
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.

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:

Salary	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.
Benefits and pension	Participation on the same basis as other managerial positions at Network Rail.
Performance related pay	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 ¹		Pension ²		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
Jeremy Westlake	371 ³	357	12 ⁴	32	34 ⁵	31	0 ⁶	48	417	468
Andrew Haines OBE	593 ⁷	371	3	0	0	0	0 ⁶	0 ⁸	595	371

1. Benefits include car allowance, private medical cover, any annual travel subsidy, life assurance and relocation.
2. 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.
3. Jeremy Westlake's 2019/20 salary payment is higher than the previous year as he received a pay award in July 2019.
4. Jeremy Westlake's benefits payments were lower in 2019/20 as he received relocation assistance in 2018/19.
5. 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.
6. 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.
7. 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.
8. 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:

- A. Calculate total remuneration for all employees and take the percentiles to calculate the pay ratio against the chief executive single figure total remuneration.
- B. 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.

Remuneration report continued

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 ¹	20.0:1	16.2:1
2018/19 ²	Option B	20.9:1	16.1:1	13.3:1
2019/20 ³	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)

1. 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.
2. 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.
3. 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 ⁴		
	Normal retirement age ²	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 ³	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
Andrew Haines OBE¹	–	–	–	–	–	–	–
Jeremy Westlake	–	–	–	–	–	34	34

1. Andrew Haines OBE does not receive any pension contribution nor cash in lieu.
2. The normal retirement age shows the age at which the director can retire without actuarial reduction.
3. Transfer values as at 31 March 2020 have been calculated in accordance with the ‘Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 2008’.
4. 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
Rob Brighthouse	50	–	50	–
Richard Brown CBE	50	–	50	–
Sharon Flood	71	–	70	–
Chris Gibb¹	47	–	70	–
Sir Peter Hendy CBE²	335	0	375	1
Silla Maizey	40	–	40	–
David Noyes³	42	–	27	–
Mike Putnam⁴	44	–	40	–
Bridget Rosewell CBE	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 ³	All employees
Salary ¹	-4.36%	3.2%
Benefits	-0.83%	0%
Performance related pay ²	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 (%)
Total employee remuneration	£2,715m	£2,561m	6.0%
Total expenditure	£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. 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>May 2019</p>	<ul style="list-style-type: none"> • Review of Board succession and non executive director appointments • Payment of the 2016 deferred element of performance related pay to executive directors • Proposals for performance related pay for 2019/20 and beyond • 2018/19 outturn for performance related pay decisions for executive directors • Executive director and executive leadership team members’ annual pay review 2019 • Roles within Network Rail over Her Majesty’s Treasury (HMT) threshold
<p>June 2019</p>	<ul style="list-style-type: none"> • Appointment process to replace retiring non-executive directors • Approval of approach for performance related pay for 2019/20
<p>December 2019</p>	<ul style="list-style-type: none"> • Review of membership of Board committees following the retirement of non-executive directors • Half year review of performance related pay for 2019/20 • Review of the executive director remuneration policy • Review of Department for Transport’s draft response to the Public Accounts Committee recommendations on senior executive remuneration • Review of committee’s terms of reference • Roles within Network Rail over HMT threshold
<p>February 2020</p>	<ul style="list-style-type: none"> • Review of the draft executive director remuneration policy • Proposals for 2020/21 performance related pay • Roles within Network Rail over HMT threshold • Review of executive leavers since 2017
<p>March 2020</p>	<ul style="list-style-type: none"> • Approval of the executive director remuneration policy • Review of the likely 2019/20 outturn for performance related pay decisions • Targets for 2020/21 performance related pay • Executive directors’ annual pay award 2020 • Approval of executive directors’ performance objectives

Committee members

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

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.



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.

