Management Incentive Plan 2018/19

Effective from 01 April 2018
Foreword

Network Rail owns, operates and develops Britain’s railway. This includes 20,000 miles of track, 40,000 bridges, tunnels and viaducts and the thousands of signals, level crossings and stations. Network Rail’s role is to deliver a safe and reliable railway every day for the four and half million people and businesses who rely on it. The company carefully manages and delivers thousands of projects every year that form part of the multi-billion pound Railway Upgrade Plan, to grow and expand the nation’s railway network to respond to the tremendous growth and demand the railway has experienced – a doubling of passenger journeys over the past 20 years.

As a large, complex business, Network Rail needs talented leaders to deliver a safe, reliable and efficient railway for the millions of passenger and freight users who rely on Network Rail every day.

Executive pay is an important issue for Network Rail’s stakeholders, and Network Rail’s Remuneration Committee (‘the Remuneration Committee’) is committed to the highest standards of disclosure in this area.

Remuneration at Network Rail needs to be credible when competing to secure the talent that it needs to effectively discharge its accountabilities. At the same time, the Remuneration Committee recognises that a key difference between Network Rail and commercial organisations is that Network Rail is publicly funded and has a strong element of public interest. The organisation has significant passenger, public and workforce safety responsibilities.

Market data is one point of reference for the Remuneration Committee when making judgements on the right structure and level of executive pay. As with any role within Network Rail, the objective is to consider market data which is relevant to the role in question, reflects the skills and experience of the individual, the scope and responsibilities of the role and the nature of the organisation. The Remuneration Committee takes the same approach for the Executive Directors.

In developing the framework for CP5, the Remuneration Committee concluded, taking into account input from stakeholders, the previous aggregate performance related pay opportunity for Executive Directors was too high for Network Rail given the strong element of public interest in the business. As a result, at the start of CP5 the maximum annual incentive opportunity for Executive Directors was substantially reduced from 160 per cent of annual salary to a maximum 20 per cent of annual salary.

The remuneration policy was reviewed in 2017 and approved by the Secretary of State. No changes were proposed to the quantum of performance related pay for Executive Directors at that point in time. The Remuneration Committee proposed that the structure of the performance related pay arrangements for Executive Directors was simplified to be aligned to the structure for the wider workforce, and this was approved.

Bridget Rosewell
Chair, Remuneration Committee
Remuneration Framework to deliver CP5

During 2014, the Remuneration Committee undertook an extensive review of the executive remuneration framework to ensure that it most appropriately supported our vision to deliver our CP5 objectives.

Our core design principles are built around attracting, motivating, developing and retaining suitably skilled Executive Directors, taking into consideration market conditions and commercial efficiency as well as value for the taxpayer. The four key principles which underpin our remuneration framework are:

**Simple** – the framework should be transparent and simple for all customers and stakeholders to understand.

**Competitive and fair** – 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.

**Performance and safety** – performance related pay should reward exceptional performance in areas which are most important for Network Rail, our customers, and stakeholders such as safety, train performance and financial management. A key element of financial management is the focus on driving efficiency and managing costs effectively. There should be no reward for failure.

**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, which is determined using a consistent performance framework across the organisation.

The Executive Directors’ remuneration framework, which is described in more detail below, has been designed to meet these principles. Key features are:

**A simplified framework**

One incentive plan with measures cascaded consistently throughout the business.

**Aligned to performance and safety**

- A simple concept – based on business (and personal) performance each year through the business performance scorecard
- Safety incorporated as a core measurement as well as being an important feature for Remuneration Committee discretion.

