

Appendix A

From: [REDACTED]

Sent: 02 July 2021 12:40

To: Minister for Transport <MinisterFT@gov.scot>

Cc: [REDACTED]

Subject: Official Sensitive - Advice to Ministers - progress on mobilisation and governance - ScotRail - March 22 - Final Version

PS/Minister for Transport,

Please see attached submission – Progress on mobilisation and governance – SR March 2022, for Minister’s consideration.

Kind regards

[REDACTED]

[REDACTED]

transport.gov.scot

Transport Scotland, Buchanan House, 58 Port Dundas Road, Glasgow, G4 0HF

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Minister for Transport

SCOTTISH GOVERNMENT DELIVERY OF SCOTRAIL SERVICES FROM EXPIRY OF THE CURRENT ABELLIO SCOTRAIL FRANCHISE

Purpose

1. To provide you with an update on progress to mobilise arrangements which will see ScotRail services delivered by a wholly owned company of the Scottish Ministers when the Abellio Scotrail franchise expires, currently expected to be 31 March 2022.

Priority

2. Routine.

Background

3. In December 2019, the Scottish Cabinet decided not to rebase the Abellio Scotrail Franchise Agreement (i.e. to recalculate the subsidy levels payable by the Scottish

Ministers under the agreement). One of the main consequences of that decision is that the agreement is scheduled to come to an end early, in March 2022 rather than March 2025.

4. Over the course of 2020 and the early part of 2021, the Scottish Ministers carried out a detailed options analysis to identify and assess the options for securing the continued provision of services beyond March 2022. Broadly, these options included:

- awarding a new franchise agreement following a competitive tendering process.
- making a Direct Award of a new franchise agreement to the incumbent or a third party;
- **[REDACTED]Section 30(b)(i)**
- Deploying Operator of Last Resort.

5. Ultimately, it was considered that it would not be appropriate, having regard to current market conditions and the continued uncertainty caused by the Covid 19 outbreak and pending UK rail reform, to award a franchise agreement to any party in 2022. That being so, the Scottish Ministers were required under Section 30 of the Railways Act 1993 (“the 1993 Act”) to act to provide, or secure the provision of rail services. This is commonly known as the Operator of Last Resort (OLR) duty. It was agreed at the Scottish Cabinet in March 2021 that OLR arrangements - which would see Scotrail services provided by a wholly owned company of the Scottish Ministers - would be deployed from the end of the current Abellio ScotRail contract in March 2022. This was announced in Parliament by the then Cabinet Secretary for Transport, Infrastructure and Connectivity on the 17th March 2021.

6. Note that progressing these OLR arrangements is one of the 100 day commitments of the new Administration.

Current position

7. Transport Scotland has had OLR contingency plans covering both the Scotrail and Caledonian Sleeper franchises in place for some time. This is to ensure compliance with the duty in section 30 of the 1993 Act to secure the continued provision of rail services where a franchise agreement is terminated or comes to an end but no further franchise agreement has been entered into. Those OLR arrangements can be deployed in around 12 weeks in an emergency, e.g. where a franchise fails and comes to an end early.

8. However, the replacement of the Abellio ScotRail contract with OLR arrangements in March 22 is not an emergency scenario. As a consequence of the longer-lead in time, we are able to give detailed consideration to the future policy and technical specification of ScotRail services beyond March 22.

9. It also allows us time to consider in detail the governance arrangements which will define the relationship between the Scottish Government and the wholly owned OLR companies which will be delivering the ScotRail services, namely ScotRail Trains Ltd

(SRT), which will be responsible for operating the day to day rail services, and Scottish Rail Holdings Ltd. (SRH), who we envisage will provide oversight and management of SRT. As can be seen in the diagram in the Annex , SRH is a wholly owned company of the Scottish Ministers and SRT is a wholly owned subsidiary of SRH. SRH also has a second wholly owned subsidiary – SOLR2 – which would be activated to deliver services for Caledonian Sleeper in the event that OLR arrangements were ever required for that franchise.

Policy and service specification of Scotrail services post 2022

10. Since the announcement was made in Parliament in March, Transport Scotland officials have developed a suite of policy papers which lay out initial proposals on the specification for Scotrail passenger services beyond March 2022. This includes areas such as performance, accessibility and transport integration. The focus of the work has been:

- To fully align the specification with the strategic outcomes of the National Transport Strategy 2.
- To ensure a high performing, resilient railway with a compelling passenger offer that can adapt swiftly to changing travel patterns, including those arising as a consequence of the impact of Covid.
- Achieving greater integration and alignment of decision making, improving efficiency and reducing the net cost of the railway.

11. The current stage of this work is a series of workshops with senior rail industry professionals, including personnel from Network Rail and ScotRail. These have taken place throughout June, after which officials will take stock and finalise the policy papers. We will provide a further update on this work in due course.

Governance

12. We have been working with independent consultants to consider the appropriate governance model for the new operations and, in particular, the relationship between railway operations and Transport Scotland (acting on behalf of the Scottish Ministers).

13. [REDACTED] **Section 30(b)(i)**

14. [REDACTED]

15. [REDACTED]

16. [REDACTED]

17. [REDACTED]

Section 30(b)(i)

Timescales and transfer of functions

18. As things currently stand, we would envisage establishing SRH on a shadow basis
[REDACTED]

Section 30(b)(i) Primarily, this will enable SRH to produce a 5 year corporate plan and 1 year Business Plan covering strategy and operations for SRT in advance of full mobilisation. It will also enable SRH to work with Transport Scotland to manage an orderly transfer of people and functions from Abellio ScotRail to SRT at the end of the current franchise contract in March 22.

19. In addition to the necessary Executive appointments, it is envisaged that SRH will be populated in part, at least for an initial period, by secondments from Transport Scotland and SRT, with directors of SRH secured with a range of relevant backgrounds. The detail of this is currently being worked through, and we will provide an update in due course.

