

Directors' remuneration report

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Annual statement from the remuneration committee chair

I am pleased to present the 2018 directors' remuneration report from the Network Rail remuneration committee. The remuneration committee is dedicated to the highest standards of disclosure on remuneration and recognises that executive remuneration is an important issue for a public body. We operate in line with the remuneration reporting requirements which apply to UK listed companies and the provisions of the UK corporate governance code.

The 2017 remuneration report, including the three year Remuneration Policy for executive directors (Policy), was approved at the AGM by our member, the Secretary of State. The Policy 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.

The terms of reference for the remuneration committee were revised in 2017 and agreed, strengthening the governance model and giving the committee a broader remit, covering over 50 of the top roles.

Our annual remuneration report outlines the outcomes for 2018 in respect of executive remuneration and will be subject to approval from our member, the Secretary of State.

The key points to note from 2018 are:

- The performance related pay outcome, which is determined by performance against the scorecard.
- However, both executive directors voluntarily declined any performance related pay for this year due to the timetabling issues experienced in May 2018.

Determining executive pay at Network Rail – best practice corporate governance

Developing policy:



Implementing policy:



Directors' remuneration report continued

The remainder of this statement explains how executive remuneration is determined at Network Rail, gives more detail on the outcomes in respect of 2018 and summarises the Policy agreed in 2017.

Remuneration committee agenda items during the year

The main agenda items discussed this year were:

- The application of the broader remit across executives.
- The commissioning and scoping of a review of senior remuneration, below executive director level. The review has been jointly commissioned by HM Treasury, Department for Transport and Network Rail.
- Proposed pay principles to set a framework for senior remuneration decisions.

Implementation of Policy in 2018

During the year the remuneration committee made decisions 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 always 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. Safety of the workforce, passengers and the general public is at the heart of everything we do and must be reflected in the remuneration framework.
- 4. Aligned with employees** – 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 is based on these principles and includes the core 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	One plan based on the achievement of stretching annual performance targets aligned to the business scorecard.

All decisions and payments made to executive directors during the year were within the agreed policy framework.

With the extended remit of the committee to all senior roles above the pay threshold of £142,500 additional

governance was introduced during the year. This included an annual review of all roles at this level, and will also include annual pay reviews, remuneration policy and performance related pay.

2018 outcomes

Business performance is measured through the business scorecards. These measure performance against key measures and targets agreed with customers and stakeholders. Performance related pay for senior executives is determined by the scorecard outturn and modified according to personal performance ratings, so the lower the performance, the lower the performance related pay.

Overall performance against the scorecard was 54.6%. This is the first time our overall performance has exceeded the target of 50% since 2010. There was very strong performance on asset management and safety. Route performance was also strong however a small number of routes were below individual targets. Despite improvement on last year, financial and train performance still fell below the targets set. The maximum performance related pay for executive directors is 20% of salary.

Both the chief executive and the chief financial officer decided voluntarily to decline any performance related pay for the year. They are both aware that the problems introducing the new train timetables in May 2018 have been unacceptable and have had serious impacts on passengers. The problems have been industry-wide and they took this decision to demonstrate their accountability for the parts of the problems which were caused by Network Rail.

Full details of the decision making and outturn of the performance related pay scheme can be found on page 77.

The business scorecards have continued to evolve and are the key component to determining performance related pay. The national scorecard reflects measures that are most important to the customers of our routes, our stakeholders and the ORR. All route scorecards are developed jointly with customers to reflect their differing needs, as well as those of passengers, within an overall framework of safety, financial performance, train performance, asset management, investment and local customer measures.

To reflect the devolved nature of the business, 60% of performance related pay for those in routes is determined by performance against the route scorecard with the remaining 40% determined by the national scorecard outturn.



Michael O'Higgins,
Chair, remuneration committee
27 June 2018

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 2017/18 (audited)

The table below summarises all remuneration for the executive directors in respect of 2017/18 (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	
	2017/18	2016/17	2017/18	2016/17	2017/18	2016/17	2017/18 ³	2016/17	2017/18	2016/17
Mark Carne	682 ⁴	683	23	23	64	64	0	50	769	820
Jeremy Westlake	353 ⁵	354	15	14	31	31	0	26	400	425

1. Benefits include car allowance, private medical cover, any annual travel subsidy and life assurance.
2. Pension includes the value of all pension benefits receivable in respect of the relevant year. This includes both the 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 78.
3. No performance related pay as the executive directors voluntarily decided to decline receiving any payments due to the May 2018 timetabling issues that emerged after the end of the year.
4. Mark Carne CBE's 2017/18 salary is lower than the previous year due to one less working day i.e. Monday – Friday, in the reporting period. Salary is paid in 4 weekly periods and is pro-rated based on working days in each 4 week period. Mark Carne CBE declined his annual pay award in 2017.
5. Jeremy Westlake's 2017/18 salary lower than previous year due to a combination of annual pay award in 2017, fewer working days in the reporting period and salary deductions due to flexible annual leave.

