

**Anna Walker**

Chair

Telephone 020 7282 3696

Fax 020 7282 2043

E-mail [anna.walker@orr.gsi.gov.uk](mailto:anna.walker@orr.gsi.gov.uk)

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Richard Parry-Jones

Chair

Network Rail

Kings Place

90 York Way

LONDON

N1 9AG

Dear Richard

**Management Incentive Plan**

1. The ORR Board discussed Network Rail's proposed 2014-15 MIP (which covers your Board level executive directors) at our meeting on 20 May. I wanted to briefly summarise the discussion.
2. As you know we support your broad direction of travel in terms of moving to lower annual bonuses, with deferral of payment, and the ending of the long term incentive plan. We have also emphasised the importance of a strong performance management framework to ensure the PR13 outputs and obligations are fully delivered. Mark Carne explained his views on this very clearly and helpfully at the Board meeting.
3. To support the development of your new MIP we have issued revised objectives (my letter of 2 May to you) and we have reviewed your proposed MIP against the licence, including compatibility with these objectives.



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4. We are content with the overall structure of the MIP. The extent to which your performance measures and levels comply with the licence is a matter of judgement and we recognise the need for you to design a MIP which is meaningful to those it affects and provides incentives that work. Subject to a satisfactory resolution of the points below about how the MIP works in practice, and to your obligations to consult members and funders, the MIP would comply with the licence.

5. Our view is that the line of sight - between our PR13 outputs (and the final determination more generally) and your performance measures and levels - needs to be made clearer during the operation of the MIP. My team has fed back specific comments e.g. on your financial performance measure and the taper on renewals volumes. Ultimately the MIP must incentivise delivery of the PR13 outputs and associated determination which are, in effect, the public interest obligations on the basis of which Network Rail receives taxpayers' money.

6. This line of sight could either be made clearer through a better reconciliation of your measures and the PR13 outputs and determination and/or through changes to the MIP over time (for example migrating some of the measures to PR13 outputs, as this MIP currently only covers the first year of CP5).

7. We will continue to report on your performance against the PR13 outputs, the determination and your legal health and safety obligations each year. If your annual MIP does not have a clear line of sight to these, there is a real risk of criticism of Network Rail on this score. Your Remco will obviously also have to be very clear how it has exercised its discretion in relation to safety matters.

8. I would be happy to discuss this letter with you if that would be helpful.

Yours

A handwritten signature in blue ink that reads 'Anna Walker'.

**Anna Walker**