Recommendation

20. It is recommended that you:

- Note the contents of this submission;
- Signal that you are content with the direction travel on governance as summarised in paragraphs 16 and 17.

[REDACTED]

Copy List:	For Action	For Comments	For Information		
			Portfolio Interest	Constit Interest	General Awareness
Cabinet Secretary for Net Zero, Energy and Transport Lord Advocate Solicitor General			X		X X

[REDACTED]

ANNEX

[REDACTED]

[REDACTED]

Section 30(b)(i)

From: [REDACTED]

Sent: 06 September 2021 16:06

To: Minister for Transport <MinisterFT@gov.scot>

Cc: [REDACTED]

Subject: Official Sensitive - ScotRail Mobilisation update - Meeting with officials - 8th September

PS/Minister for Transport

Copy to: as above.

In advance of the Minister's meeting with TS Rail officials on Wednesday 8th September at 10.15, please see attached a detailed paper which outlines current progress with the mobilisation of ScotRail services for March 22. This paper was used as part of a recent update to the Transport Scotland senior management team. Please note that the paper contains some information which is commercially sensitive.

Officials will present slides to the Minister at the meeting on Wednesday which summarise the position.

Thanks.

[REDACTED]

Attachment:-

Official Sensitive ScotRail 22 Update for the TS Senior Management Team 13th August 2021

Introduction & Purpose

This paper summarises current progress with the development of the Final Business Case for the transition to ScotRail Trains Ltd. in April 2022 – the direct control of the ScotRail Franchise as a subsidiary of Transport Scotland.

[REDACTED]

[REDACTED]

[REDACTED]

Section 30(b)(i)

Executive Summary

Prior to the impact of Covid-19, the ScotRail franchise operated around 2,400 train services each day, delivering circa 93 million passenger journeys per year. It employs around circa 5,000 staff. Rail is one of the cleanest and safest forms of transport and plays a vital role in Scotland's transport mix.

Demand and revenue on the rail network has been impacted significantly by Covid, dropping at points to below 10% of pre-Covid levels. In more recent times, as restrictions start to ease, it has made a recovery, sitting at around 50% of the pre-Covid levels. It is hoped that this will continue as restrictions ease further, but there is uncertainty over future travel patterns. The Strategic Case within this paper therefore provides a case for the continued investment in rail as a key contributor to the achievement of short-term recovery from Covid-19 and long-term transport policy objectives.

The Scottish Ministers are the franchising authority in respect of Scotrail services. In December 2019, the Scottish Cabinet took the decision not to rebase the current Abellio ScotRail franchise. This had the effect of bringing the contract to an end three years early, in March 2022. [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

Section 30(b)(i)

Proposed Funding Structure and budget requirement

[REDACTED]

[REDACTED]

Section 33(1)(b)

1. Introduction

1.1 The purpose of this paper is to provide an update to the Transport Scotland Senior Management Team (SMT) on progress with the mobilisation of arrangements to replace the current ScotRail franchise, which we expect to end in March/April 2022.

1.2 The paper provides an update taken from the current version of the Draft Final Business Case, and in particular progress against the Strategic Case, Commercial Case, Financial Case and Management Case. Among other things, it will enable SMT to offer views on the current direction of travel on the governance and shape of the entities which will run services on behalf of the Scottish Ministers.

1.3 The rationale for intervention (the 'Strategic Case') summarises the route to the April-2022 contract handover, covering the period since Abellio was handed the ScotRail contract in 2014, up to the point where the decision was taken to bring railway operations under Scottish Government ownership.

1.4 The negotiated deal and contractual arrangements (the 'Commercial Case') describes progress towards defining the baseline operations that will be put in place from April 2022.

1.5 The current position on the financial implications (the 'Financial Case') presents information on funding and budgets over the lifetime of the new arrangements, to the extent that this is known at this stage and mindful of the fact that the contract will be managed in life in such a way as to maximise value for money and improve the affordability position over the anticipated three to five-year term.

1.6 The management plan ('the Management Case') describes the management arrangements for the future contract. It outlines the governance framework for the oversight of ScotRail operations, accountability to Ministers, the role of Transport Scotland and monitoring activity across the new arrangements as a whole.

1.7 A traditional Final Business Case (FBC) would contain two sections that are not relevant in the case of the future ScotRail contract ('revisit the procurement strategy' and 'select the preferred bidder'). These two sections will therefore be excluded from the FBC because the decision to bring the operation of ScotRail under Scottish Government ownership has already been made and will be summarised in the 'rationale for intervention' section of this paper.

Development of the business case and alignment with business case requirements

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

Section 30(b)(i)

2. The Strategic Case

[REDACTED]

[REDACTED]

Section 30(b)(i)

Strategic context - The decision to bring rail operations ‘in-house’

[REDACTED]

[REDACTED]

[REDACTED]

Section 30(b)(i)

The value of rail to the Scottish economy

2.6 Prior to the impact of Covid-19, the ScotRail franchise operated around 2,400 train services each day, delivering circa 93 million passenger journeys per year. It remains the single biggest contract let by the Scottish Government.

2.7 The rail industry in Scotland is hugely important to the wider economy. It contributes around £700m in Gross Value Added (GVA) economic output per year and employs around 13,000 people (around 9,000 directly – of which around half are employed by ScotRail - and 4,000 on the wider supply chain). The rail industry is estimated to provide almost £300m in annual tax contributions.

2.8 Despite the current reduced levels of demand on the rail network, it is a hugely important part of the transport system, with a significant role to play in the achievement of Scottish Government objectives. Rail is one of the cleanest forms of transport in terms of levels of carbon emissions, contributing just 1.2% of total public transport-based carbon. It is also one of the safest forms of transport, having a substantially lower rate of fatalities & serious injuries compared to all other modes (except air travel). It remains a key mode of transport for those without access to a car, particularly on longer journeys.

