

TRANSPORT FOR LONDON

BOARD

**SUBJECT: PROJECT HORIZON UPDATE AND IMPLICATIONS FOR INTRA GROUP COMPANY TRANSFERS**

**DATE: 29 JUNE 2011**

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**1 PURPOSE AND DECISION REQUIRED**

1.1 The purpose of the paper is to:

- (a) update on the progress of 'Project Horizon', designed to take further cost out of TfL non-operational areas in response to the savings required as part of the TfL Business Plan approved by the Board in March 2011;
- (b) report on implications of the Horizon process where activities are carried out in the different legal entities within the TfL corporate structure;
- (c) seek approval of the Board, for the consequential proposed transfer of certain non-operational functions (and as a result employees) to TfL subject to consultation with the Trade Unions; and
- (d) notify the Board of a proposal to commission an external review of TfL's savings plans.

**2 BACKGROUND**

2.1 As part of the TfL Business Plan agreed in March this year, covering the years of the Spending Review to 2014/15, TfL's savings programme was expanded to more than £7bn over the period to 2017/18, an increase of more than £2bn from the programme adopted in the previous version of the business plan from 2009. This programme comprises savings from a number of initiatives, including:

- (a) the Operational Cost Review (OCR) in 2007, which reviewed all non-operational expenditure and established some 60 cost reduction initiatives including the integration of Metronet and London Underground (LU) back office services; reductions across all the major back office cost areas; re-tendering of major delivery contracts such as the Oyster ticketing system and the Congestion Charge Contract and the consolidation of all walking, cycling and smarter travel initiatives within Surface Transport leading to the establishment of the Better Routes and Places Directorate;
- (b) the Continuous Savings Exercises (CSE) in 2008 and 2009, which aimed to reduce operating expenditure by 2.5 per cent each year; and

- (c) Project Horizon, which is the primary mechanism for delivering further savings required in the March 2011 business plan, following the reductions to anticipated TfL grant in the Spending Review.
- 2.2 The OCR and CSE initiatives have, in the main, been focused on reducing costs within existing organisational delivery units, and they have been delivered separately by managers responsible for those areas. None of these initiatives challenged the basic underlying structure, processes or behaviours of the organisation. It was clear that a broader review was required in order to deliver further significant savings, in addition to what was already planned.
- 2.3 A detailed briefing on the approach to Project Horizon was given to Board members in April 2011. Essentially, Horizon aims to create one organisation across TfL, merging support functions currently carried out in a variety of different places across TfL, which will be managed by the TfL Chief Officers collectively. An Equality Impact Assessment will be carried out on the proposed changes and reported to the September 2011 meeting of the Board.

### **3 UPDATE ON PROJECT HORIZON PROGRESS**

- 3.1 The overall approach to Project Horizon is outlined at Appendix 1. Since the update to Board Members in April 2011, the following key activities have been undertaken:
- (a) detailed work has been underway with working groups from across TfL for each support function identifying detailed organisational change implications and high level process changes to realise the savings targets. A full list of Horizon workstreams is given in Appendix 2;
  - (b) the Director posts in the new organisation have been established, resulting in a decrease from 51 to 38 (excluding Tube Lines) in the overall number of Directors, a reduction of 25 per cent. A list of Director posts across TfL is included as Appendix 3. All Directors in-scope for Horizon changes (most of those who have a dedicated support function role) have been invited to apply for the new roles and interviews are currently being conducted by TfL Chief Officers. It is planned to conclude the process by the end of June 2011, in order for the appointed Directors to influence the subsequent design of their teams. Care will be taken over the introduction of the new Directors structure in order to ensure continuity to delivery;
  - (c) the establishment of one HR organisation, bringing together teams from five areas of TfL, has been planned to commence ahead of changes to the wider organisation, in order to ensure the HR teams are able to support the change processes effectively. Given the advanced timelines of the HR changes, consultation with the Trade Unions has commenced on Transfer of Undertakings (Protection of Employment) Regulations 2006 ("TUPE") implications of the 'One HR' change. This is one aspect of a wider potential series of changes from the Project Horizon process which would have TUPE implications, described in greater detail in section 4 below;

- (d) discussions have been held with a variety of suppliers to understand better the current market for outsourcing of transactional back office services in preparation for market testing later in the year; and
- (e) discussions have taken place with the Trade Unions on changes to the Organisational Change Policy, and a new Restructuring and Staff Reductions Policy has been agreed.