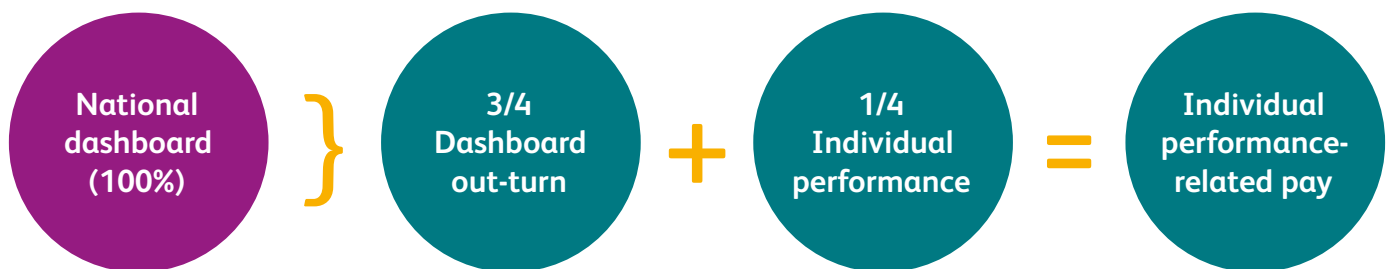
Area	Measure	Weighting	Target
Safety	Fatalities and Weighted Injuries (FWI) An index representing workforce safety, using fatalities and non-fatal injuries per hour worked. A lower FWI represents better performance.	10%	0.058
	Train Accident Risk Reduction (TARR) Measures achievement of the key milestones 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	Freight Delivery Metric (FDM) 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%
	Public Performance Measure (PPM) 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%
	Passenger Satisfaction (NRPS score) The percentage of passengers surveyed who were satisfied with their overall journey.	20%	81%
Financial	Financial Performance Measure (FPM) 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	Investment Milestones The number of milestones completed ahead of or on time, as a percentage of all milestones planned for delivery in the year.	10%	90%
	Composite Reliability Index (CRI) 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%
	Employee Engagement*	-	-

* 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.

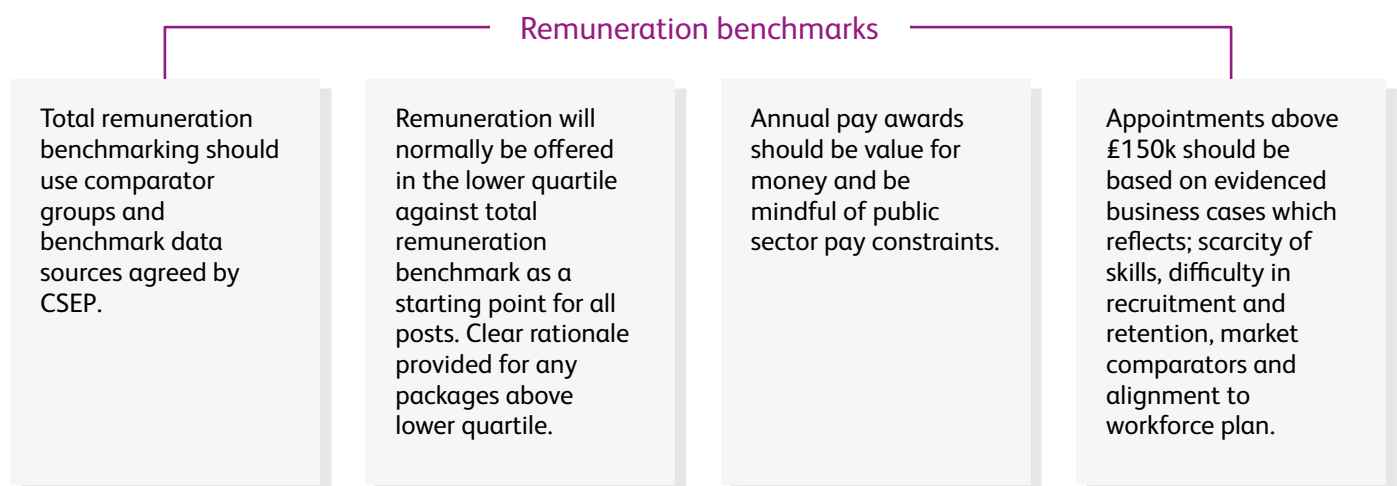
The framework the principles set out applies to all senior roles, not just executive directors.