2.9 The next 14 years, to 2035, are pivotal to Transport Scotland in delivering against the National Transport Strategy 2, with an action plan published in July 2020 which sets out plans for decarbonisation of the passenger network by 2035. With further development on electrification and the Zero Emission Train project, the Scottish rail network will undergo significant changes designed to meet the ‘Take Climate Action’ target. The ScotRail contract beyond March 22 is therefore being developed to help with Covid recovery in the short term, but in the knowledge that rail has a substantial role to play in delivering longer term objectives for the people of Scotland.

Ongoing impact of the Covid-19 pandemic

2.10 The Covid-19 pandemic continues to have a significant impact on the travel habits of people across the world. The rail industry has been hit particularly hard, with demand and revenue dropping to below 10% at points. It has in recent time made some recovery, sitting at around 50% of the pre-Covid levels. There is also some initial evidence of changing travel patterns, with higher weekend demand. Developing a new contract for future rail operations against this background is therefore challenging.

2.11 In March 2020, when rail franchises in Scotland (and England) were put onto Emergency Measures Agreements (EMAs), marked the end of franchising as it had been previously understood. The EMAs transferred all of the risk (cost and revenue) directly to the Scottish Government. This watershed moment provided an opportunity to re-consider the best contractual framework to deliver

benefits to the passenger and taxpayer. Albeit, that the current legislation around the provision of rail services remains in place.

2.12 However, although there may be an opportunity presently to do something markedly different, the unpredictability of the impact of Covid-19 on travel patterns would indicate a slightly more cautious approach at this time. That is not to say that the new ScotRail contract should be the same as the one which ends in March 2022. There are lessons learned from the delivery of the Abellio ScotRail contract and the new and emerging travel patterns which Transport Scotland will need to consider, as well as the changes discussed in the recently published Williams-Shapps Plan for Rail, which are likely to have an impact on the structure of rail in Scotland. These factors may all be considered as the post-March 2022 contract and delivery arrangements mature, and as plans for the future long term structure of rail services in Scotland are developed.

Issues and opportunities the new contract will seek to address

[REDACTED]

[REDACTED]

Section 30(b)(i)

Investment Objectives

2.15 Investment Objectives have been split into three categories:

Contract Objective (CO): this is a single statement, which underpins the development of the new contract and will drive behaviours through the subsequent in-life management of the contract

Transport Planning Objectives (TPOs): three objectives clearly defined to address the problems and to give the best chance possible of meeting the overriding Investment Objective.

Contract Specification Principles (CSPs): the expected attributes, characteristics and behaviours required of the contract and of the Operator, to drive performance toward the achievement of CFO and TPOs.

2.16 The objectives are described in more detail below.

Contract Objective (CO)

2.17 The overriding objective for the contract is 'to grow the business in a manner aligned to National Objectives within a sustainable structure'. The components of this CFO have the following intent:

- [REDACTED]
Section 30(b)(i)

Transport Planning Objectives (TPOs)

2.18 Table 1 presents the TPOs for the future contract, which are targeted at delivering against the overall CFO. The TPOs are deliberately high-level, where they are able to set the strategic direction for the development of the contract but where these will be supported in subsequent iterations of this business case by more detailed, ‘SMART-er’, sub-objectives that lend themselves to ongoing monitoring & evaluation.

Table 1: Transport Planning Objectives (TPOs) for the future contract

Transport Planning Objective (TPO)	Sub-objectives
TPO1: Recovery from the impacts of Covid-19	Under development
TPO2: An affordable railway offering value for money for the taxpayer	Under development
TPO3: Fit for the future – a stable platform for long-term, sustainable & inclusive growth	Under development

Contract Specification Principles (CSPs)

2.19 In addition to the above objectives, there are several principles and ways of working that will need to be embedded within the contract and the behaviours of the Operator. These differ to the CO and TPOs described above, in that they are attributes that are deemed essential to the delivery of the desired outcomes (i.e. they operate more as inputs, relative to the outputs that are the TPOs and CO).

Table 2: Contract Specification Principles to underpin the contract and ways of working

Contract Principles (CSPs)	Specification	Description – why it matters
Stability		Starting with the roll-forward of a Dec-20 timetable, the intention is to do everything possible to provide a stable footing to allow for rapid but sustainable recovery from Covid-19; and for longer-term growth.
Collaboration		In addition to ongoing engagement as part of the ‘Team Scotland’ approach to the management of Scotland’s Railway, there are behaviours that will need to be embedded in terms of the working relationship between the Operator, the Authority and Network Rail and for an enhanced approach to the Alliance arrangements
Agility / Flexibility		The ability to efficiently and effectively deal with change in the market conditions for rail and potential changes to industry structure. This will be particularly important given current and ensuing challenges. The contract will need to have sufficient flexibility to adapt to rapidly changing circumstances & operating environment as the country adapts through post-Covid recovery.

Delivering value for money for the taxpayer

2.20 A traditional business case would present alternative options – in terms of the route to procurement and the discrete areas of service specification – to support decision-making in terms of value for money to the taxpayer. In this case, with the route to procurement already decided, and with Transport Scotland adopting a flexible, high level specification approach for continuation of rail operations, there are no alternative options on which to undertake a VfM assessment. Nevertheless, the Scottish Government still has a duty to ensure that decisions made on the future operation of ScotRail continue to offer the most long term value for money approach for passengers and taxpayer.

Policy Compendium

2.21 The Policy Compendium is a collection of policies to guide and empower Scottish Rail Holdings Ltd and ScotRail Trains Ltd in the delivery of rail services on behalf of the Scottish Ministers. The Compendium will assist ScotRail in the production, execution and reporting of its corporate and business plans and the framing of its relationship with Transport Scotland and other stakeholders. The policies specified in the Compendium sit within a broader policy context shaped by government. A copy of the Policy Compendium is attached at Annex E.

3. The Commercial Case

3.1 The Commercial Case describes the procurement strategy, including covering the procurement routes that have been considered, and then chosen, with the objective of supporting a viable procurement and a contract which provides benefits to the public sector.

