Item 1: Minutes and Actions

1. The minutes were approved and some actions were updated.

Item 2: Update on Current Events

2. Clare Moriarty updated the Board on the risks from the Permanent Secretary succession. Although the appointment of Lin Homer, who was starting on 10 January, had reduced these to some extent, there were still risks arising from the changes to DG responsibilities, the change to the organisational structure and the departure at the end of December of most of the 170 DfT staff leaving under the voluntary exit scheme. It would be necessary to maintain the Department’s responsibilities to Parliament and other external requirements, whilst pressing ahead with its Business Plan and Strategic Reform Plan commitments.

3. The process of preparing the plan had not identified much policy work that could be deferred, but provided a clear baseline. The expectation was that Ministers would not initiate further discretionary activity in January. The
Secretary of State noted that the priority was to be able to respond to any further adverse weather and to maintain robust contingency plans against potential terrorist attacks. With DfT being in the forefront of moves to reduce admin spend, it was important that it continued to perform its key functions whilst doing so. The plan therefore provided a helpful focus on this.

4. Steve Gooding reported that David Quarmby would shortly be announcing the results of his audit on how well DfT had learned lessons from the previous winter’s lengthy cold snap. He reported, in relation to the recent bad weather, how regulations for drivers’ working hours had been eased temporarily to enable deliveries to be made. Some rail rolling stock had been damaged and would require repair.

5. The Secretary of State reported that the media had highlighted localised problems and that the strategic road network had performed well on the whole. The ‘3rd rail’ section of the rail network had fared worst during the cold weather with ice having prevented the live rail from conducting electricity. Salt imports should prevent the country from running out. For the longer term it was important to determine how much it was worth spending to make the transport network more resilient. This depended on the expected frequency of severe weather. To this end Sir John Beddington, the Chief Scientific Adviser to the UK Government, had been asked for a planning assumption for severe weather over the next 20 years. His results would then be subjected to cost-benefit analyses by DfT.

6. Mike Mitchell reported that trials in heating the ‘3rd rail’ had been successful.

7. The new Permanent Secretary, Lin Homer, introduced herself to the Board. She was excited at having been appointed and had already started meeting DGs and reading briefing material. She regarded DfT’s business plan and supporting documents as providing an admirably challenging task. She was fully behind the DfT Board’s decision to complete organisational change quickly, as this would enable those remaining in the Department to move forward. She would use her strengths to move the Change Programme forward and was confident of being able to add value.

Item 3: Performance Review

A Reporting Arrangements

8. Richard Bruce introduced the paper, which proposed:

   i) a standard approach for assessing the status and level of challenge of actions and milestones;

   ii) a key role for the Board being to spot and assess those strategic risks or themes that might be impacting across a number of workstreams;

   iii) Spending Review workstreams not covered by the Structural Reform Plan being included in a “shadow” sixth SRP section, with key projects being included in a seventh;

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9. Richard Bruce finished by saying he would be discussing reporting arrangements with non executive board members and with the new Permanent Secretary in the new year, with a view to a streamlined performance pack and harmonised delivery report being included in the January or February Board pack.

10. The Board approved the paper’s recommendations.

**B Performance Pack**

11. Valerie Vaughan-Dick introduced this paper, which;

   i) asked the Board to agree in principle to use 2010-11 forecast DEL underspend to relieve pressure on the 2011-12 budget by re-profiling approved expenditure;
   ii) asked the Board to consider a range of possible options for using the remaining DEL underspend for 2010-11;
   iii) asked the Board to agree to Clare Moriarty leading discussions with HM Treasury with respect to proposals for re-profiling approved expenditure.

12. Since the submission of this paper, the Secretary of State had asked the Department to examine the possibility of utilising underspend on i) salt for treating roads in cold weather; ii) funding for filling pot-holes damaged by cold weather; iii) equipment for tackling severe weather conditions.

13. One option identified for bringing forward expenditure would involve DfT directly purchasing rolling stock. The Secretary of State did not wish to pursue this as it would not sit comfortably within the Government’s strategy for train operating companies to have the freedom to purchase their own rolling stock.