➤ Consideration of stakeholder views in developing the policy

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

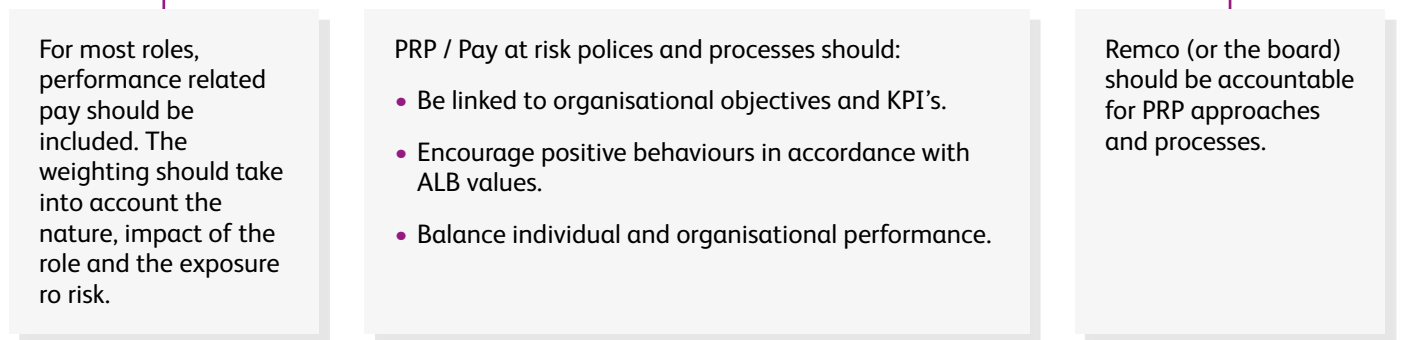
- Department for Transport, as part of our status as an arm’s length public sector body
- Employees, through various communication processes throughout the year whereby the views of employees are conveyed to the committee and considered. One of the key underlying principles is that, as far as practicable 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

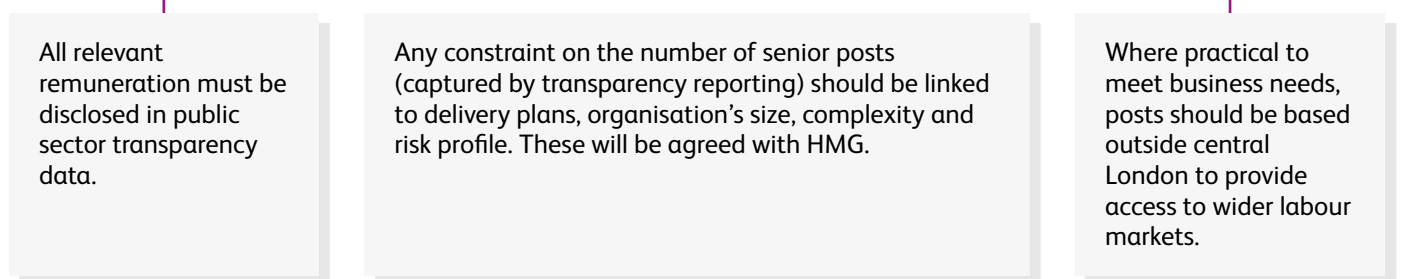


Remuneration report continued

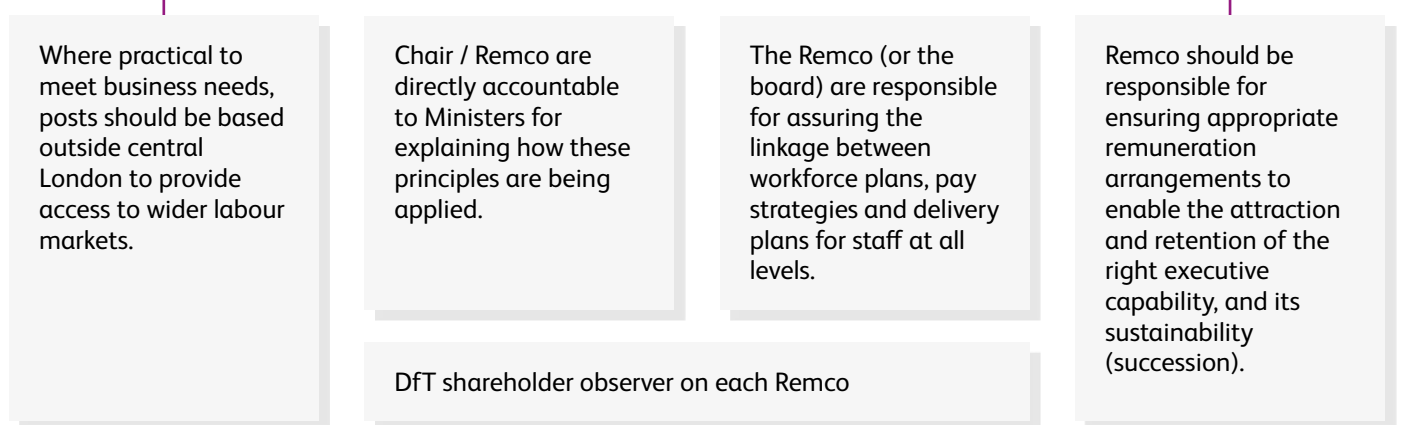
Performance related pay / Pay at risk



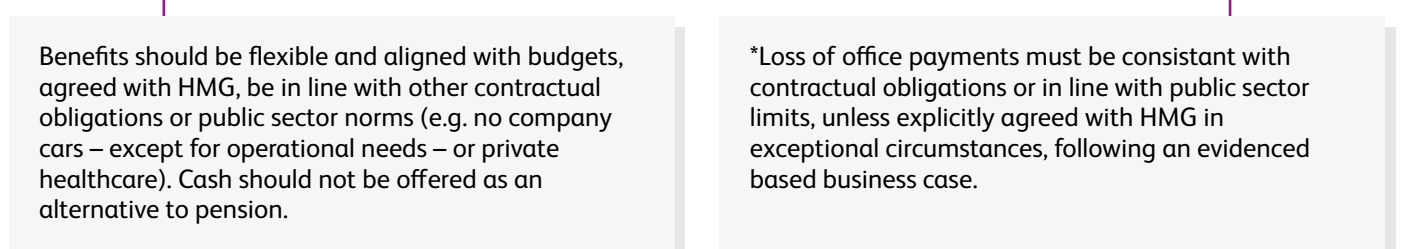
The number of senior executive posts (£150k+)



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
Base Salary	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"> • An increase in the scope and responsibilities of the role. • A change in role. <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>
Pension	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
Performance related pay	<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

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)

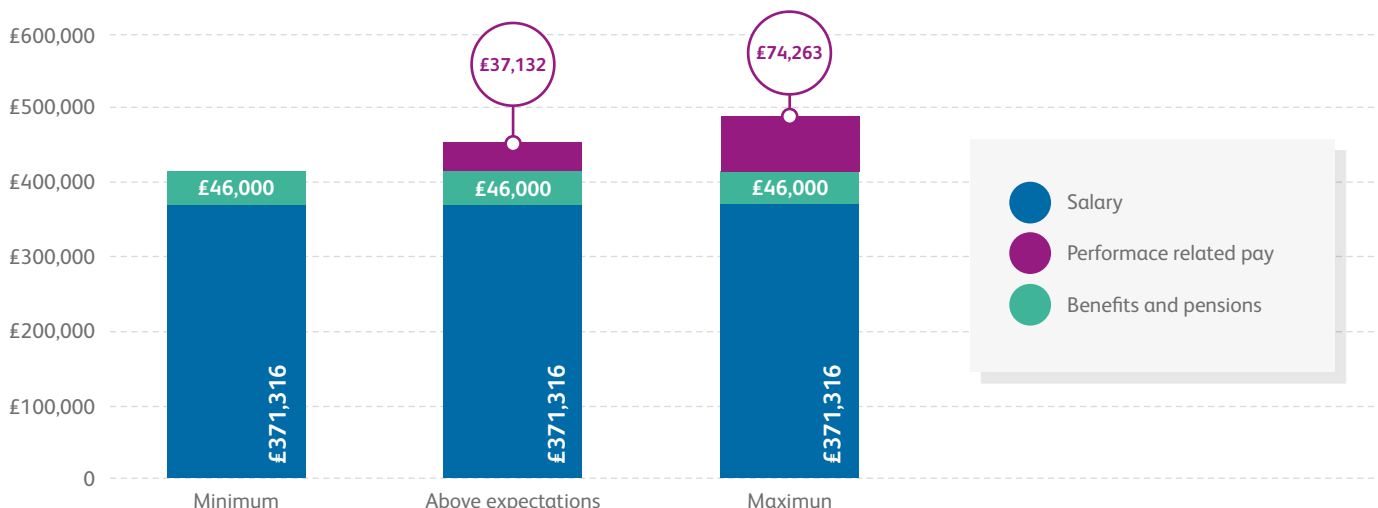
Chief executive estimate (Andrew Haines)



