DEPARTMENT FOR TRANSPORT (DfT) BOARD MINUTES

DfTB(11)25

Date: Friday 1 April 2011
Time: 0940-1230
Venue: 1/23A, Great Minster House

Attendees

Chair:
The Rt Hon Philip Hammond MP
(Secretary of State)

Attendees for Papers:

Item 3
Michael Hurn

Board Members:
The Rt Hon Theresa Villiers MP
(Minister of State)
Lin Homer
Richard Hatfield
Steve Gooding
Clare Moriarty
Lucy Chadwick

Item 4
Becky Wood
Sally Stott
Gordon Masterton (DfT Project Representative for Crossrail)

Non-Executive Board Members
Sam Laidlaw
Ed Smith
Alan Cook
Sally Davis

Item 5
Richard Bruce
**** (Departmental Performance Management)

Other Attendees
**** (Board Secretariat)

Item 7
Helen Morris

Item 1: Minutes and Actions

DfTB(11)17

1. The minutes of the 4 March meeting were approved for publication on the DfT website.

Item 2: Update on Current Issues

2. A Value for Money solution would be found for maintaining the ferry boat service to the Isles of Scilly.

3. Richard Price had been appointed as the new Chief Executive of the Office of Rail Regulation. He would be taking over from Bill Emery when he stepped down in June.

4. The Board briefly discussed the Intercity Express Project. It was informed that Hitachi’s factories had not been damaged by the recent earthquake and

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tsunami in Japan. However, the wider rail Japanese supply chain had been affected, the consequences of which were affecting rolling stock orders in production.

**Item 3: Crossrail Review Point 4**  
DfTB(11)18

5. Becky Wood introduced this paper, which had previously been submitted to the Board Investment and Commercial Sub-Committee (BICC).

6. The DfT Board was being invited to confirm BICC’s recommendation that DfT approval be given to Crossrail passing Review Point 4, which would enable Crossrail Ltd to let main contracts without the need for direct Sponsor approval. For Crossrail to pass this Review Point, both of the project sponsors - DfT and Transport for London – would have to approve a Positive Project Review Notice. Review Point 4 would be the last of the project review points at which one or other of the sponsors was contractually entitled unilaterally to cancel the project.

7. Following the BICC discussion on 22 March, a cover paper focused on financial and management issues involved in delivering the scheme. It also provided Board members with details, requested by BICC, of remedies available to Sponsors in the event of any conditions attached to the Positive Project Review Notice not being met.

8. The DfT Board was informed that the governance structure for Crossrail Ltd, under which the Mayor of London as well as the Secretary of State for Transport exercised a significant measure of control over the project, was underpinning the financial commitments that had been given to the project.

9. Becky Wood informed the DfT Board that, since the BICC meeting, intensive talks between Crossrail Ltd and Network Rail had resulted in a satisfactory framework of incentivisation arrangements for Network Rail’s delivery of the On-Network Works for Crossrail. This had been the issue that had been required to be resolved prior to the issue of the Positive Project Review Notice.

10. Becky Wood confirmed that DfT, as well as HM Treasury, had made clear to Crossrail Ltd in minuted discussions the importance of strengthening its governance structure. Becky agreed to ensure it would be set out again in writing on behalf of the DfT Board.

**Action:** Becky Wood

11. The Board noted that the TOC operating Crossrail services would initially be making an operating loss prior to revenue picking up. This would not affect the overall £14.9 bn funding requirement for the project. It would, however, comprise a financial commitment extending beyond the current Spending Review period. The Board requested periodic updates on the position.

**Action:** Becky Wood

12. The Board discussed the extent of the work required by Network Rail to deliver Crossrail and its need to manage this alongside its renewals work. The Board
agreed that DfT should review regularly the pressures on Network Rail across the DfT-wide portfolio.

