

Date: 19 July 2012

Item 6: Chief Officer Benchmarking and Peer Group Selection

This paper will be considered in public

1 Summary

- 1.1 In conjunction with Towers Watson we have prepared this paper outlining:
- (a) The peer group selection criteria that have been agreed with Transport for London (TfL);
 - (b) The resulting peer group, based on the application of the peer group criteria;
 - (c) The revenue profile of the resulting peer group, and how this compares to TfL's annual budget (taken as a proxy for revenue); and
 - (d) Summary remuneration data analysis for the Commissioner and each of the Commissioner's direct reports.
- 1.2 The purpose of the benchmarking process is to provide a transparent comparison of remuneration levels and mix for senior executives within the peer group organisations against the remuneration of incumbent TfL executives.

2 Recommendation

- 2.1 **The Committee is asked to approve a recommendation for an appropriate 'peer group' of carefully selected comparator organisations that will facilitate external market remuneration benchmarking of TfL's executive roles.**

3 Business Case

- 3.1 In Towers Watson's recent discussion paper for TfL, a number of recommendations were put forward for consideration by TfL for an objective approach to peer group selection.
- 3.2 It was agreed that peer group companies would be subject to several objective criteria to determine their suitability for inclusion in TfL's peer group. The agreed criteria are at **Appendix 1**.
- 3.3 Applying the agreed criteria to all FTSE 100 companies and the top 50 companies in the FTSE 250 (both excluding financial services), 16 companies were identified as appropriate to include in TfL's peer group. A further 10 companies were also identified based on industry "fit" and / or public service orientation.

4 Benchmarking

- 4.1 Using the selection criteria outlined above, a peer group has been agreed and is listed at **Appendix 2**, together with the rationale for their selection.
- 4.2 Peer group revenues and numbers of employees for the comparator group are listed at **Appendix 3**.
- 4.3 Peer group revenues and TfL (budget as a proxy for revenue) comparison are listed at **Appendix 4**.
- 4.4 A summary of available market data with line by line data is presented for the Commissioner, the Managing Director, Finance, the Managing Director, London Underground and Overground, and the Managing Director, Surface Transport is shown below at section 5.
- 4.5 Summary data for the General Counsel, the Managing Director, Planning, the Managing Director, Marketing and Communications and the Group HR Director, based on raw statistical data from Towers Watson's 2011 General Industry Top Executive Compensation Survey is also shown below in section 5.

5 Disclosed Data Analysis

Role	Basis for Comparison	Market data (median, unadjusted)			Current incumbent data as at 31 March 2012		
		Base Salary (FTE)	Target Total Cash (TTC) ¹	Total Direct Compensation (TDC) ²	Base Salary (FTE)	TTC	TDC
Commissioner	CEOs and Managing Directors	£631,000	£1,170,416	£1,741,973	£348,444	£486,660	£486,660
MD, Finance	CFOs Finance Directors	£417,000	£660,000	£910,200	£270,000	£339,120	£339,120
MD, LU and London Overground	Group Executives on the Main Board	£379,500	£590,358	£818,058	£289,700	£363,863	£363,863
MD, Surface Transport	Group Executives on the Main Board	£378,000	£528,500	£755,300	£247,768	£311,196	£311,196
General Counsel	Legal Executives	£235,000	£352,000	£457,750	£217,777	£273,528	£273,528
MD, Planning	Strategic Planning Executives	£295,000	£413,000	£516,000	£242,900	£305,082	£305,082
MD, Marketing and Communications³	Marketing and Communication Executives	£235,000	£330,000	£463,000	£229,020	£287,649	£287,649

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

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

³ These figures were given as Median FTSE 100 General Industry for Marketing and Communications Main Board due to the unique diversity of this role versus the peer group comparators.

6 Next Steps

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

List of appendices to this report:

Appendix 1 – Peer Group Selection

Appendix 2 – Peer Group Companies

Appendix 3 – Peer Group Revenue and Number of Employees

Appendix 4 – Peer Group Revenues and TfL Comparisons

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Peer Group Selection

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

Peer Group Companies

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

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

Company	Revenues (£m)	Employees
<i>National Grid</i>	£13,553	25,645
<i>International Power</i>	£14,043	11,658
<i>BT Group</i>	£19,307	89,000
<i>Land Securities</i>	£702	692
<i>British Land</i>	£313	555
<i>United Utilities Group</i>	£1,513	4,735
<i>Severn Trent</i>	£1,711	8,282
<i>International Airlines Group</i>	£16,103	56,791
<i>Amec</i>	£3,261	21,422
<i>Bunzl</i>	£5,110	11,956
<i>Pennon Group</i>	£1,159	4,354
<i>Serco</i>	£4,646	76,670
<i>First Group</i>	£6,429	127,619
<i>Balfour Beatty</i>	£9,494	50,301
<i>Easyjet</i>	£3,452	7,724
<i>Stagecoach Group</i>	£2,390	31,799
<i>Carillion</i>	£4,153	29,992
<i>National Express</i>	£2,238	38,921
<i>Go-Ahead Group</i>	£2,297	22,201
<i>Network Rail</i>	£5,712	35,374
<i>BAA</i>	£2,275	15,337
<i>Scottish Power</i>	£5,446	9,793
<i>Scottish & Southern Energy</i>	£9,156	180,384
<i>Centrica</i>	£22,824	39,432
<i>BBC</i>	£4,993	22,899
<i>Royal Mail</i>	£9,156	180,384

Peer Group Revenues and TfL Comparison

Annual Revenue	Peer Group Revenue range	Peer Group Employee range
Peer group minimum	£313m	555
Peer group lower quartile	£2,280m	10,259
Peer group median	£4,819m	22,550
Peer group upper quartile	£9,409m	39,304
Peer group maximum	£31,723m	180,384
TfL (budget as a proxy for revenue)	£8,972m (actual revenue = £3,884m)	