**Scheme Participants**

This table sets out the names and positions of those eligible to participate in Network Rail’s 2018/19 Management Incentive Plan (MIP):

<table>
<thead>
<tr>
<th>Role</th>
<th>Name</th>
<th>Maximum incentive opportunity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chief executive</td>
<td>Andrew Haines</td>
<td>9%*</td>
</tr>
<tr>
<td>Chief financial officer</td>
<td>Jeremy Westlake</td>
<td>20%</td>
</tr>
</tbody>
</table>

* When the new chief executive was recruited in August 2018, the total reward package was reviewed and it was agreed that the maximum incentive opportunity for the appointment would be nine per cent of salary.
The Incentive Plan Overview

This section of the MIP sets out the Incentive Plan arrangements that apply to Network Rail’s Executive Directors in 2018/19. The key features of this MIP are as follows:

- There is one incentive plan. This replaces the structure adopted in historic MIPs which included separate annual and long-term elements. This reduces complexity and better aligns incentives with the rest of the organisation. There is now a single potential performance related payment event in any one year.

- The 2018/19 scorecard has all train performance measures devolved and, with locally driven measures, set in alignment with train operators’ priorities. This means up to 60 per cent of route performance targets are set locally, linked to customer scorecards and rolling up into a national scorecard which will be used for Executive Directors. This ensures that Network Rail employees are incentivised to deliver the same outcomes as the Executive Directors.

- For Executive Directors, the policy has a maximum incentive opportunity of 20 per cent of salary. The chief executive has a maximum opportunity of nine per cent of salary.

- If the national scorecard outturn result is less than 20 per cent of maximum, there will be no performance related payment.

- Underperformance against the national financial target will reduce the potential performance related pay amount on a sliding scale. If financial performance goes beyond twice the ‘worse than’ target set, then no performance related payment will be made.

The measures are designed to represent the key business objectives in CP5. Attainment of the targets associated with these measures will mean that Network Rail has delivered in line with the expectation of its customers having regard to the level of funding available.

Scheme design

For 2018/19, the final year of CP5, the Remuneration Committee has decided that the MIP should be based on delivery against the national scorecard, which has seven categories of performance:

- Safety
- Financial outperformance
- Investment (investing in the railway)
- Asset management
- Train performance
- Locally driven customer measures
- Route performance.

Measures and targets against these categories are reviewed on an annual basis to ensure that the measures of performance and the respective targets appropriately incentivise high performance.

In addition, a rigorous performance management process is in place. Individual Executive Directors have clear objectives and accountabilities, and their performance is measured against these. There will be consequences if objectives are not met.
2018/19 Management Incentive Plan targets

The measures of performance under this MIP are set out below. They are designed to represent a balanced scorecard of measures which reflect the needs of customers and key stakeholders.