Consideration of alternative procurement routes

3.2 As previously described, when the Scottish Cabinet decision was taken to end the ScotRail contract early there were several procurement routes available. This section considers those routes in more detail and reflects upon the analysis undertaken to assess their suitability to meet the unique circumstances in which the new arrangements are to be put in place for the ScotRail contract beyond March 2022.

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED] **Section 30(b)(i)**

3.12 The PIN published in March 2021 indicated that Ministers would rely upon either Article 5(2) or Article 5(6) or Regulation 1370/2007 to make the direct award that would entrust the provision of ScotRail services to a company owned and controlled by Scottish Ministers. [REDACTED]
Section 30(b)(i)

4. Financial Case

Introduction

4.1 This Financial Case is specifically focussed on the governance arrangements in view. It is to give an indication of the financial viability of the preferred approach and demonstrates that it is both affordable and deliverable.

4.2 The Financial Case presents the current preferred option for the governance of the provision of ScotRail services. This is covered in more detail in the Management Case sections of this paper, but in summary, the preferred approach would see the establishment of Scottish Rail Holding (SRH) to oversee the delivery of the rail passenger services conducted by SRT.

4.3 Sensitivity analysis has also been undertaken to account for potential variation in future costs. For the avoidance of doubt, this current version of the Financial Case examines the cost impact of creating SRH and does not include any financial assessment of the viability of the decision already made to move to a public sector operator.

4.4 [REDACTED] [Outwith Scope]

Financial Resources and Budgets

[REDACTED]

[REDACTED]

[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]

[REDACTED]

Section 33(1)(b)

Budgeting Arrangements & Business Planning

4.9 *Funding Structure:* It is proposed that SRH will be funded through the provision of Grant-in-Aid from TS for the delivery of its services. The scope of SRH's role and the manner in which it will be funded is detailed in the Framework Agreement and the accompanying Financial Memorandum. These are discussed in more detail in the Management Case. The provision of Grant-in-Aid ensures that SRH has sufficient resources in place to meet its obligations.

4.10 *Grant-in-Aid:* Grant-in-Aid is considered the most cost effective and attractive form of funding as it does not incur any interest charges and does not need to be repaid.

Investment Required

[REDACTED]

[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

[REDACTED]

[REDACTED]

Section 33(1)(b)

Financial risk and metrics

[REDACTED] [Outwith Scope]

Calculation of NPCs

4.18 The NPC calculation uses, as its basis, HMRC Green Book guidance. This uses a public sector discount rate adjusting for social time preference. This is defined as “the value society attaches to present, as opposed to future, consumption”. The Green Book discount rate, also known as the Social Time Preference Rate, is set at 3.5% in real terms for the first 30 years of a project and 3.0% thereafter.

Results

4.19 [REDACTED] [Outwith Scope]

[REDACTED]

[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]

[REDACTED]

Section 33(1)(b)

Subsidy Control

4.21 As of 1 January 2021, the EU state aid regime was revoked. In terms of the EU-UK Trade and Cooperation Agreement (TCA), the UK has committed to a similar regime of subsidy control which will apply in place of the historic state aid rules. A Subsidy Control Bill has been laid before the UK Parliament, but pending enactment there is some uncertainty as regards the subsidy control regime

which limits ability to establish legal compliance beyond doubt. Where subsidies are caught within the remit of TCA, subsidy control guiding principles are required to be observed to ensure that there is no detrimental effect on trade or investment between the EU and the UK. Subsidy control issues could arise if overcompensation for SRH or SRT could lead to distortive effects in the market.

4.22 Both funding bodies (ie TS) and recipients (ie SRH and SRT) need to ensure arrangements made are appropriate and do not give rise to any subsidy control issues. The UK is committed to transparency and is required to publish details of all subsidies so funding bodies need to assess subsidies caught within the TCA against these principles and maintain a record of this assessment.

4.23 [REDACTED] **Section 30(b)(i)**

5. Management Case

Introduction & Purpose

5.1 The purpose of this version of the Management Case is to demonstrate that the proposed arrangements for the future ScotRail contract are robust, as it relates to the implementation of SRH, to be mobilised from around 11 October 2021 and its function for the oversight and management of SRT, which will take control of passenger rail services from March/April 2022. Under this arrangement, the Scottish Government (through TS) act as Sponsor, SRH focuses on oversight, and SRT focuses on operational delivery of passenger rail services. It is proposed that SRH be structured in such a manner as to facilitate the delivery of the following purpose, which is included in the Framework Agreement described later in this paper:

- *Implement a Business Plan and a Strategic Plan, informed by TS and SG's desired policy outcomes, through interfacing with SRT to ensure that commitments on performance are met and deliver future improvements in the performance of rail services. It will also perform a similar role for SOLR2 should it be required.*

Governance Arrangements

5.2 [REDACTED] [Outwith Scope]

5.3 [REDACTED] [Outwith Scope]

[REDACTED]

[REDACTED]

[REDACTED] [Outwith Scope]

Overview of relationships

[REDACTED]

[REDACTED]

[REDACTED] [Outwith Scope]

Financial Memorandum

5.6 The Framework Agreement will be supplemented by the Financial Memorandum which includes provisions regarding the provision of Grant in Aid to SRH, as regards financial, accounting and related matters. This is drafted to reflect the public body classifications of SRH as an Executive Non-Departmental Public Body and SRT as a Public Corporation. It is subject to ongoing development and completion and currently includes legal formalities, introduced to increase legal robustness.

Grant Agreement

5.7 The Grant Agreement is similar in structure to a franchise agreement typically entered into between Transport Scotland and a private sector operator, but, as described in the Strategic Case, it will be expressed in simpler, more flexible terms. It sets out the basis on which SRT will be contracted to operate the ScotRail passenger rail services, and sets out the roles and responsibilities of the parties in delivering passenger rail services, including specification, reporting, performance targets, remuneration etc. It is the legal document by which SRT will commit to providing railway passenger services to seek to meet policy objectives agreed between Transport Scotland and SRH. This is a legally binding agreement, to be signed between SRH (responsible for monitoring delivery of under the Grant Agreement) and SRT (responsible for delivery of the railway passenger services). This also details how SRT will receive funding for its operations, based on the receipt of Grant in Aid. The Grant Agreement is currently undergoing ongoing development.