14. HM Treasury was reported as being supportive of DfT’s proposal to utilise underspend to address issues related to severe weather, whilst emphasising that it did not wish this to become the norm for future years.

15. There was some discussion over the extent of savings secured for DfT’s current year’s budget from contract renegotiations. A request was made for a plain English guide to the Board on savings achieved.

   **Action:** Valerie Vaughan-Dick/Simon Lydiard

16. Various other options were explored for bringing forward planned expenditure from 2011/12.

**C Structural Reform Plan – Exception Report**

17. Issues raised by Board members included:

   i) the overall plan being on track for identifying plans for securing a sustainable railway and for changing rail franchise terms.
Announcements in November 2011 were expected on the structural reform of the rail industry and on franchise reform; ii) the delivery timetable being at risk for regulations enabling new lane rental schemes. The Secretary of State reported that he had met Peter Hendy of TfL on this issue and that he did not believe there to be any conflict between DfT and TfL interests. iii) alternative mitigation strategies being available in the event of delays to the Bill introducing a new economic regulatory regime for aviation.

D Structural Reform Plan – High Speed Rail Plan

18. This paper, introduced by Bob Linnard and Philip Graham, comprised the first in-depth examination by the Board of one of the Structural Reform Plan's five themes. As well as a detailed milestone chart for the programme, Board members had received the Executive Summary from the previous Government's Command Paper, a letter to the Secretary of State from the leader of the anti-HS2 Action Alliance and a transcript from the SoS's speech in November to the High Speed Rail Conference.

19. The three key issues causing concern were:

   i) winning the argument of principle;
   ii) preparing a hybrid bill;
   iii) steering the hybrid bill through Parliament.

20. The majority of the Board discussion focused on winning the argument of principle. It was acknowledged that DfT and supporters of HS2 could have done better in promoting the benefits of the scheme and in countering myths propagated by its opponents, for example the argument that the required extra capacity could be provided without a new high speed line.

21. The Secretary of State said that, on the positive side, there was a wide degree of cross-party support for HS2. Environmental organisations such as Friends of the Earth were to a large extent behind the scheme. Opponents were to a great extent concentrated in the area through which the new line would pass. The number of such opponents would, he felt, be substantially reduced once details of the route of the line, and the actual disruption it would cause, became clearer. To this end, it was important to get issues of principle right at the 2nd Reading stage.

22. In discussing the presentational issue, the Board acknowledged an intrinsic imbalance in the debate, in that Department could not employ the same degree of rhetoric in promoting HS2 as its opponents were using in opposing it. If HS2 supporters got together, this could transform the argument from a Government v opponents' one into a supporters v opponents' argument. In the meantime there was a need for a rebuttal mechanism to deal with points of factual accuracy.

23. The Board agreed that, whilst the scheme had been deemed overall to be “carbon neutral”, it was by far the most environmentally-friendly means of
improving links between London and Birmingham and in supporting economic activity north of London. Not to build the line, the Secretary of State argued, would have a substantial economic cost in choking demand.

24. The Benefit-Cost ratio of the line had been shown to be substantially stronger once the line was extended to Manchester and Leeds. The Secretary of State felt that the line would achieve far more than previous efforts by Governments of both main parties in tackling the north-south divide.

25. The challenge of pushing the Hybrid Bill through Parliament was briefly discussed. Having it considered by more than one Parliamentary Committee in parallel should shorten the timeline. The paper authors were in contact with Parliamentary Counsel with a view to streamlining the process. A joint Commons and Lords Committee was one option that was being explored.

26. The paper authors thanked the Board for its input, which would assist them substantially in taking the programme forward. They would be meeting the Secretary of State in the new year to discuss a consultation strategy.

E Spending Review Delivery Sub-Committee - report DfTB(10)85 back from inaugural meeting

27. The formation of the Spending Review Delivery Sub-Committee had been approved by the previous Board meeting and Clare Moriarty reported back from its inaugural meeting, which had been held on 6 December.

28. The inaugural meeting of the sub-committee had approved Terms of Reference and had added the activities of the Rail, Air and Marine Accident Investigation Branches, as well as modifications to the operation of the Concessionary Fares Scheme, to the list of activities it would monitor.

