

tie – Performance Incentive Scheme 2009

Paper for tie Executive Committee

Introduction

This paper sets out a possible bonus structure for 2009 and beyond for tie employees. The Executive committee will discuss and agree any recommendations to be put to the Remuneration Committee of the Board.

Objectives

In designing any possible incentive scheme it is important to be clear about its objectives as they will clearly influence the shape, timing and possibly the quantum of the scheme.

Possible objectives (and Implications)

- to focus and motivate individuals to meet and exceed key business targets;(a mechanism needs to be found to allow targets to be understood)
- to encourage and develop teamwork and recognise individual contribution to the success of our businesses;(there would need to be an element of team contribution and individual assessment)
- to contribute to the development of a tie culture by encouraging participants to identify with the full tie short and medium term strategies;(the strategies need to be clearly stated and there needs to be a mechanism for assessing “how” people achieve as well as “what”)
- to provide managers with a variable component in their remuneration package which directly reinforces tie’s strategic goals
- to maintain a strong competitive position in the marketplace with regard to overall reward packages.(this can be anecdotal but should be informed by independent objective review)
- to create a retention element to reward(at its simplest this will be to the bonus year end but could be linked to the project end)

Scheme Elements

The chosen elements must reflect a balanced business approach, driving a strong commercial performance without encouraging cutting corners on other areas,

The proposed scheme has three components

Project Completion Progress – 50% cost 50% time	60% of total
Key Business KPI's (e.g. safety, PR environment?)	20% of total
Individual Performance (initially “what” only but yr2 include “how”)	20% of total

It is anticipated that all those on 50% bonus will have their bonus deferred until the project end. The proposal contains an option for those on 25% to have a portion of bonus deferred but this may prove difficult to administer.

Business Delivery

The Executive propose and the Board approve what are acceptable, good and outstanding targets for budget and time.

At the year end the cost and time projections for the project are calculated and the %age over or under is forecast.

For cost, bonus is triggered at say 5% over budget, is at 50% at budget and is at 100% at 5% under budget.

Time could be triggered at 8 month overdue, 50% at target date and 100% for 3 months early. (Linear scale between 0-50 and again between 50-100. This non linear scale is selected due to the unlikely outcome of being significantly early)

Example

Budget is £100m and target end date is 31 January 2010

Actual outcome is £103m and end date is 31 March 2010

Cost: 3% overrun = 20% achievement = 5% bonus

Time: 2 month overrun = 37.5 % achievement = 9.4%

So total achieved on Business Delivery = 13.4% out of a possible 60%

KPI's

Up to four KPI's to be selected (e.g. safety, environment, PR, Staff Engagement). Those selected need to be measurable)

Trigger, target and exceptional levels to be determined and 5% available for each

Individual

Individual performance score calculated and %age awarded. This then converts to a %age of 20%.

Total bonus is then

Cost & time

KPI

Individual.

If the thresholds on cost **and** time are not reached then no bonus is payable

Notes

The three outcomes are added together to arrive at the bonus figure

Business delivery would be driver of bonus and could be split differently e.g. 60:40
cost: time

Trigger for bonus could be 95 or 97% achievement and max at 105 % or 103%
(linear scale)

KPI achievement could be weighted by KPI
Individual outcome determined by rating v objectives and calibration, Initially "what"
only but bringing in "how" next year.

Deferral

For those on 50% bonus the bonus would be calculated each year for KPI and individual performance but the business outcome would be determined at the project end.

The actual cost and time results would determine bonus paid. The calculation would be as described above and the %age achievement would be attached to total salary over the full bonus period.

If the triggers are not met then no bonus will be paid. If the triggers are met then the KPI and Individual bonus calculated in each year will be paid.

For those on 25% bonus it would be possible to pay half of the calculated bonus and defer payment of the other half to the project end and to be determined by the final outcome.

This would also serve as a retention tool as any leaver would forfeit any right to bonus. We would apply appropriate rules for redundancy, retirement etc.

This would be quite complicated to administer and may not be worth the effort.

Further Factors

Can Business performance Targets be openly discussed, even in %age over or under?

Should targets be rebased each year for 25% bonus earners to reward performance in that year, rather than build in historic performance?

What should be the target payout in a good year and an exceptional year (50% & 90%?)

How are objectives going to be scrutinised (peer review)?

How good is the current assessment of individual performance and what needs to be done in this area?

Other considerations

The position of significant early overrun on costs and/or time needs to be considered. This could apply in a bonus year and overall on the project and would lead to the bonus being unachievable.

This is a hugely significant consideration for the tie Exec. One of the selected Leadership behaviours was openness and for that to be evident the parameters of the bonus scheme should be transparent.

However, the difficulties with estimating outturn business delivery might make a purely KPI and Individual performance scheme more desirable. This would again leave the Board in the position of calibrating overall performance in a fairly subjective manner. If this mechanism is selected it needs to be explained up front and some indication given of the criteria which would be applied.

Market Position

There has been no market testing of current bonus levels but from broad market awareness it would seem that

50% bonus at Senior Level with linkage to mid term results is fairly standard.

25% in middle positions is again fairly standard

25% for junior/admin positions is ahead of the market which would more normally be about 10%

The only real way of assessing this position properly is to benchmark salary, total cash and total reward.

If it is decided to take action on bonus levels at the lower end, the most sensible course would be to red-circle those in current positions and apply a lower level to new hires. Jobs in Tram Operations would be deemed new jobs.

Key Questions

Is there going to be a bonus scheme?

If yes, do you want it to be transparent or are you prepared for the Board to exercise judgement?

If transparent, does the scheme proposed meet your needs? If not what needs to change?

Do you wish a portion of bonus to be deferred?