

Bonus Scheme Consultation Queries and Feedback

1. Query

Change wording of deferred element to project completion element in the annual scheme.

Feedback

Wording changed in presentation; CL to update policy and FAQs.

2. Query

Share what is X, are the cost and time targets of X reasonable, e.g. 100% of date is July 2011 as per original target?

Feedback

We cannot share the actual cost and time targets as these are commercially confidential, to have these targets in the public domain may affect our negotiating position with the contractor. The targets are based on the best estimates provided by the exec team in August 2009, and agreed with the remuneration committee. The Exec team believes that the targets are challenging but achievable. What we can and should focus on is delivering the project faster and cheaper improves our chances of an increased bonus.

3. Query

What is the basis for the delivery of the project aspect (Corporate Objectives) – time and cost targets?

Feedback

See question 2

4. Query

Business targets should be transparent (both annual and deferred scheme)

Feedback

Key Performance Indicators are transparent, for cost and time targets see question 2.

5. Query

10% (40%) bonus will not act as intended, if targets are not known then not possible for individuals to assess the sum involved therefore no incentive to remain to the end of the project.

Feedback

The split between annual and project completion is a balance, see also question 2.

6. Query

How will the time element be identified given the current lack of agreed programme. Would we use agreed milestones, for example completion on time of Princes St or work at the Depot. The Open for Revenue Service can change from period to period and using milestones would be an easier method for people to understand.

Feedback

The annual bonus will be based on the board's view of actual progress versus expected progress, also see question 2.

7. Query

The project completion element of the annual scheme is calculated using the average individual performance scores. Is it being measured twice?

Feedback

The whole bonus is subject to personal and corporate performance. Annual and completion element therefore are subject to the same factors and it is not double counting.

8. Query

Costs – what is included in operating and capital?

Feedback

The costs and what is included is subject to approval by the audit committee and the RemCom. All costs up to ORS date are in the capital cost as per original business case. If project scope changes then the targets can be adjusted accordingly e.g. if the trams are leased then the targets would change to reflect this.

9. Query

Frequency of the KPI reporting and progress against time and cost, should we consider more regular reviews and if so how many formal, approved by the RemCom, and how many from the company?

Feedback

The KPIs will be presented every 6 months to the RemCom and Board for scoring, initial sign off on the KPIs will just be the RemCom. We are currently reviewing the process by which we circulate the progress against cost, time and KPIs on a quarterly basis.

10. Query

Is it possible to circulate the current progress of KPIs, cost and time and the current predicted score on a quarterly basis?

Feedback

See question 9. We will consider an initial report on progress and quarterly reporting on an informal basis.

11. Query

Transparency of the scheme – is it possible to circulate the multipliers for cost and time to employees initially and throughout the year to give a sense of the transparency?

Feedback

See question 9.

12. Query

KPIs not SMART.

Feedback

Some KPIs are smart, others less so. There will always be an element of subjective judgement.

13. Query

Previously with other employers there has been a relationship between the overtime you have to work to deliver the system and what you are paid as a bonus, as you are not paid for the overtime you work i.e. nightshift and weekends.

Feedback

The bonus scheme is not designed to reward longer hours.

14. Query

How will the deferred bonus scheme impact upon our tax rates (given that the deferred bonus will be delivered in a lump sum – we will take a hefty whack on it – is there any way this can be avoided)?

Feedback

The company will not alter the bonus amount to take into account tax thresholds.

15. Query

Doesn't seem fair on the exec team – exec members here for years could leave voluntarily and get no bonus at all?

Feedback

The bonus scheme for the exec team is reflective of the accountability of these roles and is specifically designed to act as a retention tool.

16. Query

Following on from this – is it the same arrangement with bonuses for voluntary/involuntary leavers in the exec as it is for others?

Feedback

Yes

17. Query

Accrued elements of the previous exec bonus scheme, what has happened to them?

Feedback

Previously unpaid elements are frozen and unaffected.

18. Query

Re the banking of payments as the scheme progresses – are the exec team and the rest of the **tie** employees using the same structure – will the exec team bonuses be banked at the end of each year or does it all depend on the ORS position?

Feedback

Exec team bonuses are not banked, it all depends on ORS.

19. Query

Why are there 2 levels of bonus scheme, would it not be more effective if everyone was on the same scheme?

Feedback

It is always a balance, more layers mean schemes can be tailored to particular levels of responsibility, but introduces complexity. A single layer system would not reflect the difference in accountability of senior roles. We are also trying to keep the level of change from the current scheme manageable.

20. Query

We believe that different roles within the organisation have a greater opportunity to influence the outcome of the project more than others and that this should be reflected in the bonus structure – ‘one size does not fit all’.

Feedback

We recognise there are difference roles and levels of influence that is why we have 2 levels. See question 19.

21. Query

For the deferred element (10%) it is unfair that targets could be met for 2 years but then fall away in the last month of the third year and the bonus becomes zero. The deferred element should be banked.

