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# Corporate governance

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## Corporate governance

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# Our board of directors



**Sir Peter Hendy CBE**  
Chair

### Skills and experience

Sir Peter was commissioner of Transport for London (TfL) from 2006 to 2015. He led the successful operation of London's transport for the 2012 Olympic and Paralympic Games. Sir Peter's experience in leading urban transport in a world city is critical to chairing Network Rail and managing its complex relationships.

Sir Peter is a past international and UK president of the Chartered Institute of Logistics and Transport, is a fellow of the Chartered Institute of Highways and Transport, and of the Institution of Civil Engineers. He was knighted in the 2013 New Year's Honours List, having been made CBE in 2006 for services to public transport and the community in London.

### Current external appointments

Chair of the London Legacy Development Corporation; trustee of the Science Museum Group; trustee of the London Transport Museum; chair of the London Freight Enforcement Partnership; president of the International Association of Public Transport (UIPT); patron of the Independent Transport Commission; vice-president of the Widcombe Social Club.

### Committee membership

Nomination and remuneration committee; safety, health and environment committee; chair property supervisory committee; environmental sustainability advisory committee.

Appointed to the Board

2015



**Andrew Haines OBE**  
Chief executive

### Skills and experience

Andrew was previously chief executive officer of the Civil Aviation Authority from 2009-2018. Prior to that Andrew had a wide-ranging career within the rail industry. He started his career with British Rail and followed on to work for Railtrack, Network Rail's predecessor. He served as managing director of South West Trains and managing director FirstGroup plc where he led the rail division which included intercity, commuter, rural, freight, open access and tram services in England, Scotland and Wales. In addition, he was a non-executive director at a rolling stock leasing company.

Andrew was awarded an OBE in the 2016 New Year Honour's list for services to transport and is a fellow of the Chartered Institute of Logistics and Transport, the Royal Aeronautical Society, the Institute of Railway Operators and the Permanent Way Institute.

Appointed to the Board

2018



**Jeremy Westlake**  
Chief financial officer

### Skills and experience

Jeremy was formerly senior vice-president for finance at Alstom Transport in France, responsible for investor management, financial performance and control, and project finance. Prior to this he spent 14 years at Rolls-Royce in a range of senior finance and supply chain roles both in the UK and the United States.

Jeremy is a fellow of the Institute of Chartered Accountants in England and Wales and has a Master's in manufacturing from the University of Cambridge.

### Committee membership

Property supervisory committee.

Appointed to the Board

2016

## Board of directors continued

**Mark Bayley, CBE**

Non-executive director

**Skills and experience**

Mark has spent much of his career in the rail sector. He has particular experience in major projects, restructurings, and corporate finance.

Mark was finance director and later chief executive of London & Continental Railways Limited, developer of the High Speed 1 (HS1) railway and owner of the UK arm of Eurostar. He led the sale of HS1 for £2.1bn and was a board member of Eurostar. Mark was also chief executive of the Green Deal Finance Company (GDFC), a public/private vehicle set up to finance household energy efficiency measures on a pay-as-you-save basis. He completed the sale of the GDFC to a private equity consortium in 2017. Mark's interim work includes commercial director of High Speed 2 Ltd, and Chief Financial Officer and board director of the Submarine Delivery Agency at the Ministry of Defence.

Mark was appointed CBE in 2012 for services to the rail industry.

**Current external appointments**

Non-executive director of Ofwat and of the UK Atomic Energy Authority and director/trustee of Shadwell Opera Limited.

**Committee membership**

Audit and risk committee; treasury committee.

Appointed to the Board

**2020****Rob Brighouse**

Senior independent non-executive director

**Skills and experience**

Rob has 40-years' experience in the rail industry and was previously the managing director of Chiltern Railways where he was responsible for the operation and safety of the passenger rail service between London and the West Midlands and the introduction of the Chiltern Railways service between London and Oxford. Rob first joined the rail operator in 2000 as projects director, where he led the Evergreen 1 and 2 infrastructure projects as well as the building of Chiltern's Wembley depot. Rob brings vast rail industry experience to the Board and understands the complexities facing train operating companies.

Rob is a fellow of the Institution of Civil Engineers and the Institute of Directors and is a chartered director. Rob holds an MBA from Aston Business School.

**Current external appointments**

Chair of East West Rail Company Limited; chair of the Advisory Board at Aston Business School; and chair of LIFE Trust.

**Committee membership**

Safety, health and environment committee; audit and risk committee; environmental sustainability advisory committee.

Appointed to the Board

**2016****Sharon Flood**

Non-executive director

**Skills and experience**

Sharon has experience in a number of senior finance and strategy roles, most recently as group chief financial officer of Sun European Partners LLP, an international private equity investment advisory firm. From 2005 to 2010 she was finance director of John Lewis department stores. Sharon therefore strengthens the finance experience and customer focus on the Board.

Sharon holds an MBA from INSEAD and is a fellow of the Chartered Institute of Management Accountants.

**Current external appointments**

Non-executive director of Crest Nicholson Holdings plc; non-executive director of Pets at Home Group plc; trustee of the Science Museum Group; and a member of the Cambridge University Council.

**Committee membership**

Chair of the audit and risk committee; chair of the treasury committee, chair of the environmental sustainability advisory committee.

Appointed to the Board

**2014**

Board of directors continued



**Michael Harrison**

Special director and non-executive director

**Skills and experience**

Michael is a director in UK Government Investments (UKGI) an arm's length body of HM Treasury. As part of this role Michael has been a non-executive director of a number of companies in which the UK Government has a shareholding including Porton Biopharma, Ordnance Survey, the Met Office and Working Links.

Prior to working in UKGI Michael had a broad international corporate finance advisory career, with over 20 years working for Credit Suisse First Boston, Barclays de Zoete Wedd and as independent corporate finance advisor at Caliburn in Australia. He started his career as an accountant at PricewaterhouseCoopers.

**Current external appointments**

Employee of UK Government Investments (UKGI).

**Committee membership**

Nomination and remuneration committee.

Appointed to the Board

**2020**



**Silla Maizey**

Non-executive director

**Skills and experience**

Silla has over 34 years' experience in the aviation sector, and most recently was British Airways' (BA) managing director of Gatwick. She was part of BA's executive leadership team, and BA's customer director.

Silla brings a range of experience and insights to the Board, from operations to procurement, the shaping of the customer proposition and business reorganisations.

Silla is a fellow of the Chartered Association of Certified Accountants and a fellow of the Chartered Institute of Purchasing and Supply.

**Current external appointments**

Chair of NHS Business Services Authority; non-executive director of John Menzies plc; a non-executive director of the Crown Commercial Service; and a non-executive director of Saffron Solutions Limited.

**Committee membership**

Audit and risk committee; treasury committee.

Appointed to the Board

**2016**



**David Noyes**

Non-executive director

**Skills and experience**

David has spent his career working in the leisure and transport sectors. Having joined British Airways as a graduate trainee some 30 years ago, he held various senior positions, including director UK Regional operations, executive vice-president North America and director worldwide customer services. Most recently David was chief executive officer of Cunard and P&O Cruises.

David is experienced in leading corporate transformations with a focus on improving customer service whilst driving cost efficiency and is also skilled in managing devolved businesses in a safety critical industry.

**Current external appointments**

Non-executive chair of Grays of Cambridge (International) Limited; corporate advisory board member for The Teenage Cancer Trust; and parish councillor Membury (Devon).

**Committee membership**

Chair nomination and remuneration committee; safety, health and environment committee; environmental sustainability advisory committee.

Appointed to the Board

**2018**

Board of directors continued



**Mike Putnam**  
Non-executive director

**Skills and experience**

Mike has worked across the development, construction and services sectors. He has over 25 years' experience at senior management level.

Mike was president and chief executive officer of Skanska UK plc from October 2009 until May 2017. Prior to this, he was executive vice-president and director of Skanska UK plc and was responsible for leading first the infrastructure, and then the building and construction businesses. He was also involved as a non-executive director on several of the international Skanska businesses.

Throughout Mike's career, he has been closely involved with the successful delivery of high-profile projects and programmes.

Mike is a Chartered Engineer and a fellow of both the Institution of Civil Engineers and Royal Institution of Chartered Surveyors.

**Current external appointments**

Non-executive director of Southern Water Services Limited and Bazalgette Tunnel Limited; and a member of the Supervisory Board of Arcadis NV.

**Committee membership**

Chair safety, health and environment committee; environmental sustainability advisory committee.

Appointed to the Board **2018**



**Fiona Ross**  
Non-executive director

**Skills and experience**

Fiona is an experienced public and private sector chair and non-executive director, having served on boards in Ireland and the UK. In 2018 she was appointed by the Irish Government to Chair C oras Iompair  ireann (CI ), Ireland's public transport provider and to the Board of the HSE, Ireland's public health service. In May 2019 Fiona was appointed a non-executive director at The Scottish Government.

Fiona began her career as a stockbroker in the City of London and spent 25 years working in Capital Markets in Dublin, London, Eastern Europe and the United States. Fiona is a graduate of Trinity College Dublin, University College Dublin, Queen's University Belfast and the Institute of Art and Design (IADT). In 2012 Fiona was awarded a fellowship in Governance at George Washington University in the United States.

**Current external appointments**

Chair C oras Iompair  ireann; non-executive director HSE Ireland; non-executive director The Scottish Government; founding director EPIC Ireland The Irish Emigration Museum; non-executive director for the Heaney family; non-executive director JK Funds; and Smith & Williamson Europe where she chairs the audit and risk committee.

Appointed to the Board **2020**



**Stuart Kelly**  
Group general counsel and company secretary

**Skills and experience**

Stuart is responsible for the Legal and Corporate Services function. Stuart has extensive in-house legal and corporate governance experience gained within the listed environment, having joined the company from Severn Trent plc where he held the position of Deputy General Counsel.

Stuart started his in-house legal career with Network Rail, prior to which he was a solicitor in private practice. Stuart is also a qualified civil engineer having begun his career working for VolkerFitzpatrick.

Chris Gibb resigned as a director on 30 November 2019.

Richard Brown's appointment ended and Bridget Rosewell resigned as a director on 31 March 2020.



# Corporate governance report

Network Rail recognises the value of good corporate governance, believes that good corporate governance is essential to the success of the company and for delivering our strategy for passengers and stakeholders. During 2019/20, we have acted upon the feedback we received from the listening programme conducted last year across the organisation and externally, and aligned our internal governance processes accordingly.

## Putting Passengers First programme

Network Rail is changing to be more responsive to the needs of passengers and freight users. The Putting Passengers First programme was launched in January 2019. Some of the changes being made are structural, but Network Rail has also developed new corporate values and a customer experience programme.

Our values bind us together as an organisation and remind us of what we collectively believe to be important. They guide how we act and make decisions. During the year, almost 4,000 colleagues from routes and functions worked together to identify our four values:

- **Always safe:** Safety is not negotiable. We challenge ourselves and our people every time we witness unsafe behaviour.
- **Care about people:** Respect, kindness and empathy are all part of treating others the way we wish to be treated. It is simply about asking ourselves ‘how can we better care for the passenger that we serve every day?’
- **Teamwork is key:** It is about mutual support. We pull together as one rail industry, with the needs of the passengers and freight users at the heart of what we do.
- **Empowered to ACT:** We are empowered to do the right thing for those who use the rail network.

These values focus us on how we operate in relation to customers on a day-to-day basis. Acting in line with our values is how Network Rail will deliver great service to passengers and freight users – they are the means by which we will put passengers first.

The Customer Experience Programme is designed to improve how Network Rail serves its passengers, partners, people and the public. The work supports the company’s vision to be on the side of passengers and freight users, easy to engage with and a dependable partner; a company people are proud to work for; and instinctively recognised as an industry leader.

During 2019/20, alongside these cultural changes, we took steps to strengthen devolution to make our routes more responsive to local needs and make Network Rail easier to engage and work with.

In June 2019, Network Rail created five new regions (Eastern, North West & Central, Scotland’s Railway, Southern and Wales & Western) each with its own managing director. There are now 14 routes across the five regions. This new structure enables us to respond more effectively to the needs of passengers and freight users.

The programme will enable us to be closer to the customer. The changes started in June 2019 and are expected to be finalised towards the end of 2020.

Each route has responsibility for the delivery of its operations, maintenance and renewals work.

## Engaging with our stakeholders

Network Rail considers our stakeholders to be at the heart of our strategy. The Board has considered how the interests of key stakeholders and the matters set out in section 172 of the Companies Act 2006 (i.e. promoting success of the company), have been considered in Board discussions and decision making. Refer to the section 172 statement on page 12 for further details.

The Putting Passengers First programme was built on an extensive listening programme.

We listened to a wide variety of stakeholders to help us understand what we do well, but also what we need to improve. As part of that process, Network Rail engaged with more than 300 colleagues (at all levels, across the country, whether frontline or office based), as well as external partners and organisations. The outcomes have been used to inform our Putting Passengers First programme.

We launched the #MakeTheirDay campaign and used this to engage with some of our passengers and freight users to better understand what truly matters to them. This enables us to think about their needs whenever we are making decisions that impact them.

The Board also holds meetings in locations across the country and this provides an opportunity to engage with local stakeholders, including employees.

Railway supervisory boards comprising Network Rail, train operating companies, Transport Focus, and other key stakeholders continue to be used as forums for discussions to identify opportunities to better serve the needs of all passengers and freight users. The aim of these boards is to bring track and train closer together. Meetings were held in the Western route, Wales route, Anglia route, West Coast Main Line and Chilterns and for the System Operator.

## ► Williams Review

In September 2018, the Government commissioned Keith Williams to carry out a root and branch review of the rail industry and the way passenger and rail services are delivered. Network Rail recognises that this is a once-in-a-generation opportunity to improve the outcomes for passengers, freight users and taxpayers, and we support the work that the Williams Review team have done.

We have already started to make changes in this respect through our Putting Passengers First programme, which will make us a more customer-focussed and service driven organisation.

In March 2019 we responded to the Review's call for evidence. Our key recommendations were:

- Reduction of contractual complexities in the industry to create clear line of sight to passenger and freight user outcomes;
- Recognition of the importance of delivering for freight users;
- Adopting an industry model that supports innovation and adapts to the changing needs of passengers;
- Facilitating private sector participation to generate greater value for rail users and taxpayers.

Our full response to the evidence papers can be found at [www.networkrail.co.uk](http://www.networkrail.co.uk).

Details of the Williams Review can be found at [www.gov.uk/government/collections/the-williams-rail-review](http://www.gov.uk/government/collections/the-williams-rail-review).

## ► Secretary of State for Transport

In July 2019, the Rt Hon Grant Shapps MP was appointed as Secretary of State for Transport. The government has made clear its commitment to delivering wholesale reform of the rail industry to put the priorities of passengers first and support the country in its recovery from Coronavirus, including by securing benefits from rail freight.

## ► Independent Review into High Speed 2

In August 2019, the Government appointed Douglas Oakervee CBE to lead an independent review into High Speed 2 ('HS2'). The purpose of the review was to enable the Government to take a properly-informed final decision about the future of the project. Our chair, Sir Peter Henty CBE, joined the review panel in an independent capacity.

Following the publication of the review, on 11 February 2020, the Prime Minister confirmed that the Government had taken the decision to proceed with HS2. Network Rail supports this decision, and we believe HS2 will create much-needed capacity to better serve our customers by unlocking passenger and freight benefits across the country.

Network Rail is working with HS2 Ltd to integrate the new railway into the existing network.

## ► The Network Rail Board

During 2019/20, the Board focussed much of its time on:

- Network Rail's six strategic themes (see pages 9 to 11)
- Williams Rail Review
- Workforce safety and the Safety Task Force

During 2020/21, it is anticipated that the Board's focus will be on:

- The outcomes of the Williams Rail Review
- Our six strategic themes, identified above
- The Environmental Sustainability Strategy
- Managing the business through, and recovery from, the Coronavirus pandemic

## ► Compliance with the UK Corporate Governance code

The Board considers that the company has complied with the principles and provisions of the UK Corporate Governance Code 2018 in 2019/20, save for the following provisions it is unable to comply with, due to its status as an arm's length body of the Government:

- Provision 5 in respect of the prescribed methods of engagement with the workforce. The three options suggested by the Code were considered by the Board, however, each was discounted as an appropriate way for Network Rail at this time, because Network Rail's workforce engagement activities exceed the requirements of the Code. This will be reviewed in 2020/21;
- Provision 9 in respect of appointment of the chair. The Secretary of State will appoint the chair in accordance with the Governance Code on Public Appointments;
- Provision 10 in respect of circumstances which are likely to impair or could appear to impair a non-executive director's independence. Bridget Rosewell, formerly Senior Independent Director served on the board for two months beyond her nine-year term;
- Provision 25 and 26: in respect of the appointment, re-appointment and removal of the external auditor. Under the terms of the Framework Agreement (FA) between the company and the Department for Transport (DfT), the Comptroller and Auditor General assisted by the National Audit Office acts as Network Rail's external independent auditor; and
- Provision 34: in respect of the remuneration for the chair. Under the terms of the FA, the remuneration of the chair is agreed by the Secretary of State.

Corporate governance report continued

The Code can be found on the Financial Reporting Council’s website: <https://www.frc.org.uk/directors/corporate-governance-and-stewardship/uk-corporate-governance-code>.

The Board considers that the company was mindful of and complied with the Corporate Governance in Central

Government Departments: Code of Good Practice. The Code of Good Practice can be found on the government’s website: <https://www.gov.uk/government/publications/corporate-governance-code-for-central-government-departments-2017>.

