

DIRECTORS' REMUNERATION REPORT

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ANNUAL STATEMENT FROM THE REMUNERATION COMMITTEE CHAIR

I'm pleased to present the 2021/22 directors' remuneration report for Network Rail. 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 all UK listed companies and the provisions of the UK Corporate Governance Code. The committee follows good governance practice by reviewing the terms of reference every year.

The 2021 report was approved at the Annual General Meeting by our member, the Secretary of State for Transport (SoS). The current three-year remuneration policy for executive directors (Policy) was approved at the 2020 AGM and sets out framework and limits for how executive directors are paid. This Policy was included in the 2020 directors' remuneration report and can also be found on our website www.networkrail.co.uk

Key agenda items for the year

Our annual remuneration report outlines the outcomes for the 2021/22 financial year in terms of executive remuneration. The key points to note for 2021/22 outcomes are:

- A decision on the 2021/22 performance related pay scheme had not been agreed at time of this report. However, in light of the continued financial pressures facing Network Rail, the whole railway, and the public sector generally, as a result of the Covid-19 pandemic, the chief executive and chief financial officer declined to accept a performance related payment this year.

The rest of this statement explains how executive remuneration is determined at Network Rail and gives more details on the outcomes of this year.

Implementation of Policy in 2022

All decisions made by the committee during the year were in compliance with the Policy. The Policy is based on four key principles:

- 1. Simple:** the framework should be transparent and simple for all stakeholders to understand.
- 2. Competitive and fair:** attracting and retaining leaders of the necessary ability requires remuneration arrangements that are reasonable in the markets that we compete in for talent, and which fairly reflect the appropriate market rates for the skills and experience of the individual. At the same time, we 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 shouldn't be a 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, although it is not a contractual entitlement.

The remuneration framework for executive directors agreed in 2020 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.
Pension	Participation in pension schemes is 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, which is aligned to the business scorecard.

2021/22 outcomes for executive directors

Business performance is measured through the scorecards. These evaluate performance against key measures and targets that have been agreed with customers and stakeholders. Since 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 a success. The measures on the dashboard and the business scorecards are aligned. PRP for senior employees uses the national dashboard outturn and 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 below target at 46 per cent. The PRP dashboard outturn was slightly lower at 42.2 per cent.

The chief executive and chief financial officer declined to accept a performance related payment this year.

Further details of the PRP scheme can be found on page 146.

National dashboard

There is a distinct set of performance measures set specifically for PRP, and while these are different from the

measures on business scorecards, they have been chosen to closely mirror overall business performance. The measures on the dashboard represent the key strategic themes of train service delivery, safety, efficiencies and people.

David Noyes
chair, nomination
and remuneration
committee

12 July 2022



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 2021/22 (audited)

The table below summarises all remuneration for the executive directors in respect of 2021/22 (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) ³		Total	
	2021/22	2020/21	2021/22	2020/21	2021/22	2020/21	2021/22	2020/21	2021/22	2020/21
Jeremy Westlake	373	373	12	12	37 ⁴	33	0	0	422	417
Andrew Haines OBE	590	554 ⁵	3	3	0	0	0	0	593	557

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 147.

3. In the light of the financial pressures arising from the Covid-19 pandemic, the executive directors declined to receive a payment under the PRP 2020/21 and 2021/22 scheme years.

4. Increase in 2021/22 allowance in line with increase in pensions earning cap and increase in contributions. Jeremy received a pensions allowance overpayment of £843 in the 2021/22 year, which has been recovered in 2022/23. This overpayment has therefore not been included in this year's disclosure.

5. In light of the financial pressures facing Network Rail, the whole railway, and the public sector generally as a result of the Covid-19 pandemic, Andrew Haines took a voluntary reduction in remuneration of 20 per cent for four months during the peak of the pandemic from December 2020 to March 2021.

Pay ratios (audited)

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

For transparency and good governance, the nomination 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 so that it could be compared.

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.
- 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 making it 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	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
2020/21	Option B	17.5:1	14.3:1	12.8:1
2021/22	Option B	17.1:1	13.8:1	11.2:1

1. PRP has been removed from the calculations for all years for consistency, as a decision on PRP for employees for 2021/22 was not made at the time of this report.
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 onwards.

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. The latest 2021 pay gap data used to identify employees at each percentile was taken at 31 March 2021 with the total remuneration data covering the same period as that in the single figure total remuneration table. The total pay and benefits along with the salary component for each of the employees at each percentile are shown in the table below.

