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.

Appendix 3 – Benchmarking Results

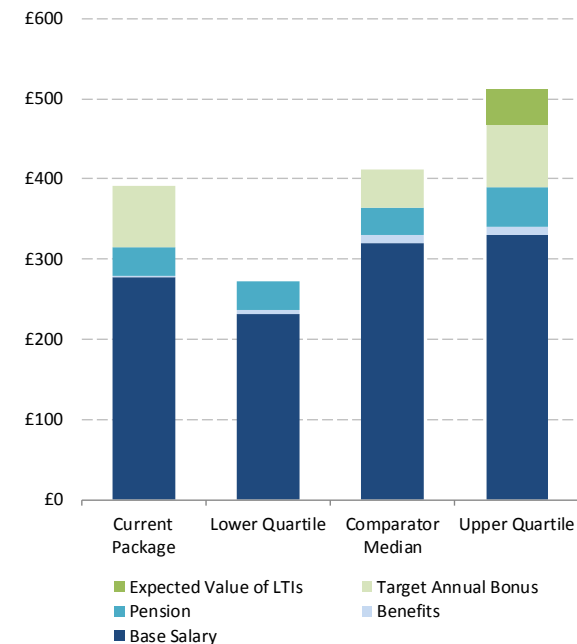
Managing Director; Surface Transport – Publicly Accountable Group

Managing Director; Surface Transport

February 2015

Leon Daniels

		Current Package	Lower Quartile	Comparator Median	Upper Quartile	Percentage of Median
Base Salary	£000s	£278	£232	£320	£330	87%
Target Annual Bonus	£000s	£77	£0	£56	£100	
	% of salary	28%	0%	25%	30%	
Total Cash Compensation	£000s	£354	£232	£320	£430	111%
Expected Value of LTIs	£000s	£0	£0	£0	£57	
	% of salary	0%	0%	0%	30%	
Total Direct Compensation	£000s	£354	£232	£340	£487	104%
Benefits	£000s	£1	£5	£11	£13	
Pension	£000s	£35	£35	£42	£65	
Total Target Remuneration	£000s	£391	£272	£411	£512	95%



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 around the median.

Appendix 3 – Benchmarking Results

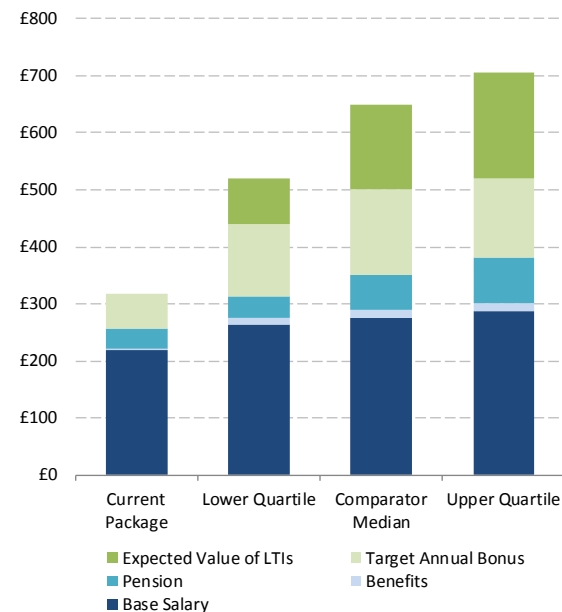
Managing Director; Crossrail 2 – Listed Companies Group

Managing Director; Crossrail 2

February 2015

Michele Dix

		Current Package	Lower Quartile	Comparator Median	Upper Quartile	Percentage of Median
Base Salary	£000s	£220	£264	£275	£288	80%
Target Annual Bonus	£000s	£61	£132	£141	£146	
	% of salary	28%	46%	50%	50%	
Total Cash Compensation	£000s	£281	£397	£426	£438	66%
Expected Value of LTIs	£000s	£0	£83	£138	£195	
	% of salary	0%	37%	46%	71%	
Total Direct Compensation	£000s	£281	£461	£581	£634	48%
Benefits	£000s	£1	£12	£14	£14	
Pension	£000s	£35	£40	£57	£84	
Total Target Remuneration	£000s	£317	£520	£649	£705	49%



Benchmarking Notes

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

- Note: this benchmark takes account of the project 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