**Action:** Lucy Chadwick

13. The Secretary of State said that DfT’s agreement to the issue of a Positive Project Review Notice should be contingent on a satisfactory agreement with Transport for London over Crossrail governance going forward. A meeting was due to take place on 4 April at which it was hoped this would be resolved.

**Action:** Becky Wood

14. The Board agreed that Crossrail Ltd’s reporting requirements to its Sponsors should be set out more explicitly in the context of the conditions to be attached to Review Point 4.

**Action:** Becky Wood

15. The Board agreed that DfT representatives on the Crossrail Sponsor Board should be given delegated authority to approve the issue a Positive Project Review Notice from Crossrail Sponsors, subject to a satisfactory agreement with Transport for London over Crossrail governance going forward, with conditions to address risks identified in relation to the robustness of the Financial and Management cases for the project.

**Item 4: Performance and Delivery Review**

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**Performance Review**

16. Valerie Vaughan-Dick introduced the paper, which informed the Board of options for utilising the forecast under-spend that had been agreed by the Secretary of State and the Chief Secretary to the Treasury. These options would reduce the balance of useable underspend to £22 million.

17. Valerie informed the Board that a £5m payment to the Mayor of London – which would reduce the underspend further – would assist in meeting the UK’s air quality targets, thus mitigating the risk of EU infraction which had the potential to cost the UK up to £300m.

18. Aspects of the monthly performance review discussed by the Board included:

- the impact of the Japanese earthquake and tsunami on the Vehicle and Certification Agency and the Vehicle and Operator Services Agency;
- an issue concerning the valuation of salt stocks;
- DfT’s share of Government procurement savings;
- the procedure for approving consultancy contracts;
- the performance of DfT’s Executive Agencies – information on which had been included in the DfT Board briefing pack for the first time.

19. The Board discussed the continuing risk to DfT’s financial forecasting resulting from fluctuations in Support for Passenger Rail Services (SPRS). Better forecasting and a revised rail franchise framework, under which revenue and

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risk sharing would be based on a GDP-based formula, were seen as the most effective mitigation strategies for this risk.

20. The paper had invited suggestions for further in-depth risk reviews. Major Projects, the 2012 Olympic Games and forthcoming National Audit Office/Public Accounts Committee VfM Reviews were all suggested.

**Action: Secretariat to feed back to Risk Policy Manager**

**Delivery Review**

21. Richard Bruce introduced the report, highlighting milestones from DfT’s Business Plan and other key commitments that had been missed or were at risk.

22. It was not yet clear whether DfT’s response to Sir Roy McNulty’s review of the cost of running the UK’s railways would be published as a White Paper, a Green Paper or a Command Paper.

23. It was pointed out that, although there were a lot of red RAG ratings shown in the delivery update, many of these reflected the delivery challenge of the milestones concerned rather than any slippage.

24. The Secretary of State noted that DfT was ahead of most other Government Departments in its recording of the delivery of its commitments as well as in its use of non executive board members in and outside full Board meetings.

**Item 5: 2011/12 Budgets**

25. This paper informed the Board of the Resource, Capital, Depreciation and Annually Managed Expenditure budgets for 2011/12 to 2014/15 that had been submitted to the Secretary of State for approval.

26. The Board was informed that minimal changes had been made to the budgets that had been agreed as part of the 2010 Spending Review. Those changes that had been made were highlighted. They had been necessitated either by re-forecasting during the six months since the Spending Review or by the reorganisation of DfT.

27. The Secretary of State identified above-target UK inflation as being the greatest strategic risk to DfT’s budgets. He highlighted the need for business units to look at how to accommodate above-forecast inflation.

28. DfT’s forecasting was discussed in some detail. DfT would be required to inform HM Treasury by the end of November if an underspend was forecast for the end of the financial year. The Secretary of State identified the potential devolution of local rail services under the localism agenda as a potential means of reducing the risk of an underspend.