- 1) [REDACTED]
Section 30(b)(i)

Financial Monitoring

[REDACTED] [Outwith Scope]

Reporting Lines

5.10 This reflects the lines of communication between the entities. Beyond financial monitoring (described above), lines of communication and reporting are as demonstrated within the diagram (**Error! Reference source not found.**).

100% Shareholding

5.11 This reflects the legal ownership structure of the Group. Scottish Ministers own 100% of the share capital of SRH. In turn, SRH owns 100% of the share capital of SRT.

[REDACTED] [Outwith Scope]

[REDACTED] [Outwith Scope]

[REDACTED] [Outwith Scope]

[REDACTED]

[REDACTED]	[REDACTED]
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[REDACTED]

[REDACTED] [Outwith Scope]

[REDACTED] [Outwith Scope]

6. TS Internal Oversight

[REDACTED] **Section 30(b)(i)**

Meantime, we are of the view that there is value in establishing an internal senior level oversight group, through which we will report upon progress with the mobilisation of SRH and SRT. This is in order to provide assurance that the project is on track and that risks are being managed appropriately. It also aligns with previous advice from the TS procurement team.

6.2 A draft Terms of Reference is included for the oversight group in Annex D.

Recommendation to the SMT:

- **That you note progress with the mobilisation of arrangements for the post March 2022 ScotRail contract;**
- **That you confirm that you are content with the governance arrangements described in the management case section above; and**
- **That you confirm that you are content for the TS Oversight Group described in Section 6 above to be put in place.**

Annex A – Financial Case - forecast assumptions

[REDACTED]

[REDACTED] **Section 30(b)(i)**

Financial Forecast

[REDACTED] [Outwith Scope]

Operating Costs (Opex)

[REDACTED]

[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
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[Outwith Scope]

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[Outwith Scope]

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[Outwith Scope]

[REDACTED]

[REDACTED] [Outwith Scope]

[REDACT ED]	[REDACT ED]	[REDACT ED]	[REDACT ED]	[REDACT ED]	[REDACT ED]	[REDACT ED]
[REDACT ED]	[REDACT ED]	[REDACT ED]	[REDACT ED]	[REDACT ED]	[REDACT ED]	[REDACT ED]

[Outwith Scope]

Annex D

TS Internal Governance Draft Terms of Reference Senior Oversight Group – Rail

Purpose

1. The purpose of the Group is to provide strategic oversight and guidance on the delivery of the Rail 22 Programme:

- The immediate focus will be on the delivery of the programme to mobilise ScotRail Trains Ltd and Scottish Rail Holdings Ltd to replacing the current ScotRail Franchise from April 2022.
- Interdependencies relative to the successful delivery of the above, including the development of the Control Period 7 specification (HLOS) for infrastructure and statement of funding available (SofA) and any issues which arise relative to the UK Government White Paper on Rail Reform (Shapps - Williams).

2. The Group will only be expected to make decisions by exception and where all other avenues have been exhausted.

Board Membership

[REDACTED]

Secretariat

3. The secretariat function will be provided by the Contingency and Planning Team within Rail Futures.

Meeting Frequency

4. It is envisaged that the Group will meet monthly.

Board reporting

5. One week in advance of the meeting, the Group will receive an information pack, which will cover the following:

- Progress of the mobilisation against project timelines.
- An overview of mobilisation risk, with a particular focus on any emerging and increasing risks.
- Short briefing on any issues of concern or issues which would benefit from advice or guidance from the Board.

[REDACTED]

Section 27 (1) Future publication: 12 weeks

Annex F

Background

The possible governance options were assessed against an agreed evaluation framework, following the guidelines contained within the Scottish Public Finance Manual (SPFM). The approach assumed that steady state operational and performance outputs remained similar to the current outputs provided under the Abellio ScotRail franchise agreement.

[REDACTED]

Section 30(b)(i)

Figure - Governance Models

[REDACTED]
Section 30(b)(i)

Evaluation Guidance

[REDACTED]

[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
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[REDACTED]

[REDACTED]

[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
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[REDACTED]

[REDACTED]

[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
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[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED] **Section 30(b)(i)**

From: [REDACTED]

Sent: 16 November 2021 16:58

To: [REDACTED]

Cc: [REDACTED]

Subject: Official Sensitive - Ministerial Submission - ScotRail 22 - Update on SRH and Comms - November 2021

PO Minister for Transport,

Please see attached briefing in advance of the meeting with officials on Thursday 18th Nov in respect of providing an update on progress with mobilisation of Scottish Rail Holdings (SRH) and ScotRail Trains Ltd and discussion on provision of future updates to Parliament and the approach to public facing communication.

Kind regards

[REDACTED]

Attachment text copied below

Minister for Transport

MOBILISATION OF SCOTRAIL – APRIL 2022 – UPDATE

Purpose

1. The purpose of this note is to provide an update on progress with the mobilisation of Operator of Last Resort arrangements for ScotRail for April 22.

Priority

2. Routine

Background

3. The focus of mobilisation over last few months has primarily been on establishing Scottish Rail Holdings Ltd. (SRH), which will oversee ScotRail Trains Ltd. (SRT) in the delivery of the services.

4. Good progress has been made, which includes:

[REDACTED]

Section 30(b)(i)

- The formal appointment of the Chief Executive (Chris Gibb), due to take effect on the 15th November 21.

[REDACTED]

5. [REDACTED]

Section 30(b)(i)

Next immediate steps

6. [REDACTED]

Section 30(b)(i)

Update to Parliament and wider communications

7. [REDACTED]

Section 30(b)(i)

[REDACTED]

Section 30(b)(i) we can announce the appointment of Chris Gibb on a fixed term basis as the Chief Executive of Scottish Rail Holdings Ltd and, if an offer of employment is issued and accepted in advance of the update, [REDACTED] as Finance Director. Both bring enormous railway experience and we will be delighted to have them on board.