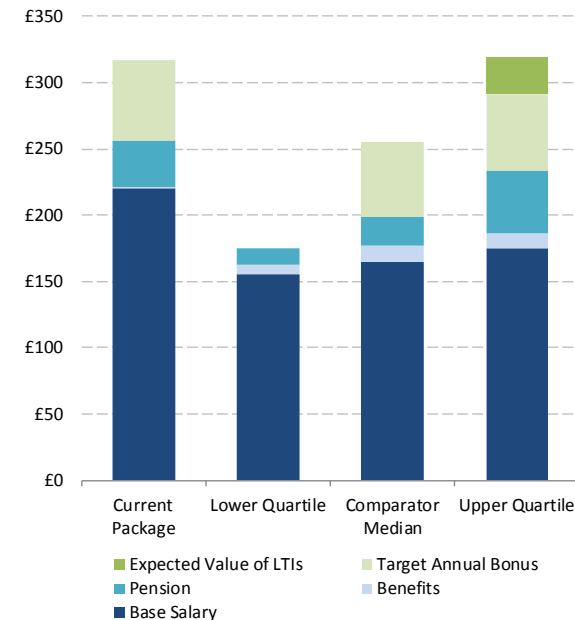
Managing Director; Crossrail 2 – Publicly Accountable Group

Managing Director; Crossrail 2

February 2015

Michele Dix

		Current Package	Lower Quartile	Comparator Median	Upper Quartile	Percentage of Median
Base Salary	£000s	£220	£155	£165	£175	133%
Target Annual Bonus	£000s	£61	£0	£45	£54	
	% of salary	28%	0%	25%	30%	
Total Cash Compensation	£000s	£281	£155	£228	£238	123%
Expected Value of LTIs	£000s	£0	£0	£0	£25	
	% of salary	0%	0%	0%	15%	
Total Direct Compensation	£000s	£281	£155	£228	£263	123%
Benefits	£000s	£1	£8	£9	£10	
Pension	£000s	£35	£12	£17	£44	
Total Target Remuneration	£000s	£317	£175	£255	£319	124%



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 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

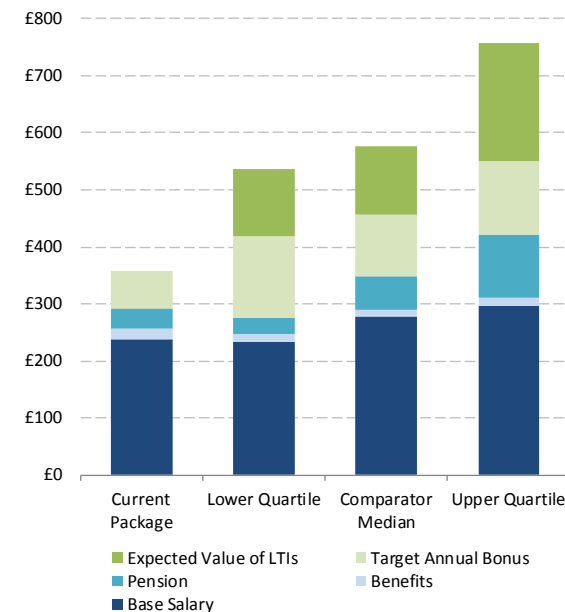
General Counsel – Listed Companies Group

General Counsel

February 2015

Howard Carter

		Current Package	Lower Quartile	Comparator Median	Upper Quartile	Percentage of Median
Base Salary	£000s	£238	£232	£277	£296	86%
Target Annual Bonus	£000s	£66	£121	£140	£147	
	% of salary	28%	48%	50%	60%	
Total Cash Compensation	£000s	£303	£369	£416	£433	73%
Expected Value of LTIs	£000s	£0	£98	£156	£232	
	% of salary	0%	45%	69%	77%	
Total Direct Compensation	£000s	£303	£478	£531	£662	57%
Benefits	£000s	£20	£12	£15	£16	
Pension	£000s	£35	£25	£78	£125	
Total Target Remuneration	£000s	£358	£536	£576	£757	62%



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 around 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

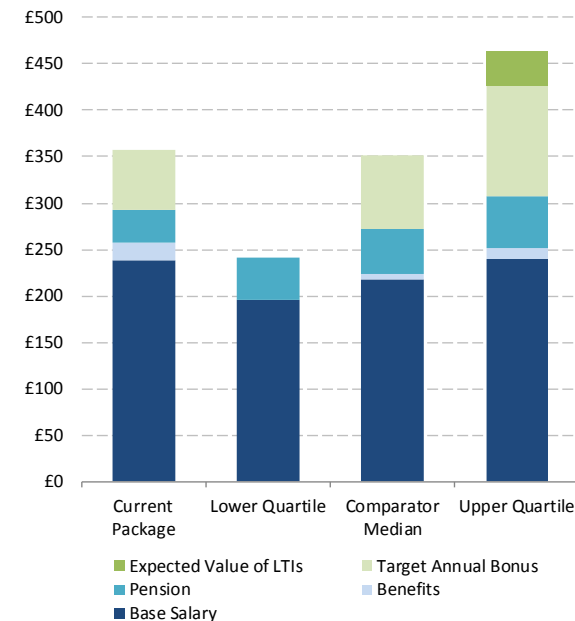
General Counsel – Publicly Accountable Group

General Counsel

Howard Carter

February 2015

		Current Package	Lower Quartile	Comparator Median	Upper Quartile	Percentage of Median
Base Salary	£000s	£238	£195	£218	£240	109%
Target Annual Bonus	£000s	£66	£0	£58	£99	
	% of salary	28%	0%	15%	30%	
Total Cash Compensation	£000s	£303	£215	£298	£339	102%
Expected Value of LTIs	£000s	£0	£0	£0	£31	
	% of salary	0%	0%	0%	20%	
Total Direct Compensation	£000s	£303	£215	£298	£390	102%
Benefits	£000s	£20	£0	£5	£9	
Pension	£000s	£35	£29	£36	£47	
Total Target Remuneration	£000s	£358	£241	£351	£463	102%



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 above 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 15% of salary.
- Total target remuneration is around the median.