### National Scorecard 2018/19

<table>
<thead>
<tr>
<th>Category</th>
<th>PRP % Weighting</th>
<th>WORSE THAN TARGET</th>
<th>TARGET</th>
<th>BETTER THAN TARGET</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Safety</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lost Time Injury Frequency Rate (LTIFR)</td>
<td>2.5%</td>
<td>0.344</td>
<td>0.328</td>
<td>0.312</td>
</tr>
<tr>
<td>Close Calls Raised (between 1 April 18 – 31 March 19)</td>
<td>1%</td>
<td>153,750</td>
<td>205,000</td>
<td>256,250</td>
</tr>
<tr>
<td>YTD Close Calls Closed % Within 90 Days</td>
<td>1.5%</td>
<td>80%</td>
<td>85%</td>
<td>90%</td>
</tr>
<tr>
<td>Passenger Train Accident Risk Reduction Measures</td>
<td>2.5%</td>
<td>6%</td>
<td>8%</td>
<td>10%</td>
</tr>
<tr>
<td>Top 10 Milestones to Reduce Level Crossing Risk</td>
<td>2.5%</td>
<td>6%</td>
<td>8%</td>
<td>10%</td>
</tr>
<tr>
<td><strong>Financial Performance</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Financial Performance Measure (FPM) - Gross Renewals (£m)</td>
<td>2.5%</td>
<td>£160m</td>
<td>0</td>
<td>£160m</td>
</tr>
<tr>
<td>Financial Performance Measure (FPM) - Gross Profit and Loss (£m)</td>
<td>2.5%</td>
<td>£75m</td>
<td>0</td>
<td>£75m</td>
</tr>
<tr>
<td>Financial Performance Measure (FPM) - Gross Enhancements only (£m)</td>
<td>2.5%</td>
<td>£155m</td>
<td>0</td>
<td>£155m</td>
</tr>
<tr>
<td>Cash Compliance – Income &amp; Expenditure</td>
<td>2.5%</td>
<td>£200m Under Spent / (£50m Over Spent)</td>
<td>£100m Under Spent / (£25m Over Spent)</td>
<td>-</td>
</tr>
<tr>
<td><strong>Investment</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>All Delivery Plan Enhancement Milestones (%)</td>
<td>5%</td>
<td>0%</td>
<td>50%</td>
<td>100%</td>
</tr>
<tr>
<td>Asset Management</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CR1</td>
<td>2.5%</td>
<td>18.0%</td>
<td>19.0%</td>
<td>20.0%</td>
</tr>
<tr>
<td>7 Key Volumes</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Train Performance</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Train Performance</td>
<td>10%</td>
<td>0%</td>
<td>50%</td>
<td>100%</td>
</tr>
<tr>
<td><strong>Locally Driven Customer Measures</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Locally Driven Customer Measures</td>
<td>10%</td>
<td>0%</td>
<td>50%</td>
<td>100%</td>
</tr>
<tr>
<td><strong>Route Performance</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Anglia</td>
<td>7.6%</td>
<td>0%</td>
<td>50%</td>
<td>100%</td>
</tr>
<tr>
<td>LNE &amp; EM</td>
<td>6.9%</td>
<td>0%</td>
<td>50%</td>
<td>100%</td>
</tr>
<tr>
<td>LNW</td>
<td>6.3%</td>
<td>0%</td>
<td>50%</td>
<td>100%</td>
</tr>
<tr>
<td>Scotland</td>
<td>5.1%</td>
<td>0%</td>
<td>50%</td>
<td>100%</td>
</tr>
<tr>
<td>South East</td>
<td>32.3%</td>
<td>0%</td>
<td>50%</td>
<td>100%</td>
</tr>
<tr>
<td>Wales</td>
<td>2.1%</td>
<td>0%</td>
<td>50%</td>
<td>100%</td>
</tr>
<tr>
<td>Wessex</td>
<td>4.1%</td>
<td>0%</td>
<td>50%</td>
<td>100%</td>
</tr>
<tr>
<td>Western</td>
<td>3.9%</td>
<td>0%</td>
<td>50%</td>
<td>100%</td>
</tr>
<tr>
<td>FNPO</td>
<td>1.8%</td>
<td>0%</td>
<td>50%</td>
<td>100%</td>
</tr>
</tbody>
</table>

---

1 A detailed description of each of these measures of performance is set out in Appendix A.
Remuneration by Performance Scenario for 2018/19 Financial Year (£’000)

The tables below show the value of the remuneration package (base pay and incentive) under three scenarios. The assumptions in the charts are:

- Minimum shows base salary only as at 1 July 2018
- Above expectations includes base salary and 50 per cent of maximum potential performance related pay
- Maximum includes base pay and maximum potential performance related pay.
Remuneration Committee Discretion

In relation to this MIP, the following points should be specifically noted:

The Remuneration Committee has the overriding discretion to make adjustments (both upwards and downwards) to reflect its assessment of overall business performance in the year, including safety. This takes into account a range of factors, including ORR’s annual assessment of Network Rail’s performance and reports from the Audit & Risk, and Safety, Health & Environmental Committees

- For the avoidance of doubt, in the event of a serious safety incident during the year, which impacts passengers, the workforce or the public, for which Network Rail was responsible, no incentive would normally be payable to any Executive Director in respect of that year.
- The performance measures outlined above stand alone and attainment under each will be calculated independently. The total sum which may be payable is the sum of these measures added together.

Scheme Rules

Once a year the Remuneration Committee will publish a statement which summarises the criteria which have been applied in determining the level of remuneration of the Executive Directors and such other persons as ORR have specified.