29. A non executive board member said there was a need to separate underspend caused by a delayed project, where the funding would have to be carried over
and spent in a subsequent financial year, from savings achieved by good practice, which should be celebrated. Some board members felt that there were perverse incentives to achieving savings imposed from outside DfT.

30. Under-spending was felt by board members often to result from poor forecasting. It was suggested that the performance management framework needed to incorporate consequences resulting from under-spending as well as from overspending. Valerie Vaughan-Dick said she was meeting all DfT(c) directors with responsibility for budgets. All finance staff in DfT now reported to her and all Agency Finance Directors now reported to her also. She hoped this would improve forecasting.

Item 6: DfT Board – Future Arrangements

31. Lin Homer introduced this brief item, saying that a fuller discussion would take place at the 6 May Board Meeting, to which a senior member of the Cabinet Office’s Governance Reform team had been invited. The full implications of the revised Corporate Governance Code would be explored in depth at the half-day awayday due to take place in May or June, and/or at the full day Strategy awayday planned for September.

32. Lin noted that the current draft of the revised Code, which was being considered by Permanent Secretaries, incorporated a “comply or explain” provision. This would enable DfT’s Board, in areas where it wished to do so, to adopt alternative arrangements to those set out in the Code so long as it was able to explain these.

33. Lin noted that DfT was ahead of most other Departments in complying with the Code and its incorporated Protocol for Enhanced Departmental Boards.

34. Lin invited written comments on the current draft of the Code to be sent to herself and Sam Laidlaw. She would take these to the next meeting of Permanent Secretaries and Sam Laidlaw agreed to take them to the next meeting of lead non executive board members.

Action: Board Members/Lin Homer/Sam Laidlaw

35. The Secretary of State noted that the Board had decided the previous autumn to continue holding monthly meetings for the duration of the organisational change programme. Now that this programme was reaching its conclusion he asked whether the Board was content to change to having meetings every two months, as recommended in the Protocol. The Board agreed.

36. The Board also agreed to a suggestion by Lin Homer that the physical layout of Board meetings be changed to enable paper authors to sit opposite the Ministers and non executive board members.

Action: Secretariat

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Item 7: Changing Ways of Working

37. Clare Moriarty and Helen Morris introduced the paper, highlighting:

- Pay Bands 6 and 7 (team leaders) had been allocated roles in the new organisation earlier in the week.
- Changes to the skill set required by the new Department meant that some PB6-7s would be supported in the redeployment centre whilst DfT was carrying vacancies.
- All remaining DfT staff would now be informed of their outcome by Easter.
- By the end of April, DfT would be the right size and shape for moving forward.
- DfT was ahead of most of Whitehall in restructuring and other Departments were seeking to learn from DfT’s experience.
- The focus of the Change Programme was now shifting towards building the capability of the new Department.

38. Much of the resulting conversation focused on the proposed new organisational vision for DfT. Comments on this included:

- Enhanced performance management needed to be highlighted.
- DfT needed to focus only on doing what it needed to do and to do this efficiently.
- A culture needed to be developed in which people challenged themselves as to whether a particular task or project was adding value to DfT’s output.
- Personal responsibility and accountability needed to be highlighted.
- The importance of effective leadership needed to be highlighted.

39. Suggestions for improving DfT going forward included:

- Managing DfT’s relationship with the centre of Government effectively, in an attempt to reduce bureaucratic requirements;
- use of templates or bullet points when submitting proposals to Ministers, rather than a 4-page text dense submission;
- each directorate to be enabled to present to the Board how it had transformed itself.

40. The Board agreed that effective leadership starts from the top. It agreed to discuss at the forthcoming away half-day how it would display effective leadership to the rest of the Department.

Item 8: Risk In-Depth Review – “Business Continuity”

41. Due to time having run out, the Board decided to defer discussion on this paper to its 22 July meeting, where it would be considered alongside the in-depth risk review of non weather-related transport disruption.

Board Secretariat
6 April 2011

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