Percentile	Total pay & benefits	Salary component
25th Percentile	£34,608	£34,608
50th Percentile	£43,043	£40,663
75th Percentile	£53,182	£52,702

The employees selected in these percentiles were a mix of technical and clerical and management roles who were not given a pay award during 2021/22. Despite an increase in the total remuneration of the chief executive in 2021/22 as a result of temporary reduction in pay in 2020/21 due to financial pressures arising from Covid-19 pandemic, the pay ratios decreased across all percentile comparators. The decrease in pay ratios can be attributed to higher remunerated employees at the 25th, 50th and 75th percentiles in the latest 2021 gender pay gap data for pay ratio calculations.

Executive director changes

There have been no changes this year.

Incentive plan 2021/22 – annual PRP (audited)

During the year, two directors were eligible to participate in this scheme; Jeremy Westlake and Andrew Haines OBE. The maximum potential annual PRP award for Jeremy Westlake in 2021/22 was 20 per cent of salary. Andrew Haines OBE's maximum potential annual PRP award was 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 152 to 153. The approach for PRP is aligned across the business, 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 2021/22, one quarter (25 per cent) of PRP was based on an individual's performance rating, and each rating carried 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 20 to 25. Our National scorecard performance was

below target at 46 per cent. This year saw a busier timetable and an increase in passenger numbers which affected train punctuality, however passenger satisfaction improved throughout the year. Overall performance was impacted by the safety measures which all fell below lower taper, coupled with the increase in freight cancellations as a result of the severe weather earlier in the year. We also missed our target for employee engagement. The PRP dashboard outturn is slightly lower than our National scorecard at 42.2 per cent. This is partly due to our performance against two index measures not captured in the PRP dashboard; to measure our

environmental sustainability and how we handle complaints, offset by the additional weight we have given to the financial performance in the PRP dashboard.

In addition, each year the safety, health and environment committee (SHEC) considers the overall outturn from a safety perspective and decides whether to recommend any further adjustments to reflect safety performance. Having reviewed the outturns of the safety measures and overall safety performance, the committee concluded that no further adjustments were necessary this year.

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, minus an adjustment for the cost of providing continued life assurance and the employer National Insurance Contributions payable. Andrew Haines OBE was not eligible for 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 (£172,800 for 2021/22 tax year and previously £170,400 for 2020/21). This policy no longer applies to new appointments.

The table below sets out details for executive directors for 2022 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 145.

	Defined benefit schemes				Other pension arrangements ⁴		
	Normal retirement age ²	Accrued pension at 31 March 2022 £000	Increase in accrued pension (net of inflation) during 2021/22)	Transfer value of accrued pension at 31 March 2022 £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	–	–	–	–	–	37	37

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 2022 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 and were decreased at the time.

The table below summarises the remuneration for the non-executive directors for 2021/22.

	2021/22		2020/21	
	Fees £000	Benefits £000	Fees £000	Benefits £000
Rob Brighthouse¹	57	–	59	–
Sir Peter Hendy CBE²	316	–	296	–
Silla Maizey OBE	40	–	40	–
David Noyes³	50	–	50	–
Mike Putnam⁴	50	–	50	–
Michael Harrison⁵	–	–	–	–
Mark Bayley⁶	65	–	46	–
Fiona Ross⁷	40	–	36	–
Ismail Amla⁸	40	–	–	–
Stephen Duckworth⁹	40	–	–	–

1. Rob Brighthouse reappointed from 1 January 2022 to 31 December 2023. Base fees reduced from 1 January 2022 but continues to receive additional fee for role as senior independent director.

2. In the light of the financial pressures facing Network Rail, the whole railway, and the public sector generally, as a result of the Covid-19 pandemic, Sir Peter Hendy took a voluntary reduction in remuneration of 20 per cent for four months from December 2020 to March 2021.

3. David Noyes³ receives additional fee as chair of the Nominations and Remuneration Committee however has waived his fee as chair of Environmental Sustainability Committee.

4. Mike Putnam receives additional fee as chair of the Safety, Health and Environmental Compliance Committee.

5. Michael Harrison was appointed on 11 May 2020 as the Secretary of State's designated non-executive special director. It is an unpaid appointment for three years.

6. Mark Bayley received additional fees in 2021/22 for chairing the Audit and Risk Committee and the Property Supervisory Committee.

7. Fiona Ross received less in 2020/21 as she joined part-way through the year on 11 May 2020.

8. Ismail Amla joined on 1 April 2021.

9. Stephen Duckworth joined on 1 April 2021.

Payments to former directors (audited)

There were no payments made to former directors in 2021/22.