Appendix 3 – Benchmarking Results

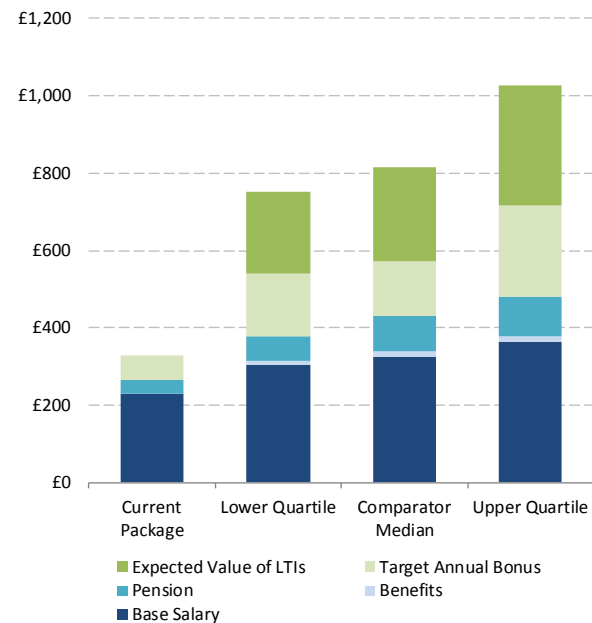
MD; Customer, Marketing & Comms – Listed Companies Group

MD; Customer Experience, Marketing & Comms

February 2015

Vernon Everitt

		Current Package	Lower Quartile	Comparator Median	Upper Quartile	Percentage of Median
Base Salary	£000s	£229	£303	£325	£364	70%
Target Annual Bonus	£000s	£63	£150	£162	£263	
	% of salary	28%	49%	50%	61%	
Total Cash Compensation	£000s	£292	£458	£487	£613	60%
Expected Value of LTIs	£000s	£0	£191	£276	£345	
	% of salary	0%	58%	83%	110%	
Total Direct Compensation	£000s	£292	£638	£762	£929	38%
Benefits	£000s	£1	£15	£17	£20	
Pension	£000s	£35	£57	£102	£115	
Total Target Remuneration	£000s	£329	£756	£817	£1,031	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

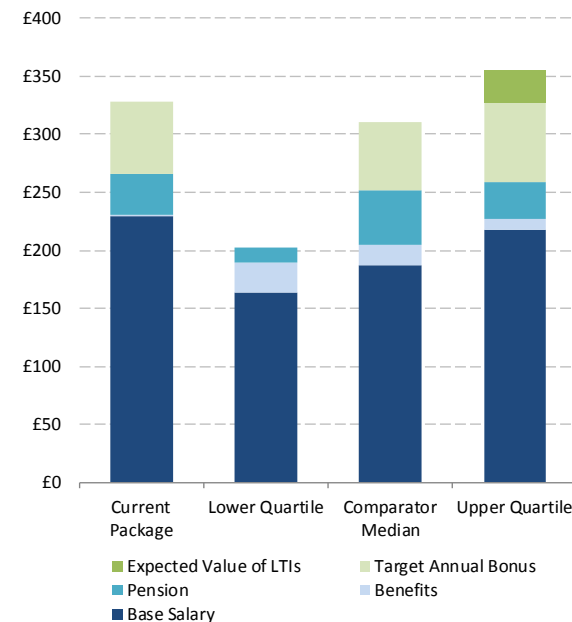
MD; Customer, Marketing & Comms – Publicly Accountable Group

MD; Customer Experience, Marketing & Comms

February 2015

Vernon Everitt

		Current Package	Lower Quartile	Comparator Median	Upper Quartile	Percentage of Median
Base Salary	£000s	£229	£163	£187	£218	122%
Target Annual Bonus	£000s	£63	£0	£28	£77	
	% of salary	28%	0%	15%	30%	
Total Cash Compensation	£000s	£292	£163	£250	£290	117%
Expected Value of LTIs	£000s	£0	£0	£0	£33	
	% of salary	0%	0%	0%	20%	
Total Direct Compensation	£000s	£292	£163	£274	£307	106%
Benefits	£000s	£1	£0	£5	£10	
Pension	£000s	£35	£13	£23	£37	
Total Target Remuneration	£000s	£329	£176	£302	£355	109%



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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