[REDACTED] **Section 30(b)(i)**

8. [REDACTED] **Section 30(b)(i)**

Recommendation

9. It is recommended that you:

[REDACTED] **Section 30(b)(i)**

[REDACTED]

16 November 2021

Copy List:	For Action	For Comments	For Information		
			Portfolio Interest	Constit Interest	General Awareness

--	--	--	--	--	--

Minister for Transport
[REDACTED]

From: [REDACTED]

Sent: 08 December 2021 10:06

To: Minister for Transport <MinisterFT@gov.scot>

Cc: [REDACTED]

Subject: Mobilisation of ScotRail Holdings and ScotRail Trains Ltd - Update - Draft letter to Net Zero, Energy and Transport Committee

Good afternoon PO,

Please find attached draft letter containing an update on the mobilisation of Scottish Rail Holdings and ScotRail Trains Ltd, for your consideration, prior to issue to the Net Zero, Energy and Transport Committee (NZET). This draft has been cleared by [REDACTED] and [REDACTED]

[REDACTED] **Section 30(b)(i)**

[REDACTED]

Please note that a press release in relation to the appointment of both Chris Gibb and [REDACTED] is currently with [REDACTED] and [REDACTED] for review.

Kindest regards

[REDACTED]

Transport Scotland, Buchanan House, 58 Port Dundas Road, Glasgow, G4 0HF

[REDACTED]

Attachment text copied below

Minister for Transport
Graeme Dey MSP



T: 0300 244 4000
E: scottish.ministers@gov.scot

[REDACTED]

The Scottish Parliament
Edinburgh
EH99 1SP

Dean.Lockhart.msp@parliament.scot

Our ref:

XX December 2021

Dear XXXXXX,

Update on bringing ScotRail Services within the public sector under Scottish Government control

I am writing to update the Committee on progress with the mobilisation of arrangements for the delivery of ScotRail services from 1 April 2022 after the end of the current Abellio ScotRail franchise contract.

In a Statement to Parliament on 17 March 2021 Ministers confirmed that ScotRail services would be provided by an arm's length company owned and controlled by the Scottish Ministers when the current Abellio ScotRail contract terminates, in furtherance of their duties under section 30 of the Railways Act 1993 (known as "Operator of Last Resort" (OLR)). Detailed analysis and an options appraisal, including consideration of best practice from the public and private sectors and experience of OLR deployments in England and Wales, has been undertaken to determine the governance arrangements that best suit Scottish needs and interests.

For many years, the Scottish Ministers have maintained three shelf companies – a holding company and two train operating companies – for use as potential vehicles to facilitate the deployment of OLR arrangements should these be required for either of the Scottish franchises. The Scottish Ministers are now activating two of these shelf companies, namely ScotRail Trains Ltd, which will be responsible for operating the day to day ScotRail services, and Scottish Rail Holdings Ltd, which will provide oversight and management of ScotRail Trains Ltd. Scottish Rail Holdings Ltd is a wholly owned company of the Scottish Ministers and ScotRail Trains Ltd is a wholly owned subsidiary of Scottish Rail Holdings Ltd.

This will provide for a robust and sustainable governance model compatible with current UK rail legislation, which we have no powers to change. The arrangements

strike the appropriate balance between operation and oversight, enabling delivery of Scotland's railway to be undertaken by a company employing the right mix of skills, knowledge and experience on the one hand, while ensuring there is proper overall accountability to the Scottish Ministers on the other. Both companies will be expected to form and maintain strong partnerships with Network Rail, other rail operators in other parts of the UK and of course, other parts of the Scottish rail industry; it is planned currently for the ScotRail Alliance agreement to continue between ScotRail Trains Ltd and Network Rail.

The responsibilities of Scottish Rail Holdings Ltd will increase gradually during the mobilisation of these arrangements, as part of a planned smooth transition for passengers and staff from Abellio ScotRail Ltd to ScotRail Trains Ltd on 1st April 2022. Arrangements are underway to appoint Directors for this new company and it is planned for this to include employee and passenger representation.

To assist in making this transition work, I can announce the appointment of Chris Gibb on a fixed term basis as the Chief Executive Officer of Scottish Rail Holdings Ltd. It is expected that the appointment of a Finance Director for Scottish Rail Holdings Ltd (also on a fixed term basis) may also be made shortly. Chris Gibb brings enormous railway experience both from Train Operating Companies and Network Rail, and I am delighted to have him on board.

One of the key considerations of that transition is to arrange for the formal transfer of ScotRail staff to ScotRail Trains Ltd. This process will be carried out over the coming months, and will include appropriate consultation with staff representatives and internal communication throughout with staff more generally. We want all of our staff to join us in this new venture – they are critical to its success in the short and long term, so we will be encouraging everyone to make that transfer. Full details and support will be provided to all staff in the coming months with opportunities for them to engage with the process through internal communications channels.

Clearly in the short term, our focus and priority is on making a smooth transition to the new arrangements but I see that as the start, not the finish of our journey. We want a publicly owned Scotrail to embody all the values of this government, not least in relation to fair work. The composition and approach of the business will grow over time so that it is contributing and is seen to contribute to the Scottish Government's broader economic, social and environmental ambitions.

I will of course keep Parliament updated as we progress these arrangements and we reach significant milestones.

«Signature»

From: [REDACTED]
Sent: 09 December 2021 08:13
To: Minister for Transport <MinisterFT@gov.scot>
Cc: [REDACTED]

Subject: RE: SRH appointments - PR for clearance

Hi [REDACTED]

See attached draft PR re the Scottish Rail Holdings appointments.

Grateful for Mr Dey's clearance.

