

DIRECTORS' REMUNERATION REPORT

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ANNUAL STATEMENT FROM THE REMUNERATION COMMITTEE CHAIR

I'm pleased to present the 2022/23 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 2022 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 the framework and limits for how executive directors are paid. The Policy was included in the 2020 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 2023, 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 the 2022/23 financial year in terms of executive remuneration. The key points to note for 2022/23 outcomes are:

- the proposed executive remuneration framework is broadly similar to the previous 2020 Policy and still comprises of three components - base salary, pension and performance related pay (PRP)
- the performance related pay scheme was approved by the committee for 2022/23. The chief executive declined to accept a payment this year. The chief financial officer received a payment equivalent to five per cent of salary.

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 2023

Decisions made by the committee during the year were all within the framework agreed as part of the Policy in 2020:

- 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, but it is not a contractual entitlement.

The remuneration framework for executive directors agreed in 2020 is based on the principles below:

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.

2022/23 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. The measures on the scorecard represent the key strategic themes of train service delivery, safety, efficiencies, sustainable growth, customer and communities and people. PRP for senior employees uses the national scorecard 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 20.4 per cent.

Further details of the PRP scheme can be found on pages 158 to 160.

2023 Policy review

The current Policy was agreed in 2020 and has therefore been reviewed. 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 highly talented leaders who can help drive performance. It was agreed that the current Policy still achieves this, however the following key amendments were made:

- the £95k redundancy cap for new appointments has been removed as this legislation was introduced but later repealed
- in relation to the formation of Great British Railways, the Policy will continue to apply for the full term, or until such time as a separate Great British Railway’s executive director’s remuneration policy is created and approved.

The full Policy can be found on pages 161 to 167.

David Noyes
 chair, nomination
 and remuneration
 committee

13 July 2023



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 2022/23 (audited)

The table below summarises all remuneration received for the executive directors in respect of 2022/23 (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	
	2022/23	2021/22	2022/23	2021/22	2022/23	2021/22	2022/23	2021/22	2022/23	2021/22
Jeremy Westlake	373	373	12	12	35 ³	37	19	0	439	422
Andrew Haines OBE	590	590	3	3	0	0	0 ⁴	0	593	593

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 152.

3. Jeremy's pension was lower this year as he received an arrears payment for 2020/21 in 2021/22.

4. Andrew declined to receive a payment under the PRP 2022/23 scheme year.

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:

- 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.
- 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
2022/23	Option B	16.1:1	13.3:1	8.5:1

1. PRP has been removed from the calculations for all years for consistency, as PRP payments for 2021/22 for some employees had not yet been 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 2022 pay gap data used to identify employees at each percentile was taken on 31 March 2022 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	£36,831	£33,388
50th Percentile	£44,548	£44,059
75th Percentile	£70,003	£52,999

Executive director changes

There have been no changes this year.

Incentive plan 2022/23 – 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 2022/23 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 national scorecard, which can be

found on pages 158 to 159. The approach for PRP is aligned across the business, including executive directors. The national scorecard outturn determines the percentage pay-out against the maximum award. For 2022/23, 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. In addition, Network Rail has accrued PRP for 2021/22 and 2022/23 financial years based on those in full attendance during industrial action.

Performance against the national scorecard is summarised on pages 22 to 27. Our National scorecard performance was below target at 20.4 per cent. This year saw the rail industry face a number of challenges including severe weather incidents, track incidents, an increased number of train cancellations and felt the impact of industrial action. We have taken a number of steps to address some of the issues we have faced, including the introduction of a National Recovery Programme, a study into the drivers of passenger satisfaction and we continue to make the safety of our passengers and staff a priority.

In addition, each year the safety, health and environmental compliance 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 (£181,800 for 2022/23 tax year and previously £172,800 for 2021/22). This policy no longer applies to new appointments.

The table below sets out details for executive directors for 2023 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 151.

	Defined benefit schemes				Other pension arrangements ⁴		
	Normal retirement age ²	Accrued pension at 31 March 2023 £000	Increase in accrued pension (net of inflation) during 2022/23)	Transfer value of accrued pension at 31 March 2023 £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	–	–	–	–	–	35	35

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 at 31 March 2023 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 newly appointed non-executive directors were last reviewed in 2016 and were decreased at that time.

