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Network Rail triggers bonus row

By Mark Odell, Transport Correspondent



A row has broken out between Network Rail and the rail regulator over plans for a management bonus scheme at the taxpayer-funded company that could see top executives get payouts totalling more than £14m.

The clash comes less than five months after Sir David Higgins, chief executive, and five directors at the owner of the UK rail infrastructure waived their annual bonuses after sustained political pressure.

The board also shelved plans for a long-term incentive scheme after the intervention in February by Justine Greening, the transport secretary, who called for restraint.

Because Network Rail is required to have a bonus scheme for its top management, Steve Russell, the senior independent director and chairman of the remuneration committee, has reworked the executive directors' remuneration package amid growing concerns at board level about being able to retain senior managers.

Richard Price, the chief executive of the Office of Rail Regulation, which must approve elements of the scheme, wrote to Mr Russell in late June raising a number of concerns about the proposals. "We do not yet consider that what we have seen from you so far complies with your licence obligations," he wrote.

In his reply, Mr Russell defended the changes and warned: "If we do not resolve the current situation very shortly then we invite losses [of senior directors]. It is in this context that I am disappointed by your comment that you do not consider that what you have seen from Network Rail so far complies with our licence obligations. Given where we are this comment is, I believe, unhelpful."

Under the current proposals, directors could get a payout of more than £14m over the next three years, depending on whether certain targets are met.

The windfall includes a new long-term bonus scheme worth up to £11.7m, proposals to pay out an old scheme worth £1.7m along with a further £900,000 in retention payments promised to three directors.

The company was warned in May by the regulator that it risked a record fine if punctuality on long-distance routes did not improve.

The dispute with the regulator and plans for a new long-term bonus scheme provoked an angry backlash from Labour.

“Network Rail is a publicly-funded body that receives £4bn of taxpayers’ money every year. In the current economic climate, and with a performance that is far from satisfactory, it is hopelessly out of touch for Network Rail to believe that an £11.7m bonus scheme for senior managers is acceptable,” said Maria Eagle, shadow transport secretary.

She called on Ms Greening to step in again and explain why she had so far failed to put a public interest director on the Network Rail board as she had promised to do at the time of her intervention in February.

Network Rail defended the proposed payouts. “Our scheme has always been designed to reward outperformance. Sir David Higgins believes very strongly in performance-related pay.”

The Department for Transport said remuneration was “a matter for Network Rail and the regulator”.

The regulator and the company said it would take several months to put a new bonus scheme in place.

Nevertheless, executive pay is likely to be the main focus of Network Rail’s annual general meeting later this month where the members – who act as quasi-shareholders – will be asked to vote only on the £900,000 retention payments.

The annual general meeting will also see Richard Parry-Jones take over as chairman from Rick Haythornthwaite, while Mr Russell will also step down.

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