Executive director changes

There were no Executive Director changes during 2017/18, however Mark Carne CBE will be retiring and leaving Network Rail in late summer 2018.

Incentive plan 2017/18 – annual performance related pay (audited)

At the start of the year, two directors were eligible to participate in this scheme, Mark Carne CBE and Jeremy Westlake. The maximum potential annual performance related pay award for executive directors in 2018 was 20 per cent of salary. Stretching performance targets were set at the start of the year in the context of the national scorecard, which can be found on page 8. The approach for performance related pay is aligned across the businesses, including executive directors. The scorecard outturn determines the percentage payout against the maximum award (20% of salary). This is then modified in accordance with the performance rating. For a 'good' performance rating, the amount is reduced by applying a modifier of 0.9.

In 2018 the outturn of the national scorecard was 54.6%. As noted above, both of the executive directors decided that they would decline any performance related pay for the year.

Performance against the national scorecard is summarised on page 9. Overall scorecard performance was above target. Specifically, targets were met or exceeded in relation to safety and asset management. Route performance was generally above target however three of the nine routes fell below target. Despite improvement in performance against last year, further improvement is still required around financial and train performance which still fell below the targets set.

Directors' remuneration report continued

The ORR Board wrote to Network Rail's remuneration committee setting out its views on Network Rail's performance in 2017/18. Each year the Safety, Health and Environment (SHE) committee considers the overall scorecard 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 is a reflection of overall safety performance and no adjustments should be made.

Pension (audited)

- Executive directors are eligible to participate in one of the Network Rail defined benefit pension schemes or the defined contribution pension scheme on the same basis as other employees.
- Executive directors who have opted out of their respective pension arrangements to protect their Lifetime Allowance (£1.03m since 6 April 2018) are eligible to receive a pension allowance on the same basis as other employees, subject to the discretion of the group HR director. This allowance is equivalent to the employer's pension contributions otherwise payable to the relevant pension scheme, less an adjustment for the cost of providing continued life assurance and the employer National Insurance Contributions payable.
- Executive directors receive an additional pension allowance in the form of a cash supplement based on a percentage of their earnings above the notional earnings cap (£160,800 for 2018/2019 tax year and previously £154,200 for 2017/2018).

The table below sets out details for executive directors for 2018 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 77.

	Defined benefit schemes				Other pension arrangements		
	Normal retirement age	Accrued pension at 31 March 2018 £000	Increase in accrued pension (net of inflation) during 2017/18)	Transfer value of accrued pension at 31 March 2018 £000	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
Mark Carne	–	–	–	–	–	64	64
Jeremy Westlake	–	–	–	–	–	31	31

The normal retirement age shows the age at which the director can retire without actuarial reduction.

Transfer values as at 31 March 2018 have been calculated in accordance with 'The Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 2008'.

For the defined benefit schemes, the value shown in the Single Figure table (A) has been calculated in accordance with the Regulations by applying a multiplier of 20x 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/contribution in the year. The value shown in the single figure table is the sum of A and B.

Directors' remuneration report continued

Non-executive directors' fees (audited)

Under the framework agreement the Secretary of State for Transport (SoS) sets the pay for the chair and non-executive directors of Network Rail. The fees for the non-executive directors were reviewed in 2016 and have not increased.

The table below summarises the remuneration for the non-executive directors in respect of 2017/18.