**Board leadership and company purpose**

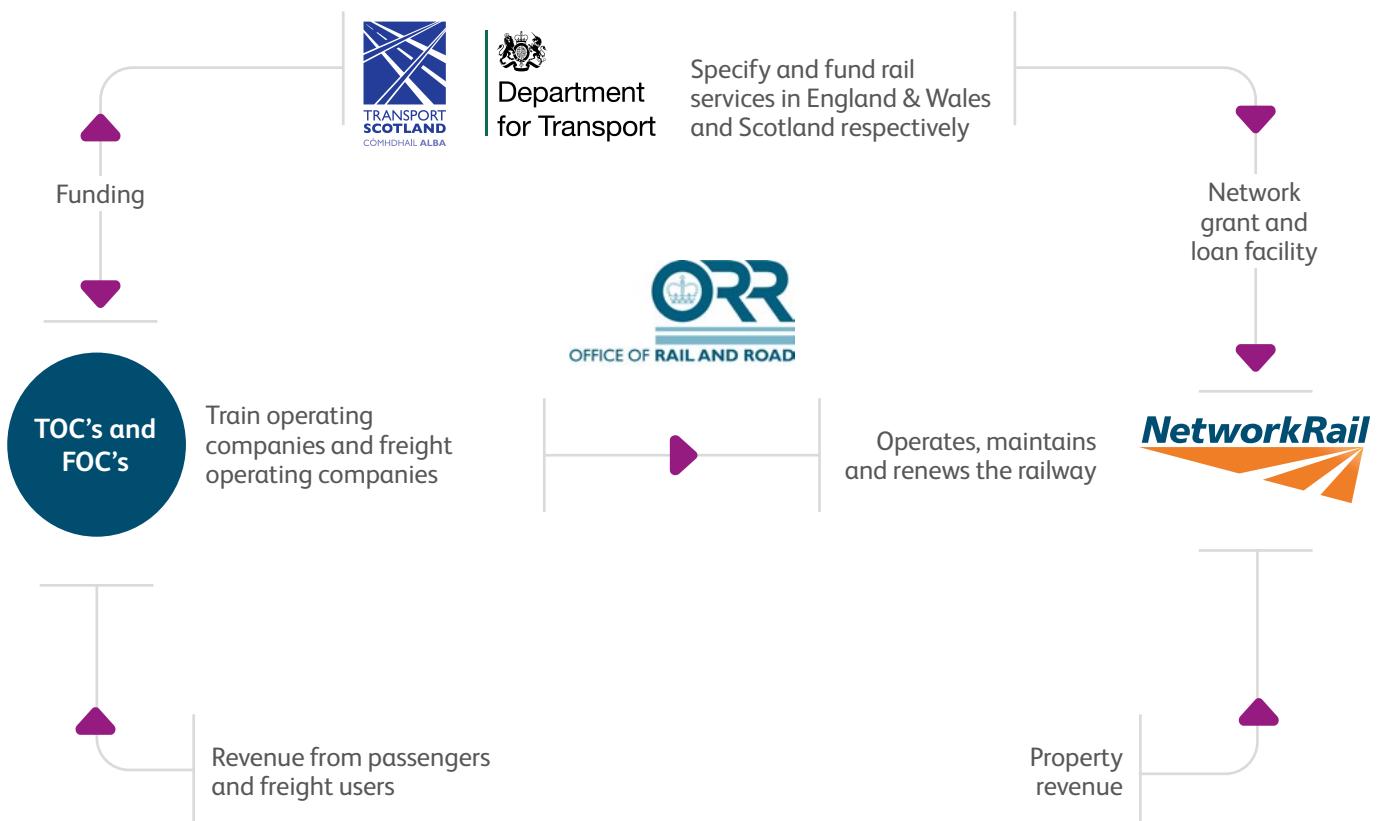
Network Rail is responsible for managing Britain’s railway infrastructure within regulatory and control frameworks. Network Rail is an arm’s length government body, and the terms of our financial management and corporate governance arrangements with the DfT are described in the Framework Agreement. A copy of which is available on our website [www.networkrail.co.uk](http://www.networkrail.co.uk).

The Board ensures there is effective engagement with its stakeholders and encourages participation from them. In 2019/20 Michael Harrison, an employee of UK Government Investments attended Board meetings to advise Network Rail and the Government on their views on the robustness and effectiveness of Network Rail’s governance with the objective of strengthening those processes and building assurance around them. On 11 May 2020 Michael Harrison was appointed by the SoS to act as the company’s special director.

Network Rail is regulated by the Office of Rail and Road (ORR) under its Network Licence, for its stewardship of the rail infrastructure and the network. The ORR determines the level of income Network Rail receives from government and the outputs that must be achieved during each five-year control period. The Board is also accountable to the Secretary of State for Transport for the leadership and management of the business.

The Board oversees workforce policies and practices ensuring these are consistent with our values and support our long-term sustainable success. More information on our whistleblowing policy and Code of business ethics can be found on our website [www.networkrail.co.uk](http://www.networkrail.co.uk).

The Board is also responsible for running Network Rail to the standards required of a company with shares listed on the London Stock Exchange.





## ➤ The Board's role and responsibilities

The Secretary of State is the sole member of the company. The Secretary of State is the Special Member of the company and his rights are set out below.

Rights of the Special Member (i.e., the Secretary of State for Transport)	How these rights were exercised in 2019/20
To appoint and remove the chair of Network Rail.	The Secretary of State reappointed the chair for a further two years from 16 July 2019 until 15 July 2021.
To approve the Board's suggested candidate for chief executive of Network Rail.	N/A
To appoint a special director of Network Rail.	Richard Brown's appointment was extended until 31 March 2020. On 11 May 2020 Michael Harrison was appointed as the company's special director.
To be consulted on non-executive director appointments.	Network Rail consulted with the DfT in relation to the appointment of Mark Bayley and Fiona Ross as new NEDs.
To hold regular meetings with the chair, to discuss corporate strategy and raise concerns.	The chair regularly meets with the SoS and the Permanent Secretary of the DfT.
To approve the three-yearly remuneration policy for executive directors of the company.	The three-yearly remuneration policy is due for approval at the 2020 AGM. Network Rail has consulted with the DfT and Chief Secretary to the Treasury on the content of its proposed policy.
To set the pay for the chair and non-executive directors.	The remuneration of the chair and his contractual time commitment were reviewed and agreed by the DfT during the year.

Under the direction of the chair, the Board is responsible for developing and establishing the company's strategy to deliver the agreed outputs required in each control period and for ensuring that appropriate resources are in place to deliver this strategy.

The remit of the Board is described in the list of matters reserved for the Board, which can be found on Network Rail's website: [www.networkrail.co.uk](http://www.networkrail.co.uk).

The Board has been mindful of and considered the principles set out in the Code of Conduct for Board Members of Public Bodies, the 7 Nolan Principles of Public Life and the Civil Service Code, as part of its decision-making process and the importance of delivering value for money. The 7 Nolan Principles of Public Life can be found on the Government website <http://gov.uk/government/publications/the-7-principles-of-public-life>.

## ➤ Board committees

The Board has delegated a number of its powers to its four committees. The full powers of these committees are set out in the terms of reference, which can be found on Network Rail's website: [www.networkrail.co.uk](http://www.networkrail.co.uk) and a summary of the key elements are included in each committee's report on pages 85 to 119.

The audit and risk committee reviews the group's risk management strategy, risk profile and the company's risk appetite. It also monitors and reviews key financial reporting elements, internal control structure and processes and the effectiveness of these controls. The audit and risk committee's report is on pages 88 to 95.

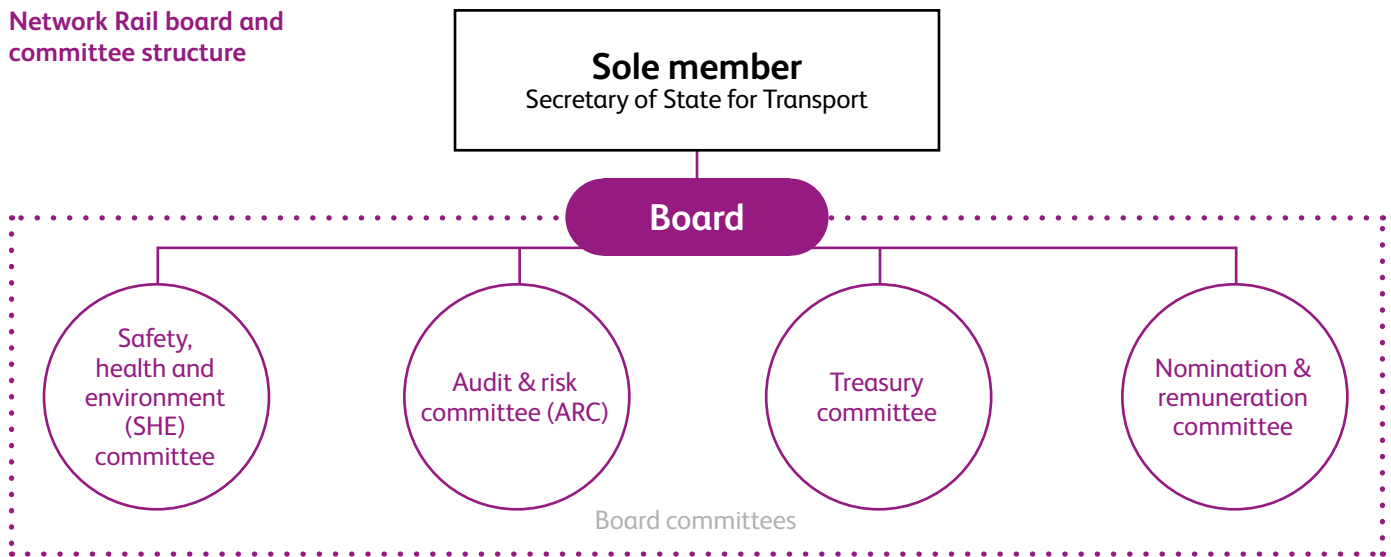
The key activities carried out by the nomination and remuneration committee during 2019/20 are included in the committee report on pages 98 and 99.

A summary of the activities considered by the safety, health and environment committee in 2019/20 is included in the committee report on pages 85 to 87. The report for the treasury committee is on pages 96 and 97.

During the year the Board established the environmental sustainability advisory committee. Information on that committee's work during the year can be found on page 56.

Corporate governance report continued

**Network Rail board and committee structure**



**➤ The executive leadership team**

During 2019/20, the executive leadership team’s composition changed as a result of the Putting Passengers First programme. The executive leadership team now comprises the chief executive, chief financial officer, and 12 other senior executives, including our five region managing directors. The executive leadership team is responsible for the day-to-day management of the company and it meets regularly to consider strategic and operational matters.

**➤ Board composition and division of responsibilities**

At the date of this report, the Board consisted of one non-executive chair, two executive directors and eight non-executive directors.

Photographs and biographies of the board of directors, including details of their skills and experience can be found on pages 73 to 76.

**Chair – Sir Peter Hendy CBE**

Responsible for leading the Board, its effective functioning and promoting the highest standards of corporate governance. Encourages all directors to actively contribute to board meetings and sets the conditions for constructive relations between the executive and non-executive directors. Represents Network Rail at its highest level and works with the chief executive to develop strategic relationships with the customers of Network Rail, DfT, HM Treasury, Parliament, the Cabinet Office, the non-executive directors, Transport Scotland, Welsh Assembly Government and other stakeholders. Reviews the performance of the NEDs.

The chair’s contractual time commitment to Network Rail was reduced to two and a half days per week until 15 July 2021.

**Senior independent director (SID) – Rob Brighouse**

(although Bridget Rosewell CBE held this position for the 2019/20 financial year) acts as a sounding board for the chair and serves as an intermediary for the other directors when necessary. Responsible for the chair’s performance review. Available to the Secretary of State if they have concerns where contact through the chair has failed to resolve an issue or for which such contact is inappropriate. The Board considered Bridget Rosewell CBE and Rob Brighouse to be independent of the company.

**Chief executive – Andrew Haines OBE**

Responsible for setting the strategic direction of the company and for the company’s performance. He keeps the board informed and brings to its attention all matters that materially affect, or are capable of materially affecting, the achievements of Network Rail. Provides clear and visible leadership in business conduct and promotes the requirement that all executive leadership team members and employees are exemplars of the company’s values. Accountable to the board for all elements of Network Rail’s business, and specifically for safety performance. Additionally, he is the accounting officer.

In this role, the chief executive is personally accountable to Parliament for safeguarding the public funds available to Network Rail, for ensuring regularity and propriety, value for money and feasibility in the handling of those public funds, for the day-to-day operations and management of Network Rail and for signing the accounts, the annual report and the governance statement. In addition, he is required to ensure that Network Rail is run following the principles, rules, guidance and advice set out in Managing Public Money.

As the accounting officer, he is supported by the Board for the discharge of his obligation in Managing Public Money, for the proper conduct of business and maintenance of ethical standards. The internal audit function also supports the accounting officer. The director of risk and assurance provided his audit opinion to both the accounting officer and the audit

and risk committee. The opinion detailed the overall adequacy and effectiveness of Network Rail's framework of governance, risk management and control. For further details on the internal audit function and on the audit and risk committee, see pages 88 to 95.

#### Chief financial officer – Jeremy Westlake

Responsible for leading Network Rail's finance function which includes the teams working on matters related to (i) planning, finance and efficiencies, (ii) financing, funding and commercial matters, and (iii) governance, risk, assurance and improvement. In June 2020 a new Capital Delivery Centre of Excellence was established in the finance function, when the former Infrastructure Projects function was fully devolved to regions and functions.

#### Independent non-executive directors

Rob Brighouse, Sharon Flood, Silla Maizey, David Noyes and Mike Putnam are considered by the Board to be independent of the company. Chris Gibb stepped down from the Board on 30 November 2019, after serving on the Board for six years. Mark Bayley, CBE and Fiona Ross were appointed as non-executive directors on 11 May 2020.

The non-executive directors provide independence, skills and challenge through broad business and commercial experience from the rail and other industries. They provide assurance that the executive directors are exercising good judgement in delivery of strategy and decision making.

The Board reviews the independence of its non-executive directors as part of its Board effectiveness process. It has considered if there are any circumstances which are likely to impair or could appear to impair the independence of a non-executive director.

When considering the appointment of new directors, the Board has taken into account the other demands on the proposed director's time. The Board requests that significant commitments and an indication of the time commitment, are disclosed to the Board, prior to appointment.

The Board notes that the Code includes guidelines on the meaning of 'independence' and it is appropriate to disclose that Rob Brighouse, Richard Brown CBE and Chris Gibb are beneficiaries of the Railway Pension Scheme (RPS). Over 150 companies from the rail industry participate in the RPS and the scheme is run by independent trust managers. Given this structure, the Board considers that Rob Brighouse, Richard Brown CBE and Chris Gibb are or were independent, as Network Rail is only one of the contributing companies to RPS.

The links to the statements of responsibility for each of the chair, chief executive, senior independent director and the non-executive directors can be found on the Network Rail website [www.networkrail.co.uk](http://www.networkrail.co.uk).

#### Group general counsel and company secretary –

##### Stuart Kelly

Provides advice and support to the Board, the chair and the directors on legal and governance matters to ensure that

corporate governance practices are complied with, in order for the Board to function effectively and efficiently. The appointment and removal of the company secretary is a matter for the Board as a whole.

#### Directors' attendance at meetings

The Board met 10 times during 2019/20 and it has also held one risk assessment meeting, one strategy meeting; and cybersecurity training.

Directors' attendance at Board meetings for the year ending 31 March 2020, is shown in the table below. Non-executive directors are also required to attend various committee meetings and their attendance is specifically included in the respective Board committee reports on pages 85 to 119.

During 2019/20, there were a number of changes to membership of the Board. Chris Gibb resigned on 30 November 2019; Bridget Rosewell resigned on 31 March 2020; and Richard Brown's appointment ended on 31 March 2020. Sharon Flood is expected to resign in August 2020, having served on the Board for six years.

	Total
Rob Brighouse	10/10
Richard Brown CBE <sup>1</sup>	9/10
Sharon Flood	10/10
Chris Gibb <sup>2</sup>	7/7
Andrew Haines OBE	10/10
Sir Peter Hendy CBE	10/10
Silla Maizey	9/10
David Noyes	10/10
Mike Putnam	10/10
Bridget Rosewell CBE <sup>3</sup>	8/10
Jeremy Westlake	10/10

1. Richard Brown's appointment ended on 31 March 2020

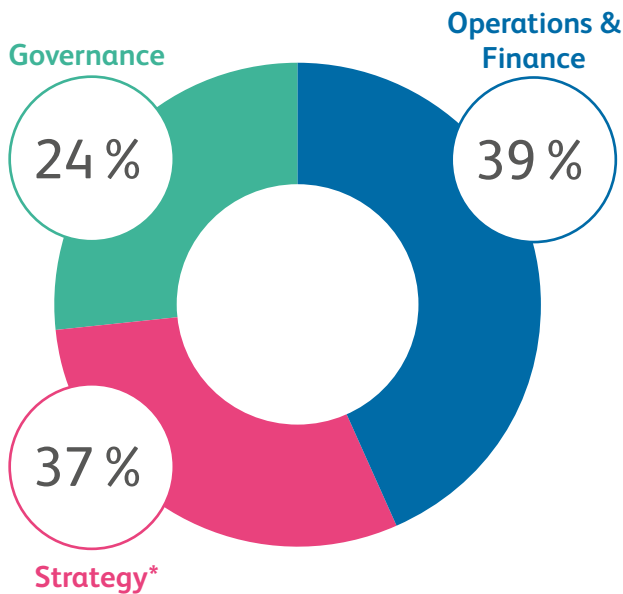
2. Chris Gibb resigned on 30 November 2019

3. Bridget Rosewell resigned as a director from 31 March 2020

Corporate governance report continued

Board activities during the year

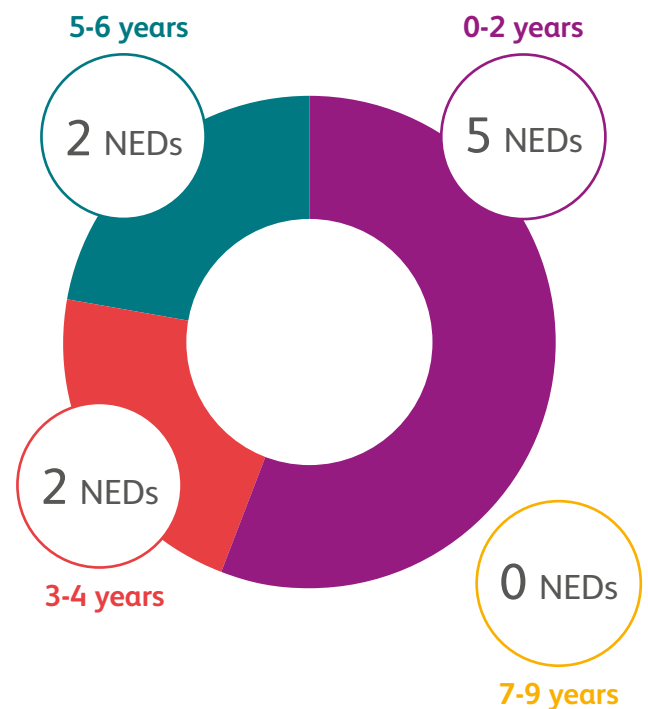
The chart below shows an overview of the key activities that the Board considered during 2019/20 and how the Board allocated its time. From September 2019 onwards, the Board’s activities were shaped around our six strategic themes: sustainable growth; customer & communities; safety; efficiency; people; and train service delivery.



\*Strategy discussions include our six strategic themes

The Board is comprised of nine non-executive directors and two executive directors. These individuals come from a variety of backgrounds and experience. The Board is 73 per cent male and 27 per cent female, however, when considering non-executive directors only, the split is 67 per cent male and 33 per cent female.

The following chart shows the length of service of the NEDs.



Composition, succession and evaluation

Board recruitment and induction

A comprehensive induction programme is in place for newly appointed directors, which is tailored to the director to take account of their background knowledge, skills and experience. New directors are also provided with key corporate, strategic and financial documents to help them familiarise themselves with the company’s business. The induction programme also includes individual meetings with Board members, the company secretary, senior executives and other key stakeholders.

Succession planning

The Board and the nomination and remuneration committee review the appropriateness of the appointment process and the approach to succession planning to support a diverse and sustainable pipeline of talent for senior roles within the business. The Board recognises that effective talent management programmes are necessary to improve diversity within all levels of the company and are essential for the delivery of the company’s long-term strategy and objectives.

Board and executive diversity

The Board is aware that diversity extends beyond gender, and includes amongst other things age, social, ethnic, educational and professional backgrounds. Further details about Network Rail’s diversity and inclusion policies and how these have been implemented in the year can be found in the ‘focussing on our people’ section on pages 51 to 53.

Engagement with the workforce

In September 2019 we undertook the ‘Your Voice’ survey to provide our people with the opportunity to share how it feels to work for Network Rail. The results have been shared within the business and we are working together to create action plans to address concerns raised.

The Board wants to create an environment that allows everyone to reach their full potential. Network Rail is working with others in the rail industry to enable it to become more diverse and inclusive and by the end of CP6 Network Rail aims to increase the number of women in our business by 50 per cent and have gender balanced recruitment of apprentices and graduates.

Network Rail’s Board actively demonstrates its safety vision of ‘everyone home safe every day’.

## Board effectiveness

The Board is committed to complying with the highest standards of corporate governance. In March 2019 our former Senior Independent Director, Bridget Rosewell CBE, led an internal review process of the effectiveness of the Network Rail Board. The outcome of that review, including a number of recommendations was provided to the Board in July 2019.

The Board and the Group General Counsel and Company Secretary have considered the recommendations made in July 2019 and created action plans to address the issues raised in the effectiveness review. As appropriate, actions have either been completed or work is in progress to complete these.

## Professional development, training and support for directors

The Board is offered a range of training and development opportunities each year, to support their continuing professional development and directors regularly receive corporate governance and legal updates as appropriate. During 2019/20 the Board undertook a cybersecurity training session, and a risk assessment session. Region managing directors and function heads regularly attend Board meetings to provide updates on the key issues affecting their areas of the business.

The directors have access to the advice and services of the group general counsel and company secretary, who is responsible for compliance with Board procedures and the provision of information to the Board in a timely manner. The directors have the right to seek independent professional advice, at reasonable expense to Network Rail.

## Election and re-election of directors

Each of the directors is subject to (re-) election at the 2020 Annual General Meeting. The Board considers that all directors act in good faith, for the long-term benefit and success of Network Rail and they continue to perform effectively.

## Directors' conflicts of interest

The Board operates a policy to identify and where appropriate, manage potential conflicts of interests that directors may have. Each Board meeting begins with disclosure of potential conflicts of interest. At the date of this report, the following key potential conflicts of interest have been declared:

- Rob Brighthouse is chair of the East West Rail Company Limited;
- Michael Harrison is director of UK Investments at UKGI;
- Sir Peter Hendy CBE is chair of the London Legacy Development Corporation;
- Mike Putnam is a member of Arcadis NV's supervisory board; and
- Fiona Ross is a non-executive director at The Scottish Government.

## Directors' and officers' (D&O) liability insurance

Network Rail maintains D&O liability insurance. Network Rail did not indemnify any directors during 2019/20.

## The Annual General Meeting (AGM)

The formal business of the AGM is set out in a number of separate resolutions to be considered at the meeting. The company's sole member, the Secretary of State for Transport, is provided with a copy of the notice of meeting, alongside the annual report and accounts (as is the National Audit Office). The Secretary of State can vote either for or against a resolution or can withhold his vote (although a withheld vote is not considered to be a vote in law). Final voting figures are announced to the London Stock Exchange.

**Sir Peter Hendy CBE,**

chair



**Andrew Haines OBE,**

chief executive



16 July 2020





## Safety, health and environment committee report

Running a safe railway will always be our priority. We want everyone to feel safe whether they are working on, living near or traveling on the railway.

Tragically, two of our colleagues, Gareth Delbridge and Michael ‘Spike’ Lewis, died after being struck by a train in South Wales on 3 July 2019. An internal investigation has been completed with actions and recommendations published so that we can prevent this from ever happening again. That same month we also set up the safety task force to deliver a step change improvement in the safety of our track workers.

Since the end of the financial year, we have tragically lost another colleague, when on 8 April 2020 Aden Ashurst, working for AmcoGiffen, was fatally struck by a train in Roade, Northamptonshire. An investigation is under way.

Although we have seen a two per cent improvement in the fatality weighted injury rate (FWI) since the end of 2018/19, we did not hit our year-end target. We have seen a reduction in the number of major workforce injuries in the year, but a similar reduction in the amount of hours worked has dampened the overall impact on the FWI rate.

Towards the end of the year we saw an increasing trend in the number of high potential events in relation to workforce safety and train accident risk. This trend highlights the need for all of us to focus on the things that make the biggest differences.

We have changed our approach to reporting and addressing close calls so that we focus on the more important incidents. As a result, close call raised numbers have reduced by nearly 80,000 year to date, and the close call close out rate has dropped by six per cent.

This year saw a big increase in the frequency of flooding compared to previous years and an increase in the number of signals passed at danger (SPAD), resulting in a rise in the train accident risk as measured by the precursor indicator model.

We take any rise in risk to our passengers very seriously, and we are working hard with the train operating companies to

understand the underlying factors that have led to the rise in SPADs so we can work harder to protect our passengers.

Since April 2019, we have closed 77 level crossings and improved the way we gather risk data at our level crossings so we can make them safer in the future. Despite being ahead of our plans to install safer technology, an increase in the number of trains running on the network and an increase in the number of people using our crossings has led to a slight increase overall in level crossing risk.

Our corporate level crossing safety strategy, Enhancing Level Crossing Safety 2019-2029, was officially launched in December 2019. This is a significant milestone in promoting broader awareness across the company and highlighting the importance of effective collaboration in our management of level crossing safety. We will be launching the strategy externally in early 2020, and will work closely with the whole rail industry, British Transport Police, Government and level crossing users to promote its success.

The number of suicides that took place on the railway rose by 11 from the previous year (283). Trespass fatalities were at a 10-year low of 17. The remit of the Trespass Improvement Programme extends to all trespass, including that which takes place as part of route crime. The programme is seeking to build on the partnerships that have already seen more than five million school children participate in the “learn live” initiative which has coincided with an encouraging reduction in reported child trespass. Our route crime and trespass groups are working closer together and this is identifying many good practice ideas and encouraging the sharing of intelligence both strategic and tactical. Also, communications outreach toolkits are under development for the routes and preparations for the Serious About Safety awareness campaign were launched at the end of the year.

The company set itself a target to train 10 per cent of its line managers in supporting mental health wellbeing by the end of the year: this has been exceeded.

**Mike Putnam,**

chair, safety, health and environment committee

16 July 2020

## Safety, health and environment committee report continued

Committee members	Formal appointment to the committee	Number of meetings attended during the year, inc. site visit
Mike Putnam	Feb 2018	6/6
Rob Brighthouse	Jan 2016	6/6
Chris Gibb <sup>1</sup>	Nov 2013	4/4
Peter Hendy	Oct 2015	6/6
David Noyes	Nov 2018	5/6

1. Chris Gibb stepped down from the Committee when he resigned as a director on 30 November 2019.

## Committee attendees

The executive directors of the company and the chief health and safety officer normally attend meetings by invitation of the committee. Other members of the Board and other senior executives of the group also attend as and when requested by the committee.

Mick Cash, general secretary of the RMT Union is invited to attend committee meetings and participates in discussions. This aids scrutiny and challenge and enhances transparency of the work of the committee.

Ian Prosser CBE, chief inspector of railways and director, railway safety at the Office of Road and Rail (ORR), attends committee meetings twice a year to present the regulator's view on Network Rail's safety performance.

## Role of the committee

Revised terms of reference for the committee were approved by the Board in October 2019.

The committee's role is to monitor the integrity of the methods of discharge of the safety, health and environmental responsibilities of Network Rail. The committee must satisfy itself as to the adequacy and effectiveness of the safety and health policies and strategies, and the effectiveness of environmental compliance within the Network Rail group.

The committee's activities include:

- Reviewing the Group's safety and health strategies, systems, policies and practices and environmental compliance;
- Considering significant corporate and individual safety, health and environment risks and whether the executive is managing these risks effectively.
- Reviewing the safety, health and environment governance and management structures within the Group;
- Reviewing the scope and results of any:
  - > safety, health and environment audit on the effectiveness of the group's safety, health and environment strategies, systems, policies and practices;
  - > environmental regulatory and legal compliance audit.
- Considering the major findings of internal and external investigations and the executive's response to them.
- Making recommendations to the nomination and remuneration committee relating to the Group's safety and health performance and environmental compliance

during the preceding financial year for the purposes of assisting that committee's decision in the exercise of discretion in relation to the outturn of the performance related pay scheme.

Following each committee meeting, the chair provides a summary of the committee's activity to the next Board meeting and makes recommendations as appropriate.

The committee's terms of reference can be found on our website: [www.networkrail.co.uk](http://www.networkrail.co.uk).

Matters considered by the committee during the year included:

- An ongoing review of safety, health and environment performance for each of the periods which comprise Network Rail's year.
- Scrutiny of safety, health and environment-related incidents including lessons learned from incidents such as those at Margam.
- Monitoring the implementation of the safety task force which was set up to address necessary step-changes in safety culture and behaviours.
- Receiving presentations from duty holders and route managing directors to demonstrate the adequacy and effectiveness of their safety and health systems and environmental systems. The following routes and regions attended the committee:
  - > London North East and East Midlands
  - > Freight and National Passenger Operators
  - > Network Rail High Speed, and
  - > Southern

## Safety, health and environment committee report continued

- The committee also visited:
  - > Victoria station to review the newly opened medical centre, the personal safety environment, and escalator safety;
  - > East Croydon station to review trespass and suicide hot spots, and;
  - > Three Bridges Delivery Unit to review behavioural safety training and product development for safe and effective working.
- Reviewing the progress of the company's occupational health and wellbeing strategy in supporting mental wellbeing and resilience, providing health services, and the improving data collection and analysis.
- Reviewing our asbestos management plan and our compliance with the control of asbestos regulations (2012), to ensure the risks of exposure to our employees, and users of passenger and freight services are minimised.
- Reviewing environmental matters including the vegetation management plan.
- Reviewing the impact of weather and climate change on the resilience of the group's assets, the performance and safety of the railway, and the changes to the likelihood and severity of weather and climate-related risks.
- Reviewing findings from our corporate-level audits and action plans including the sharing of issues and solutions across the network. Audits conducted during the year included: trespass management, close call system, safe hand-back of the line, asset management of bridges, workforce separation from trains, and suicide prevention.
- Deep dive reviews into, amongst other things:
  - > Public safety: level crossing engineering safety improvements including the automatic full barrier crossing locally monitored protection system at Princes Street, Ardrossan; trespass and suicides;
  - > Station safety: a review of safety performance at Network Rail's managed stations and measures to mitigate risks;
  - > Passenger safety: using the precursor indicator model and reviewing the risks of self-evacuation from trains.
- Discussion of the plan for the eradication of effluent discharge to track which will significantly improve the working environment for our staff.

### Particular areas of focus for 2020/21 will include:

- Assurance that safety management procedures continue to be strengthened particularly in relation to ongoing devolution to region and route levels, and other relevant changes across the company.
- Assurance that the safety task force delivers improved safety outcomes for our track workers.
- Developing the committee's approach to ensuring compliance with environmental regulations and legislation across Network Rail.
- Conducting a site visit(s) to substantiate on-the-ground activities with the information received in committee meetings.
- Ongoing improvement of controls to reduce near-misses between trains and track workers.



## Audit and risk committee report

I am pleased to present the committee’s report into the key activities undertaken during 2019/20, alongside its anticipated activities for 2020/21.

My thanks go to Bridget Rosewell CBE, who left the Committee and the Company at the end of March 2020, for her immense contribution to the Committee over many years.

I also welcome Mark Bayley CBE, who joined the Committee and the Company on 11 May 2020.

During 2019/20 the committee continued to focus on the audit, assurance and risk management processes within the business, and maintained its oversight of financial and other regulatory requirements. There was particular focus

on the significant and emerging risks facing the business, to enable the committee to better understand the areas of concern and provide assurance to the Board on the effectiveness of the associated internal controls. These included the Putting Passengers First programme, cyber security, Brexit and reviewing enhancements to the business controls framework to improve assurance activity across the group.

This is my last report as Chair of the Committee as I will be retiring from the Network Rail Board in August 2020 having served as a director for six years. I would like to thank my fellow committee members for their very valuable challenge and insight. I believe Network Rail’s Internal Audit and Risk functions are stronger than ever and I am confident that their future plans will continue their development.

**Sharon Flood,**  
chair, audit and risk committee

16 July 2020

### Composition of the committee

The committee met four times during 2019/20. Members collectively have a broad range of financial, commercial, aviation/transport and rail sector expertise that enables them to provide effective oversight of financial, operational and risk matters and to advise the Board accordingly. All members of the committee are independent non-executive directors, and the chair has recent and relevant financial experience.

Committee members	Formal appointment to the committee	Number of meetings attended during the year
Sharon Flood	Sept 2014	4/4
Mark Bayley CBE <sup>1</sup>	May 2020	0/4
Rob Brighthouse	Jan 2016	4/4
Silla Maizey	Nov 2016	4/4
Bridget Rosewell CBE <sup>2</sup>	July 2012	2/4

1. Mark Bayley CBE was appointed to the Board and Committee on 11 May 2020
2. Bridget Rosewell CBE resigned from the Board and Committee on 31 March 2020

## Audit and risk committee report continued

### Committee attendees

The chief financial officer, director of risk and internal audit, group controller (finance), head of group risk and the group general counsel & company secretary will normally attend meetings of the committee by invitation. The chair of the board, the chief executive and other board or executive leadership committee members attend meetings when invited by the committee. Representatives from the National Audit Office (NAO) also attend each meeting and periodically meet with committee members without executive management present. Periodically the director of risk and assurance meets the committee without executive management present. The committee is supported by the company secretary.

### Role and responsibilities of the committee

The terms of reference govern the structure and operations of the audit and risk committee, including its delegated responsibilities and authority. The terms of reference are reviewed regularly to ensure the activities of the committee reflect current regulatory and governance requirements and best practice. The terms of reference can be found at [www.networkrail.co.uk](http://www.networkrail.co.uk).

The role of the committee falls into the following broad areas:

#### Financial reporting

- Monitoring the integrity of the group's annual report and financial statements.
- Reviewing significant accounting judgements and policies and compliance with accounting standards.
- Reviewing the consistency of accounting policies both on a year-to-year basis and across the company; the methods used to account for significant or unusual transactions; applicable accounting standards followed or reconciled in the financial statements; and any other significant financial reporting judgements made by management.

#### Narrative reporting

- Considering whether the annual report and financial statements as a whole are fair, balanced and understandable.
- Providing information to shareholders to assess performance, business model and strategy.
- Internal controls and compliance
- Reviewing the adequacy and effectiveness of financial reporting and internal control procedures.
- Reviewing and approving statements to be included in the annual report and financial statements.
- Reviewing compliance with statutory and regulatory requirements.
- Reviewing procedures for detecting fraud, malpractice and theft.
- Reviewing the adequacy and security of arrangements for employees and contractors to raise concerns.
- Reviewing systems and controls for preventing bribery.