#### **4 IMPLICATIONS OF PROJECT HORIZON ON SUBSIDIARY ACTIVITIES**

- 4.1 The establishment of common support functions across TfL has implications where such activities are carried out in the TfL subsidiary structure. Where TfL is not already responsible for providing these non-operational corporate services, the proposal is to transfer them from the subsidiary companies to TfL. As a result, TfL would become responsible for the delivery of all non-operational corporate services, including those that are currently delivered by operating businesses. This is shown in simplified form in Appendix 4.
- 4.2 The most notable area where support functions are delivered separately from TfL is within LU, a legacy from the integration process in 2003. It is proposed that such non-operational corporate services currently provided by LU will transfer to TfL. This will include:
  - (a) LU Human Resources;
  - (b) LU Finance and Support Offices;
  - (c) LU Health, Safety, Quality and Environment;
  - (d) LU Strategy and Commercial;
  - (e) LU Legal;
  - (f) LU Customer Service Centre (in the Chief Operating Officer's directorate); and
  - (g) LU Programme Management Office and Benchmarking team (in the Capital Programmes directorate).
- 4.3 Project Horizon is currently undertaking an activity analysis to assess comparable corporate services in Surface Transport and Rail which should also be transferred. The vast majority of the work activities involved in providing these corporate services is already delivered by TfL, however a small number may be identified as the responsibility of other subsidiaries such as London Bus Services Limited or London Buses Limited. Once identified, the proposal is to transfer such Surface Transport and Rail activities to TfL in order to implement the proposed functional model.
- 4.4 TUPE will apply in any circumstances where there is a transfer of an undertaking, business or part of an undertaking or business from one body to another. Therefore, TUPE will apply to the proposed transfer of functions.
- 4.5 The practical effect of TUPE for those employees who transfer to TfL will be that they will become TfL's employees but employed on their current terms and conditions of employment.

- 4.6 In circumstances where TUPE applies, the employers must inform and consult with appropriate representatives of all of the employees who might be affected by the proposed transfer. Consultation must begin “in good time” before the transfer. Consultation with the relevant Trade Unions is due to commence on 23 June 2011.
- 4.7 The proposal will preserve and safeguard all required arrangements to allow TfL and LU to comply with health and safety legislation and guidance published by HMRI and other regulatory bodies, as well as the LU Safety Case.
- 4.8 TfL is subject to the Transport for London (Specified Activities) Order 2000, which requires that trading activities must be undertaken by limited company subsidiaries, rather than TfL itself. This will continue to be the case under the proposed arrangements.
- 4.9 Subject to Board approval, and subject to consultation with the Trade Unions, it is proposed that the transfer will occur after the Finance and Policy Committee has made a final decision on the proposed arrangements.
- 4.10 On transfer, there would be no change to line management, reporting or organisation structures. Following the transfer, it is anticipated that an assessment will be carried out in order to determine the optimum operating model and structure for each of these functions, as part of the Horizon process.

## **5 ANALYSIS OF SAVINGS DELIVERY**

- 5.1 Given the significant reliance of the TfL Business Plan upon the successful delivery of the overall £7bn savings programme, it is proposed to commission an external organisation to conduct an evaluation of the status of the programme, over the next two months. This will follow a similar methodology to the review conducted by Deloitte in 2007 of the OCR programme (the ‘fresh eyes review’), and will seek to establish the level of risk associated with the overall savings programme and its delivery progress to date. It is proposed that this work will report to the Finance and Policy Committee as part of its overall review of progress against saving targets.