Already cleared by [REDACTED] and [REDACTED]

We would like to issue today embargoed for tomorrow once we receive [REDACTED]

Thanks
[REDACTED]

Attachment text copied below

December 2021

Progress made towards mobilisation of ScotRail Trains Limited

Senior management appointed to Scottish Rail Holdings

Transport Minister Graeme Dey has today announced the appointment of a Chief Executive Officer and Finance Director to Scottish Rail Holdings.

The holding company, which is being set up to oversee the delivery of high performing services by ScotRail Trains Limited on behalf of Ministers, when the current Abellio ScotRail contract ends, is on track to get underway early next year.

Chris Gibb and David Lowrie have been appointed on a fixed term basis and work also continues to explore the process for recruiting non-executive posts within Scottish Rail Holdings.

Transport Minister Graeme Dey said:

“I'm pleased to announce that two senior management roles have been appointed to Scottish Rail Holdings, they both bring with them a wealth of knowledge in the rail industry.

“We are on track to delivering SRH in the new year which will provide ScotRail services within the public sector under Scottish Government control and facilitate the smoothest transition possible for rail passengers and staff on 1st April 2022.

“The Scottish Government is of the view that this is most robust and sustainable model available under current UK rail legislation, which we have no powers to change.

“It strikes a balance between the ability of experienced rail professionals to make operational decisions and overall accountability to the Scottish Government. We would also expect to see strong partnerships with Network Rail and other parts of the industry as a key feature of the new arrangements.

“We expect that the formal transfer of ScotRail staff to the new arrangements will commence over the coming months and full details and support will be provided to all of those affected in good time.”

ENDS

From: [REDACTED]
Sent: 10 December 2021 18:33
To: [REDACTED]
Subject: RE: Times - Progress made towards mobilisation of ScotRail Trains Limited

Copying Mr Dey for info – this one is a factual response which I'll issue within the next half hour

From: [REDACTED]
Sent: 10 December 2021 17:50
To: [REDACTED]
Subject: RE: Times - Progress made towards mobilisation of ScotRail Trains Limited

Content.

[REDACTED]

Transport Scotland

From: [REDACTED]
Sent: 10 Dec 2021 17:37
To: [REDACTED]
Subject: RE: Times - Progress made towards mobilisation of ScotRail Trains Limited

Adding [REDACTED] so they are sighted soonest as I don't expect [REDACTED]

to make any significant changes [REDACTED]
Section 30(b)(i)

From: [REDACTED]

Sent: 10 December 2021 16:55

To: [REDACTED]

Cc: [REDACTED]

Subject: Times - Progress made towards mobilisation of ScotRail Trains Limited

Hi [REDACTED]

We received the query from [REDACTED] re SRH appointments.

Suggested lines below for clearance.

[REDACTED] **Section 30(b)(i)**

Thanks

[REDACTED]

A TS spokesperson said:

“Information relating to salaries will be published on an annual basis in line with the annual financial accounts.

“Scottish Railway Holdings will oversee ScotRail Trains Ltd to ensure performance and delivery meets expectations. This newly formed rail operator company will provide ScotRail services under Scottish Government control when the current franchise expires on 31 March 2022.

“Chris Gibb will act as accountable officer and will provide oversight and strategic direction for SRH and David Lowrie will manage all aspects of the finances for SRH and SRT.”

From: [REDACTED]

Sent: 10 December 2021 10:07

To: [REDACTED]

Subject: Re: Progress made towards mobilisation of ScotRail Trains Limited

Hi [REDACTED] , are you saying how much either of them will be paid for the new roles?

It is correct neither of these guys will be in charge of the operational running of Scotrail Trains (ie that business will have its own management team)?

Thanks

[REDACTED]

On Fri, 10 Dec 2021 at 10:01 [REDACTED] wrote:

Transport Scotland News



10 December 2021, 10:00

Progress made towards mobilisation of ScotRail Trains Limited

Senior management appointed to Scottish Rail Holdings

Transport Minister Graeme Dey has today announced the appointment of a Chief Executive Officer and Finance Director to Scottish Rail Holdings.

The holding company, which is being set up to oversee the delivery of high performing services by ScotRail Trains Limited on behalf of Ministers, when the current Abellio ScotRail contract ends, is on track to get underway early next year.

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Transport Minister Graeme Dey said:

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“We are on track to delivering SRH in the new year which will provide ScotRail services within the public sector under Scottish Government control and facilitate the smoothest transition possible for rail passengers and staff on 1st April 2022.

“The Scottish Government is of the view that this is most robust and sustainable model available under current UK rail legislation, which we have no powers to change.

“It strikes a balance between the ability of experienced rail professionals to make operational decisions and overall accountability to the Scottish Government. We would also expect to see strong partnerships with Network Rail and other parts of the industry as a key feature of the new arrangements.

“We expect that the formal transfer of ScotRail staff to the new arrangements will commence over the coming months and full details and support will be provided to all of those affected in good time.”

Contact Information

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

This email has been sent to you by Transport Scotland, Buchanan House, 58 Port Dundas Road, Glasgow, G4 0HF, 0141 272 7195, media@transport.gov.scot because we believe it to be of interest and you have consented to us contacting you.

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[REDACTED]

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[REDACTED]

From: [REDACTED] **On Behalf Of** Minister for Transport

Sent: 15 December 2021 20:06

To: [REDACTED]

Cc: [REDACTED]

Subject: RE: ScotRail Mobilisation - Enquiry from Finance and Public Admin Committee - Draft Reponse for clearance

[REDACTED]

Mr Dey is content for his interests.

Thanks

[REDACTED]

All e-mails and attachments sent by a Ministerial Private Office to any other official on behalf of a Minister relating to a decision, request or comment made by a Minister, or a note of a Ministerial meeting, must be filed appropriately by the recipient. Private Offices do not keep official records of such e-mails or attachments.