#### Risk management

- Considering proposals for the level of risk appetite, tolerance and strategy, and reviewing the risk profile, current exposure and future strategy against the risk appetite.
- Considering management's report on potential major risks.
- Reviewing risk assessment processes, parameters and methodologies.
- Reviewing the capability to identify and manage new risk types.
- Reviewing the process undertaken and the associated work required to complete the viability statement.
- Considering the remit of the risk management function and to ensure its independence and adequate resourcing.
- Reviewing management's responsiveness to the risk findings and recommendations.
- Reviewing how risk mitigations and controls are tested.
- Advising the Board on the risk aspects of significant strategic transactions.

#### Internal audit function

- Reviewing the effectiveness of the internal audit function considering the need for independent reviews of its processes.
- Reviewing the internal audit programme and ensuring it is adequately resourced and is appropriately independent from management.
- Reviewing internal audit reports on the effectiveness of systems for internal financial control, financial reporting and risk management.
- Reviewing and approving the internal audit plan.
- Considering major findings of internal investigations and management responses.

#### External audit

- Reviewing the nature and scope of the independent auditor, its approach, and the level of fees.
- Considering the results of external audit work and how any weaknesses are to be addressed.
- Approving the terms of engagement and reviewing the management letter and management's response.
- Reviewing wider implications of the external auditor's work across the company.
- Annually assessing and reporting to the Board on the independence and objectivity, expertise and resources of the independent auditor.

#### Complaints procedures

- Reviewing the procedures for dealing with complaints relating to accounting, internal audit controls, or auditing matters.

#### Cyber security

- Providing assurance that cyber risk is being appropriately managed.
- Annually reviewing cyber resilience.

#### Regulatory Escalator

- Report of Office of Rail and Road regulatory matters

Following each meeting, the chair provides a summary of the committee's activities, main discussion points and



## Audit and risk committee report continued

findings to the next Board meeting and makes recommendations as appropriate.

### Principal activities during the year

At each meeting the committee receives business updates from group finance, internal audit, group risk and the independent external auditor. Updates are planned on a 12-monthly basis to coincide with key events within the financial reporting and audit cycle. If any matter is identified as in need of discussion sooner than 12 months, it is added to the agenda of a future meeting. In addition to regular updates, the committee undertakes deep dives on the emerging and principal risks facing the business and elevates these to the Board where necessary. The committee conducts an annual evaluation of its effectiveness, details of which are provided below.

The significant issues that the committee considered during 2019/20 were:

#### Accounting standards and judgements

The changes in IFRS16 Leases have not had a material effect on Network Rail's profitability, but have increased net debt and non-current assets and have budgetary

implications. We will bear the budgetary implications in mind when entering future leases. Further details can be found in note 2 to the accounts on page 137.

#### Fair, balanced and understandable

At the request of the Board, the committee considered whether, in its opinion, the annual report and financial statements 2019/20, are fair, balanced and understandable and whether they provide the information necessary to assess the company's position and performance, business model and strategy. The committee received an outline of the structure of the annual report and financial statements 2019/20 and a broad indication of its content in early stages. A draft of the report was submitted prior to the meeting at which the committee was asked to provide its final opinion.

The assessment of such an opinion drew on work of the disclosure committee, the annual report and financial statements project group responsible for the coordination of content, verification, detailed review and challenge. Senior management confirmed that the content in respect of their areas of responsibility was fair, balanced and understandable. The committee considered the following questions:

### Is the annual report balanced?

- Has the whole story been presented and has any sensitive information been omitted that should have been included?
- Is the messaging in the front half of the annual report consistent with the financial disclosures?
- Is the score card disclosed at an appropriate level based on financial reporting?

### Is the annual report understandable?

- Is there an over-emphasis of matters that are not material?
- Is the narrative report in the strategic report consistent with the financial reporting in the accounts, and does the messaging reflected in each remain consistent when read independently of each other?
- Is there an appropriate balance between statutory and non-statutory measures and are non-statutory measures clearly defined?
- Are the risks in the narrative consistent with the committee's view on risks and issues and key areas of uncertainty and judgments?
- Are the key risks aligned with the audit report?

Following its review, the audit and risk committee stated that the annual report and financial statements 2019/20 present a fair, balanced and understandable overview, providing the information necessary to assess the company's position and performance, business model and strategy. The committee therefore proposed the document for approval to the Board.

Audit and risk committee report continued

**Significant accounting judgements, key assumptions and estimates**

With the support of the NAO, the committee assessed whether suitable accounting policies had been adopted, whether management had made appropriate estimates and judgements and disclosures were balanced and fair. The main areas of focus during the year are set out below.

Accounting judgements	How the committee addressed these judgements
<p><b>Valuation of rail network and compliance with regulatory requirements</b></p> <p>The revaluation model used to measure the value of the rail network consists of a number of estimates and judgements made both by the company and the Office of Rail and Road (for example anticipated financial and operational outperformance in the control period).</p>	<p>Detailed reports from management were considered by the committee and the methodology applied to the revaluation model was also reviewed and agreed.</p> <p>The committee also challenged management and the independent auditors on:</p> <ul style="list-style-type: none"> <li>• The reasonableness of key judgements and estimates in respect of the forecast for CP6.</li> <li>• The appropriate level of disclosures in the annual report and accounts around the valuation process and the related assumptions and judgements.</li> </ul>
<p><b>Capital accruals</b></p>	<p>The estimate of cost of work done is a key judgement in Network Rail’s accounts.</p> <p>The additions to Property, plant and equipment are valued at an estimate of the cost of work done (COWD) in the year to 31 March 2020. To the extent that the COWD is greater than the invoiced amount, fixed asset accruals are recognised based on expected amounts required to settle contractual obligations.</p> <p>To value the cost of work done on, capital projects, appropriately skilled commercial managers assess the progress to completion of the project at the expected cost. Both progress and expected costs have elements that are estimates and require accounting judgement.</p>
<p><b>Risk of management override of internal controls</b></p>	<p>Reports on managements approach to measuring cost of work done were reviewed alongside details of internal validation and the external auditors report on sample testing. It was noted in the prior year that managements approach had a tendency towards optimism bias concerning estimates of progress and cost. When taken together these judgements were unlikely to cause a material misstatement. Management has implemented changes to ensure that information after the balance sheet date is taken into account when determining the estimate.</p> <p>The independent auditors have focussed attention on this area and provided satisfactory reporting to the committee on this matter.</p>

## Audit and risk committee report continued

**Deferred tax**

It was considered whether it was still appropriate for Network Rail to not recognise a deferred tax asset in relation to its brought forward tax losses.

With continued high levels of investment in the rail network, it was hard to judge that Network Rail would return within a predictable period to the level of taxable profits that would allow for the utilisation of tax losses. It was agreed to not recognise a deferred tax asset.

**Valuation of investment properties**

Investment properties are stated at fair value. The valuations are based on assumptions and estimates that require judgement.

The committee agreed the appropriate methodology had been used. The methodology was consistent with prior years and included valuations and additional assistance from external valuation specialists. The valuations were reviewed by management and the external valuation specialists.

**Pension assumptions and asset valuations**

The group operates defined benefit and defined contribution pension schemes. Valuation of these schemes is dependent on certain key assumptions and complex calculations. External actuaries are engaged to assist in advising on key assumptions and determining the value of the pension obligations.

The committee discussed the key assumptions, including the degree to which these were supported by professional advice from the actuaries. The independent auditors also focussed attention on this area and provided reporting to the committee on this matter.

Given the market volatility at year end caused by the Coronavirus pandemic, we have also focussed greater attention on the valuation of the scheme assets.

The committee is required to review any correspondence received from regulators in respect of financial reporting. There has been no correspondence from the FRC in relation to Network Rail's financial reporting during the 2019/20 financial year.

Audit and risk committee report continued

**External audit**

**Committee effectiveness**

The committee continued to monitor and implement the action plan developed from the self-evaluation effectiveness review which had been completed in 2017/18. The review had shown that overall the committee was functioning effectively. In addition, as part of the Board effectiveness evaluation undertaken in July 2019, feedback was provided on the effectiveness of the committee. No areas of concern related to the committee were raised during this review.

**The approach taken to the appointment of the external auditor**

The Comptroller and Auditor General (C&AG), supported by the NAO, was appointed as Network Rail’s independent auditor in 2015. In addition to providing an opinion on the Network Rail Limited group accounts, the C&AG also audits the Network Rail Infrastructure Limited group accounts and the individual accounts of Network Rail Infrastructure Finance PLC and Network Rail (High Speed) Limited.

Gareth Davies assumed the post of C&AG on 1 June 2019.

PricewaterhouseCoopers (PwC) acted as the independent auditors for the remaining subsidiaries in 2019/20. The obligation to appoint the C&AG as Network Rail’s independent auditor is a direct impact of the reclassification of Network Rail as an arm’s-length government body and is in line with standard arrangements for other public sector bodies.

The company is, therefore, unable to comply with the Competition and Markets Authority’s Order or the UK Corporate Governance Code 2018 in respect of tendering prior to the appointment of an auditor and this will remain the company’s position for the foreseeable future.

**Effectiveness of the external auditor**

A review of the independent auditor’s performance and effectiveness is undertaken as part of the overall effectiveness review of the auditing process. Following the conclusion of the reporting cycle, the auditing process was assessed. The independent auditor was also invited to comment on what worked well and where improvements could be made. The committee was satisfied that the independent auditor was fully effective and performed as expected in discharging its duties and obligations.

**Objectivity and independence of the independent auditor**

The NAO is independent of Network Rail in accordance with the ethical requirements relevant to the audit of financial statements in the UK, including the FRC’s Ethical Standard as applied to listed entities/public interest entities.

The committee has put in place safeguards to maintain the independent auditor’s objectivity and independence. To enhance independence and in line with established auditing standards, a new senior statutory auditor of the independent auditor is appointed at most every seven years (five years in the case of subsidiaries administering listed debt).

The committee has established a policy whereby employment of the independent auditor on work for the company is prohibited without prior approval by the committee, other than for audit services or tax compliance services. Such requests are unlikely as the NAO does not offer non-audit services. The NAO does carry out value for money assessments for Network Rail, but this does not represent a service to Network Rail as it is performed under statute and on behalf of Parliament.

In 2019/20 the fee for audit services was £0.57m (£0.59m in 2018/19). This includes the NAO’s cost of auditing Network Rail Infrastructure Limited, Network Rail Infrastructure Finance plc, Network Rail (High Speed) Ltd, the regulatory accounts and review of interim financial statements of Network Rail Limited and Network Rail Infrastructure Finance plc. It excludes the cost of the audit of some smaller subsidiaries which continue to be audited by PwC.

The fee paid to PwC for auditing the smaller subsidiaries was circa £150k in 2019/20 (£134k in 2018/19).

## Internal audit

The committee reviews the annual internal audit plan to ensure it aligns with the group's strategic priorities and key risks. At each meeting the director of risk and internal audit updated the committee on any changes to the plan and the reasons for deviation from the plan, notable audits, overdue actions, and themes and key issues arising from the internal auditor's work.

Our assurance processes have identified areas for improvement in our internal controls. Activities to address these are being monitored closely by the committee. Examples of these include:

### – Asset Management

This was highlighted by internal audit as an area requiring focussed, continuous improvement of control activity. Through the Engineering community and as part of the Intelligent Infrastructure Programme, activities are under way to shift to 'predict and prevent' maintenance and management of the railway – fixing faults before they cause disruption to passengers.

### – Track Worker Safety

In response to control issues identified across the business relating to the planning and delivery of safe work, a Safety Task Force was created, bringing together multiple strands of work from across the company aimed at improving safety for employees and contractors that work on the railway.

### – Corporate Security

Further to internal audit activity assessing the national security control framework, progress is being made to establish a Security Management System and to implement the organisational structures and processes required for sustainable implementation. Risk Records are being revised to provide an enterprise view of security risk.

### – Business controls framework

The work of internal audit continued to find some instances where controls were either not fit for purpose or not always operated as designed, usually due to the absence of clearly defined or up to date processes and controls both in the second and first lines. In response, the quality improvement programme in Southern has provided a platform to identify key processes, risks and controls to which assurance activities can be aligned. Separately, a governance, risk, assurance and improvement framework is in development, identifying accountable owners for core processes and the mechanism by which risk, assurance and improvement will be managed.

The committee approved the 2020 internal audit plan (the 2020 plan), which was developed through a review of the enterprise risk register, taking into consideration industry trends. The 2020 plan also follows up on previous group assurance letter findings, focussing on control areas with a less than "substantial" rating. These areas include: (i) safety, health and environment risk, (ii) access to systems, (iii) project delivery, (iv) contracts and procurement and (v) competency management.

The committee also approved the internal audit charter, which defines internal audit's purpose, authority, responsibility and position within the company.

## ➤ Risk management and internal controls

The Board has ultimate responsibility for Network Rail's risk management and internal control systems, but delegates detailed oversight of the function to the committee, which then reports its findings and makes recommendations to the Board. This covers all material controls including financial, operational and compliance controls and risk management systems. The risk management systems and internal controls are designed to manage rather than eliminate risk and can only provide reasonable but not absolute assurance that the group's risks are being appropriately managed and mitigated. The delegated responsibilities for risk management and internal control are detailed in 'Role and responsibilities of the committee' on page 89.

The committee receives regular reports from Internal Audit and the independent auditor and reviews progress against agreed action plans to manage identified risks. Detailed oversight of safety related risks is delegated to the safety, health and environment committee.

Network Rail's approach to risk management and identification, its risk appetite, and an assessment of principal and emerging risks is provided on pages 64 to 69.



## Audit and risk committee report continued

In addition to regular updates, the committee reviews the emerging and principal risks that require particular attention. During the year, these were:

- The risk of failure to secure support from our people and from trade unions for our programme of organisational change;
- The risk of failure to attract and retain suitably qualified and skilled individuals in executive and leadership roles;
- The risk of failing to identify deficient business and/or route performance against agreed trajectory in a sufficiently detailed or timely manner;
- The risk of failing to deliver and embed the benefits of the Putting Passengers First programme;
- The risk of a gap in critical service provision, due to loss of strategic or critical suppliers;
- The opportunity to transform how we operate through the Putting Passengers First programme to create more localised decision making;
- The risk of failure to deliver the planned scale of enhancement investment in CP6 in the Eastern region;
- The risk of a security event in a Network Rail region;
- The risk that Network Rail was unprepared for a “no deal” BREXIT scenario.

In addition, the committee invited executive leadership team members to attend meetings to discuss how they were managing risks.

### Evaluating the effectiveness of internal control and risk management systems

The committee regularly reviews the corporate risk profile, including the status of mitigating actions, and reviews and approves any changes to the enterprise risk management (ERM) framework, which determines the design, implementation, monitoring and review and identification of risks.

During the year the committee also reviewed and approved changes to Network Rail’s risk appetite statements and reviewed the remit of the risk management function to ensure it remained appropriate for the company’s strategy. The committee was satisfied that a robust risk process was in place to manage and mitigate risks with appropriate plans and monitoring. Where risks had materialised, appropriate actions were being taken to manage the impact on passengers, customers and the organisation.

The committee had oversight of the process and assessment of the group’s prospects to carry on its business under severe but plausible scenarios undertaken by the risk management and internal audit functions. Further details of the analysis/scenario testing for the viability statement can be found on page 70.

### Whistleblowing

The committee reviews and makes recommendations to the Board on the company’s whistleblowing procedures and any arrangements for the independent investigation and follow-up of such matters. It also discusses reports on major findings of internal investigations and management’s response to them.

In February 2019, the committee assured the Board that the whistleblowing policy and procedures were adequate and effective. In February 2020, the committee was updated on action taken to further enhance the existing framework. This included:

- Distributing posters and wallet cards to promote Network Rail’s confidential reporting service (known as ‘Speak Out’);
- Testing staff confidence in the whistleblowing arrangements in the biennial employee engagement survey. The results indicate that a large majority of staff have confidence in the arrangements; and
- An independent review of the whistleblowing policy and procedures, leading to the policy being updated to reflect the review’s recommendations. The policy was published in spring 2020.

Network Rail’s confidential reporting service and ‘Speak Out’ policy has been in place since 2012. The Speak Out service is run by an external company on behalf of Network Rail, and all reports undergo an initial review by our counter fraud and investigation services team (previously known as the ‘business integrity department’).

In 2019/20, 476 confidential reports were made to the Speak Out service, which is broadly consistent with the number of reports made in 2018/19. Each year, on average, 44 per cent of reports made are substantiated and action taken.

Training modules are in place, designed to enhance our people’s knowledge and understanding of business ethics, including information about our whistleblowing policy and how to report concerns. To date, the training has been completed by over 30,000 employees.

### Planned activities for the coming year

In the 2020/21 financial year, the committee will continue its oversight of the risk management and internal control systems and the internal audit function, monitoring the integrity of the financial statements including the interim statements, and reviewing the external audit process. Specific focus will be on ensuring that the structure and focus of the committee meetings adapt to the increasingly devolved nature of the organisation in CP6. This will include oversight of the risks specific to each new region; continued monitoring of the Putting Passengers First programme; and review of the CP6 assurance framework.



## Treasury committee report

I am pleased to present the committee's report into the key activities undertaken during 2019/20, alongside its anticipated activities for 2020/21.