The table below summarises the remuneration for the non-executive directors for 2022/23.

	2022/23		2021/22	
	Fees £000	Benefits £000	Fees £000	Benefits £000
Rob Brighthouse¹	49	–	57	–
Peter, Lord HENDY of Richmond Hill, CBE	316	–	316	–

	2022/23		2021/22	
	Fees £000	Benefits £000	Fees £000	Benefits £000
Silla Maizey OBE	40	–	40	–
David Noyes²	50	–	50	–
Mike Putnam³	50	–	50	–
Michael Harrison⁴	–	–	–	–
Mark Bayley⁵	66	–	65	–
Fiona Ross	40	–	40	–
Ismail Amla	40	–	40	–
Stephen Duckworth	40	–	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. David Noyes' receives an additional fee as chair of the Nominations and Remuneration Committee however has waived his fee as chair of Environmental Sustainability Committee.
3. Mike Putnam receives an additional fee as chair of the Safety, Health and Environmental Compliance Committee.
4. Michael Harrison was re-appointed on 11 May 2023 for a second term as the Secretary of State's designated non-executive special director. It is an unpaid appointment for three years.
5. Mark Bayley received additional fees in 2021/22 for chairing the Audit and Risk Committee and the Property Supervisory Committee. There is an increase in overall fees as he also took over as Chair of the Property Committee as of 30 April 2021

Payments to former directors (audited)

There were no payments made to former directors in 2022/23.

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.

Payments for loss of office (audited)

There were no payments for loss of office to executive directors in 2022/23.

Additional disclosures

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

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

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 2021/22 to 2022/23.

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 151.

	Chief executive	All employees
Salary ¹	0%	4.7%
Benefits	0%	0%
Performance related pay ²	0%	0%

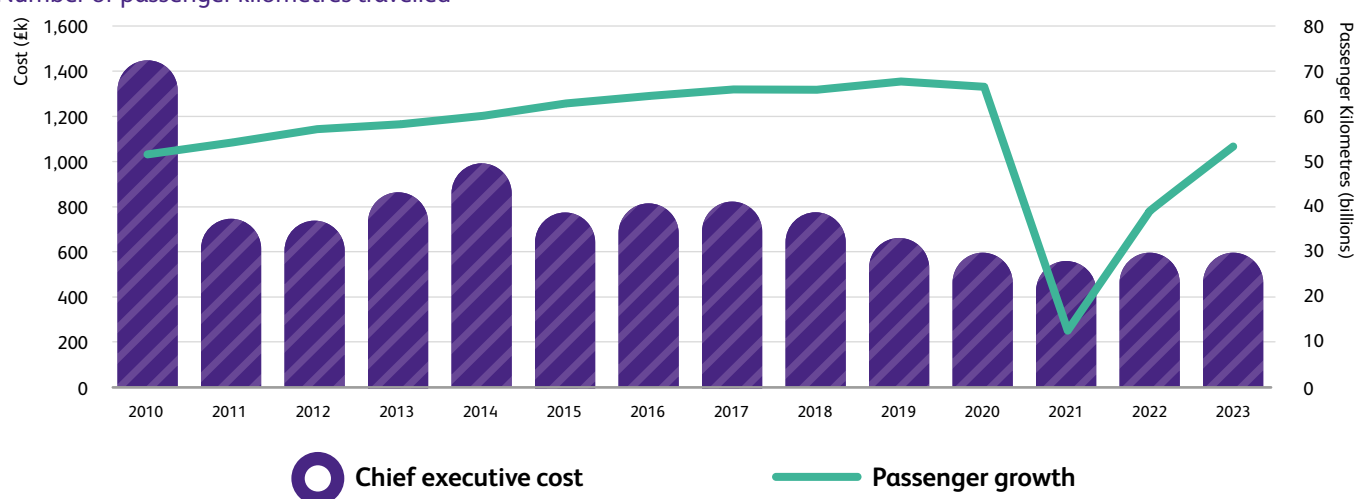
1. Based on salary reviews effective on either 1 January or 1 July 2022.