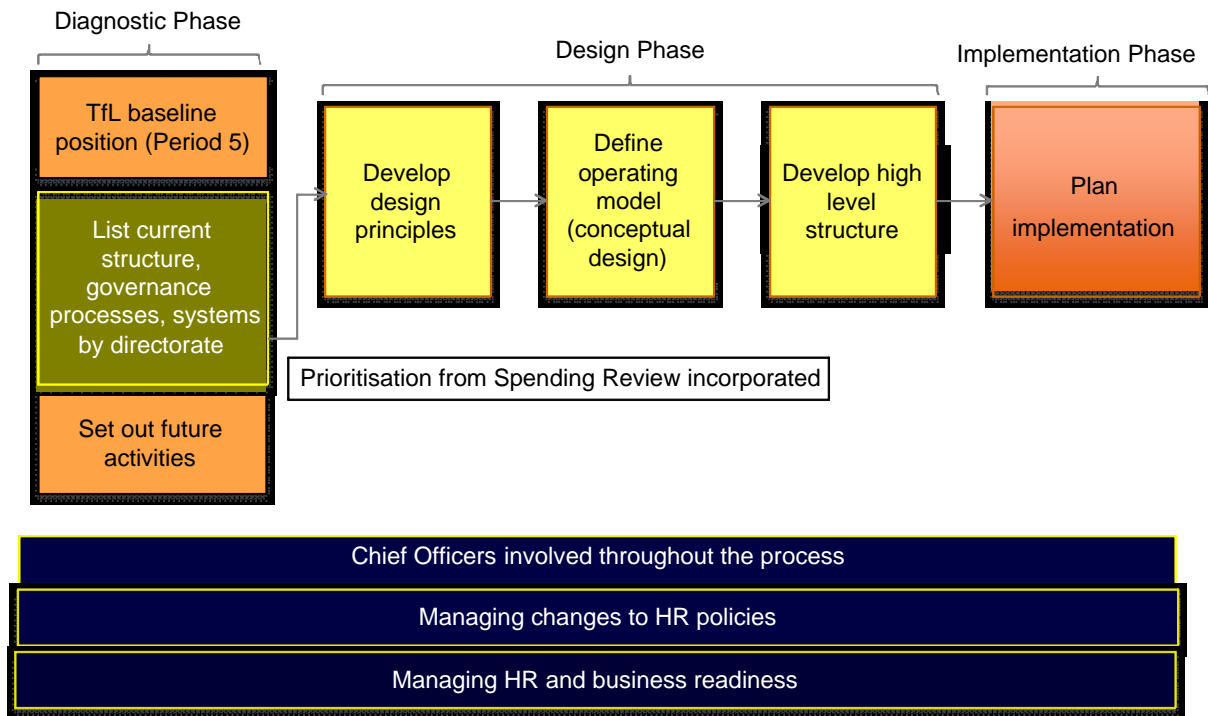
## **6 RECOMMENDATIONS**

- 6.1 The Board is asked to:
- (a) NOTE the paper;
  - (b) APPROVE the proposed transfers of functions to TfL as described in the paper, subject to consultation with the Trade Unions;
  - (c) DELEGATE to the Finance and Policy Committee authority to make the final decision on proceeding with the proposals following receipt of a further update to be presented to its meeting on 27 July 2011; and
  - (d) NOTE the proposal to commission an external organisation to conduct an external evaluation of the overall savings programme delivery.

## 7 CONTACT

7.1 Contact: Peter Hendy, Commissioner  
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APPROACH TO PROJECT HORIZON



Work is currently underway to understand the organisational structure implications for each of the workstreams arising from the Horizon principles which have been adopted.

It is currently planned to have concluded that analysis so that the 90 day consultation on any changes can begin with employees in September 2011, with the overall aim of having the new organisation in place by January 2012.