Throughout 2019/20 the committee continued to consider a range of financing, debt, risk and treasury matters. Network Rail's source of borrowing is via a Department for Transport (DfT) loan facility which is used to repay maturing external borrowings and to refinance maturing

DfT loans. Given that Network Rail's funding envelope is determined by the Periodic Review process, statement of funds available (SoFA) settlements process and by any additional DfT agreed enhancements, we are proactively seeking third party funding of rail enhancements in Control Period 6 (CP6).

The committee will continue to oversee these activities in the year ahead.

**Sharon Flood,**  
chair, treasury committee

16 July 2020

Committee members	Formal appointment to the committee	Number of meetings attended during the year
Sharon Flood	Sep 2014	3/3
Mark Bayley CBE <sup>1</sup>	May 2020	0/0
Silla Maizey	Nov 2016	3/3
Bridget Rosewell CBE <sup>2</sup>	Jul 2012	1/3

1. Mark Bayley CBE was appointed to the Board and Committee on 11 May 2020

2. Bridget Rosewell resigned as a director on 31 March 2020

### ► Committee attendees

The chair of the Board, chief financial officer, group controller, head of treasury, and the group general counsel and company secretary attend meetings by invitation.

### ► Role and responsibilities of the committee

The terms of reference (ToR) govern the structure and operation of the treasury committee, including its delegated responsibilities and authority level. The ToR are reviewed regularly, to ensure the activities of the committee align with the needs of the organisation.

The most recent ToR were approved by the Board in June 2019. The terms of reference can be found at [www.networkrail.co.uk](http://www.networkrail.co.uk).

## Treasury committee report continued

The committee's role is to:

- Review proposed treasury transactions including banking, cash management and forecasting, debt management, investment management, treasury risk management;
- Approve or recommend strategies and policies in relation to areas of treasury management including financing, liquidity management and forecasting, regulatory requirements, investor relations, bank relationships, and treasury internal control and governance policies;
- Review treasury function's financial reporting and internal control procedures; and
- Approve specific transactions within treasury responsibility.

### Principal activities during the year

The committee received detailed updates from the treasury team at each meeting. The chair then provided a summary of the committee's activities, the main discussion points and findings to the next Board meeting and made appropriate recommendations.

Some of the topics discussed during 2019/20 were:

#### CP6 financial framework

The committee discussed the implementation and operation of the new loan facility between Network Rail and DfT, and the grant agreements between Network Rail and Transport Scotland and the DfT.

#### Open for business update

The Open for Business programme was established in September 2017 to expand third party financing and delivery of Network Rail schemes by making it easier for third parties to undertake these activities.

The Putting Passengers First programme and devolution to a regional structure has provided us with more opportunities to drive the Open for Business programme forward. We have established business development teams across our regions to liaise directly with third parties. We have also created a corporate finance team to support and challenge the regional business development teams.

#### Green Financing

Many of our activities are socially responsible and environmentally friendly. Rail transport takes vehicles off roads, it reduces carbon emissions, it connects people and communities, and drives the UK economy. Accordingly we discussed green, social and sustainability ('GSS') financing options and how this applies to Network Rail.

A stakeholder engagement plan will be developed to explore GSS finance options with the Government. Our discussions will likely focus on the value for money and what part Network Rail should play in the delivery of green finance policy.

#### Treasury

Further matters considered by the committee during the year included:

- Future participation in the Government Banking Service and the impact on existing use of money market funds;
- Control Period 5 close-out and cash position;
- Pensions investment
- Regular summaries of treasury activities, including:
  - > Actual and forecast movements in debt, derivatives and investments;
  - > Risks of over or underspend of the DfT loan facility;
  - > Financing costs; and
  - > Intercompany loans

### Planned activities for 2019/20

The committee will continue to monitor the progress of the initiatives underway.

Particular focus will include:

- The impact of the Williams Rail Review conclusions on Network Rail's financing and treasury activities;
- Exploring alternative approaches to raising capital to fund enhancements;
- Monitoring the introduction of the CP6 financial framework;
- Assessing strategic or corporate finance opportunities that may be proposed to the Board;
- Monitoring cash flow and funding limits



# Nomination and remuneration committee report

I am pleased to present my first report as chair of the nomination and remuneration committee.

First, I would like to thank Bridget Rosewell for her significant contribution to the committee in recent years. As I take over, thanks to Bridget’s guidance the committee is well placed to reap the benefits and address the challenges of Putting Passengers First.

I would also like to recognise the contribution over several years of Richard Brown, the special director. Richard’s counsel and constructive challenge has been most valuable.

Much of the committee’s work during 2019/20 centred around (i) the organisational changes following devolution

to the regions and (ii) sourcing new non-executive directors to replace Chris Gibb and Bridget Rosewell, who retired from the Board in November 2019 and March 2020, and the anticipated retirement of Sharon Flood in August 2020 upon completion of six years’ service with Network Rail.

Although the nomination and remuneration committee is a single entity, the nature of reporting on remuneration matters makes it more logical to report on the work of the committee in two parts. Therefore the first section will focus on the ‘nomination’ aspects of the committee’s work, with the latter section comprising the prescribed elements of the directors’ remuneration report. There are, of course, elements of overlap between these aspects of the committee’s work, and these will be highlighted where appropriate.

**David Noyes,**

chair, nomination and remuneration committee

16 July 2020

Committee members	Formal appointment to the committee	Number of meetings attended during the year
Bridget Rosewell CBE <sup>1</sup>	Sept 2016	4/4
Richard Brown CBE <sup>2</sup>	Oct 2015	6/6
Sir Peter Hendy CBE	Oct 2015	6/6
Michael Harrison <sup>3</sup>	May 2020	0/0
David Noyes <sup>4</sup>	Oct 2018	6/6

1. Bridget Rosewell stepped down from the committee on 31 January 2020.
2. Richard Brown stepped down from the committee on 31 March 2020, when his appointment as special director ended.
3. Michael Harrison was appointed to the committee on 11 May 2020.
4. David Noyes was appointed chair of the committee from 1 February 2020.

## Committee attendees

The committee invites the following people to attend meetings routinely: the chief executive, the group general counsel and company secretary, the group HR director and the head of reward and benefits. Others are invited to attend for specific items.

## Nomination & remuneration committee’s role and responsibilities

The role of the committee is to investigate or comment on Board appointments (including the diversity of the Board), Board and senior executive remuneration (or any other related matters that are referred to it or as may appear to it to be necessary).

## Nomination and remuneration committee report continued

The committee's terms of reference can be found on our website: [www.networkrail.co.uk](http://www.networkrail.co.uk).

Following each committee meeting, the chair provides a summary of the committee's activity to the next Board meeting and makes recommendations as appropriate.

### Key focus areas during the year - Nomination

#### Putting Passengers First - organisational changes

The organisational changes flowing from the Putting Passengers First programme were reviewed by the committee, particularly with regard to roles being paid above the HM Treasury threshold. Within the regions there were a number of mandated roles, however the regional managing directors had some flexibility on other roles and the structure of the routes within the regions.

Non-executive directors supported the executive directors by interviewing applicants for many of the more senior roles.

The non-executive directors also monitor overall Network Rail headcount to ensure that any increase in headcount is matched by an increase in productivity and value being delivered for passengers and freight users.

#### Board succession planning and appointment of non-executive directors

Three non-executive directors planned to retire from the Board between November 2019 and August 2020. Chris Gibb and Sharon Flood, having each served six years on the Board planned to retire in November 2019 and August 2020 respectively. Bridget Rosewell planned to retire in January 2020 having served nine years as a director; in fact Bridget stepped down on 31 March 2020.

The committee reviewed the composition of the Board and its committees, as well as the skills, knowledge and experience of each of the remaining non-executive directors. That review helped the committee create a role and person specification to help guide the search. A sub-committee comprising Bridget Rosewell, Sir Peter Hendy and David Noyes was set up to progress these appointments.

Odgers Berndtson, an independent executive search firm, assisted with the search for replacement non-executive directors. As well as reviewing its own network for suitable candidates, Odgers Berndtson placed an advertisement in The Times newspaper and the roles were also advertised on the Cabinet Office's HM Government Public Appointments website.

Having reviewed the candidates for the non-executive roles, a long-list of candidates was presented by Odgers Berndtson and discussed with Network Rail. The long-list was also shared with the Department for Transport (DfT). A selection of those candidates was interviewed by Odgers

Berndtson. Following those interviews, a short-list of candidates was recommended to Network Rail and shared with the DfT.

Network Rail's sub-committee interviewed each of the recommended candidates. Following these interviews and after review by the Secretary of State, two candidates were recommended to the Cabinet Office for appointment.

These were Fiona Ross and Mark Bayley, with Mark identified as the successor to Sharon Flood as chair of the audit & risk committee and the treasury committee.

#### Executive directors' remuneration policy 2020

Please see page 113 for information on this.

### Expected focus areas in the year ahead - Nomination

Particular areas of focus for the nomination and remuneration committee in 2020/21 will include:

- Induction of new non-executive directors.
- Review and consideration of Board diversity targets.



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# Directors' remuneration report

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## Annual statement from the remuneration committee chair

I am pleased to present the 2019/20 director's remuneration report from the Network Rail remuneration committee. The nomination and remuneration committee, which has been combined since 2018, is dedicated to the highest standards of disclosure on remuneration and recognises that executive pay is an important issue for a public body. We operate in line with the remuneration requirements which apply to UK listed companies and the provisions of the UK corporate governance code. The committee follows good governance arrangements by reviewing the terms of reference each year.

The 2019 report was approved at the AGM by our member, the Secretary of State for Transport (SoS). The current three-year remuneration policy for executive directors (Policy) was approved at the 2017 AGM and sets out the framework and limits for how executive directors are paid. The Policy was included in the 2017 directors' remuneration report and can also be viewed on our website [www.networkrail.co.uk](http://www.networkrail.co.uk).

In accordance with corporate governance regulations, the Policy is reviewed every three years, so at the AGM in 2020, a revised Policy will be put forward for approval by the SoS. This report outlines the key changes and includes the full Policy.

### Key agenda items for the year

Our annual remuneration report outlines the outcomes for 2020 in respect of executive remuneration and will be subject to approval from our member, the SoS. The key points to note for 2019/20 outcomes are:

- The proposed executive remuneration framework has three components - base salary, pension and performance related pay.
- Discussions concerning the performance related pay element of remuneration are made by reference to the national dashboard outturn, which replaced, but is still closely related to, the national scorecard.
- A decision on the outturn of the 2019/20 performance related pay scheme has been deferred until later in the year. However, in the light of the financial challenges arising from the Coronavirus crisis, the committee has agreed with those affected that neither the executive directors nor the executive leadership team will receive any payments under the PRP 2019/20 scheme.

The remainder of this statement explains how executive remuneration is determined at Network Rail, gives more details on the outcomes in respect of this year and outlines the proposed three-year remuneration Policy from 2020.

### Implementation of Policy in 2020

Decisions made by the committee during the year were all within the framework agreed as part of the Policy in 2017. The policy is underpinned by four key principles which are:

- 1. Simple:** the framework should be simple and transparent for all stakeholders to understand.
- 2. Competitive and fair:** attracting and retaining leaders of the necessary calibre requires remuneration arrangements that are reasonable in the markets in which we compete for talent and which fairly reflect the appropriate market rates for the skills and experience of the individual. At the same time, we remain cognisant of the need to ensure value for money for the taxpayer and to reflect our status as a publicly funded body.
- 3. Performance and safety:** there should be a performance related element of the package which rewards performance in areas that are most important for our stakeholders. There should be no reward for failure. The safety of our workforce, passengers and the general public is at the heart of everything we do and must be reflected in the remuneration framework.
- 4. Aligned across Network Rail:** where possible, remuneration structures will be aligned across the organisation. All Network Rail employees continue to be eligible for performance related pay determined using a consistent performance framework across the organisation.

The remuneration framework for executive directors agreed in 2017 is based on these principles and includes the following elements:

<b>Salary</b>	Salaries are set at a level which reflects the skills and experience of the individual as well as the scope of the responsibilities of the role.
<b>Benefits and pension</b>	Participation on the same basis as other managerial positions at Network Rail.
<b>Performance related pay</b>	Our plan is based on the achievement of stretching annual performance targets, aligned to the business scorecard.

### ➤ 2019/20 outcomes for executive directors

Business performance is measured through the scorecards. These assess performance against key measures and targets agreed with customers and stakeholders. For 2019/20, the reference for performance related pay (PRP) was changed to a dashboard with simpler, more outcome focussed set of measures, that Network Rail's stakeholders, especially passengers, would see as success. The measures on the dashboard and the business scorecards are aligned. PRP for senior employees uses the reference of the national dashboard outturn and from 2019/20, one quarter (25 per cent) of PRP is also determined by an individual's performance rating. This gives a direct line of sight between the achievement of individual objectives and PRP.

Overall National scorecard performance was above target at 58 per cent. The PRP dashboard outturn has not been finalised due to the current Coronavirus pandemic but will be lower than the National scorecard, partly due to the impact of fatalities on the key safety measure, and partly due to the weighting given to on time train performance in the PRP dashboard.

A decision on the PRP outcome has been deferred to later in 2020.

The maximum performance related pay for the executive directors is nine per cent of salary for the chief executive and 20 per cent of salary for the chief financial officer.

Further details of the PRP scheme can be found on page 104.

### ➤ 2020 Policy review

The current Policy was agreed in 2017 and has therefore been reviewed, taking into account changes to the business since then. The review considered a range of factors to recognise that senior appointments are balanced with public pay constraints, whilst allowing Network Rail to attract and retain high calibre leaders who can help drive performance. As a result, the following key changes were made and are applicable to new appointments:

- The £95k redundancy cap will be applied to new and existing contracts when the legislation is introduced.
- The removal of car allowance and company funded private medical cover.
- The removal of the pension cash allowance.
- No contractual entitlement to payment in lieu of notice.
- Any travel or relocation payments will be in line with existing Network Rail policies.

The full Policy can be found on pages 113 to 119.

### ➤ Scorecards

This year saw the introduction of a distinct set of performance measures specifically for performance related pay. Whilst these measures are different from the measures on business scorecards, they have been chosen to closely mirror overall business performance. The measures represent each of the key framework areas of safety, financial performance, train performance, asset management, investment and customer satisfaction.

**David Noyes,**

chair, nomination and remuneration committee



16 July 2020

# Annual remuneration report

This report has been prepared in accordance with the requirements of Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Report) (Amendment) Regulations 2013. Where indicated, some of the disclosures in these sections have been audited.

## Single total figure of remuneration for 2019/20 (audited)

The table below summarises all remuneration for the executive directors in respect of 2019/20 (and the prior year comparative). Further discussion of each of the components is set out on the pages which follow.

£'000	Salary		Benefits <sup>1</sup>		Pension <sup>2</sup>		Performance Related Pay (PRP)		Total	
	2019/20	2018/19	2019/20	2018/19	2019/20	2018/19	2019/20	2018/19	2019/20	2018/19
<b>Jeremy Westlake</b>	371 <sup>3</sup>	357	12 <sup>4</sup>	32	34 <sup>5</sup>	31	0 <sup>6</sup>	48	417	468
<b>Andrew Haines OBE</b>	593 <sup>7</sup>	371	3	0	0	0	0 <sup>6</sup>	0 <sup>8</sup>	595	371

- Benefits include car allowance, private medical cover, any annual travel subsidy, life assurance and relocation.
- Pension includes the value of all pension benefits receivable in respect of the relevant year. This includes any supplementary cash allowance and a value from participation in the defined benefit or defined contribution pension arrangements or allowances for those who have opted out of their respective pension arrangements in the relevant year (calculated in accordance with the methodology prescribed by the Regulations). Further details of these pension benefits are set out in the pension section on page 105.
- Jeremy Westlake's 2019/20 salary payment is higher than the previous year as he received a pay award in July 2019.
- Jeremy Westlake's benefits payments were lower in 2019/20 as he received relocation assistance in 2018/19.
- Jeremy Westlake's pension payments were higher than the previous year as he received an additional pension allowance in error in period one which is being recovered.
- A decision on the outturn of the 2019/20 performance related pay scheme has been deferred until later in the year. However, in the light of the financial challenges arising from the Coronavirus crisis, the committee has agreed with those affected that the executive directors will not receive any payments under the PRP 2019/20 scheme.
- Andrew Haines OBE's salary is higher than the previous year as he joined Network Rail as chief executive on 14 August 2018, therefore the payment for 2018/19 was pro-rated to reflect part year's service. The salary for 2019/20 is slightly higher than the base salary of £588k as there were two additional working days in 2019/20.
- Andrew Haines OBE declined the PRP he earned for 2018/19.

## Pay Ratios (audited)

The Government announced new legislation for employers to publish their pay ratios from 2020. The pay ratio highlights the gap between the chief executive and the 25th, 50th and 75th percentile of employees - using the single figure disclosed in remuneration reporting. A historical record will be published incrementally to a 10-year period moving forward.

For transparency and good governance, the nominations and remuneration committee decided to publish the pay ratio information a year early in the 2018/19 report and to also publish the information from 2017/18, the previous year.

There are three calculation methodologies to choose from:

- Calculate total remuneration for all employees and take the percentiles to calculate the pay ratio against the chief executive single figure total remuneration.
- Using existing pay data i.e. gender pay gap reporting, take the 25th, 50th and 75th percentiles and then calculate the total remuneration for these and compare against the chief executive single figure total remuneration.

C. Same as option B but using other recent pay data.

The nomination and remuneration committee decided that option B, using existing gender pay gap reporting, would be used. This data already exists and is in the public domain, therefore more familiar and easier to obtain.

	Method	25th percentile pay ratio	Median pay ratio	75th percentile pay ratio
2017/18	Option B	25.1:1 <sup>1</sup>	20.0:1	16.2:1
2018/19 <sup>2</sup>	Option B	20.9:1	16.1:1	13.3:1
2019/20 <sup>3</sup>	Option B	18.0:1	14.3:1	11.9:1

1. PRP has been removed from the calculations for all years for consistency, as the decision on PRP for employees for 2019/20 has been deferred.