	2017/18		2016/17	
	Fees £000	Benefits £000	Fees £000	Benefits £000
Rob Brighthouse¹	50	–	50	–
Richard Brown CBE	50	–	50	–
Sharon Flood²	70	–	59	–
Chris Gibb³	70	–	66	–
Peter Hendy⁴	411	1	502	1
Silla Maizey⁵	40	–	14	–
Michael O'Higgins	60	–	60	–
Mike Putnam⁶	9	–	–	–
Bridget Rosewell OBE	69	–	70	–

1. In addition, Rob Brighthouse received £13,500 from DfT via Network Rail for time spent in April 2017 as Interim Chair of East West Rail Company. This payment was reimbursed in full. Payments for time spent after April 2018 were paid directly from the DfT.
2. Increase in Sharon Flood's remuneration as a result of increased fee in 2016/17. 2017/18 represents a full year's remuneration at the new rate.
3. Increase in Chris Gibb's remuneration as a result of increased fee in 2016/17. 2017/18 represents a full year's remuneration at the new rate.
4. In addition to fees, Sir Peter Hendy CBE also receives private medical cover which was agreed with the DfT in 2015 at the time of his appointment. The 2016/17 figure has been updated to show value of cover received. Sir Peter Hendy CBE also reduced his working hours in July 2017 which is reflected in the decrease in remuneration.
5. Silla Maizey joined the Board during 2016/17 on 22 November 2016.
6. Mike Putnam joined the Board during 2017/18 on 8 January 2018.

Payments to former directors (audited)

There were no payments to former directors in 2017/18.

Payments for loss of office (audited)

There were no payments for loss of office to executive directors in 2017/18.

Outside appointments

Network Rail is supportive of executive directors who wish to take on a non-executive directorship in order to broaden their experience and enhance their contribution to Network Rail. Executive directors are normally required to seek approval from the committee to retain any fees they receive in respect of such appointments.

Mark Carne CBE is a director of the Rail Delivery Group Limited and also an independent governor of Falmouth University. He receives no fees in respect of these appointments.

Additional disclosures

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

Directors' remuneration report continued

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 2016/17 to 2017/18.

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 77.

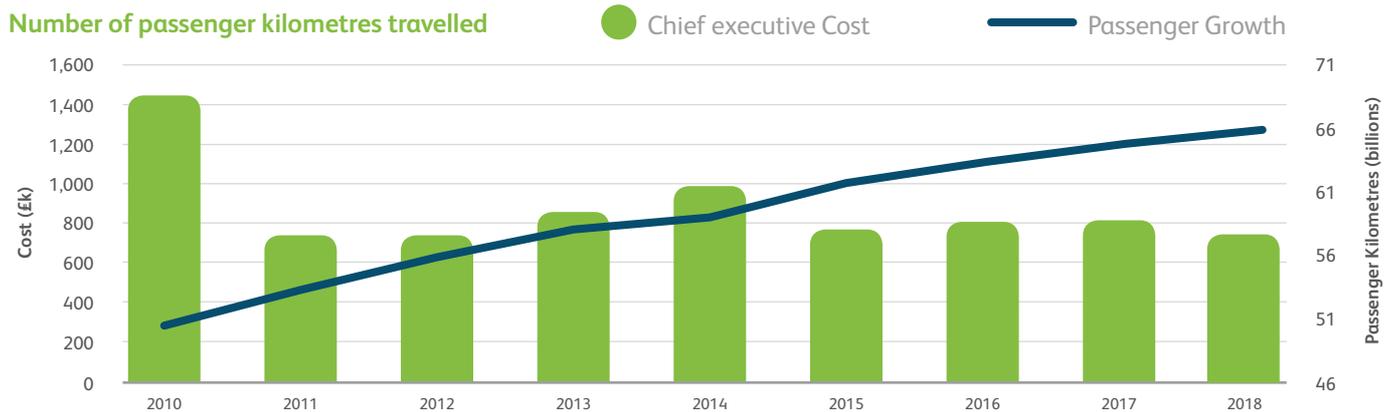
	Chief executive	All employees
Salary ¹	0%	3.0%
Benefits	0%	0%
Performance related pay ²	0%	0%

1. Based on salary reviews effective on either 1 January or 1 July 2018.

2. 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.



	2017/18	2016/17	2015/16	2014/15	2013/14		2012/13	2011/12	2010/11		2009/10
Chief executive	Mark Carne	David Higgins	David Higgins	David Higgins	David Higgins	Iain Coucher	Iain Coucher				
Single total figure of remuneration	£769k	£820k	£811k	£771k	£200k	£790k	£836k	£736k	£161k	£528k	£1,447k
PRP (% of vesting)	54.6%	37%	34.7%	0%	20.9%	N/A	28.6%	0%	N/A	N/A	56.8%
LTIP (% of vesting)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	47.8%

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

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 will be leaving late Summer 2018.

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

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

Directors' remuneration report continued

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.

	2017/18	2016/17	Change (%)
Total employee remuneration	£2,419m	£2,160m	12.0%
Benefits	£9,985m	£9,794m	2.0%

The increase in total employee remuneration is mostly due to increased pension costs, headcount increases and salary inflation. In addition, recent rulings on holiday pay and the apprenticeship levy have added further to the overall employee cost.