**HORIZON WORKSTREAMS**

- One HR
- Assurance
- Legal
- Finance
- Commercial, Procurement and Facilities
- Commercial Development (including Property development)
- Marketing
- Stakeholder Engagement
- Customer Proposition (includes Fares and Ticketing and Contact Centres)
- Strategy and Planning
- IM
- Market testing of transactional services
- Internal governance of the new organisation

## LIST OF MANAGING DIRECTORS AND DIRECTOR ROLES IN TfL (EXCLUDING TUBE LINES)

### MD Rail and Underground – Mike Brown

Director roles outside the scope of Horizon:

- Deputy MD Rail and Underground  
Richard is taking on accountability for pulling together and shaping LU's operational reliability plans; for co-ordinating Rail and Underground preparations for the Olympics and Paralympic Games; and will continue to be responsible for Rail and Underground business strategy and business planning, communications, and Sponsor for the Rail and Underground Plan.
- Chief Operating Officer, LU
- Chief Operating Officer, Rail
- Capital Programmes Director
- Asset Performance Director
- Employee Relations Director, LU
- Network Services Director
- Head of Access and JNP Interface
- Director Operations, Overground and Crossrail
- Director London Overground and Infrastructure

Director roles to be recruited as part of Horizon:

- *Finance Director, Rail and Underground*  
Responsible for all aspects of Rail and Underground financial management and control and business performance management, ensuring compliance with all relevant statutory and TfL reporting requirements. This role will have a dual reporting line to Mike Brown and Steve Allen, MD Finance.
- *Director Health Safety and Environment*  
Responsible for delivering a professional Health Safety and Environment (HSE) service to Rail and Underground and TfL Corporate Directorates, and HSE assurance to all of TfL. This role will report to Mike Brown but will have a functional reporting line to Howard Carter, TfL General Counsel.
- *Commercial Director, Rail and Underground*  
Responsible for leading procurement, supply chain and commercial relationship activity that is unique to Rail and Underground, operating within TfL's overall commercial framework. This role reports directly to Mike Brown, but with a functional reporting line to Steve Allen, MD Finance.

### MD Surface Transport – Leon Daniels

Director roles outside the scope of Horizon:

- Chief Operating Officer, London Streets
- Director of Performance
- Director of Better Routes and Places
- Director Congestion Charging and Traffic Enforcement
- Director of Community Safety Enforcement and Policing
- Director of Taxi and Private Hire
- Operations Director



- Director of Traffic
- Director of Roads

Director roles to be recruited as part of Horizon:

- *Finance Director, Surface*  
Responsible for all aspects of Surface Transport financial management and control and business performance management, ensuring compliance with all relevant statutory and TfL reporting requirements. This role will have a dual reporting line to Leon Daniels and also to Steve Allen, MD Finance.

### **MD Finance – Steve Allen**

Director roles outside the scope of Horizon:

- Director Crossrail Joint Sponsor Team

Director roles to be recruited as part of Horizon:

- *Chief Finance Officer*  
Responsible for ensuring the proper administration of TfL Group's financial affairs, for delivering a financial support service to the TfL corporate directorates and certain other specialist functions.
- *Commercial Director*  
Responsible for providing strategic direction and leadership of the Commercial function for TfL, setting the strategy, policies, governance and standards for all procurement, supply chain and commercial relationships across TfL as well as delivery of certain procurement transactions and the management of TfL's property and facilities requirements.
- *Commercial Development Director*  
Responsible for all income generation arising from secondary revenue raising activities such as retail, advertising and sponsorship, and also optimising the commercial potential of the TfL estate, including the development of surplus property.
- *Chief Information Officer*  
Accountable for provision of an efficient, reliable and business-focused IM support service for TfL including setting IM strategy, policy, governance and standards across the whole organisation.

### **MD Marketing and Communications – Vernon Everitt**

Director roles outside the scope of Horizon:

- Director News
- Director Marketing
- Director Public Affairs and Stakeholder Engagement

Director roles to be recruited as part of Horizon:

- *Director Customer Experience*  
Responsible for developing and leading the implementation of TfL's Customer Contact strategy, accountable for managing TfL fares and ticketing function and off-system contacts with TfL customers such as Oyster, travel information and other enquires via TfL contract centre operations.

## **MD Planning – Michèle Dix**

Director roles to be recruited as part of Horizon:

- *Director Transport Strategy and Planning*  
Responsible for developing TfL's wider strategy for transport in London reflecting the Mayor's priorities, securing support from the London Boroughs and other stakeholders to this strategy, and by working with other across the organisation, the development of key priorities.