2. Change of chief executive during the year. Pay ratio based on Mark Carne CBE and Andrew Haines OBE's combined single figure total for 2018/19

3. Andrew Haines OBE's single figure total was used for 2019/20.

When taking the employee data for the 25th, 50th and 75th percentile, the total remuneration figure has been calculated based on an office worker at these percentiles rather than other employee groups. Using a front-line or operations worker would have reduced the ratio as these types of roles are eligible for overtime, allowances and shift payments, all of which would have increased the comparator pay and decreased the ratio. The additional payments are not guaranteed and therefore are likely to vary year on year. The total remuneration figure for an office worker at these percentiles is likely to be lower and also less variable year on year. It is therefore considered to be a better comparator.

As with previous years, the ratios for 2019/20 have decreased from 2018/19. This is partly because the figure for 2018/19 is based on the pro-rated remuneration for the current and previous chief executive, who was on a higher total remuneration than the current chief executive.

## Executive director changes

There have been no changes this year.

## Incentive plan 2019/20 – annual performance related pay (audited)

During the year, two directors were eligible to participate in this scheme, Jeremy Westlake and Andrew Haines OBE. The maximum potential annual performance related pay award for Jeremy Westlake in 2019/20 was 20 per cent of salary. Andrew Haines OBE's maximum potential annual performance related pay award is nine per cent. Stretching performance targets were set at the start of the year in the context of the PRP dashboard, which can be found on pages 14 to 16. The approach for performance related pay is aligned across the businesses, including executive directors. The PRP dashboard outturn, which is closely related to the business scorecard, determines the percentage pay-out against the maximum award. For 2019/20, one quarter (25 per cent) of PRP is also based on an individual's performance rating, and each rating carries a different percentage weighting. For example, a 'good' performance rating will have an 11.25 per cent contribution to the overall PRP.

Performance against the national scorecard is summarised on pages 15 and 16. Overall scorecard performance was above target. Performance against the PRP dashboard measures was lower, partly due to the impact of fatalities on the key safety measure, and partly due to the different way train performance is measured.

In addition, each year the safety, health and environment (SHE) committee considers the overall outturn from a safety perspective and decides whether to recommend any further adjustments to reflect safety performance.

Having reviewed the safety measures outturn and the overall safety performance, the committee concluded that the scorecard outturn on safety measures was a reflection of overall safety performance and no adjustments should be made.

Remuneration report continued

A decision on the outturn of the 2019/20 performance related pay scheme has been deferred until later in the year. However, in the light of the financial challenges arising from the Coronavirus crisis, the committee has agreed with those affected that neither the executive directors nor the executive leadership team will receive any payments under the PRP 2019/20 scheme.

**Pension (audited)**

- Executive directors are eligible to participate in one of the Network Rail defined benefit pension schemes or the defined contribution pension scheme on the same basis as other employees.
- Under the existing executive pension policy, Jeremy Westlake is entitled to an allowance in lieu of pension on the same basis as other employees of Network Rail, subject to the discretion of the group HR director. This allowance is equivalent to the employer’s pension contributions otherwise payable, less an adjustment for the cost of providing continued life assurance and the employer National Insurance Contributions payable. Andrew Haines OBE was not eligible to an allowance in lieu of pension as part of his appointment.
- Previously, executive directors received an additional pension allowance in the form of a cash supplement based on a percentage of their earnings above the notional earnings cap (£166,200 for 2019/20 tax year and previously £160,800 for 2018/2019). This policy will no longer apply to new appointments, which included Andrew Haines OBE’s appointment.

The table below sets out details for executive directors for 2020 in respect of all Network Rail pension benefits, split between the defined benefit and defined contribution/additional allowance. The value shown in the final column of this table is included as the pension column in the single total figure of remuneration on page 103.

	Defined benefit schemes				Other pension arrangements <sup>4</sup>		
	Normal retirement age <sup>2</sup>	Accrued pension at 31 March 2020 £000	Increase in accrued pension (net of inflation) during 2019/20)	Transfer value of accrued pension at 31 March 2020 £000 <sup>3</sup>	Value included in single figure table (A) £000	Cash salary supplement or contribution to defined contribution scheme (B) £000	Total pension value reported in single figure table (A+B) £000
<b>Andrew Haines OBE<sup>1</sup></b>	–	–	–	–	–	–	–
<b>Jeremy Westlake</b>	–	–	–	–	–	34	34

- Andrew Haines OBE does not receive any pension contribution nor cash in lieu.
- The normal retirement age shows the age at which the director can retire without actuarial reduction.
- Transfer values as at 31 March 2020 have been calculated in accordance with the ‘Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 2008’.
- For the defined benefit schemes, the value shown in the single figure table (A) has been calculated in accordance with the regulations by applying a multiplier of 20 to the increase in accrued pension (net of inflation) during the year. For the additional pension allowance (B), the value shown is the gross cash allowance in the year. The value shown in the single figure table is the sum of A and B.



## ► Non-executive directors' fees (audited)

Under the framework agreement the SoS sets the pay for the chair and non-executive directors of Network Rail. The fees for the non-executive directors were last reviewed in 2016 for new appointments were decreased at the time.

The table below summarises the remuneration for the non-executive directors in respect of 2019/20.

	2019/20		2018/2019	
	Fees £000	Benefits £000	Fees £000	Benefits £000
<b>Rob Brighthouse</b>	50	–	50	–
<b>Richard Brown CBE</b>	50	–	50	–
<b>Sharon Flood</b>	71	–	70	–
<b>Chris Gibb<sup>1</sup></b>	47	–	70	–
<b>Sir Peter Hendy CBE<sup>2</sup></b>	335	0	375	1
<b>Silla Maizey</b>	40	–	40	–
<b>David Noyes<sup>3</sup></b>	42	–	27	–
<b>Mike Putnam<sup>4</sup></b>	44	–	40	–
<b>Bridget Rosewell CBE</b>	70	–	69	–

1. Chris Gibb left the Board on 30 November 2019.

2. Sir Peter Hendy CBE reduced his working hours from July 2019 as part of his reappointment as chair for a further two years. Private healthcare cover was not agreed as part of his reappointment and ceased from July 2019.

3. David Noyes' fees are higher than 2018/19 as he joined the Board on 6 July 2018.

4. Mike Putnam's fees are higher than 2018/19 as he became chair of the SHE committee in December 2019 to replace Chris Gibb.

## ► Payments to former directors (audited)

There were no payments made to former directors in 2019/20.

## ► Payments for loss of office (audited)

There were no payments for loss of office to executive directors in 2019/20.

## ► Outside appointments

Executive directors are normally required to seek approval from the committee to retain any fees they receive in respect of external non-executive directorships.

Andrew Haines OBE is a director of the Rail Delivery Group and does not receive fees for this appointment, although he does receive a travel pass that comes with the directorship, which allows him free rail travel for personal and business purposes. Jeremy Westlake did not have any outside appointments.

Remuneration report continued

Additional disclosures

The following disclosures are required by the regulations to provide additional context for considering executive remuneration.

Percentage change in remuneration

The table below shows the percentage change in the salary, benefits and annual performance related pay (APRP) of the chief executive and all Network Rail employees from 2018/19 to 2019/20.

For the purposes of the table below, the annual change in the value of each of the components for the chief executive has been calculated using the data disclosed in the relevant columns of the single total figure of remuneration table on page 103.

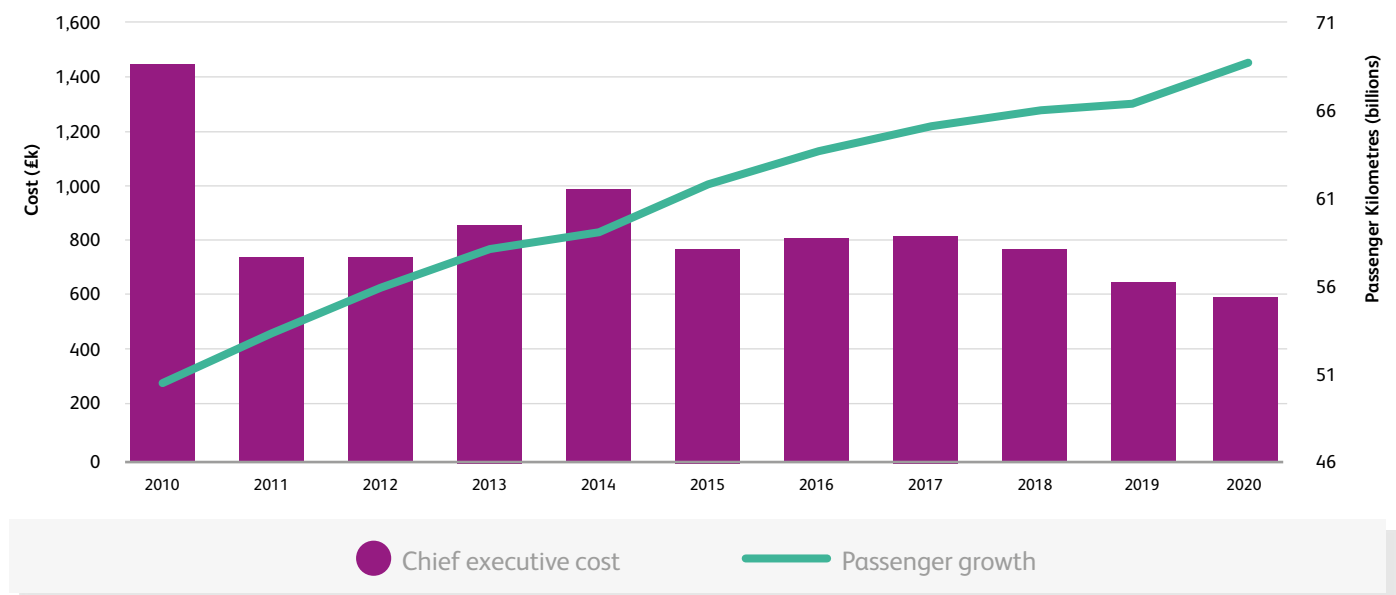
	Chief executive <sup>3</sup>	All employees
Salary <sup>1</sup>	-4.36%	3.2%
Benefits	-0.83%	0%
Performance related pay <sup>2</sup>	0%	0%

1. Based on salary reviews effective on either 1 January or 1 July 2020.
2. 2018/19 was based on a combination of Mark Carne CBE's and Andrew Haines OBE's remuneration, whereas 2019/20 was based solely on Andrew Haines OBE's remuneration which is lower.
3. Performance related pay is based on any changes to maximum opportunity.

Performance graph and table

Under the regulations, companies are required to include a chart showing historic total shareholder return (i.e. share price and re-invested dividends) over an eight-year period alongside a table that shows the remuneration paid to the chief executive over the same period. As Network Rail does not have shares, or a share price, an alternative metric of passenger kilometres travelled has been used.

Number of passenger kilometres travelled



## Remuneration report continued

	Chief executive	Single total figure of remuneration	PRP (% of vesting)	LTIP (% of vesting)
2019/2020	Andrew Haines OBE	£595k	0 %	N/A
2018/2019	Andrew Haines OBE	£371k	0 %	N/A
	Mark Carne CBE	£285k	N/A	N/A
2017/2018	Mark Carne CBE	£769k	54.6 %	N/A
2016/2017	Mark Carne CBE	£820k	37 %	N/A
2015/2016	Mark Carne CBE	£811	34.7 %	N/A
2014/2015	Mark Carne CBE	£771k	0 %	N/A
2013/2014	Mark Carne CBE	£200k	20.9 %	N/A
	Sir David Higgins	£790k	N/A	N/A
2012/2013	Sir David Higgins	£836k	28.6 %	N/A
2011/2012	Sir David Higgins	£736k	0 %	N/A
2010/2011	Sir David Higgins	£161k	N/A	N/A
	Iain Coucher	£528k	N/A	N/A
2009/2010	Iain Coucher	£1,447k	56.8 %	N/A

Iain Coucher was appointed chief executive on 1 August 2007. He resigned on 31 October 2010.

Sir David Higgins was appointed chief executive on 1 February 2011. He resigned on 28 February 2014.

Mark Carne CBE was appointed chief executive on 24 February 2014. He retired on 4 September 2018.

Mark Carne CBE also voluntarily declined any performance related pay in 2018.

Andrew Haines OBE was appointed chief executive on 14 August 2018. He declined any performance related pay in 2019.

N/A indicates that there was no eligibility for an award vesting in respect of the relevant year.

The combined single total figure of remuneration for Andrew Haines OBE and Mark Carne CBE is £655k.

## Relative importance of spend on pay

Under the regulations, companies are required to illustrate the relative importance of spend on pay by disclosing the total employee remuneration and returns to shareholders (i.e. dividends and share buybacks) in the reporting year and the prior year. Network Rail is a not-for-dividend company and therefore cannot provide data on returns to shareholders. Therefore, in line with the principle of this disclosure, the table below includes other key Network Rail metrics to illustrate employee remuneration in the context of overall business activities.

	2019/20	2018/19	Change (%)
<b>Total employee remuneration</b>	£2,715m	£2,561m	6.0%
<b>Total expenditure</b>	£9,392m	£10,824m	-13.2%

Remuneration report continued

**Consideration of directors’ remuneration – remuneration committee and advisers**

The membership of the committee during the year comprised the following independent non-executive directors: Sir Peter Hendy CBE, David Noyes, Bridget Rosewell CBE and Richard Brown CBE. David Noyes replaced Bridget Rosewell CBE as chair during the year.

The group general counsel and company secretary is secretary to the committee. The committee is also supported by the group HR director, and head of reward and benefits. The chief executive attends meetings at the invitation of the committee. No individual is present when their own remuneration is being discussed.

In carrying out its responsibilities in line with best practice, the committee seeks independent external advice as necessary. During the year, the committee retained Deloitte LLP to provide independent advice on executive remuneration. Deloitte was appointed by the committee in 2012 following a selection process undertaken by the committee. The committee is satisfied that the Deloitte engagement partner and team provide objective and independent remuneration advice to the committee and do not have any connections with Network Rail that may impair their objectivity and independence. Deloitte is a founding member of the Remuneration Consultants Group and voluntarily operates under the code of conduct in relation to executive remuneration consulting in the UK. The code of conduct can be found at [www.remunerationconsultantsgroup.com](http://www.remunerationconsultantsgroup.com). Deloitte did not provide any advice to the committee during 2019/20, and as such no fees were payable in this respect.

**Key remuneration committee agenda items during the year**

<p><b>May 2019</b></p>	<ul style="list-style-type: none"> <li>• Review of Board succession and non executive director appointments</li> <li>• Payment of the 2016 deferred element of performance related pay to executive directors</li> <li>• Proposals for performance related pay for 2019/20 and beyond</li> <li>• 2018/19 outturn for performance related pay decisions for executive directors</li> <li>• Executive director and executive leadership team members’ annual pay review 2019</li> <li>• Roles within Network Rail over Her Majesty’s Treasury (HMT) threshold</li> </ul>
<p><b>June 2019</b></p>	<ul style="list-style-type: none"> <li>• Appointment process to replace retiring non-executive directors</li> <li>• Approval of approach for performance related pay for 2019/20</li> </ul>
<p><b>December 2019</b></p>	<ul style="list-style-type: none"> <li>• Review of membership of Board committees following the retirement of non-executive directors</li> <li>• Half year review of performance related pay for 2019/20</li> <li>• Review of the executive director remuneration policy</li> <li>• Review of Department for Transport’s draft response to the Public Accounts Committee recommendations on senior executive remuneration</li> <li>• Review of committee’s terms of reference</li> <li>• Roles within Network Rail over HMT threshold</li> </ul>
<p><b>February 2020</b></p>	<ul style="list-style-type: none"> <li>• Review of the draft executive director remuneration policy</li> <li>• Proposals for 2020/21 performance related pay</li> <li>• Roles within Network Rail over HMT threshold</li> <li>• Review of executive leavers since 2017</li> </ul>
<p><b>March 2020</b></p>	<ul style="list-style-type: none"> <li>• Approval of the executive director remuneration policy</li> <li>• Review of the likely 2019/20 outturn for performance related pay decisions</li> <li>• Targets for 2020/21 performance related pay</li> <li>• Executive directors’ annual pay award 2020</li> <li>• Approval of executive directors’ performance objectives</li> </ul>

**▶ Committee members**

Member	Formal appointment to committee	Number of meetings attended during the year
Richard Brown CBE <sup>1</sup>	July 2015	5/5
Sir Peter Hendy CBE	July 2015	5/5
Bridget Rosewell CBE <sup>2</sup>	September 2018	3/3
David Noyes <sup>3</sup>	October 2018	5/5

1. Retired from the Board and the committee on 31 March 2020.
2. Appointed to the committee as chair in September 2018. Retired as chair following the meeting on 18 December 2019.
3. Took over as chair from Bridget Rosewell CBE following the meeting on 18 December 2019.

**▶ Role of the remuneration committee**

In 2018, the nomination and remuneration committees were combined to form one committee. The committee continues to cover policy, governance and decision making in relation to all senior employees with salaries above the pay threshold.

The full terms of reference of the committee can be found on the website: [www.networkrail.co.uk](http://www.networkrail.co.uk).

**▶ Pay for performance structure for executive directors – aligned to what is important for customers**

The PRP arrangements for executive directors and other employees are aligned to business performance and is based on the national dashboard output.