It should be noted that participation in the MIP is discretionary and does not form an entitlement under any contract of employment. Payments are not guaranteed and Network Rail reserves the right to withdraw this or any other MIP at any time. Subject to the above, participants will be entitled to receive payments under this MIP in accordance with the following general rules:

- All payments will be subject to the deduction of income tax and national insurance contributions
- Payments made under this MIP are not pensionable
- No payments will be made to participants who are the subject of disciplinary measures or personal performance improvement measures
- If the corporate scorecard result is less than 20 per cent, there will be no payment under the MIP rules.
- New joiners and those working part-time hours will qualify for a pro-rated payment
- If financial performance goes beyond twice the ‘worse than’ target set, then no performance related payment will be made.

Starters and Leavers

Starters – will be eligible to participate in the scheme on a pro-rata basis in the year of joining

Leavers – Treatment depends on reason for leaving and when:
- Leave during performance year – no entitlement to any payments
- Leave during deferral period – no entitlement to any payments
- ‘Good leaver’ – retain entitlement to deferred payment, to be
paid at the normal time and subject to the safety and sustainability obligation – discretion of the Remuneration Committee to pro-rate

- ‘Other leaver’ – no entitlement to any deferred payments.

Good leavers – An Executive Director leaving by reason of disability, injury, ill-health, death in service, redundancy or retirement with company agreement. In addition the Remuneration Committee will have the discretion to apply Good Leaver terms to an Executive Director leaving by mutual agreement. In certain circumstances such as death in service or serious ill health, the Remuneration Committee has the discretion to measure performance over a shorter period and make payments where this is considered appropriate.

Other leavers – No entitlement to any outstanding or prospective awards under this MIP.

Remuneration Committee discretion – In the event of any disputes in relation to payments under this MIP, the Remuneration Committee shall have the right to final determination.

Reconciliation to ORR’s High Level Objectives and Network Rail’s Incentive Policy

ORR wrote to Network Rail in 2014 setting out four high level objectives with which Network Rail’s MIP must comply. The Remuneration Committee is satisfied that this MIP meets those objectives and a reconciliation is provided below:

ORR’s high level objectives:

a) ‘Delivery objective – that the primary focus of your framework should be to incentivise long term sustainable delivery of all of Network Rail’s PR13 regulatory obligations, while fully meeting safety obligations, and giving appropriate weight to the enablers and indicators set in our PR13 determination.’

The Remuneration Committee is satisfied that the measures of performance, as set out in this plan, are aligned with the key deliverables established in the ORR’s CP5 Final Determination and are weighted to incentivise (as far as is practicable) achievement of the outputs that ORR has specified. The MIP includes a specific safety and sustainability obligation which must be met for payments to be made under this MIP. In the event of a serious safety incident over the deferral period which impacts passengers, the workforce or the general public, for which Network Rail was responsible, the Remuneration Committee has the discretion to reduce the amounts which may be payable to an Executive Director, normally to zero.

The Remuneration Committee must also be satisfied that performance has been appropriately sustained over the deferral period. In making this assessment the Remuneration Committee will consider, amongst other things, any material downturn in a metric, long-term stewardship (including the delivery of business performance targets), and overall consistency with the CP5 regulatory targets.

Any payments under this MIP will be deferred for a period of three
years so that the Remuneration Committee can satisfy itself that
long term sustainable delivery of Network Rail’s CP5 outputs has
been achieved.

b) ‘Efficiency objective – your framework should be so
proportioned as to incentivise the full delivery of the efficiency
assumptions in our PR13 determination.’

The Remuneration Committee is satisfied that this objective has
been met as the performance measures outlined in this MIP
include an appropriate and proportionate weighting, which is
designed to incentivise financial outperformance over the course of
the control period.

c) ‘Accountability and transparency objective – that you seek the
views of your principal funders and members, and do so openly
and transparently:

i. initially on your full rationale and justification for your overall
   framework and its potential implications for your executives’
   remuneration (in aggregate terms), and

ii. annually on the data and information you are using for the
decisions you intend to take under your management
incentive plan year by year (again in aggregate terms) and

iii. in both cases have regard to the information and views
   expressed in your published final decisions which will need
to include a full explanation of your reasons and how you
   have dealt with the views.’

