Item 1: Minutes and actions from previous Board meeting

1. The minutes of the previous meeting were agreed, and the actions noted.

Item 2: Chairman’s Opening Remarks and Update to NEBM

2. The Secretary of State updated the non executive board members on events during the five weeks since the June Board meeting. These included the submission of DfT’s initial Spending Review bid, which had been one of the best in terms of DfT having addressed the required scenarios with supporting information and VfM detail.

3. All Departments had been asked to look at the scope for achieving savings through reform as well as greater efficiency. This would be an area for further work over the summer.

4. In response to a question from a non executive board member, the Secretary of State said that the Government envisaged a network of Local Economic Partnerships, with a bottom-up structure, deciding on local priorities. These LEPs could potentially work together on issues that required a broader strategic view.
He added that a system needed to be devised that would allow priorities to be set locally whilst taxpayer VfM was assured nationally.

5. The Secretary of State asked whether there were any new reputational risks to DfT of which non executive board members should be made aware.

   i) Mike Mitchell said that there was a risk that, if the decision on Virgin Trains’ requested two-year franchise extension was unfavourable to Virgin, they would campaign against the decision;
   
   ii) Mike Mitchell also reported on the risk of C2C employees taking industrial action in the event of DfT requiring C2C, during the last 12 months of their franchise, to limit pay increases to the Average Earnings Index.
   
   iii) Clare Moriarty reported on legal action being taken against DfT by trades unions on equal pay issues.

6. The Board discussed the potential impacts and possible mitigation measures for these risks.

Item 3: Performance Review

DfTB(10)60

7. Valerie Vaughan-Dick introduced the paper, highlighting an overall forecast overspend for 2010-11 of £226m, largely comprising the impact of the rail recession. This was within the figure of £250m that HMT had agreed in March could be drawn down as End Year Flexibility later in 2010-11.

8. There was still a risk of the proceeds of the HS1 sale not having been received by the end of 2010-11. In this case, DfT would need to seek cover from HM Treasury for the potential loss of the £281m income.

9. A risk was highlighted of DfT not realising the full £36m savings expected from contract renegotiations. Important elements of this process were outside the Department’s control. The Cabinet Office Efficiency and Reform Group was dealing directly with the Top 19 Government suppliers on behalf of all Government Departments and the Office for Government Commerce had instructed DfT not to commence renegotiations in the meantime with suppliers outside the Top 19.

10. Savings from discretionary spending had, however, exceeded the expected level, allowing the Department to allocate funding for a voluntary severance scheme. Spending in the Highways Agency was also expected to be lower than planned due to deferral of some projects.

11. Mike Mitchell informed the Board that Chiltern Railway’s Evergreen Phase 3 was proceeding and that construction had already started.

12. The Board’s attention was drawn to a £196 million cash flow excess over forecast resulting largely from a £100 million payment to local authorities in April that was not in the cash forecast. Financial penalties - in effect interest charges - were imposed by HMT where cash requirements differed from forecasts by more than

The names of non-SCS staff have been redacted in accordance with DfT’s publication policy.
5%. This highlighted the need to remind people of the cash forecasting mechanism.

**Action:** All DGs to remind their staff

13. All business units had met the 5-day prompt payment target except the Highways Agency and VOSA, the failure of these Agencies to do so being attributed to staff shortages. The Secretary of State highlighted an opportunity having been missed by the previous administration in not seeking a discount from suppliers in return for Government Departments meeting a 5-day payment target.

14. Valerie Vaughan-Dick reported that requests for external recruitments to her and the HR Director, as a consequence of the Government-wide recruitment freeze, had reduced to around five per week. Approval had been given to take on 28 consultants between April and June, the majority of these being for the HS2 project. Valerie Vaughan-Dick promised to supply the Board with a comparison of spend on consultants and contractors by DfT so far in 2010-11, by DG Group and Executive Agency, compared with the equivalent period during 2009-10.

**Action:** Valerie Vaughan-Dick

**Item 4: Structural Reform Plan and Efficiency and Reform**

**Agenda**

15. Richard Bruce introduced the paper, which updated the Board on developing DfT’s Structural Reform Plan and progress against it and the wider Efficiency and Reform agenda. He advised the Board that DfT’s SRP would not be published until late October, due to so much of it being contingent on the result of the Spending Review. He invited the Board’s views on how to track progress against the Plan going forward and what information it wished to see each month.

16. The Board learned that DfT would not be making any announcements about the outcome of the public bodies review until after collective agreement had been reached across Government. The Secretary of State noted that it would be important to set eventual announcements in context as there had been many changes in society since public bodies were first established.

**Action:** Richard Bruce to commission a narrative in time for the announcement

17. The Board felt that the SRP was sufficiently concise that it could be used as the basis for monthly reporting on progress. It would be important to establish detailed milestones for each project in order to allow effective progress chasing. The Secretary of State asked for a timeline for sub-tasks to enable Board members to ascertain whether a task was indeed “on track” as reported. It was agreed that all RAG ratings reported to the Board should be decided by Richard Bruce after challenging project managers/senior responsible owners where necessary.