2. 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)
2022/2023	Andrew Haines OBE	£593k	0%
2021/2022	Andrew Haines OBE	£593k	0%
2020/2021	Andrew Haines OBE	£557k	0%
2019/2020	Andrew Haines OBE	£595k	0%

	Chief executive	Single total figure of remuneration	PRP (% of vesting)
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, 2020 and 2022 due to the financial pressures arising from the Covid-19 pandemic
- 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.

	2022/23	2021/22	Change (%)
Total employee remuneration	£2,831m	£2,975m	-4.8%
Total expenditure	£11,834m	£10,785m	9.7%

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, Peter, Lord Hendy of Richmond Hill, Fiona Ross, Michael Harrison and Ismail Amla.

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 2022/23, and as such no fees were payable in this respect.

Key remuneration committee agenda items during the year

May 2022	<ul style="list-style-type: none"> • Pay award discussions. • Update on modernisation consultations. • Senior pay quota. • Executive directors' objectives. • Committee report for annual report & accounts 2022. • PRP outturn 2020/21.
September 2022	<ul style="list-style-type: none"> • Update on modernisation consultations. • PRP 2021/22.
November 2022	<ul style="list-style-type: none"> • Update on modernisation consultations. • PRP 2021/22 for general grades. • PRP 2021/22 for executive band and band 1.
February 2023	<ul style="list-style-type: none"> • Update on modernisation consultations. • PRP 2022/23. • Executive directors' remuneration policy.
March 2023	<ul style="list-style-type: none"> • Update on modernisation consultations. • Indicative PRP outturn for 2022/23. • Scorecard approval 2022/23. • Executive directors' objectives. • Succession planning.

Committee members

Member	Formal appointment to committee	Number of meetings attended during the year
David Noyes (chair)	October 2018	5/5
Fiona Ross	May 2020	5/5
Peter, Lord Henty of Richmond Hill, CBE	July 2015	4/5
Michael Harrison	May 2020	4/5
Ismail Amla	April 2021	4/5

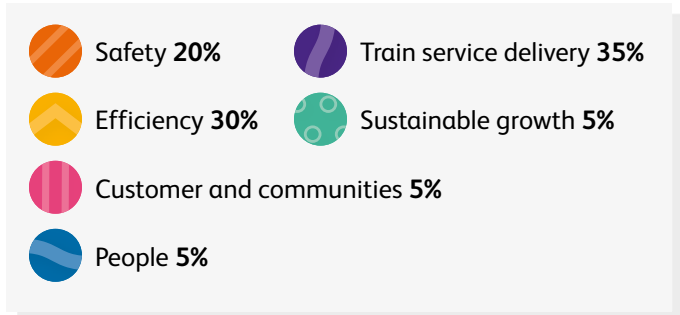
Role of the remuneration committee

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 scorecard output. The national scorecard has been designed to ensure our customers and passengers are at the heart of how we operate.



National Scorecard for 2022/23

The scorecard has been aligned to our six strategic priorities. There are twelve measures, carefully weighted to incentivise and reward success, whilst giving an appropriate weighting to important areas such as train service delivery and safety.

Regional scorecards include measures which match each region’s responsibilities along with universal measures such as safety and financial performance.

The scorecard weightings and targets are shown in the table on the next page:

Strategic themes	Measure	Weighting	Target
Safety	Passenger Safety (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.	10.0 %	95.0 %
	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.	5.0 %	0.054
	Personal Accountability for Safety (PAFS) A measure of how much we are improving our culture and behaviours to help keep ourselves and our colleagues safe. The measure assesses the combined reduction in (i) Breaches in Life Saving Rules, and (ii) High Potential events.	5.0 %	820
Train service delivery	On time The percentage of Recorded Station Stops called at on time (early or <1min late).	12.5 %	73.1 %
	Passenger satisfaction Reported as a mean score of passenger journey satisfaction on a scale of 1-10 (1 poor – 10 excellent).	15.0 %	7.94 %
	Freight cancellations The number of Network Rail and Other Operator- caused cancellations, as a percentage of freight trains run.	7.5 %	1.17 %
Efficiency	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).	15.0 %	£0m
	Enhancement Milestones and Accelerations An index measure consisting of (i) the per cent of milestones completed ahead of time or on time, (ii) cost saved through application of SPEED principles, and time saved through application of SPEED principles.	10.0 %	100.0 %
	Effective Volumes A measure of how much additional life our renewals activities add to our assets, which provides a medium-term view of sustainability. Calculated as a weighted aggregation of renewals volumes, where the weighting distinguishes between activity types and their different impacts on asset life.	5.0 %	100 %
Sustainable Growth	Environmental Sustainability Index An index representing performance against four key environmental measures: (i) % of waste recycled, (ii) % of waste diverted from landfill, (iii) % reduction in carbon emission, and (iv) % reduction in non-traction energy usage.	5.0 %	100 %
Customer and communities	Complaints Handling An index calculated from (i) the number of complaints, (ii) the average age of open service requests, (iii) quality assurance score for complaints handling, and post contact customer survey score.	5.0 %	100 %
People	Employee engagement An index representing the proportion of employees surveyed who responded favourably to key questions on engagement.	5.0 %	56.5 %

Local scorecards are still used to manage business performance at a local level, but they are not directly linked to PRP. In addition, no payment will be made in respect of any performance measure which does not exceed the minimum level of performance (worse than target threshold).

Any 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.

For executive directors and employees aligned to the national scorecard, the figure below demonstrates how individual PRP is calculated:



EXECUTIVE DIRECTOR'S REMUNERATION POLICY

Background

Network Rail performs an essential role in managing and enhancing Great Britain's rail infrastructure to drive economic growth for passengers and freight. As a Department for Transport (DfT) delivery body, we manage resources at similar levels to FTSE 100 companies so it is essential that we 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 will be effective following the date of the 2023 Annual General Meeting (AGM), subject to approval from the Secretary of State for Transport (SoS).

This approach reflects Network Rail's status as an arm's length body (ALB) delivering for passengers and freight users whilst 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 within which remuneration policies and decisions are made for senior executive remuneration. They apply to all new appointments and over time may be applied to existing executives' remuneration packages. It is important that decisions about remuneration are not separated from organisational plans and priorities. Exceptions to these principles must be agreed by the committee and where required, approval would need to be sought from ministers.

It is important to note that Great British Railways is planned to come in to place during the term of this policy. This policy will continue to apply for the full term, or until such time as a separate Great British Railway's executive director's remuneration policy is created and approved.

The framework flowing from the principles applies to all senior roles, not just executive directors.

Senior Executive Remuneration principles – Agreed January 2019

Remuneration Benchmarks

Total remuneration benchmarking should use comparator groups and benchmark data sources agreed by CSEP.

Remuneration will normally be offered in lower quartile against the total remuneration benchmarks a starting point for all posts.

Clear rationale provided for any packages above lower quartile.

Annual pay awards should be value for money and be mindful of public sector pay constraints.

Appointments above £150k should be based on evidenced business cases that reflect: business needs; scarcity of skills; difficulty in recruitment and retention, market comparators and alignment to workforce plan.

Performance related pay / Pay at Risk

For most roles, performance related pay should be included.

The weighting should take account of the nature of the role, impact of the role and exposure to risk.

Remco (or the Board) should be accountable for PRP approaches and processes.

PRP / Pay at Risk policies and processes should:

- Be linked to organisational objectives and KPI's
- Encourage positive behaviours in accordance with ALB values
- Balance individual and organisational performance

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

All relevant remuneration must be disclosed in public sector transparency data.

Any constraint on numbers of senior posts (Captured by Transparency reporting) should be linked to delivery plans, organisation's size, complexity and risk profile. These will be agreed with HMG.

Where practical to meet business needs, posts should be based outside central London to provide access to wider labour markets.

Remuneration Committee

Chair / Remco are directly accountable to Ministers for explaining how these principles are being applied.

Remco / Board holds overall responsibility for ensuring an effective remuneration strategy is in place for the ALB, to be applied consistently, fairly and responsibly, with the long-term interests of the organisation and its shareholders in mind.

DFT shareholder Observer on each Remco.