## **General Counsel – Howard Carter**

Director roles to be recruited as part of Horizon:

- *Director Legal*  
Delivers a professional legal service to all of TfL, supporting the delivery of TfL services and investment programme projects, and ensures compliance with TfL's statutory powers and other legal requirements.
- *Director Internal Audit*  
Leads TfL's Internal Audit function and provides independent advice to the TfL Board and Audit Committee on all aspects of TfL corporate governance.

## **Human Resources**

Director roles to be recruited as part of Horizon:

- *Director Human Resources*  
Leads TfL's Human Resources function, including the development and delivery of HR policies and procedures, employee relations, equality and inclusion and pensions. This role reports to the Commissioner, Peter Hendy.
- *Director Human Resources Delivery*  
Reporting to the Director Human Resources, this role leads the HR Business Partner and People Management Advisory functions across TfL (HRS will be managed separately).

Director roles outside the scope of Horizon:

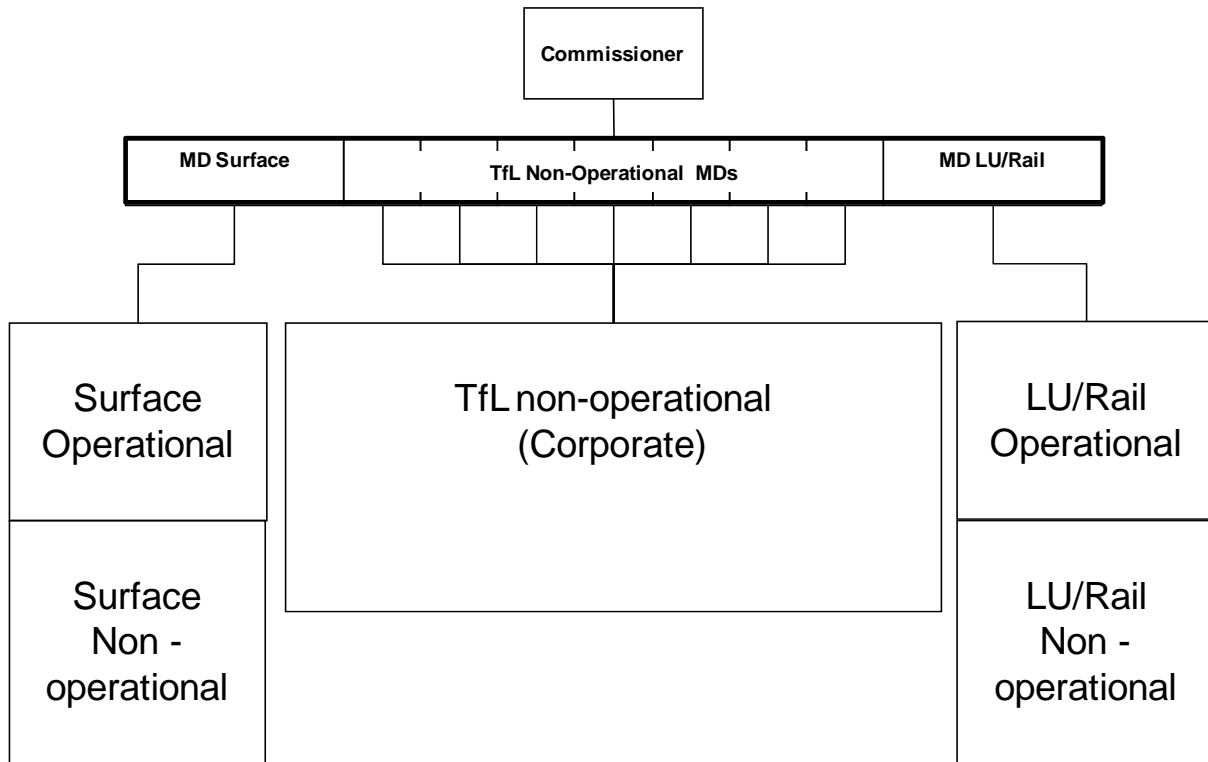
- Director Employee Relations – new appointee due to start in July 2011  
Leads TfL's approach to employee engagement and leads the relationship with the recognised TfL Trade Unions.