Scottish Ministers, Special advisers and the Permanent Secretary are covered by the terms of the Lobbying (Scotland) Act 2016. See www.lobbying.scot

From: [REDACTED] **On Behalf Of** Cabinet Secretary for Finance and Economy

Sent: 14 December 2021 20:36

To: [REDACTED]

Cc: [REDACTED]

Subject: RE: ScotRail Mobilisation - Enquiry from Finance and Public Admin Committee - Draft Reponse for clearance

Hi [REDACTED]

Ms Forbes has noted and is content for her interests.

Thanks,

[REDACTED]

[REDACTED]

All e-mails and attachments sent by a Ministerial Private Office to any other official on behalf of a Minister relating to a decision, request or comment made by a Minister, or a note of a Ministerial meeting, must be filed appropriately by the recipient. Private Offices do not keep official records of such e-mails or attachments.

Scottish Ministers, Special advisers and the Permanent Secretary are covered by the terms of the Lobbying (Scotland) Act 2016. See www.lobbying.scot

From: [REDACTED]

Sent: 14 December 2021 17:11

To: Minister for Transport <MinisterFT@gov.scot>; Cabinet Secretary for Finance and Economy <CabSecFE@gov.scot>

Cc: [REDACTED]

Subject: ScotRail Mobilisation - Enquiry from Finance and Public Admin Committee
- Draft Reponse for clearance

Good Evening POs,

We have received a request from the clerk of the Finance & Public Admin Committee relating to ScotRail mobilisation. The committee is interested in considering the financial implications of the change of ownership but is conscious that it won't have the opportunity to scrutinise a Financial Memorandum as the change is not expected to be made via primary legislation.

The specific request is for a high-level overview of how the change will be made along with a note of financial information expected to be made available and provisional timescales.

The proposed response, which aligns with information already made available to the NZET Committee and via PRelease is below.

[REDACTED] has confirmed that she is content and asked that I send to both Mr Dey and Ms Forbes for consideration.

We would propose, once cleared, copying to NZET.

Draft response:

As you are aware in a Statement to Parliament on 17 March 2021 the Scottish Ministers confirmed that ScotRail services would be provided by an arm's length company owned and controlled by the Scottish Ministers when the current Abellio ScotRail contract terminates, in furtherance of their duties under section 30 of the Railways Act 1993 (known as "Operator of Last Resort" (OLR)). Detailed analysis and an options appraisal, including consideration of best practice from the public and private sectors and experience of OLR deployments in England and Wales, has been undertaken to determine the governance arrangements that best suit Scottish needs and interests.

For many years, the Scottish Ministers have maintained three shelf companies – a holding company and two train operating companies – for use as potential vehicles to facilitate the deployment of OLR arrangements should these be required for either of the Scottish franchises. The Scottish Ministers are now activating two of these shelf companies, namely ScotRail Trains Ltd, which will be responsible for operating the day to day ScotRail services, and Scottish Rail Holdings, which will provide oversight and management of ScotRail Trains Ltd. Scottish Rail Holdings is a wholly owned company of the Scottish Ministers and ScotRail Trains Ltd is a wholly owned subsidiary of Scottish Rail Holdings.

ScotRail staff and their terms and conditions, will transfer to the new Scottish Government owned entity, ScotRail Trains Ltd.

On 8 December 2021, the Minister for Transport wrote to the Convener of the Net Zero, Energy and Transport Committee to advise of the appointment of the Chief Executive Officer, on a fixed term basis of Scottish Rail Holdings and of the imminent appointment of a Financial Director. On 10 December, the appointment of both posts, were announced publicly.

Mr Dey has made a commitment to keep the NZET committee and Parliament updated as the arrangements for Scottish Rail Holdings and ScotRail Trains Ltd progress, and the transition reaches significant milestones. We will revert back to you in due course in relation to proposed timescales and in particular in relation to financial information which we expect to be made available as part of those updates.

Kindest regards

[REDACTED]

From: [REDACTED]

Sent: 16 December 2021 09:12

To: Minister for Transport <MinisterFT@gov.scot>

Cc: [REDACTED]

Subject: Agenda and paper for meeting with Minister - 1530 - Thursday 16 December

Hi [REDACTED]

As discussed attached HR Challenges paper and agenda for 1530

Suggested Agenda - 16 December 2021

- 1. Mobilisation Gateway Review – [REDACTED] – 15.00-15.35 - verbal update**
- 2. Pay Policy — 15:35 – 16:00 hrs - verbal update, paper in draft [REDACTED] (for this agenda item only)**
- 3. Mobilisation – [REDACTED] – 16:00- 16:30 hrs**
 - Progress Update
 - Actions from previous meeting
 - HR Challenges with SRH Mobilisation – paper attached
 - Communications Update
- 4. AOB - All**
- 5. Date of Next Meeting**

[REDACTED]

Ministerial Update Meeting
16th December 2021

Minister for Transport

Update on the HR challenges of the Scottish Rail Holdings (SRH) mobilisation

Purpose

1. To provide the Minister with an update on and summary of the HR challenges the team has encountered during the mobilisation of SRH.

Background

At the last meeting held with the Minister, on the 9th December 2021, officials were asked to provide further detail and examples of the HR challenges. [REDACTED]

2. **Section 30(b)(i)**

Challenges

3. A summary of the main challenges the team have encountered are set-out below:

[REDACTED]
Section 30(b)(i)

[REDACTED]
Section 30(b)(i)

[REDACTED]
Section 30(b)(i)

[REDACTED]
Section 30(b)(i)

[REDACTED]
Section 30(b)(i)

[REDACTED]
Section 30(b)(i)

[REDACTED]

Appendix B

The following document falls into the scope of your request include:-

Note of the Meeting - Minister and Officials ScotRail Mobilisation 08 September 2021

In attendance

Minister for Transport
Private Office
[REDACTED]

- Officials provided the Minister with the paper provided to SMT in August as an update (given size of the file this is stored separately).
- They also presented a set of slides in support of the meeting. See below

[REDACTED] [Outwith Scope]

Key points

[REDACTED] [Outwith Scope]

Rail Futures
11th September 2021