The Remco (or the Board) are responsible for assuring the linkage between workforce plans, pay strategies and delivery plans for staff at all levels.

Remco should be responsible for ensuring appropriate remuneration arrangements to enable the attraction and retention of the right executive capability, and its sustainability (succession).

Other rewards benefits

Benefits should be flexible and aligned with budgets agreed with HMG and be in line with either contractual obligations or public sector norms (e.g., no company cars, except for operational needs or private healthcare). Cash shouldn't offered as an alternative to pension.

"Loss of office payments must be consistent with contractual obligations or in line with public sector limits unless explicitly agreed with HMG in exceptional circumstances, following an evidenced business case.

Summary of remuneration package for executive directors

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

Component and purpose/ link to strategy	Operation	Quantum
<p>Base salary</p> <p>To provide an element of fixed remuneration which reflects the skills, knowledge and experience of the individual, allowing the company to recruit the calibre of individual needed to lead the business.</p>	<p>Salaries of executive directors are determined by the nominations and remuneration committee, and is subject to the agreement of the SoS and Chief Secretary to the Treasury.</p> <p>Salaries are set at a level which reflects the skills, knowledge 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. The current FTE salaries for the executive directors are:</p> <p>Andrew Haines £588,000 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 for taxpayers and passengers 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>
<p>Pension</p> <p>To provide a retirement benefit in line with senior managers and other employees at Network Rail.</p>	<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 (£181,800 for 2022/23), subject to annual review from the Department for Work and Pensions.</p>	<p>The defined benefit schemes have an accrual rate of 1/60th of pensionable earnings.</p> <p>The maximum employer contribution under the defined contribution 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> <p>Executive directors appointed since 1 Feb 2019 are not entitled to any form of alternative benefit/cash supplement if they choose to opt out of the pension scheme due to lifetime allowance or any other reasons.</p>

Component and purpose/ link to strategy	Operation	Quantum
<p>Performance related pay</p> <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 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, safety and the wider economy</p> <p>The overall structure is in line with the pay principles.</p>	<p>The executive director's performance related pay eligibility will be in line with the existing scheme which is approved by both the SoS and Chief Secretary of the Treasury, and details of the current scheme are available via the company intranet site</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. There are no deferral payments under this performance related payment scheme. 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 other 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 0 per cent and 100 per cent

of the maximum pay out is 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, passenger satisfaction, financial performance and the wider state of the economy. Their review considers a range of factors including a 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 that year.

Service agreements

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 cosec@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

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 would be no entitlement to any payment in lieu of notice (PILON).

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 for 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 and agreement from the Secretary of State (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.

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

- 'Minimum' shows fixed pay only (base salary effective as at 1 July 2022 and the annualised disclosed pension/benefits for 2022)
- '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., 9 per cent of salary).

Chief executive estimate
(Andrew Haines)