The Remuneration Committee is satisfied that this objective has
been met as this MIP has been developed and shaped following
extensive discussions with stakeholders, including funders. The
Remuneration Committee is committed to being transparent about
the decisions that it makes under this MIP and will publish the
reasons for its decisions.

d) ‘Value for money objective – you will need to explain how the
decisions you intend to take each year reflect the market you are
in for executive talent and in particular the additional value you
have created for the taxpayer and users of the railways (the wider
public interest) that you are rewarding.’

e) ‘Assessment of performance – your proposed decisions on
remuneration will also have to demonstrate how you have taken
account of our assessments of your company’s performance
and efficiency improvement and how any underperformance has
been reflected in your decisions. The Remuneration
Committee decision should reflect any penalties imposed on
the company by us or the courts.’

The Remuneration Committee is satisfied that these objectives
have been met as the Remuneration Committee has an overriding
discretion to make adjustments which reflect its assessment of
overall business performance in the year, including safety. This
takes into account a range of factors, including ORR’s annual
assessment of Network Rail’s performance, and reports from the
Audit & Risk, and Safety, Health & Environment committees.

Under the terms of this MIP, payments will only be made to
Executive Directors if the Remuneration Committee is satisfied that
the measure of performance as specified in this MIP have been
achieved in a sustainable way. The Remuneration Committee will
publish the reasons for its decisions.
Appendix A – Detailed description of MIP Performance Measure

A GUIDE TO THE 2018/19 NATIONAL SCORECARD

The national scorecard is published every year and shows how Network Rail is performing against 23 measures. It shows the annual target, the most recent performance figures and a forecast of where the company expects to be at the end of the year. All 2018/19 scorecard targets are subject to change based on 2017/18 out-turns, business plan completion and sign off, and HM Treasury approval.

MEASURE OF PERFORMANCE

NATIONAL SCORECARD

Passenger Train Accident Rate

Top 10 Network Rail has an expert team of health and safety professionals who work closely with stakeholders, including the rail industry, to identify and implement the measures that will further improve safety. The target for the year is 1.0 (0.05). The measure shows how many passenger train accidents there were per million passenger miles. The measure also considers the socio-economic factors and risk management measures that are in place to reduce the rate of accidents.

Top 10 Network Rail has an expert team of health and safety professionals who work closely with stakeholders, including the rail industry, to identify and implement the measures that will further improve safety. The target for the year is 1.0 (0.05). The measure shows how many passenger train accidents there were per million passenger miles. The measure also considers the socio-economic factors and risk management measures that are in place to reduce the rate of accidents.

Passenger Train Accident Rate

National Scorecard 2018/19

The Composite Overall Score (COS) is a measure of the overall condition and performance of our network, including safety, asset management, service delivery, and rail reliability. The index shows the total percentage of improvement in very nearly compared to the end of the previous quarter period.

Key performance indicators (KPIs) are the actual results that are measured to determine whether or not the goals have been met. The KPIs are used to track the progress of the National Scorecard and to identify areas where improvements are needed.

For more information on performance and Network Rail corporate scorecard visit: http://www.networkrail.co.uk/}

Version: 25/04/2018

Network Rail
Appendix B – Department of Business Innovation and Skills (BIS) Reporting Requirements

The BIS regulations have resulted in a new-style Remuneration report.

The Network Rail report has three sections:

1) An annual statement from the Remuneration Committee Chair.

2) An annual report on remuneration showing a clear illustration of the framework which will apply for the year ahead and details on how the policy has been implemented in the year, including a single figure for each director and all the new supporting disclosures.

3) The directors’ remuneration policy, setting out the policy under which future payments will be made (this section is subject to a binding vote).

There is a binding vote on the policy every three years or earlier if a change in policy is proposed.

This MIP has been prepared so that it is compliant with both the new BIS regulations and Condition 16 of the network licence. The Policy Report of the Remuneration Report was approved by the Secretary of State at Network Rail’s Annual General Meeting in July 2017.