**DIAGRAMMATIC REPRESENTATION OF ACTIVITY CHANGES IN ORDER TO  
CREATE A PAN-TfL COMMON SUPPORT FUNCTIONS**

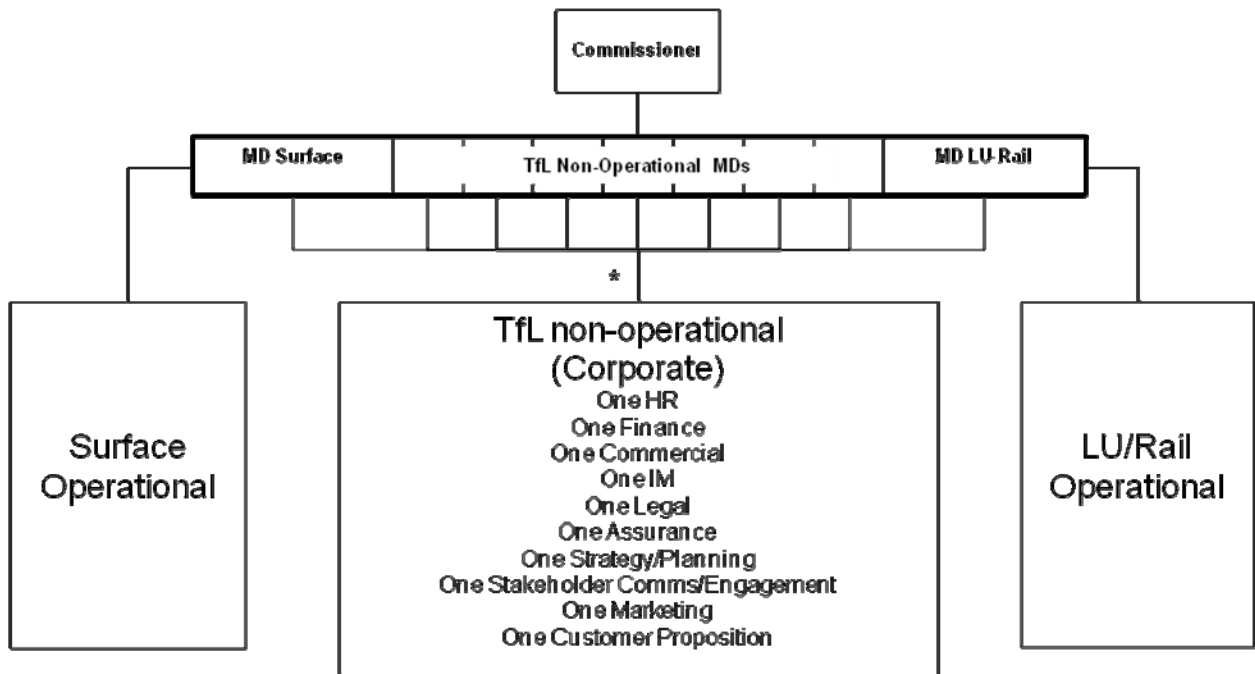
After function transfer:

- TfL would be responsible for all non-operational services to all of the TfL group.  
TfL Non-Operational (Corporate) delivers.  
Accountability: MDs as determined by Horizon Workstream outcomes
- LUL/Rail would be responsible for operational services for TfL.  
LUL/Rail delivers. Accountability: MD LUL/Rail
- Surface would be responsible for operational services for TfL.  
Surface delivers. Accountability: MD Surface
- All Non-Operational staff would be employed by TfL.  
Operational staff and assets would be held in relevant Business areas.

**Before Function Transfer (current model)**



**After Function Transfer**



\* Leadership Team collectively responsible for delivery of all non-operational functions with individual accountability in accordance with the Horizon Workstream outcomes