Feedback

The focus needs to be on the targets right to the end. However we recognise to place the whole bonus ‘at risk’ until the end of the project would be unfair, that is why 60% is paid annually, 40% deferred.

22. Query

These proposals don’t seem to involve any choice between different systems of bonuses, just one system which may or may not be slightly modified. Doesn’t feel like a genuine consultation.

Feedback

Consultation is about informing and gathering feedback on the scheme and listening to the views of others. Consultation is not necessarily about presenting options. In finalising the scheme we will consider all views.

23. Query

We would like assurance from the Remuneration Committee that the bonuses will not be slashed in the same manner as last year with no consultation with the staff. We understand why the bonuses were amended last year but there was no transparent explanation provided to staff as to how it was calculated.

Feedback

The RemCom has approved the principles of the new scheme. With the new scheme any calculation of bonuses will be in accordance with the new scheme.

24. Query

The KPIs do not seem to connect to support staff and we would feel concerned about “being left in the cold”. Also the Operation Readiness KPI seems to rest heavily on one person.

Feedback

KPIs are at an organisation level and everyone needs to be aware how their individual role contributes to the achievement of the corporate objectives. A key

strategy is to prepare for operations, operational readiness will grow in terms of its importance and many more people particularly those directly involved such as PM's and comms will be heavily involved in the preparing for operations.

25. Query

What about other non or less cost-based proposals to incentivise workers such as performance related flexi-time and a standing bank of 1-3 leave days that can be booked on the day itself.

Feedback

It is not the place of a bonus scheme to address issues such as flexible working.

26. Query

Is the scheme still open for negotiation or has it been finalised.

Feedback

There is a difference between consultation and negotiation, the scheme is currently being consulted on and is not for negotiation. We are consulting on the proposed changes. This means that it is not finalised and we will take into consideration all points made during the consultation process.

27. Query

Some staff are involved in portfolio projects and it seems unfair that the bonus system only relates to tram and does not take account of performance on these projects.

Feedback

A very small number of employees are not directly involved with the tram project and the scheme has been designed around the majority. We can consider individual circumstances and will follow this up with the individuals concerned.

28. Query

What is the definition of who is included within the exec team?

Feedback

The TIE Exec Committee is made up of Richard Jeffrey, Stewart McGarrity, Steven Bell, Susan Clark, Bill Campbell (Lothian Buses), Alastair Richards, Susan Clark, Mandy Haeburn-Little, Graeme Bissett and Claire Logan (supported by George Bramhill) on an interim basis. The deferred scheme does not relate directly to the Exec Committee.

The deferred scheme is applicable by role:

Chief Executive

6 Exec Committee roles – Finance and Performance Director, Tram project director, HR Director, Strategy and Performance Director, Operations Director and Communications Director.

Infraco Director

Commercial Director

Deputy Project Director

There are no bonuses available to those on temporary or contract positions, regardless of the roles they have.

29. Query

For the Exec team deferred scheme, is this measurable on the same basis as the employee deferred scheme.

Feedback

Yes

30. Query

Current bonus arrangements reflect an individual's performance and there is therefore the opportunity for an individual to be rewarded for their individual effort – the proposed scheme has less of an opportunity for individuals to influence the outcome. We want to be recognised for our individual effort.

Feedback

The project is going to be delivered by the team so there is a much stronger focus on the team performance and company objectives in the new scheme. The bonus amount you can earn is still affected by your individual performance score, but this is balanced with the overall score for the company performance.

31. Feedback

Couldn't the personal score and the company score be additive instead of multiplicative? E.g. if personal score was 0.6 and company score 0.7 you would have a percentage bonus of $0.6+0.7 / 2 \times 100 = 65\%$ - this seems a lot fairer than proposed multiple of $0.6 \times 0.7 = 42\%$.

Action Taken

The method of averaging above would mean that individual bonuses could be out of step with overall company performance. Multiplying the personal and company scores means **both** organisation and employee have to achieve high scores to get a high bonus.

32. Query

Bonuses are generally set up to motivate and reward individual and team performances though a 'dropping down' of business targets to individuals. This bonus structure does not do this. With personal targets being directly linked to corporate performance on the annual bonus the team was of the opinion that the personal objectives should be ring fenced. Currently if you achieve your personal objectives and others fail you will be punished. Request consideration should be given to splitting Annual 15% bonus to 7.5% directly linked to PPS and separate 7.5% linked to ACPS.

Feedback

See question 31.

33. Query

The Annual Corporate Performance Score and Combined Performance Score variables have the potential to significantly dilute the % bonus

Feedback

See question 31

34. Query

Are the ACPS and the CPS variables a multiplier or an add?

Feedback

The ACPS is a multiplier for the annual element.