- Passenger satisfaction
- Passenger and safety
- Safety
- Financial
- Other

Network Rail moved from route/region/function scorecards to a new dashboard with a set of output focussed measures which more effectively reward delivery. Reducing the number of measures from the previous year enables sufficient weightings to each measure so that it is significant enough to reward success. The national dashboard has been designed to ensure our customers and, through them, our passengers are at the heart of how we operate.

Remuneration report continued

**➤ National dashboard for 2019/20**

For 2019/20, PRP changed to reflect feedback around the complexity of the scheme and passenger satisfaction not being fully reflected in the previous measures. The new dashboards are designed to bring together the priorities of our customers, passenger satisfaction, our financial performance, efficiency and, our continued prioritisation of safety. The new measures give an appropriate weighting to passenger satisfaction by combining train performance, the National Rail Passenger Satisfaction (NRPS) measure and passenger safety (measured through train accident risk reduction (TARR)), demonstrated in the table below.

Area	Measure	Weighting	Target
Safety	<b>Fatalities and Weighted Injuries (FWI)</b> An index representing workforce safety, using fatalities and non-fatal injuries per hour worked. A lower FWI represents better performance.	10%	0.058
	<b>Train Accident Risk Reduction (TARR)</b> Measures achievement of the key milestones and metrics to reduce train accident risk. TARR is made up of milestone targets and volume targets, both of which have different achievement weightings.	10%	80%
Passenger	<b>Freight Delivery Metric (FDM)</b> The percentage of commercial freight trains that arrive at planned destination within 15 minutes of scheduled time. Freight trains are only considered to have failed FDM where a delay is caused by Network Rail.	5%	94%
	<b>Public Performance Measure (PPM)</b> PPM is the percentage of trains which arrive at their terminating station 'on time' compared to the total number of trains planned. A train is defined as on time if it arrives at the destination within five minutes of the planned arrival time for London and South East or regional services, or 10 minutes for long distance services.	15%	89%
	<b>Passenger Satisfaction (NRPS score)</b> The percentage of passengers surveyed who were satisfied with their overall journey.	20%	81%
Financial	<b>Financial Performance Measure (FPM)</b> An assessment of how Network Rail have performed compared to the financial targets set out in the CP6 Business Plan. The measure is an aggregation of the three individual FPM measures (P&L, Renewals and Enhancements).	20%	£0.00
Other	<b>Investment Milestones</b> The number of milestones completed ahead of or on time, as a percentage of all milestones planned for delivery in the year.	10%	90%
	<b>Composite Reliability Index (CRI)</b> The Composite Reliability Index is a measure of the short-term condition and performance of our assets including track, signalling, points, electrification, telecoms, buildings, structures and earthworks. The index shows the total percentage improvement in asset reliability compared to the end of the previous Control Period.	10%	-0.4%
	<b>Employee Engagement*</b>	-	-

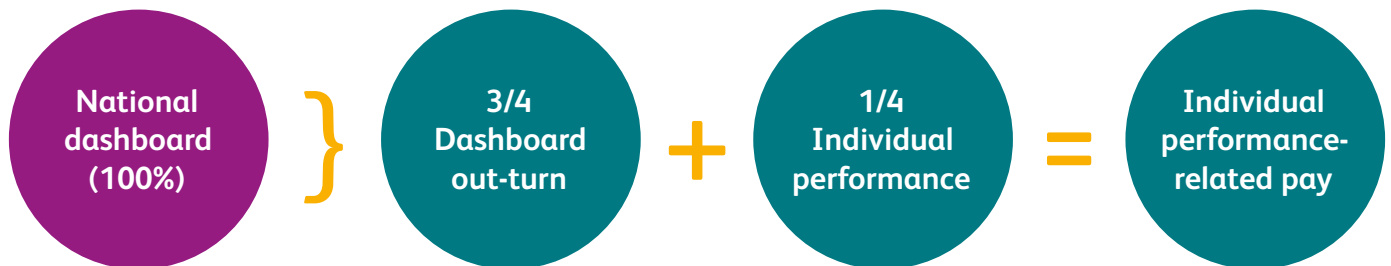
\* Employee engagement is zero weighted for 2019/20, the engagement index from the 2019 Your Voice survey will be used as a baseline for the target for future years



Regional dashboards include measures which match each regions' responsibilities along with universal measures such as safety and financial performance. Local scorecards are still used to manage business performance at a local level, but they are not linked to PRP.

In addition, no payment will be made in respect of any performance measure which fails to exceed the minimum level of performance (worse than target threshold) and evidence of under reporting against safety would result in the outcome of the safety measures being reviewed and reducing performance accordingly, including potentially to zero.

From 2019/20, one quarter (25 per cent) of PRP will be determined by an individual's performance rating. This provides a direct line of sight between the achievement of individual objectives and PRP. For executive directors and employees aligned to the national dashboard, the figure below demonstrates how individual performance related pay is calculated:



# Executive director’s remuneration policy

Network Rail perform an essential role in managing and enhancing the UK’s transport infrastructure to drive economic growth for passengers. The Department for Transport (DfT) delivery bodies manage resources at similar levels to FTSE 100 and so it is essential that they can attract and retain the right calibre of senior executives to deliver the Government’s economic and transport priorities. It is also recognised that senior appointments must be mindful of public sector pay constraints and the importance of delivering value for taxpayers and passengers.

The remuneration policy (“policy”) has been agreed by the Network Rail nominations and remuneration committee (“the committee”) in accordance with The Companies (Directors’ Remuneration Policy and Directors’ Remuneration Report) Regulations 2019. The policy is subject to approval from the Secretary of State (SoS) and the Chief Secretary to HM Treasury (CST). Following that approval, the Policy will be formally approved by the SoS at the 2020 Annual General Meeting.

The approach reflects Network Rail’s position as an arm’s length body (ALB) delivering for passengers and freight users, being mindful of managing public money.

The policy is based on a set of pay principles, developed by the committee working closely with the DfT. The principles set out the framework in which remuneration policies and decisions are made. They are intended to provide a framework for senior remuneration. They apply to all new appointments and over time, may be applied to existing executives’ packages. It is important that decisions about remuneration are not separated from organisational plans and priorities. Exception to these principles must be agreed by the committee and where required, approval would be sought from ministers.

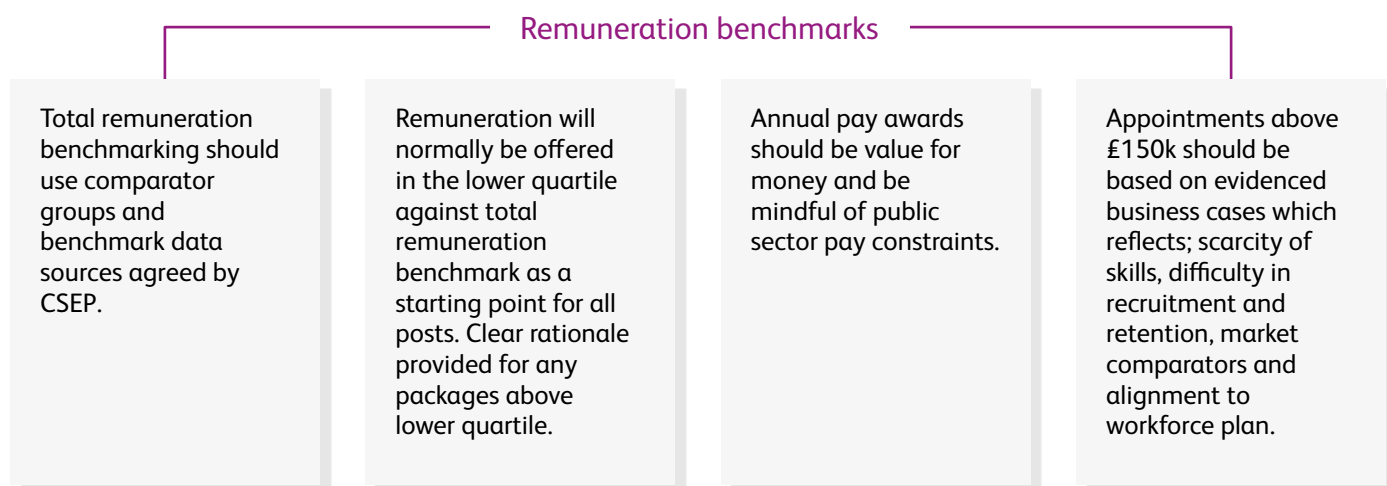
The framework the principles set out applies to all senior roles, not just executive directors.

## ➤ Consideration of stakeholder views in developing the policy

In formulating the policy, the committee consulted with the following key stakeholders:

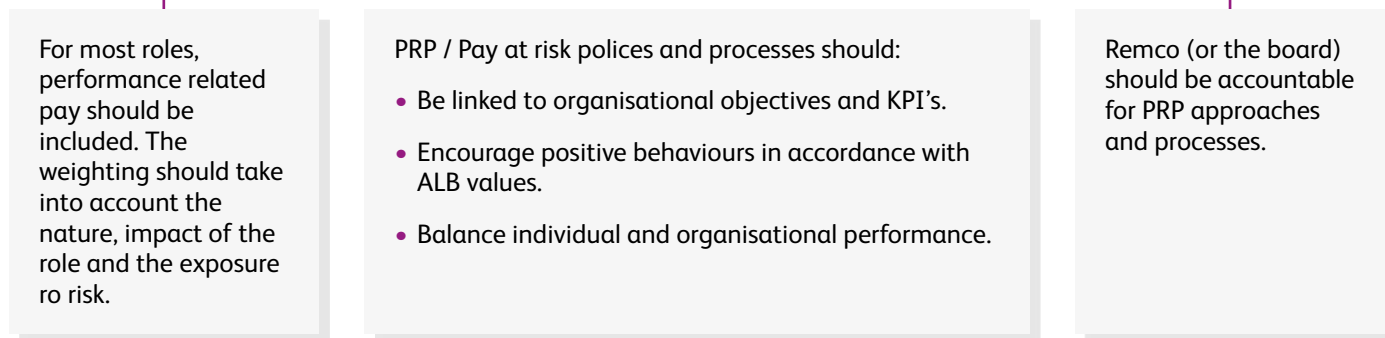
- Department for Transport, as part of our status as an arm’s length public sector body
- Employees, through various communication processes throughout the year whereby the views of employees are conveyed to the committee and considered. One of the key underlying principles is that, as far as practicable and appropriate, the remuneration framework for the executive directors should be aligned with that which applies for other managers and employees throughout the organisation. As a result, the pay, remuneration structures and employment conditions throughout the company were considered by the committee in developing the policy.

## ➤ Senior Executive Remuneration principles

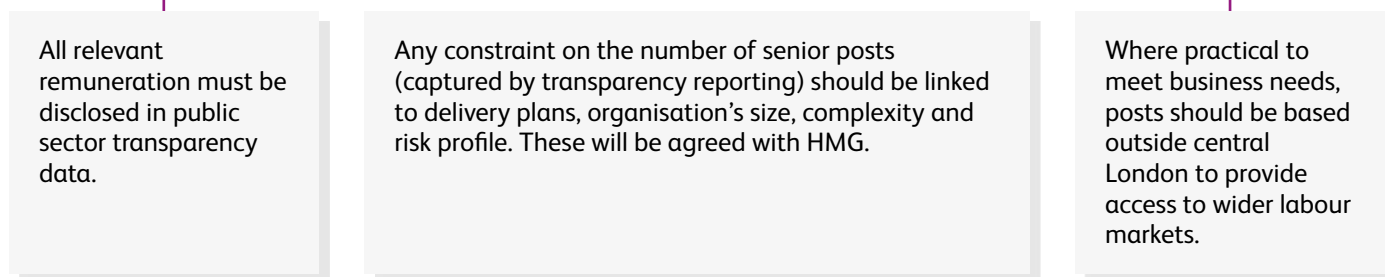


Remuneration report continued

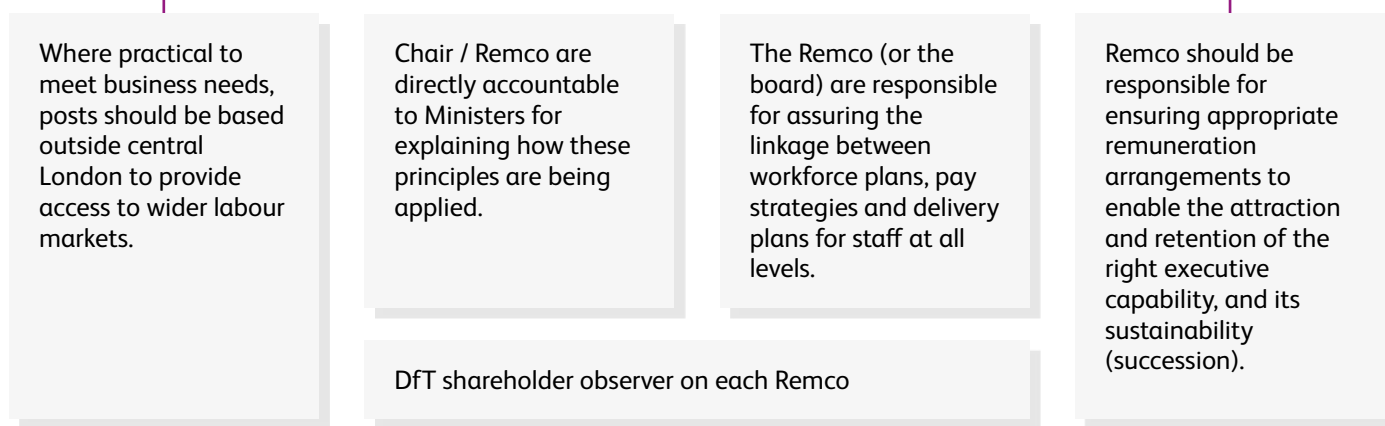
Performance related pay / Pay at risk



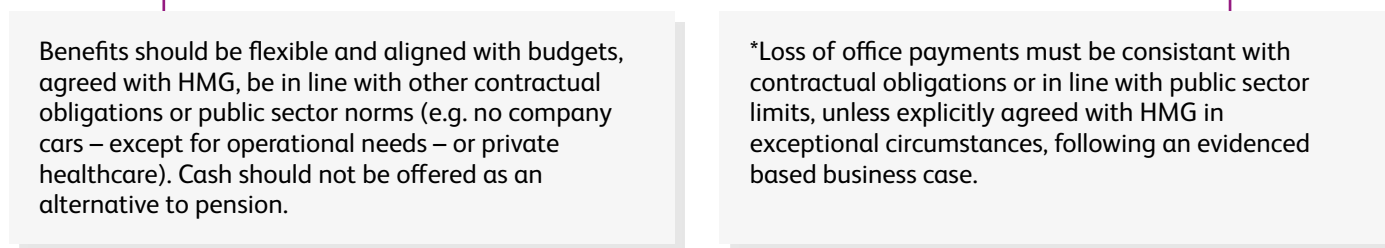
The number of senior executive posts (£150k+)



Remuneration committee



Other reward benefits



\* DfT's expectations are that contractual obligations to be brought in line with public sector limits once legislation has been passed by Parliament in this respect.

Remuneration report continued

➤ Summary of remuneration package for executive directors

The remuneration package for executive directors has three components – base pay, pension and performance related pay. Performance related pay is based on performance within the financial year (April to March). Existing incumbents will continue with their current arrangements.

➤ Table of elements of package

Component	Purpose/link to strategy	Operation	Quantum
<b>Base Salary</b>	To provide an element of fixed remuneration which reflects the skills and experience of the individual, allowing the company to recruit the calibre of individual needed to lead the business.	<p>Salaries of executive directors are determined by the nominations and remuneration committee.</p> <p>Salaries are set at a level which reflects the skills and experience of the individual, as well as the scope and responsibilities of the role.</p> <p>In considering the above, the committee takes into account the levels of remuneration in the market based on lower quartiles on information for similar roles in comparable organisations.</p> <p>Salaries are reviewed annually, and any changes are normally effective from 1 July, and would not normally be a higher percentage than that paid to management grades.</p> <p>* Andrew Haines £588,000</p> <p>* Jeremy Westlake £371,316</p>	<p>The approach to determining remuneration will normally be based on the lower quartile against the total remuneration.</p> <p>Annual pay awards should be value for money and be mindful of public sector pay constraints.</p> <p>Increases above this level may be made by the committee in circumstances where it considers it appropriate, such as to reflect:</p> <ul style="list-style-type: none"> <li>• An increase in the scope and responsibilities of the role.</li> <li>• A change in role.</li> </ul> <p>If recruitment is needed to replace an executive director role, the package will be reviewed by the remuneration committee to ensure the right balance between the fixed elements of the package (base pay) and the variable elements (performance related pay).</p>
<b>Pension</b>	To provide a retirement benefit in line with other senior managers and employees at Network Rail.	<p>Executive directors are eligible to participate in one of the Network Rail pension schemes, on the same basis as other employees.</p> <p>Benefits in the pension schemes are limited to a cap on pensionable earnings (£166,200 from April 2019), subject to annual review.</p>	<p>The DB schemes have an accrual rate of 1/60th of pensionable earnings.</p> <p>The maximum employer contribution under the DC scheme is seven per cent of pensionable earnings.</p> <p>After five years' service employees can opt to join the railway pension scheme (RPS65).</p>

Component	Purpose/link to strategy	Operation	Quantum
<b>Performance related pay</b>	<p>Performance related pay is based on the achievement of stretching annual performance targets in areas which we, our customers and stakeholders care about most.</p> <p>Cascading the performance framework throughout the organisation creates aligned objectives and shared successes.</p>	<p>Performance related pay provides an opportunity to reward performance for our customers and meets the needs of the passengers and freight businesses.</p> <p>Following the end of the financial year, the committee will assess performance against stretching performance targets set at the start of the year.</p> <p>The committee also has overriding discretion to make adjustments to reflect its assessment of the overall business performance in the year, including overall business performance and safety.</p> <p>The overall structure is in line with the pay principles.</p>	<p>There is a maximum opportunity of 20 per cent for the chief executive and chief financial officer subject to performance.</p> <p>As noted earlier, at the time of recruitment to replace an executive director role, the balance between the fixed element of the package (Base salary) and variable element (performance related pay) will be reviewed by the committee. The intention is for the expected value of the total package would not increase.</p>

### ➤ Approach to recruitment remuneration

New executive directors would be appointed on to the remuneration package described in the above policy table. The approach which the committee would take to each of the components is as follows:

- Salary would be set based on the lower quartile of the total remuneration using comparator groups and benchmark data sources agreed by the Civil Service Employment Policy team.
- Participation in the Network Rail pension schemes would be in line with all employees. No cash supplements will be issued in lieu of pension.
- Eligibility to participate in the performance related pay scheme, in line with the policy table. Participation in the year of appointment would normally be on a pro-rata basis to reflect the period worked in the relevant scheme year. Any pro rata participation would be qualified by an assessment of the realistic impact a new joiner could make in the year of appointment. For new executive directors, they must be employed on or before 30 September of that performance year to qualify for a payment in that scheme year.