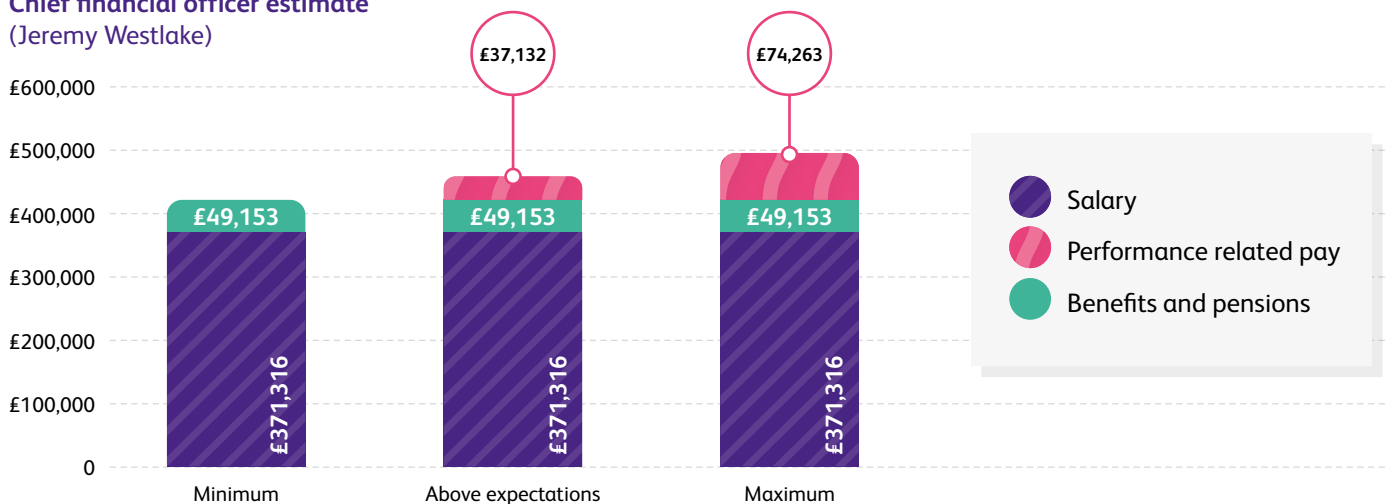


Scheme year	Amount	Payment date
2019/20	£22,623 voluntarily declined	2020
2020/21	PRP voluntarily declined	2021
2021/22	PRP voluntarily declined	2022
2022/23	PRP voluntarily declined	2023

Chief finance officer

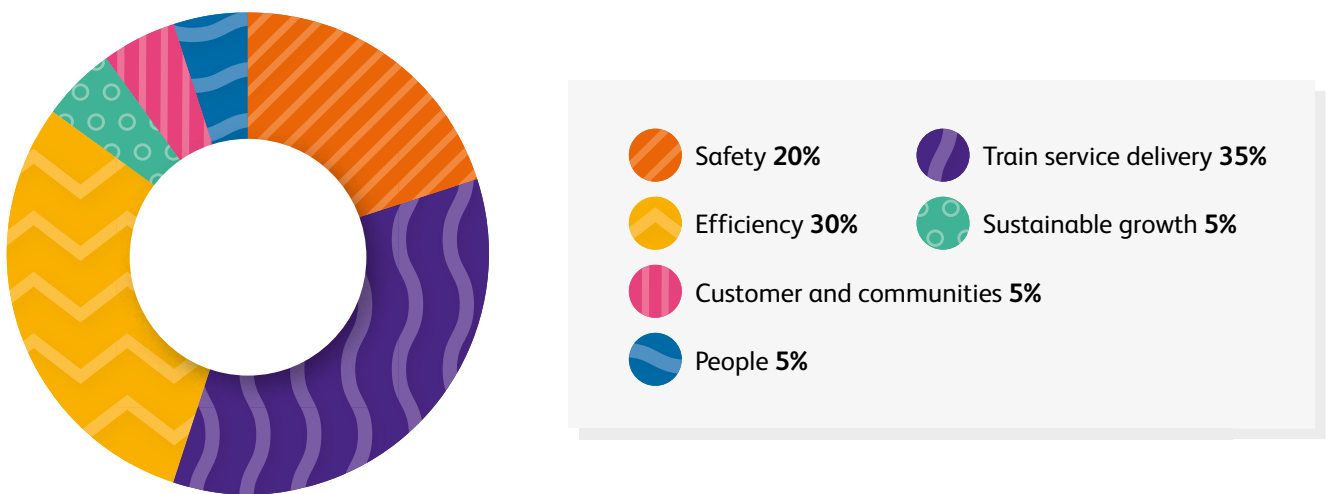
- ‘Minimum’ shows fixed pay only (base salary effective as at 1 July 2022 and the annualised disclosed pension/benefits for 2022)
- ‘Above expectations’ includes fixed pay and 50 per cent of the maximum pay out under the performance related pay scheme (i.e., 10 per cent of salary)
- ‘Maximum’ includes fixed pay and maximum pay out under the performance related pay scheme (i.e., 20 per cent of salary).

Chief financial officer estimate
(Jeremy Westlake)



Scheme year	Amount	Payment date
2019/20	£31,748 voluntarily declined	2020
2020/21	PRP voluntarily declined	2021
2021/22	PRP voluntarily declined	2022
2022/23	£18,777	2023

Performance related pay is based on performance measures that are aligned to what is important to our customers:



The new overall national scorecard 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.

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