Chief finance officer

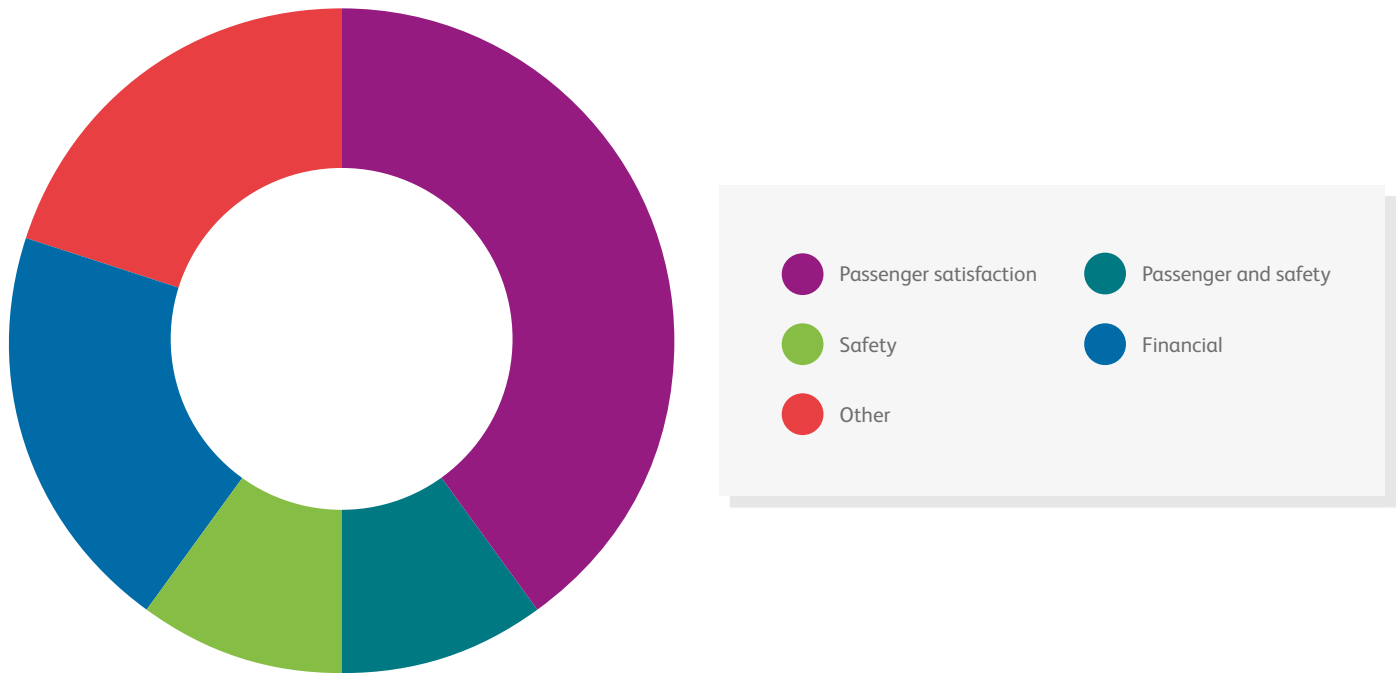
- ‘Minimum’ shows fixed pay only (base salary effective as at 1 July 2019 and the annualised disclosed pension/benefits for 2019)
- ‘Above expectations’ includes fixed pay and 50 per cent of the maximum pay out under the performance related pay scheme (i.e. 10 per cent of salary)
- ‘Maximum’ includes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