

Bonus Proposals

Remuneration Committee

23 September 2009

Background

- Bonus arrangements are sensitive, internally and externally.
- No formal linkage between bonus payments and corporate performance...linked mainly to individual performance.
- Inadequate performance management processes to underpin/justify payments.

Current Arrangements

- Two levels of the bonus scheme
 - 50% max for Exec team (with some retention)
 - 25% max for other employees (with no retention)
 - Both based on personal rather than corporate achievement.

Proposed Arrangements



Philosophy

- Link levels of reward to project cost and timetable.
- Align variable reward with stakeholder interests.
- Common features between schemes going forward to ensure alignment.
- Retention tool
- Transparency in the process
- Clear link to **tie** purpose

Scheme 1

Senior Executives

- Covers CEO, executive team and selected other roles.
- Maximum bonus 50% of salary.
 - 35% cost (see appendix 1)
 - 35% time (see appendix 1)
 - 15% KPIs*
 - 15% individual performance

*Safety, Stakeholder Support, Team Culture and Operational Readiness.

Scheme 1

Total Life of Project Plan

- Pays out post ORS upon RemCo approval therefore no payment between now and successful completion of project
- Payment based on cumulative salary from ‘start date’ to ‘payment date’
- Bonus forfeit if minimum cost or timetable requirements are missed
- Should targets need to be reset then opportunity for bonus is reduced in proportion.

Worked Example Scheme 1

Assumptions

Employee annual salary £100,000

Max possible bonus 50%

Start date 1/4/09

Project complete at £575m on 31st May 2012 (see appendix 1 for scoring)

Payment date 31st July

Project Completion KPI (PCKPI) score 80% (as assessed by RemCo)

Personal score 76% (as assessed by CEO/Chair)

Calculations

Total eligible salary £100,000 x 3 years and 4 months (3.33 years) = £333,334

Cost element of bonus 75% x 35% weighting = 26.25%

Date element of bonus 75% x 35% weighting = 26.25%

PCKPI score 80% x 15% weighting = 12%

Personal score 76% x 15% weighting = 11.4%

% of possible maximum bonus is 26.25 + 26.25 + 12 + 11.4 = 75.9%

Bonus £333,334 x 50% x 75.9% = £126,500

Scheme 2

- For all other employees (not contract, agency or temp)
- Maximum bonus 25% of salary
- Annual bonus scheme with element of deferral
 - 60% paid at end of each financial year (15%)
 - 40% deferred and paid at ORS (10%)

Scheme 2

Annual Award: 15%

- At financial year end, each employee is assessed against personal objectives (PPS)
- RemCo will be asked to take a view on
 - progress v cost
 - progress v time
 - progress v KPIs (ACPS)
- Payment made to the individual will be:
Salary x 15% x PPS x ACPS= annual element

Worked Example

Scheme 2: Annual Award (15%)

Assumptions

Employee annual salary £40,000
Project complete at £575m on 31st May 2012
Payment Date 31st July
Start date 1/4/09
Annual Corporate Performance Scores
09/10: 80%
10/11: 70%
11/12: 65%
Personal Performance Scores
09/10: 78%
10/11: 73%
11/12: 76%

Annual Bonuses Paid

09/10
PPS for 09/10: 78%
ACPS for 09/10: 80%
Bonus £40,000 x 15% x 78% x 80% = **£3,744**

10/11
PPS for 10/11: 73%
ACPS for 10/11: 70%
Bonus £40,000 x 15% x 73% x 70% = **£3,066**

11/12
PPS for 11/12: 76%
ACPS for 11/12: 65%
Bonus £40,000 x 15% x 76% x 65% = **£2,964**

Scheme 2

Deferred Award: 10%

- No payment if cost or time targets are missed.
- Award calculated on cumulative salary from start of scheme to ORS
- Calculation requires Combined Performance Score (CPS)
 - Average Personal performance score: 15%
 - Project completion KPI Score: 15%
 - Cost: 35%
 - Time: 35%
- Payment made to the individual will be:
Cumulative salary x 10% X CPS = ORS element

Worked Example

Scheme 2: Deferred Award (10%)

Assumptions

Project complete at £575m on 31st May 2012
Payment date 31st July
Project Completion KPI (PCKPI) score 80% (as assessed by RemCo)

Calculations

Average PPS: $78+73+76=227/3 = 75.66\%$,
weighting 15% = 11.35%
Project Completion KPI Score = 80%, weighting
15% = 12%
Cost bonus 75% weighting 35% = 26.25%
Date bonus 75% weighting 35% = 26.25%

Total % of maximum achievable (Combined
Performance Score) = **77.85%**

Project Completion Bonus Value

Cumulative salary $£40,000 \times 3.33 = £133,200$
Deferred bonus maximum allowable: 10%
Combined performance score: 77.85%
Bonus $£133,200 \times 10\% \times 77.85\% = \mathbf{£10,370}$

Total bonuses paid: $£3,744 + £3,066 + £2,964$
 $+ £10,370 = £20,144$

Conclusion

We believe that

- The new scheme provides a clear line of sight between reward and achievement.
- The new scheme provides a far better balance between individual contribution and collective success.
- Employees at all levels will be encouraged to focus upon that which is important to our stakeholders, i.e. delivering a great tram system within agreed cost and on time.
- Retention tool

We invite the Committees agreement and support