Payments for loss of office (audited)

There were no payments for loss of office to executive directors in 2021/22.

Outside appointments

Executive directors need to seek approval from the committee to retain any fees for 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 have a travel pass that comes with the directorship, which allows him free rail travel for personal and business use.

Jeremy Westlake is a non-executive director of Elevate Services Inc. Whilst there are no fees taken for this, share options are available. Jeremy was also a member of the British Property Federation's policy committee but transferred his involvement to Robin Dobson when he joined as group property director.

Additional disclosures

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

Percentage change in remuneration

The table below shows the percentage change in the salary, benefits and PRP of the chief executive and all Network Rail employees from 2020/21 to 2021/22.

For the table below, the 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 shown on page 145.

	Chief executive	All employees
Salary¹	6.5 % ²	0 % ³
Benefits	0 %	0 %
Performance related pay⁴	0 %	0 %

1. Based on salary reviews effective on either 1 January or 1 July 2021.

2. Andrew Haines took a temporary 20 per cent pay cut for four months during 2020/21 due to the economical and financial challenges resulting from the coronavirus pandemic.

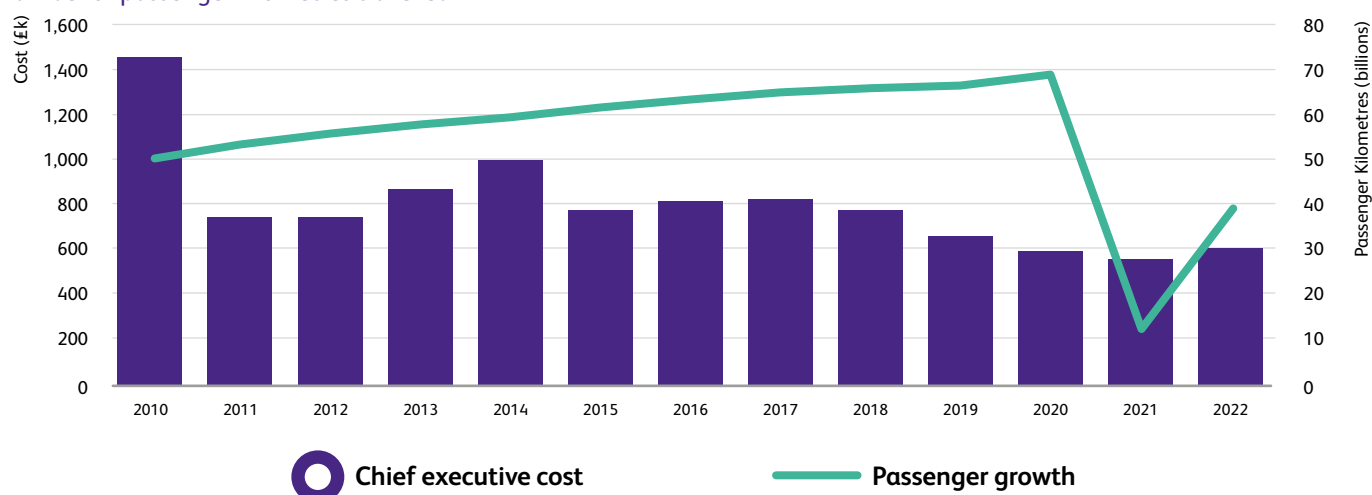
3. At the date of this report no agreement has been reached on the pay award for general grades effective 1 January 2022 or management grades effective 1 July 2022.

4. PRP is based on any changes to maximum opportunity.

Performance graph and table

Under the regulations, companies need 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, we have used the metric of 'passenger kilometres travelled' instead.

Number of passenger kilometres travelled



	Chief executive	Single total figure of remuneration	PRP (% of vesting)
2021/2022	Andrew Haines OBE	£593k	0 %
2020/2021	Andrew Haines OBE	£557k	0 %
2019/2020	Andrew Haines OBE	£595k	0 %
2018/2019	Andrew Haines OBE	£371k	0 %
	Mark Carne CBE	£285k	N/A
2017/2018	Mark Carne CBE	£769k	54.6 %
2016/2017	Mark Carne CBE	£820k	37 %
2015/2016	Mark Carne CBE	£811k	34.7 %
2014/2015	Mark Carne CBE	£771k	0 %
2013/2014	Mark Carne CBE	£200k	20.9 %
	Sir David Higgins	£790k	N/A
2012/2013	Sir David Higgins	£836k	28.6 %
2011/2012	Sir David Higgins	£736k	0 %
2010/2011	Sir David Higgins	£161k	N/A
	Iain Coucher	£528k	N/A
2009/2010	Iain Coucher	£1,447k	56.8 %

- 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 PRP in 2018.
- Andrew Haines OBE was appointed chief executive on 14 August 2018. He declined any PRP 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 for 2018/19 was £656k

Relative importance of spend on pay

Under the regulations, companies need 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 so cannot provide data on returns to shareholders. Therefore, other key Network Rail metrics have been used in the table below to show employee remuneration in the context of overall business activities.