Any travel or relocation payments are only to be provided in exceptional circumstances where there is a strong business case and is in line with existing Network Rail policies. Any request outside of policy will require DfT/HMT approval.

### ➤ Performance related pay – performance framework and target setting

#### Overall framework

For executive directors, performance related pay will be based on the national dashboard, which is designed to bring together the priorities of our customers, passenger satisfaction, our financial performance, efficiency and, our continued prioritisation of safety. The committee believes this is the most appropriate way to reward performance in the range of areas mentioned above which are most important to Network Rail's customers and stakeholders.

The current dashboard measures are detailed in the annual remuneration report.

The targets for each measure are agreed by the committee at the start of each year. For each measure, a target range applies, under which between zero per cent and 100 per cent of the maximum pay out based on actual performance against the target range. The target ranges are designed to be stretching and to only deliver a pay out where performance is above expectations, with maximum pay out requiring exceptional performance.

### ➤ Overall business performance

In addition, the committee has an overriding discretion to make adjustments to reflect its assessment of overall business performance in the year, including safety,

Remuneration report continued

passenger satisfaction and financial performance. Their review takes into account a range of factors including report from the safety, health and environment (“SHE”) committee.

For the avoidance of doubt, in the event of a serious safety incident during the year which impacts passengers, workforce, or the public, for which Network Rail was responsible, no performance related pay would normally be payable to any executive director in respect of that year.

**Overall business performance**

Executive directors have service agreements which can be terminated by the company or the director by giving six months’ notice. This applies to all current executive directors and would normally be applied as the policy for future appointments.

For the full-service agreement please contact the company secretariat via [cossec@networkrail.co.uk](mailto:cossec@networkrail.co.uk)

Name	Effective date of agreement	Notice period (from Executive Director and from company)
Andrew Haines	3 September 2018	6 months
Jeremy Westlake	24 February 2016	6 months

Each service agreement contains an express provision requiring the departing executive director to mitigate their loss. Network Rail would have regard to that duty and contractual requirement on a case by case basis when assessing the appropriate level of compensation which may be payable, including using phased payments.

**Policy on loss of office**

Where an executive director leaves employment, the committees’ approach is to minimise the cost to Network Rail and to ensure that any performance related payments offered appropriately reflect performance.

There will be no contractual entitlement to any payment in lieu of notice (PILON).

Executive directors leaving through means of redundancy would be subject to the £95k cap at the point of implementation of this legislation.

An executive director is only entitled to any performance related payment for the current scheme year if they are in Network Rail’s employment on 30 June of that scheme year. The exception to this is if the executive director leaves employment under one of the following reasons and will be classed as a ‘good’ leaver:

- Ill health severance
- Death in service
- Redundancy
- Any other reason at the discretion of the committee (including a participant leaving by mutual agreement)

In all these circumstances, the executive director would be entitled to a pro rata payment based on the number of calendar days employed in that scheme year. If there is no performance rating, a ‘good’ rating will be applied for payment calculations. This also applies should an executive director have died in service.

Whilst under the performance related payment there are no deferred payments made, should there be a deferred payment outstanding from previous years schemes, these will be paid at the same point as that current year’s payment.

**Illustration of remuneration policy**

The reporting regulations require the inclusion of charts which illustrate the application of the remuneration policy set out in the policy table for executive directors, by showing the potential value of the annual remuneration package under three scenarios.



The assumption used in the charts below are:

**Chief Executive**

- The current chief executive is on a maximum performance related payment of nine per cent of base pay
- ‘Minimum’ shows fixed pay only (base salary effective as at 1 July 2019 and the annualised disclosed pension/benefits for 2019)
- ‘Above expectations’ includes fixed pay and 50 per cent of the maximum pay out under the performance related pay scheme (i.e. 4.5 per cent of salary)
- ‘Maximum’ includes fixed pay and maximum pay out under the performance related pay scheme (i.e. nine per cent of salary)

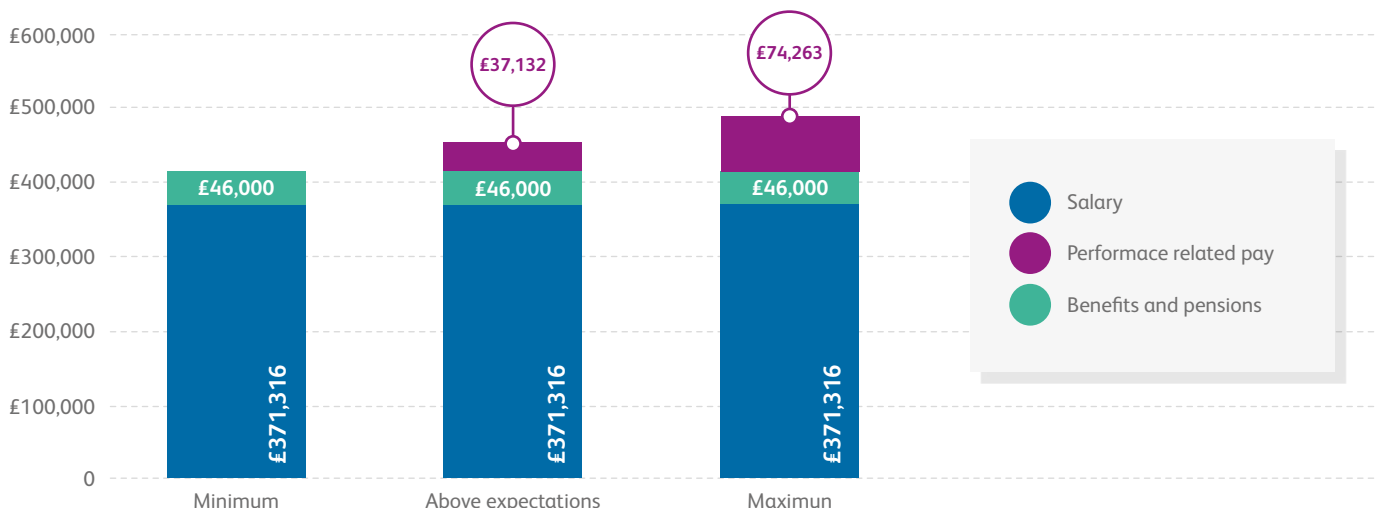
**Chief executive estimate (Andrew Haines)**



**Chief finance officer**

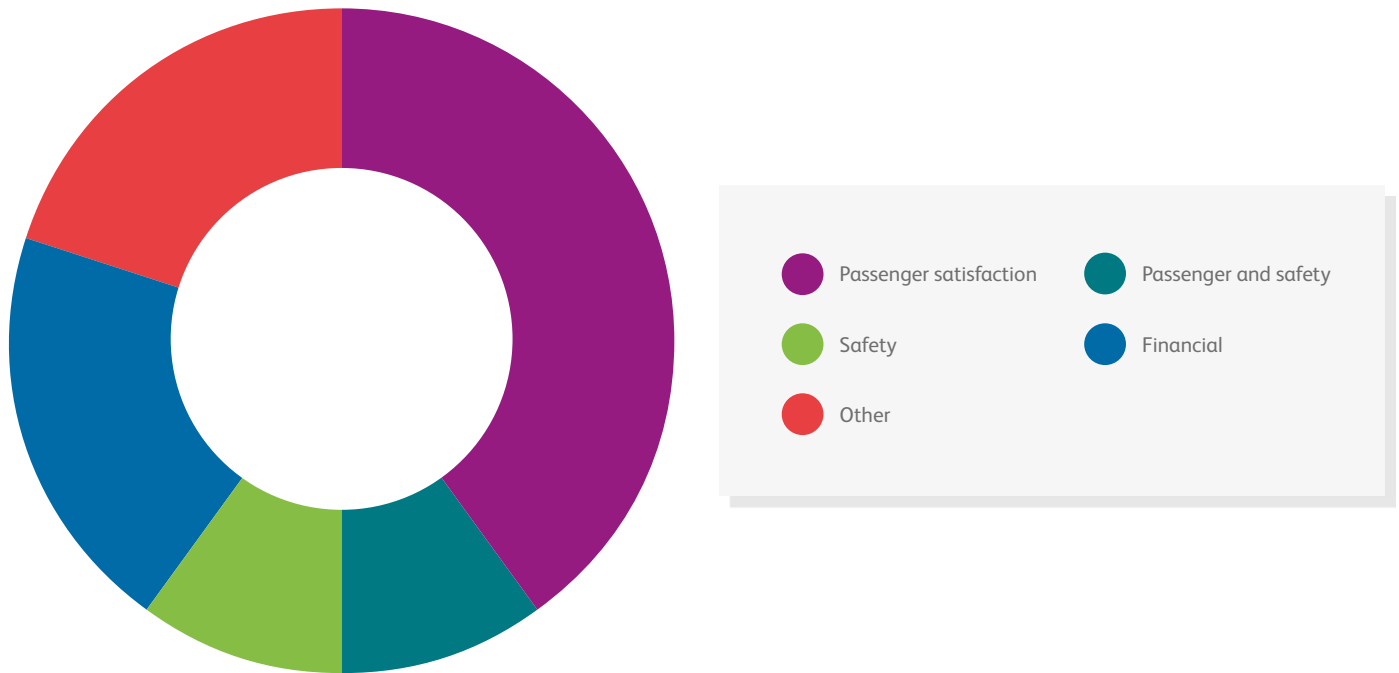
- ‘Minimum’ shows fixed pay only (base salary effective as at 1 July 2019 and the annualised disclosed pension/benefits for 2019)
- ‘Above expectations’ includes fixed pay and 50 per cent of the maximum pay out under the performance related pay scheme (i.e. 10 per cent of salary)
- ‘Maximum’ includes fixed pay and maximum pay out under the performance related pay scheme (i.e. 20 per cent of salary)

**Chief finance officer estimate (Jeremy Westlake)**



Remuneration report continued

Pay for performance measures are aligned to what is important to our customers.



The new overall national dashboard is used to measure performance every period and is used for performance related pay measures and targets.

Poor financial performance will result in reduced performance related pay and potentially no payment i.e. if financial performance is below 'worse' than target the outturn will be reduced on a sliding scale. If financial performance goes beyond twice the 'worse than' target set, then no performance related payment will be made.

Network Rail also reserve the right to reduce or withhold payment in the event of a significant safety incident.

# Directors' report

The directors present their annual report and the audited accounts for the year ending 31 March 2020.

Disclosures regarding business performance and activities, future business developments and risk management are contained in the strategic report (pages 1 to 71) and corporate governance report (pages 72 to 120).

The company is limited by guarantee, having no share capital, so there are no share disclosures in this report.

## Directors

The directors who served during the year and held office at the date of signing the annual report and accounts are detailed on pages 73 to 76.

## Directors' conflicts of interest

In accordance with company law and the company's articles of association, the directors have the power to authorise any matter which would or might otherwise constitute or give rise to a direct or indirect conflict of interest. However, such authority can only be exercised if the director has declared their actual or potential conflict of interest to the Board. The directors have a continuing obligation to update any changes to their conflicts of interest. Further details about directors' conflicts of interest can be found on page 84.

## Branches

The company's subsidiary, Network Rail Consulting Limited, has established branches in Dubai and Saudi Arabia; and subsidiaries in Australia, Canada, New Zealand and the United States of America (USA).

## Contracts of significance

There were no contracts of significance existing during 2019/20 to which any Network Rail undertaking was a party and in which a director of the company is or was materially interested (as defined by Listing Rule LR 9.8.4R).

## Political donations

It is Network Rail's policy not to make political donations or to incur political expenditure in the UK and the EU. No political donations were made, and no political expenditure was incurred during the year (2018/19: £nil).

## Investment in research and development

Technology and innovation is fundamental to Network Rail's success in Control Period 6 and beyond.

During the year the group charged nothing to the income statement (2018/19: nil) on research and development.

Further information on the cost of research and development can be found in Note 2 on page 140.

## Engagement with our people, passengers and stakeholders

Further information can be found in the Engaging with Stakeholders section on page 77 relating to the actions the company has taken during the financial year to develop arrangements aimed at:

- Providing its people with information on matters of concern to them;
- Consulting its people's representatives on a regular basis to ensure that their views are taken into account when making decisions that are likely to affect their interests;
- Encouraging its people's involvement in the company's performance; and
- Achieving a common awareness on the part of all its people of the financial and economic factors affecting the company's performance, as well as how the directors have had regard to the need to foster effective business relationships with its suppliers and stakeholders.

## Financial disclosures

Disclosures relating to the group's use of financial instruments, financial risk management objectives and policies of the company, including its policy for hedging each major type of forecasted transaction for which hedge accounting is used; its exposure to price risk, credit risk, liquidity risk and cash flow risk can be found under Note 25 on page 166.

Particulars of important events affecting the group since the financial year end and an indication of likely future developments can be found in the Chief Financial Officer's (CFO) statement on pages 17 to 21.

## Directors' statement of responsibilities

The directors are responsible for preparing the annual report, the directors' remuneration report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the group and company financial statements in accordance with International Financial Reporting Standards (IFRSs). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and the company, and of the profit or loss of the group for that period. In preparing these financial statements, the directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and accounting estimates that are reasonable and prudent;
- State whether applicable IFRSs have been followed, subject to any material departures disclosed and explained in the financial statements.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose, with reasonable accuracy, at any time the financial position of the company and the group. This enables them to ensure that the financial statements and the directors' remuneration report comply with the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the company and the group, and

Directors' report continued

hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The directors are responsible for the maintenance and integrity of the company's website.

The directors consider that the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for its member to assess the company's performance, business model and strategy.

Each of the directors in office at the date of this report, whose names and functions are listed on pages 73 to 76 confirm that to the best of their knowledge:

- The financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit of the group and the undertakings included in the consolidation taken as a whole.
- The management report is incorporated into the strategic report and directors' report for the purposes of the Disclosure and Transparency Rules (DTR 4.1.8R). It includes a fair review of the development and performance of the business and the position of the group and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that the group faces.

**Independent auditor**

Resolutions for the re-appointment of the current independent auditor, the National Audit Office, who also acts for the Comptroller and Auditor General, and to authorise the audit and risk committee (ARC) to determine the independent auditor's remuneration, will be proposed at the forthcoming annual general meeting. The notice of meeting is enclosed, together with explanatory notes, in a pack with this report.

**Disclosure of information to the independent auditor**

Each of the directors at the date of approval of this report confirms that:

- So far as the director is aware, there is no relevant audit information of which the company's independent auditor is unaware;
- The director has taken all the steps that they ought to have taken as a director in order to make them aware of any relevant audit information and to establish that the company's independent auditor is aware of that information.

**Going concern statement**

The group's business activities, together with the factors likely to affect its future development, performance and position and the group's principal risks and uncertainties are set out in the 'strategic report' section on pages 1 to 71. The financial position of the group, its cash flows, liquidity position and borrowing facilities are described in the CFO's review on pages 17 to 21. Note 25 to the accounts on page 166 includes the group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit, liquidity and foreign exchange risk. The viability statement on page 70 sets out a longer-term assessment than this going concern statement.

The group has considerable financial resources together with long-term contracts with a number of customers and suppliers.

Business plans and financial models are used to project cash flows and monitor financial risks and liquidity positions, forecast funding requirements and other key financial ratios, including those relevant to our network licence. Analysis is undertaken to understand the resilience of the group and its business model to the potential impact of the group's principal risks, or a combination of those risks. This analysis takes account of the mitigating actions realistically to be taken to avoid or reduce the impact or occurrence of the underlying risks. In considering the likely effectiveness of such actions, the conclusions of the board's regular monitoring and review of risk management and internal control systems, as described on pages 60 to 69, are disclosed in detail.

Consequently, the directors believe that the group is well placed to manage its business risks.

After making enquiries, the directors have a reasonable expectation that the company and the group have adequate resources to continue in operational existence for the foreseeable future.

For this reason and on the basis of the above, the directors consider it appropriate for the group to adopt the going concern basis in preparing its annual report and accounts.

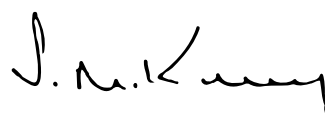
**Post Balance sheet events**

Network Rail's response to the Coronavirus pandemic has been discussed throughout the report, including the chief executive's report on page 3 and the risk management report on page 60. Regional responses to the crisis have also been highlighted in their reports on pages 23 to 42.

Except as disclosed above, there have been no additional significant post balance sheet events, whether adjusting or non-adjusting.

**Stuart Kelly,**

group general counsel and company secretary



16 July 2020