

**Date: 8 February 2018**

**Item: New Performance Award Scheme for Senior Management for 2018-19**

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

### **1 Purpose**

- 1.1 At the 2 October 2017 meeting the Remuneration Committee ('the Committee') approved a new annual performance award scheme design for Senior Management to be effective for the 2018-19 performance year. This included a general principle to focus the calculation of performance awards for Senior Management primarily around the outturn of a single scorecard for TfL. However, in the discussions about this it was accepted that each delivery business should still have some element of performance award calculation based on its own individual scorecard, whilst the calculation for Professional Services business areas would work solely off the TfL scorecard.
- 1.2 Therefore for TfL's delivery businesses, London Underground, Surface Transport, Major Projects and Commercial Development, a calculation method that uses two scorecards – the TfL scorecard and the delivery business scorecard is required. This paper sets out a recommended approach for the calculation and also options for the weighting between the two scorecards to be applied.

### **2 Recommendations**

- 2.1 **The Committee is asked to note the paper and:**
  - (a) **decide on the weighting to be applied between the delivery business scorecard and the TfL scorecard for each of the four delivery businesses – London Underground, Surface Transport, Major Projects and Commercial Development (3.1 below); and**
  - (b) **approve the calculation method to be applied where two scorecards will be used to determine performance awards (4.6 below).**

### **3 Scorecard Weighting**

- 3.1 In previous discussions with the Remuneration Committee there was a general consensus that the TfL scorecard should retain the highest weighting for the delivery businesses where two scorecards are to be used. Two options for this are therefore set out below:

Scorecard Weighting - Option 1:

Business Area	TfL Scorecard Weighting Percentage	Delivery Business Scorecard Weighting Percentage
Professional Services Business Areas	100%	-
London Underground	70%	30%
Surface Transport	70%	30%
Major Projects	70%	30%
Commercial Development	70%	30%

Scorecard Weighting - Option 2:

Business Area	TfL Scorecard Weighting Percentage	Delivery Business Scorecard Weighting Percentage
Professional Services Business Areas	100%	-
London Underground	60%	40%
Surface Transport	60%	40%
Major Projects	60%	40%
Commercial Development	60%	40%

## 4 Reminder: standard calculation method using the single (TfL) scorecard

4.1 The matrix in Figure 1 below outlines the core elements in the performance award calculation method using our Payband 4 methodology.

Payband 4		Percentage Award by Performance Rating				
Scorecard result	% Budget	1 x 0.0	2 x 0.33	3 x 0.85	4 x 1.20	5 x 1.50
70	5.00	0	1.7	4.3	6.0	7.5
71	5.17	0	1.7	4.4	6.2	7.7
72	5.33	0	1.8	4.5	6.4	8.0
73	5.50	0	1.8	4.7	6.6	8.2
74	5.67	0	1.9	4.8	6.8	8.5
75	5.83	0	1.9	5.0	7.0	8.8
76	6.00	0	2.0	5.1	7.2	9.0
77	6.17	0	2.0	5.2	7.4	9.3
78	6.33	0	2.1	5.4	7.6	9.5
79	6.50	0	2.1	5.5	7.8	9.8
80	6.67	0	2.2	5.7	8.0	10.0
81	6.83	0	2.3	5.8	8.2	10.3
82	7.00	0	2.3	6.0	8.4	10.5
83	7.17	0	2.4	6.1	8.6	10.8
84	7.33	0	2.4	6.2	8.8	11.0
85	7.50	0	2.5	6.4	9.0	11.3
86	7.67	0	2.5	6.5	9.2	11.5
87	7.83	0	2.6	6.7	9.4	11.8
88	8.00	0	2.6	6.8	9.6	12.0
89	8.17	0	2.7	6.9	9.8	12.3
90	8.33	0	2.8	7.1	10.0	12.5
91	8.50	0	2.8	7.2	10.2	12.8
92	8.67	0	2.9	7.4	10.4	13.0
93	8.83	0	2.9	7.5	10.6	13.3
94	9.00	0	3.0	7.7	10.8	13.5
95	9.17	0	3.0	7.8	11.0	13.8
96	9.33	0	3.1	7.9	11.2	14.0
97	9.50	0	3.1	8.1	11.4	14.3
98	9.67	0	3.2	8.2	11.6	14.5
99	9.83	0	3.2	8.4	11.8	14.8
100	10.00	0	3.3	8.5	12.0	15.0

Figure 1: Proposed performance award scheme calculation method. Example here is for Payband 4 with a minimum scorecard threshold of 70 per cent and an on-target of 85 per cent.

- 4.2 A minimum scorecard threshold of **70 per cent** will be the minimum outturn that must be achieved before any budget for performance awards becomes available.
- 4.3 A scorecard result of **85 per cent** will be the level for 'on target' performance. Scorecard outturn at 85 per cent will make the on-target performance award budget that is applicable to each senior management level available (7.5 per cent for Payband 4 in Figure 1 above) whilst performance outturn in the range above 85 per cent to the 100 per cent maximum represents an increasing level of 'stretch performance' with a linear growth in the available budget up to the maximum for the relevant Payband/level for 100 per cent outturn (10 per cent for Payband 4 in Figure 1 above).
- 4.4 Example calculation for an individual's performance award at Payband 4 using the matrix in Figure 1 above:

- Assume - Scorecard outturn at 85 per cent; Performance rating 3; Base salary £75,000
- Calculation – 7.5% budget (for 85% scorecard outturn) x 0.85 (multiplier for rating 3) = 6.4%

$$\text{Award} = £75,000 \times 6.4\% = £4,800$$

### Calculation method for Delivery Businesses using the two scorecard approach

4.5 The calculation using two scorecards will work from the same matrix relevant to the Payband / Level. A weighted average outturn will be calculated in accordance with weightings determined in 3.1 above.

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98	9.67	0	3.2	8.2	11.6	14.5
99	9.83	0	3.2	8.4	11.8	14.8
100	10.00	0	3.3	8.5	12.0	15.0

Figure 2: Proposed performance award scheme calculation method based on two scorecards. Example here is for Payband 4 with a minimum scorecard threshold of 70 per cent and an on-target of 85 per cent.

4.6 Calculation:

Assumptions:

TfL Scorecard Outturn – 90% (A)

Delivery Business Scorecard Outturn – 80% (B)  
Performance rating – 3

Calculation (using Option 1 - 70:30 weighting):

$$(7.1 \text{ (A)} \times 0.7) + (5.7 \text{ (B)} \times 0.3) = 6.68\%$$

Calculation (using Option 2 - 60:40 weighting):

$$(7.1 \text{ (A)} \times 0.6) + (5.7 \text{ (B)} \times 0.4) = 6.54\%$$

- 4.7 This calculation method will apply in the same way to Payband 5, Directors and Managing Directors in the delivery businesses using the relevant performance award matrix.
- 4.8 The performance award for the Commissioner will be based solely on the TfL scorecard.

**List of appendices to this report:**

None

**List of Background Papers:**

None

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