29. Membership of the SRDC would be at DG level, with a standing invitation to DGs to bring along Directors to ensure informed discussion on individual items. The SRDC would receive highlight reports that were in a common format with the rest of the Business Plan progress-reporting structure. Non executive board members had an open invitation to meetings, and would be sent meeting agendas along with any individual papers they requested.

30. The Board stressed the importance of the new sub-committee working in an integrated fashion with the Board Investment and Commercial Sub-Committee.

Item 4: Bribery Act 2010 DfTB(10)86

31. Due to the tight agenda and the change of location of this meeting, it had been decided to defer this agenda item to the next DfT Board Meeting.

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Introduction

32. Stephen Fidler introduced this paper, which updated the Board on progress with the Shared Services Futures project and recommended a preferred option to be taken forward to a soft market test and, subject to appropriate completion of an Outline Business Case, procurement.

33. The Shared Services Project Board, which included representation from the Efficiency and Reform Group, had considered five options for the future of DfT’s Shared Services Centre. Following an initial assessment, the results of which had been agreed at a previous DfT Board meeting, the six options had been narrowed down to i) SSC remaining within the DfT family but with increased flexibility to attract new business; ii) a formal joint venture between DfT and a private sector provider and iii) divestment to the private sector.

34. At its meeting on 25 November, the Shared Services Project Board had examined the strategic, economic, commercial and financial case for the project and had considered each of the three remaining options against the objectives of a) maintaining service quality; b) reducing demands on DfT; c) achieving cost efficiency; d) offering acceptable risk and e) being consistent with wider objectives. The divestment option had produced the most favourable overall rating.

35. At this project board meeting, the Efficiency and Reform Group had confirmed that it was content that DfT could progress a divestment option based on a contractual structure for services.

36. The project board had agreed that bidders for DfT’s Shared Services Centre would be given the opportunity to develop innovative bids with the potential of DfT retaining an interest in future profits gained by the new owner. For this reason, a ‘soft market test’ was proposed prior to the issue of an Official Journal of the EU notice.

37. The project board had also looked at the possibility of another Government department securing shared services via the project. The Board was being asked to consider whether potential delays to the project of up to 10 weeks would be appropriate to permit this.

Discussion

38. The Board agreed to the main recommendation of the paper – that the preferred option for the project should be the divestment of the SSC to a private sector provider with an associated buy back of services for up to ten years. Stephen Fidler confirmed that Corporate Finance Directorate would be working with the project team on this.

39. The Board discussed the pros and cons of adjusting the process to bring another Department on board through a joint procurement, rather than through

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other procurement routes. In addition to the potential impact on timing, a joint approach by two Departments was regarded as adding significantly to the overall risk of the project unless the number of guaranteed additional users would add materially to the attractiveness of the proposal to the market.

40. The Board agreed that DfT should work with other Departments and ERG to develop a contractual approach which allowed others in Government to secure Shared Services from the future DfT provider, but avoided the constraints of a joint procurement.

41. The Board discussed the need to make its decisions known to staff in Swansea promptly. It was keen for the announcement to highlight the significant opportunities of the divestment option, such as the greater potential for a private sector operator to increase the number of users, and hence to increase employment at the Centre.

42. The Secretary of State highlighted the importance of any announcement being cleared with the Wales Office

**Action:** Clare Moriarty

43. The Board noted that it would set the context for the announcement more helpfully if the Efficiency and Reform Group were prepared to make public what was understood to be their position on back office functions. This was that central Government would be served by a small number of shared services providers of which the SSC would be one.

44. The Board requested that, following the ‘soft’ market testing, it be asked to approve the nature of the proposal to be put to the market in the procurement phase.

45. The Board acknowledged the good work, led by Clare Moriarty and Chris O’Connor, which had reduced substantially the cost per user of the SSC. It agreed that the SSC was well on the way to achieving as much as was realistically possible with a SSC having only 15,000 users. The next logical step was to divest the SSC to a private sector operator with the ability to grow its business.