CPS is not a multiplier, it is made up of:

Average Personal Performance Score since enrolment in the bonus scheme: 15%

Project Completion KPI Scores: 15%

Cost: 35%

Time: 35%

35. Query

Change to my terms and conditions of employment?

Feedback

Your terms and conditions entitle you to a bonus scheme of up to 25% of your annual salary. You will still have the opportunity to earn a bonus of up to 25% of salary. We are changing the details of how the bonus is calculated and varying the way we are paying it, i.e. by deferring a portion. There is no change to the potential bonus you can earn.

36. Query

For involuntary leavers it is impractical to hold over the deferred bonus. It is more practical to pay the bonus based on the forecasts at that point.

Feedback

Difficult but not impossible. Paying based on forecasts is risky and we are not in a position where we want to forecast at the point where people leave.

37. Query

Some people are of the view, that we should scrap the scheme and replace with a salary increment / flexi-time / overtime / other benefits e.g. Private Health Scheme, taking out the whole political aspect of bonuses.

Feedback

See question 25. We do not intend to consider translating the bonus scheme into cash and adding money to salaries, we would lose the ability to link personal and organisational performance to reward.

38. Query

If there is a dispute at the end of the project and the cost cannot be finalised the RemCom will make a decision on what the final percentage should be. What if this is overly pessimistic thereby resulting in a lower bonus? Can this be challenged? Will the RemCom explain how/why they reached this decision?

Feedback

The RemCom decision will always be fed back with reasons for scores. If we have a huge claim then it would not be a success for the shareholders, the RemCom does have the option to make an interim payment if they cannot take a decision 2 months after ORS.

39. Query

My overall remuneration package is decreasing because the bonus scheme is harder to achieve.

Feedback

There is still the potential to earn up to 25% of your annual salary, see question 35. The bonus scheme performance criteria have been changed as it was appropriate

that the threshold to achieve the targets was raised and that corporate performance was measured by our key targets as an organisation.

40. Query

There are far too many variables out with the control of most employees to say that they can definitely influence the outcome of the ACPS – particularly when the 35% elements of this section will not even be disclosed.

Feedback

There are variables but everyone needs to work towards the best cost and to achieve the best date in terms of project completion. Everyone can influence to achieve the best possible outcome, if you can't see how your job influences the outcome then you need to discuss your role with your Line Manager.

41. Query

Does Open for Revenue service mean “on the day” or after a successful running period?

Feedback

On the day

42. Query

If BSC continue in their current frame of mind and refuse to do anything any bonus will be unachievable once the ACPS is applied regardless of how well someone has achieved personally. Is this assumption correct?

Feedback

We believe it is correct to link the performance of the organisation to the bonus scheme and the performance of the organisation is linked to our contractor's performance. The targets of cost and time are on a sliding scale so as an organisation we need to achieve the best we can in terms of cost and time working with the contractor.

43. Query

If appraisals are done by line managers and influence an employee's bonus will other directors be able to reduce a score achieved by you and your line manager? Last year we were told that certain scores in the appraisal document were simply not allowed regardless of performance. Will this be repeated?

Feedback

Yes there will be a calibration exercise controlled by HR and the Chief Executive to ensure fairness and consistency. There will be honest feedback from Line Managers if your score is changed at all.

44. Query

If I had got objectives set at the start of the year, do we need new ones?

Feedback

Your objectives will need to be reviewed to ensure they are aligned with those of your manager and the organisation, but we do not expect that they would need to be significantly changed, we are not changing the direction of the business, just linking bonuses more closely with the organisation's objectives.

45. Query

Overall there are substantial variables outwith employee control which are included within the scheme. This could de-motivate employees. E.g. the remuneration committee can take a pessimistic view of the projects outcome in early years, thus depressing the annual bonus payment to employees. If this time is then caught up / cost turns out to be less than the pessimistic view, it could be the case that the Exec team achieve a higher bonus, but the employee on 25% has already lost his annual bonus payment allowances.

Feedback

The Exec team and the RemCom have a responsibility to ensure we have the correct terms and conditions in place to attract and retain the correct people. The RemCom are there to ensure there are fair and reasonable policies in place and that the shareholder interests are aligned with those of management and employees. The RemCom will also ensure budgets are not manipulated to affect bonuses.

46. Query

There is no incentive for directors to meet any annual cost/time targets as their whole bonus depends on the final outcome. Therefore, if the directors spend more than budgeted in years 1 and 2 but claw it back in year 3 to meet the cost target by spending less they would get their whole bonus whereas those on the annual scheme would have lost out on their annual element.

Feedback

See question 45.

47. Query

The RemCom could take a pessimistic view of how we are performing against cost or time if we gave them a range to choose from. If the Directors banked their bonus each year then it would remove the dubiety of the figure.

Feedback

See question 45. The banking of any bonus for the deferred scheme could potentially be rewarding for future poor project performance. A progress report will be presented to the deferred scheme employees each year so they can see progress against the targets.