Consideration of directors' remuneration – remuneration committee and advisers

The membership of the committee during the year comprised the following independent non-executive directors: Michael O'Higgins, Sharon Flood, Sir Peter Hendy CBE and Richard Brown CBE.

The group general counsel and company secretary is secretary to the committee. The committee is also supported by the director, human resources, 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 2017, and as such no fees were payable in this respect.

Key remuneration committee agenda items during the year:

May 2017 (2 meetings)	<ul style="list-style-type: none"> Executive director remuneration report and Remuneration Policy 2017 Scorecard 2016-17 outturn for performance related pay decisions
December 2017	<ul style="list-style-type: none"> Senior remuneration review
January 2018	<ul style="list-style-type: none"> Senior remuneration review
February 2018	<ul style="list-style-type: none"> Senior remuneration review Scorecard 2017-18 outturn for performance related pay decisions

Directors' remuneration report continued

Committee members

Member	Formal appointment to committee	Number of meetings attended during the year
Richard Brown CBE	July 2015	3/5
Sharon Flood ¹	September 2014	4/4
Sir Peter Hendy CBE	July 2015	5/5
Michael O'Higgins ²	November 2012	5/5

1. Stepped down from the committee in February 2018.

2. Chair since July 2013.

Role of the remuneration committee

During the year, the role of the remuneration committee was extended to cover policy, governance and decision making in relation to all senior employees with salaries above the pay threshold of £142,500.

The full terms of reference of the committee can be found on the website: networkrail.co.uk

Executive directors' remuneration policy

The remuneration policy was reviewed in 2017 and was approved by the member at the AGM.

The policy is outlined in the summary table below, with the full policy available in the 2017 annual report (<https://cdn.networkrail.co.uk/wp-content/uploads/2017/07/Network-Rail-Annual-report-and-accounts-2017.pdf>).

The policy is based on four core principles:

Simple	Competitive and fair	Focused on safety and performance	Aligned with employees
The policy should be clear and transparent for all customers and stakeholders to understand.	Remuneration should appropriately reflect the skills and experience of the individual, and the scope and complexity of the role. At the same time, it should provide value for money for customers, taxpayers and passengers.	The framework covering performance related pay should reward exceptional performance in the areas which are most important for Network Rail, our customers and stakeholders – such as safety, train performance and financial management. A key component of financial management is the focus on driving efficiency and managing costs effectively. There should be no reward for failure.	All Network Rail employees continue to be eligible for performance related pay using a consistent performance framework across the company.

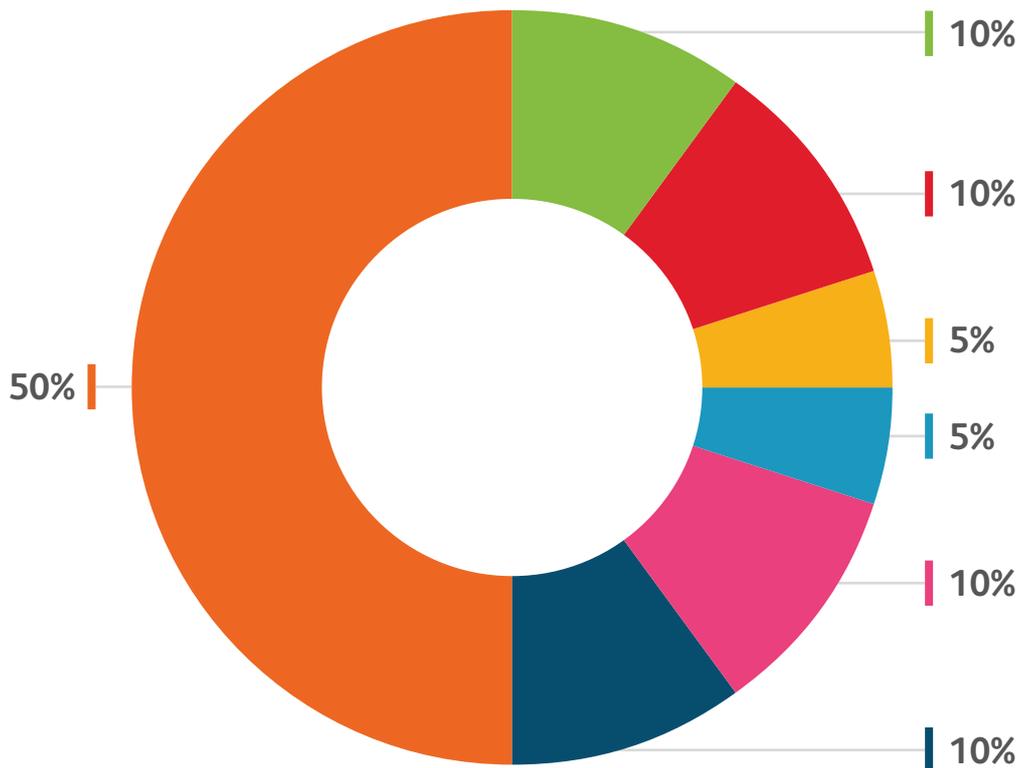
Directors' remuneration report continued

The policy is summarised below:

Fixed	Salary	<p>Salaries are set at a level that reflects the capability, skills and experience of the individual as well as the scope and responsibilities of the role allowing the company to recruit the caliber of individual needed to lead the business.</p> <p>In line with other employee groups, salaries are reviewed annually and increases will normally be in line with the typical salary increase for the overall population over the same period.</p>
	Benefits	<p>Includes discounted rail travel and life insurance in line with all Network Rail employees as well as car and healthcare benefits in line with other management positions.</p>
	Pensions	<p>Eligible to participate in Network Rail pension schemes on the same basis as all employees.</p> <p>To provide a market competitive pension benefit, executive directors and senior managers may also receive a supplementary cash allowance of up to ten per cent of salary above the Network Rail pension cap.</p>
Variable	Performance related pay	<p>One performance related pay plan based on stretching annual performance targets which our stakeholders care about most.</p> <p>Cascading the performance framework across the organisation creates aligned objectives and shared successes.</p> <p>For executive directors, a maximum opportunity of 20 per cent of salary, subject to performance, and any amount is deferred for three years.</p>

Directors' remuneration report continued

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



- Safety
- Financial performance
- Investment
- Asset management
- Train performance
- Locally driven customer measures
- Route performance

The National Scorecard tracks our performance across the six key areas that matter most to customers. The KPIs relevant to management are captured on the scorecard, but other levels of the organisation may review different KPIs that support these same performance outcome areas.

Balanced scorecard business performance targets for 2018/19

The table on page 83 summarises the business performance measures for executive directors for the 2018/19 financial year based on the framework described on page 82.

The overall national business scorecard used to measure performance every period is used for performance related pay measures and targets across the business.

The 2018/19 route scorecards contain devolved train performance measures which encompass locally driven measures, set in alignment with train operators' priorities. This means up to 60% of route performance targets are now set locally, linked to customer scorecards and represented by individual route on the national scorecard.

In addition, under-performance against the financial performance measure will reduce the performance related pay outturn on a sliding scale. If financial performance goes beyond twice the 'worse than' target set, then no performance related payment will be made.

The framework of the 2018/19 national scorecard is detailed on page 85 including measures and weightings. The national scorecard and its metrics have been approved by the DfT and SoS.

Directors' remuneration report continued

	Performance measure	Weighting	
Safety	Lost Time Injury Frequency Rate (LTIFR)	10 %	2.50 %
	Close Calls Raised (between 1 April 18 – 31 March 19)		1.00 %
	YTD Close Calls Closed % Within 90 Days		1.50 %
	Passenger train accident risk reduction measures		2.50 %
	Top 10 milestones to reduce level crossing risk		2.50 %
Financial performance	Financial Performance Measure (FPM) - Gross Renewals (£m)	10 %	2.50 %
	Financial Performance Measure (FPM) - Gross Profit and Loss (£m)		2.50 %
	Financial Performance Measure (FPM) - Gross Enhancements only (£m)		2.50 %
	Cash Compliance – Income & Expenditure		2.50 %
Investment	All Delivery Plan Enhancement Milestones (%)	5 %	5.00 %
Asset management	Composite Reliability Index (CRI)	5 %	2.50 %
	7 Key Volumes		2.50 %
Train performance	Train Performance	10 %	10.00 %
Locally driven customer measures	Locally Driven Customer Measures	10 %	10.00 %
Route performance	Anglia	50 %	7.6 %
	London North Eastern & East Midlands (LNE & EM)		6.9 %
	London North Western (LNW)		6.3 %
	Scotland		5.1 %
	South East		12.3 %
	Wales		2.1 %
	Wessex		4.1 %
	Western		3.9 %
	Freight and National Passenger Operator (FNPO)		1.8 %