**Conclusions**

46. The DfT Board:

i) agreed that divestment of the Shared Service Centre to a private sector provider, with an associated buy back of services for a period of up to ten years, should be taken forward as the preferred option;

ii) agreed that officials should continue to work closely with other Departments and the Efficiency and Reform Group but that the current project should proceed on the basis of procuring future services for DfT;

iii) agreed the project should assume that VOSA, MCA and HA finance all migrate to the new service subject to a value for money case;

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iv) noted the recommendation of the recent OGC Gateway 1 Review that “on approval of the business case, the Board should ensure that adequate internal resource is made available and that the approval process for the use of external consultants is fast-tracked”; and

v) asked the Shared Services Futures Project team to return to the DfT Board after the soft market test to seek agreement to the nature of the proposal to be put to the market in the procurement phase.

Item 6: Crossrail Tunnelling Contracts

47. This paper sought the DfT Board’s approval for Crossrail Ltd (CRL) – the joint DfT/TfL delivery vehicle for Crossrail – to award four major tunnelling contracts as part of the Crossrail project. This had been subject to detailed scrutiny on 30 November by the Board Investment and Commercial Sub-Committee.

48. The paper explained, and the Crossrail team had briefed those who had not been present at the BICC meeting, how this decision was unusually being taken prior to the final Sponsors’ Review Point (RP4) approvals in relation to final cost, scope and programme. RP4 had been delayed to March 2011 as a result of the Spending Review and scrutiny of Crossrail by the Major Projects Group.

49. On the other hand, the Spending Review and MPG scrutiny had reviewed and reworked the project baseline – scope, costs and schedule. This had to a large extent de-risked the prospect of Crossrail being halted by its sponsors at the RP4 stage.

50. Board members had also learned that the awarding of these contracts was on the critical path for the project and that any delay would create a delay to the introduction of Crossrail services.

51. The potential cost of awarding the contracts and then cancelling Crossrail in February had been estimated at £7m; were it to be cancelled at the end of June, this cost would be around £40m. On the other hand, a delay to the award of the contracts had been costed at £35-50m per month, excluding the loss of fares from Crossrail services resulting from the delay.

52. The DfT Board was satisfied that awarding the contract would pass the tests of criticality, affordability impacts, phasing and exit costs and opportunity costs/risks. It therefore confirmed the recommendation of the Board Investment and Commercial Sub-Committee to the Secretary of State that DfT’s approval be given to Crossrail Ltd to award the four main tunnelling contracts for the Crossrail project.

Item 7: Organisational Change

53. Noel Shanahan advised the Board of milestones from the Organisational Change Programme that had been completed since the last DfT Board meeting:

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i) The top of the organisation had been redesigned to produce a reduction from 135 to 102 divisional managers (SCSPB1s);
ii) Job Descriptions had been completed for each new divisional manager post and had been subjected to job evaluation;
iii) All divisional managers had gone through the selection process, with the results having been delivered the previous week;
iv) Areas had been identified where the process could be improved for PB1-7 (non senior civil service) selection;
v) A redeployment/career advice centre had been opened to cater for those not selected into the new organisation;
vi) Design had started on PB1-7 posts for the new organisation, with detailed descriptions of posts being due from divisions on 17 December.

54. Moving forward, the PB1-7 selection process would be launched the following week. Training would be provided for staff, on completing their self-assessments against competencies, and for assessors.

55. Noel confirmed that the programme was on track for completion on schedule by the end of April 2011.

56. The Secretary of State enquired whether surplus staff who found alternative jobs via the redeployment centre would still receive severance payments from DfT. Noel responded that those – likely to be few – who secured posts within the civil service would receive no severance payment. The situation was less clear-cut for those who found posts in the private sector.

**Item 8: Any Other Business**

57. The Board was informed of the impending early retirement, at the end of January, of the divisional manager with responsibility for civil contingencies. It said that this risk should be managed by the early appointment of a replacement, if necessary on an interim basis, with a sufficient handover period.

58. The Board expressed its thanks to Robert Devereux and Mike Mitchell, who were both leaving DfT before the end of December, for their substantial contributions to the Board and to DfT.

Board Secretariat
15 December 2010