



OFFICE OF RAIL REGULATION

**Anna Walker**

**Chair**

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**Richard Parry-Jones**

**Chairman**

Network Rail Infrastructure Limited

Kings Place

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7 April 2014

Dear Richard

When you came to talk to our Board on 25 March about your work on revising your management incentive plan (MIP), you asked us for an indication of whether the direction of travel of your work was broadly acceptable. I understand that you would find it helpful to have our view in advance of your members' meeting on 8 April.

You are still working on the detail and so anything we say now can only be based on the information you have given us. We will need to see more of the detail when it is available as part of our consideration of whether the proposed scheme meets the licence condition and the requirements under it. We will also want to see the full business case for the new system, including implications for the rest of the organisation.

Against this background:

1. We support a move towards a more restricted bonus range and the proposal that bonuses be deferred to reflect long term performance issues;
2. The criteria for bonus payments should be transparent and genuinely dependent on out-performance; we have not seen all the details of these criteria yet and will want to do so to ensure that the CP5 outputs and requirements are fully covered and actual performance can be assessed against planned performance;
3. There should be clarity on how out-performance will be measured;
4. Any increase in base pay should be absolutely related to market need;



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5. As we discussed, you will need to ensure that both base pay and any bonuses incentivise the delivery of agreed CP5 outputs and requirements.
6. We will also want to see reflected in your framework the need for a strong performance management framework for the executive committee team, where incentive payments can reward out-performance but there must be a price for failing to deliver against objectives.

As discussed at our meeting, ORR will also need to update its objectives for the MIP so they apply to CP5. We will continue to write to your Remco each year with an annual assessment of the company's performance which we will expect it to take into account in applying the MIP.

I hope this is helpful.

Yours sincerely,

A handwritten signature in blue ink that reads "Anna Walker". The script is cursive and fluid, with the first letters of "Anna" and "Walker" being capitalized and prominent.

Anna Walker  
Chair