18. The Board acknowledged that some tasks would have “red” ratings due to external factors that affected delivery confidence. It agreed on the need for an indication as to whether RAG ratings were the same as the previous month or
whether they had got better or worse. A meaningful, albeit brief, comment would be required where there had been a change or where a milestone was imminent.

19. The Secretary of State said that milestones with a political aspect, such as the bringing forward of legislation for the economic regulation of airports, should be assigned to him. Robert Devereux felt, however, that each milestone should be owned by an official who would be responsible for alerting the relevant Minister where necessary.

20. The Board discussed how frequently it wished to focus on individual themes within the SRP and who should choose the theme to be discussed at each Board meeting. It was agreed that each of the five themes should be discussed in turn with the relevant project manager(s) being invited to make a presentation to the Board on progress.

21. The Board asked Richard Bruce to modify the SRP report in line with its comments as recorded in Paragraphs 17-19 above. It requested that more detailed comments be provided for “Red” ratings and that presentations to the Board be made by the project manager(s) of each theme in turn.

Action: Richard Bruce

Item 5: Top Down Session on Risk

22. The DfT Risk Manager introduced the paper, which followed an exercise in which she had asked all Board members to send her their Top 5 risks in order of priority. She had analysed the responses and grouped them into themes. She had also compared the themes to those identified from the “bottom-up” risks recorded and escalated by individual units.

23. The main difference between the “Top Down” and “Bottom Up” risk themes was that, whilst the “bottom up” risks focused more on the threat of litigation and control risks, the “top down” risks identified by Board members had picked up on the new Government’s agenda, such as the rail review.

24. The Board agreed that it would make sense to have a common list of themes for the “top down” and “bottom up” risks. It agreed that rail reform comprised substantial enough risks to continue to warrant a theme of its own, separate from the wider risk of Departmental objectives not being delivered. It agreed also that “Administrative failure that turns into a major reputational issue” be widened by rewording to “Ongoing reputation loss as a result of administrative failures and/or other events that have already happened”.

25. The Board agreed to the “Weakness in internal controls” and “Loss of Litigation” risk themes from the “bottom up” list being added to the “top down” list to complete the integration of the previously separate lists. Consideration should be given to whether “Weakness in internal controls” should be merged with “Organisational changes affects the department’s capacity and capability to perform”

Action: DfT Risk Manager

The names of non-SCS staff have been redacted in accordance with DfT’s publication policy.
26. The Secretary of State said that it was entirely legitimate and correct for DfT to judge which of the current Government’s transport priorities lacked political consensus and would therefore be at risk from a change of Government. The Board agreed to incorporate this into the integrated list.

27. The Risk Manager agreed to implement the Board’s decisions and to merge the lists of “top down” and “bottom up” risk themes into one list.

**Action: DfT Risk Manager**

28. The Risk Manager asked the Board which themes it would wish to examine at its remaining three 2010 meetings. It agreed that the September meeting should focus on the 2012 Olympics and that the October meeting should focus on disruption to transport networks. The November meeting would focus on Departmental finances, the implications of the Spending Review announcement having been worked through by then.

**Action: DfT Risk Manager and Secretariat to alert risk theme owners**

**Item 6: Organisational Change**

29. Noel Shanahan talked the Board through an outline plan for delivering organisational change throughout the remainder of the 2010/11 financial year. This covered consulting on and implementing the shape of the new organisation and the process for selecting people to fill the new roles.

30. An informal meeting of DGs and non-executive board members would take place on 2 September and a half-day meeting of directors would take place five days later. Commencement of the Organisational Change Programme would not begin in earnest until late October to allow both for completion of the Spending Review would be known, and the passage of legislation on the Civil Service Compensation Scheme.

31. In the meantime funding had been found from the existing year’s budget, and the Secretary of State’s approval obtained for, a limited voluntary severance scheme. Applications would be invited by mid-September and decisions made by mid-October, before changes to the Civil Service Compensation Scheme took effect. Individual applications could only be accepted if they met taxpayer VfM criteria that the Permanent Secretary could justify as Accounting Officer.

32. The Board learned that an OGC Gateway Review would take place shortly before the programme commencing in earnest. Issues to be resolved beforehand included the treatment of specialist staff, support to DGs and Estates issues following the decision to surrender the lease on GMH East in 2012. The 2011/12 business planning process would require careful handling and an analysis should be undertaken of risks to the programme outside DfT’s control.

**Action: Noel Shanahan**

33. The Secretary of State noted that the autumn would be an extremely challenging period for DfT, with Spending Review decisions being communicated to external bodies at the same time as the Organisational Change programme was getting into full swing.

The names of non-SCS staff have been redacted in accordance with DfT’s publication policy.
34. The importance was emphasised of the Organisational Change programme keeping to its timeframe as communicated to staff, thus minimising the period of uncertainty for everyone.

**Any Other Business**

35. Robert Devereux thanked Andy Friend, who was stepping down as a non-executive board member, for his service to the DfT Board and for the skill and expertise he had contributed to it. Andy Friend in turn paid tribute to the significant improvement he had witnessed to the Board’s effectiveness during the two years in which he had been serving on it.

Board Secretariat
2 August 2010