	2021/22	2020/21	Change (%)
Total employee remuneration	£2,975m	£2,802m	6.2
Total expenditure	£10,785m	£10,722m	0.6

Consideration of directors' remuneration – remuneration committee and advisers

The committee during the year was made up of the following independent non-executive directors: David Noyes, Sir Peter Hendy CBE, Fiona Ross and Michael Harrison.

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 when invited by the committee. No individual is present when their own remuneration is being discussed.

In line with best practice, the committee seeks independent external advice when needed. During the year, the committee retained Deloitte LLP to provide

independent advice on executive remuneration. Deloitte was chosen 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 fair and independent remuneration advice to the committee and do not have any connections with Network Rail that may affect this. 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 2021/22, and as such no fees were payable in this respect.

Key remuneration committee agenda items during the year

May 2021	<ul style="list-style-type: none"> • PRP outturn 2020/21 and strategic considerations • Senior pay strategy • Executive director's objectives
September 2021	<ul style="list-style-type: none"> • Board effectiveness annual review
November 2021	<ul style="list-style-type: none"> • PRP 2021/22 update • Modernisation
March 2022	<ul style="list-style-type: none"> • Update on pay award discussions and modernisation • Indicative PRP outturn for 2021/22 • PRP review and targets for 2022/23 • Executive director's objectives

Committee members

Member	Formal appointment to committee	Number of meetings attended during the year
David Noyes (chair)	October 2018	4/4
Fiona Ross	May 2020	4/4

Member	Formal appointment to committee	Number of meetings attended during the year
Sir Peter Hendy	July 2015	4/4
Michael Harrison	May 2020	4/4
Ismail Amla	April 2021	4/4

Role of the remuneration committee

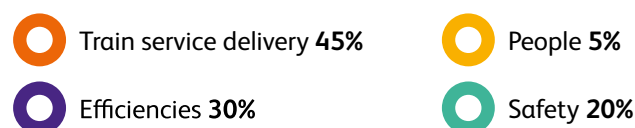
In 2018, the nomination and remuneration committees were combined to form one committee. The committee continues to cover policy, governance and decision-making in relation to all senior employees with salaries above the Government's senior pay threshold (£150,000).

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 based on the national dashboard outcome.

Since 2019/20, Network Rail moved from route/region/function scorecards to a dashboard with a set of output-focussed measures that better reward delivery. Reducing the number of measures from previous years 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, that our passengers are at the heart of how we operate.



National Dashboard for 2021/22

The dashboards align to four strategic themes. There are nine measures, carefully weighted to incentivise and reward success, whilst giving an appropriate weighting to important areas such as train service delivery and safety (which is measured through Train Accident Risk Reduction for passengers and Fatalities and Weighted Injuries for Workforce Safety).

The dashboard is shown in the table on the next page.

Strategic themes	Measure	Weighting	Target
Train service delivery	On Time The percentage of Recorded Station Stops called at on time (early or <1min late).	12.5 %	79.7 %
	Passenger Satisfaction Reported as a mean score of passenger journey satisfaction on a scale of 1-10 (1 poor – 10 excellent).	20.0 %	7.74 %
	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.	7.5 %	95.2 %
	Composite Reliability Index (CRI) 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.	5.0 %	13.6 %
Efficiencies	Financial Performance Measure (FPM) An assessment of how Network Rail has performed compared to the financial targets set out in the CP6 Business Plan. The measure is an aggregation of the three individual FPM measures from prior years (P&L, Renewals and Enhancements).	20.0 %	£0m
	Enhancement Milestones The number of milestones completed ahead of time or on time, as a percentage of all milestones planned for delivery in the year.	10.0 %	90.0 %
People	Employee Engagement An index representing the proportion of employees surveyed who responded favourably to key questions on engagement.	5.0 %	61.0 %
Safety	Workforce 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 %	0.056
	Passenger Safety (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.	10.0 %	95.0 %

Regional dashboards include measures which match each region's 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.

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 PRP is calculated:

