

Minutes of Meeting

Scottish Rail Holdings Limited – Board Meeting

Thursday 12 December 2024, 09.30 to 16.00

Location: St Vincent Plaza / Via Teams*

Present: Richard Cairns – Chair
Hannah Ross – Chief Executive
Carolyn Griffiths – Non-Executive Director (from 1pm)*
Brian Baverstock – Non-Executive Director
Graeme Cook – Chief Operating Officer
Campbell Davidson – Finance Director
John MacQuarrie – Rail Business Director
Neil Amner -General Counsel

In attendance: Bill Reeve – Transport Scotland Director of Rail
Jon Newton – Head of New Fleet Procurement & Delivery (for item 6)
Jacqui Mallin – People Puzzles (for item 5)
Kiralee Fisher – Project Accountant (for item 7)
Ken Adamson – Audit and Risk Manager (for items 15 and 16)
Jackie Bergen – Board Secretary

Apologies: Roz Foyer – Non-executive Director

Agenda Item 1: Notice, apologies, and quorum

1. The Chair welcomed everyone to the meeting.
2. The Chair said that items 5 and 6 on the agenda would be taken after lunch to accommodate Carolyn Griffiths who could only attend the meeting for the afternoon session.
3. Apologies were noted. The meeting was quorate.

Agenda item 2: Declarations of interests and conflicts of interest

4. There were no declarations of interest.

Agenda Item 3: Minutes from previous meetings

5. The Board approved the minutes of the meeting held on 14 November 2024.

Agenda Item 4: Actions and matters arising

6. The Board considered the list of actions from previous meetings and agreed to close actions 26, 29, 30, 33, 35 and 37

7. In reference to action 1, performance improvement plans for ScotRail underperforming areas, the Chief Executive said that there are currently three such plans in place for Suburban, East and Intercity sub-sectors. The Rail Business Director said that PPM falls within the improvement plan territory and these plans have been in place for some time. He said that ScotRail's current forecast is to develop out of performance improvement plan stage in these areas by period eight 2025. He said that a system of regular review of the performance improvement plans, and work being done to accelerate progress towards achieving targets will commence in January. The Chief Executive said that she would include this as a standing item on her monthly report to the Board.

8. The Rail Business Director said that ScotRail performance improvement plans are for SRH, and Network Rail performance plans are for the Office of Rail and Road (ORR). It is important that these respective plans treat rail as a whole system and that they are consistent and complementary. He said that he has regular dialogue with ORR regarding performance and ORR and SRH are planning to issue a joint statement to ScotRail and Network Rail to clarify what is required in relation to performance.

9. The Director of Rail, Transport Scotland, said that the Cabinet Secretary would be pleased to hear that performance improvement was being discussed by the Board as the first item on the agenda, and he was encouraged with the regular discussion between SRH and ORR. He said that recognising the importance of Transport Scotland's policy for an integrated railway, making the Alliance real was a necessity for improved performance for the railway.

10. In reference to action 11, Levenmouth project review, the Chief Executive said that SRH and ScotRail Executives had met last week to discuss the Levenmouth and East Kilbride projects. She said that a letter has been sent to Transport Scotland confirming that [Redacted] and a response is awaited.

11. In reference to action 24, agree categories of data for on-going reporting purposes for ScotRail, the Board said that clarification should be sought from Carolyn Griffiths on whether this action had been fully addressed and if so, close the action.

12. In reference to action 40, Chairs of SHEC and ARC to agree internal audit plans, the Chief Executive said that she had a meeting with both Chairs and this action could be revisited once the internal audit function is in place early in the New Year.

13. In reference to action 42, risks to deliverability of matters set out in the strategic direction letter from the Cabinet Secretary, the Chief Executive said that the issues raised by the Cabinet Secretary would be covered in the strategic plan and the risk register would be populated based on the full strategic plan. Close action.

14. Brian Baverstock asked for the response to the Cabinet Secretary letter to be shared with the Board.

15. In reference to action 43, consider the need for SRH executive level resource for sustainability, health and environment matters, the Chief Executive said that she would build this into the organisation plan once the strategic plan is agreed. Close action.

Agenda Item 7 – 2023/24 Annual Report and Accounts

16. The Board noted that the 2023/24 Annual Report and Accounts had been considered by the Audit and Risk Committee at its meeting on 9 December. The Committee had agreed to recommend

approval of the Annual Report and Accounts to the Board subject to ensuring that Carolyn Griffiths' comments had been incorporated. The Finance Director confirmed that the comments had been incorporated and a session had been held with Carolyn Griffiths after the Audit and Risk Committee meeting.

17. The Board considered the paper setting out the process followed in the preparation of the Annual Report and Accounts. The Board also considered the report from Audit Scotland on their audit of the 2023/24 accounts.

18. The Finance Director said that the management response to the recommendations made by Audit Scotland had been discussed at the Audit and Risk Committee meeting. The Finance Director said that one of the main difficulties in the accounts preparation and the audit of the group accounts was that SRH produces its accounts and is audited under the requirements of the Government Financial Reporting Manual (FReM) but the subsidiary companies had produced their accounts and were audited under the requirements of the Companies Act. He said that there are efficiencies to be gained for next year in ensuring that the subsidiary companies move to accounting methods and are audited under the requirements of the FReM, as required under the Accounts Directions issued to the subsidiary companies. He said that wash-up meetings will be held with the subsidiary companies in January to take on board Audit Scotland's recommendations in relation to the accounting methods and accounts preparation processes.

19. The Chief Executive said that the re-appointment of auditors was discussed at the CSL and ScotRail Board meetings on 4 and 5 December where it was agreed that the basis of any re-appointment had to ensure that the audit would be conducted under the FReM. She said that the Finance Directors of SRH, CSL and ScotRail would discuss coordination of this early in the New Year. The Board agreed that a work plan and key milestones to ensure correct interpretation of the Accounts Direction by the subsidiary companies, and auditing under the FReM, should be submitted to and monitored by the Audit and Risk Committee.

20. The Finance Director said that the management response in relation to recommendation five of the Audit Scotland report concerning SRH staff capacity, now includes timelines for the interim steps to be taken to reach the overall target for completion of the recruitment for required staff. The Finance Director said that the original request to Transport Scotland was for an additional 10 members of staff, but the steps contained in the response to the Audit Scotland report refer to the first six roles. He said that the remaining four posts will be considered as part of the strategic plan and any organisational change that may flow from there and business cases for these four posts will be developed in January.

21. The Finance Director referred to Audit Scotland's recommendation for SRH to ensure it has adequate arrangements in place to prevent or respond to cyber-attack. He said that SRH will undertake a risk assessment in this regard which will highlight any actions to be taken, and resources required for this. The Chief Executive said that this was a matter that affected the SRH Group and General Counsel would be looking at requirements to mitigate any risk.

22. The Chair said that an action tracker and plan was needed to address all of the Audit Scotland recommendations, and keep the Board informed of progress. Brian Baverstock said that monitoring of the actions and plans required to address the recommendations will be taken forward by the Audit and Risk Committee and progress reported to the Board through the committee updates.

23. The Finance Director said that the concluding audit opinion was free from material misstatement and was considered a clean opinion. He said that the Letter of Representation from the Chief Executive to Audit Scotland had been approved by the Audit and Risk Committee. He said that in relation to the governance statements, assurance checklists had been used and assurance statements had been received from the Managing Directors of the subsidiary companies and from SRH Executive Directors to provide assurance to the Chief Executive and Accountable Officer as signatory of the governance statements.

24. The Board approved the 2023/24 Annual Report and Accounts.

25. The Board expressed its gratitude to the SRH finance team and the Audit and Risk Committee for the extensive work in producing the annual report and accounts. Particular thanks were noted to the Finance Director and the Project Accountant. The Chief Executive asked for her thanks to be noted to the team and to the Finance Director for his assistance in the Accountable Officer assurances.

Agenda Item 8 – ScotRail Fares Proposals 2025/26

26. The Board considered the paper setting out the current position on the proposed fares increase for ScotRail from 1 April 2025.

27. The Rail Business Director said that after discussion at the SRH Board in October, revised proposals with various options had been submitted to Transport Scotland for consideration. He said that it was likely that a decision on this would be received in January, and it had been discussed that a decision was needed by 17 January to implement any increase in time for 1 April 2025. He said that, as agreed previously, ScotRail had assumed an increase of [Redacted] for budgeting purposes, and once a decision was received from Transport Scotland, a paper would be brought back to the Board for consideration.

28. The Chief Executive said that, as noted at the last meeting of the Board, there is work on-going to develop a fares strategy for 2026 and beyond which will look at latent potential. The Rail Business Director said that the fares strategy would look at [Redacted] and this would be a longer term initiative, if taken forward.

29. [Redacted] The Chair mentioned some factors in play that could drive people to use rail more and asked if these drivers were taken into account when modelling fares. The Rail Business Director said that ScotRail is doing a lot to understand the drivers in the market place. The Board discussed the various sources of useful data that could be analysed to assist in the development of the fares strategy for 2026 and beyond. Brian Baverstock said that consideration should also be given to the benefits the public will get for any increase in fares.

Agenda Item 9 – Visibility of KPIs: Updated format for the Operational and Performance Report

30. The Board considered the paper setting out the proposed new format for the monthly SRH operational and performance report to provide the Board with more visibility of key areas of performance for CSL and ScotRail.

31. The Rail Business Director said that the new format provided three core sections covering CSL and ScotRail's performance against business plan KPIs and an overview of their operational

performance. He said that the intention would be to include also, reporting on one additional area each month for a more in-depth view of particular areas.

32. Brian Baverstock said that the SRH Board should be taking assurance from the subsidiary company boards that KPIs are being monitored and SRH Board should not duplicate this work, but SRH Board does not currently have clear sight of what is monitored at subsidiary boards. The Chief Executive said that SRH Board should be reviewing the performance of SRH in overseeing the subsidiary companies, and to assess SRH actions the Board needs to have sight of the underlying performance data for the subsidiary companies and the Board can then request more detail if this is needed. Brian Baverstock said that the SRH Board should also see performance reporting on SRH's progress towards achieving its strategic plan and business plan objectives and a key component in the deliverability of those plans is the performance of the subsidiary companies.

33. After discussion, the Board agreed that the monthly performance report should detail subsidiary company past and forecast performance trends, explanations for variance, mitigating actions being taken by SRH, the effects of the mitigating actions and timelines. The Board also agreed that for the next meeting of the Board, the performance report, or a separate report, should be prepared detailing the progress on SRH's performance on its own programme and a report on progress with the deliverables from the Cabinet Secretary's strategic direction letter.

Agenda Item 10 – SRH Governance Review Task Group Update

34. Brian Baverstock said that the task group had prepared a substantive paper setting out options for change which will be discussed at the next meeting of the task group and thereafter submitted to the Board. He said that the focus of the group has been to put forward options to bring more efficiency and effectiveness to the SRH Group with the proper use of executives and non-executives. He said that whatever the outcome from the group, this hinges on SRH having the capacity available at executive and non-executive levels. He said that the four options being developed by the task group were:

- [Redacted]

35. [Redacted] He said that the options will be discussed with the Managing Directors of the subsidiary companies in the coming week and then at a meeting of the task group in January and thereafter by the Board.

36. The Director of Rail, Transport Scotland said that any change to the [Redacted] would have to be agreed with Scottish Ministers. He said that it will be helpful to understand what [Redacted] would look like and the options should demonstrate the importance of closer working with Network Rail through the Alliance.

37. Brian Baverstock said that [Redacted] may not require a change in the [Redacted], but these matters were all under consideration for discussion at the next meeting of the task group.

Agenda Item 11 – Review Register of Interests

38. General Counsel said that the register of interests of directors had been reformatted to make more clear the interests that were being reported and the data from the existing register had been transferred into the new register. He said that this is a public document which is available on the SRH website and asked all directors to check their entries and put forward any changes. He said

that directors should highlight any changes to the register as soon as they occur, and the register will be submitted to the Board quarterly for checking.

39. The Chair said that it should be made clear to directors in the induction process of the need to declare interests. General Counsel said that he would be developing the induction process early in the New Year.

Agenda Item 12 – Policies

40. The Board considered the paper requesting approval, on the recommendation of the Audit and Risk Committee, of the following:

- Staff code of conduct
- Complaints handling procedures (for external complaints)
- Whistleblowing policy

41. The Board approved all three. The Chair asked who was responsible for these policies and procedures. General Counsel confirmed that overall responsibility is with the Chief Executive and General Counsel.

42. General Counsel said that he had undertaken a scoping exercise and SRH does not have a complete set of compliance policies and procedures in place. He said that he had agreed with the Chief Executive and the Audit and Risk Committee that he would put interim solutions in place between January and March to complete the compliance requirements and then take time to develop these and submit them to the Audit and Risk Committee and then the Board. He said that there is also the wider SRH Group exercise of working towards shared services, policies and resources which he will be developing and the timescale for this will likely be 2026/27.

Agenda Item 13 – Board Self-Assessment

43. The Chair said that the Framework Agreement requires the Board to undertake self-assessment. He said that this was done in February 2024 and the next self-assessment should be undertaken by February 2025. He said that this should include development needs of Board Members and a review of strengths and weaknesses.

Agenda Item 14 – Board/Executive Development

(The Chief Operating Officer left the meeting for the discussion of this item)

44. The Board considered the paper setting out recommendations for Executive and Board development.

45. The Chief Executive said that she had mentioned in the paper the need for SRH to have more non-executive directors with the skills and experience required to deliver the SRH strategy but was aware that the outcome from the governance review will address this matter. She said that a formal Board induction and continuous learning programme for executive and non-executive directors was needed. The Board agreed that a formal induction programme should be developed.

46. The Chief Executive said that due to pressure of workload arising from limited capacity, the executive team have not had sufficient opportunity or time to develop their own leadership capabilities or executive skills. She said that to address the needs of SRH and deliver on the strategic plan, executive and leadership coaching should be available to the executive team in 2025.

She said that learning and development for staff would be covered in the strategic plan. The Board agreed that executive and leadership coaching should be put in place for the executive team.

47. The Chief Executive said that the contribution to the SRH team from the Chief Operating Officer has been excellent and has allowed for a separation of responsibilities of the Chief Executive and Chief Operating Officer resulting in greater focus being brought to key areas of SRH development, most particularly supporting procurement and governance workstreams. She said that SRH urgently needs to develop and grow to support delivery of its business and strategic plans, to continue to deliver on existing workstreams, while resolving outstanding backlog, and to develop capability and capacity in fleet procurement support to the Chief Executive to ensure that sufficient oversight is given to complex and emerging workstreams. She said that the Chief Operating Officer is ideally placed to give this support to the Chief Executive and to provide a valued resource to the rest of the executive team.

48. [Redacted]

(The Board meeting stopped for lunch from 12.30 to 1pm)

49. Carolyn Griffiths joined the meeting via Teams at 1pm and said that she had some comments on papers already considered by the Board and would submit these by email.

Agenda Item 5 – SRH Strategy and 2025/26 Business Plan

50. The Chief Executive gave an overview of the work already undertaken in the development of the SRH strategic plan. She said that the draft plan has been informed by the strategy sessions held for the Board and the subsidiary company Managing Directors in September, work undertaken with the subsidiary companies, SRH staff input, and the comments from the Board at its last meeting. She said that the draft strategic plan would be issued to the Board after the meeting with comments asked for by 24 December to allow the draft to be submitted to Transport Scotland by 10 January.

51. Jacqui Mallin, People Puzzles, gave a short presentation to the Board on the work that had been done to incorporate into the strategic plan, the outcomes from the September strategy sessions and the work done with SRH staff on SRH Values.

52. The Chief Executive and Chief Operating Officer gave a presentation to the Board on the strategic priorities and objectives in the plan and said that the SRH organisational structure will develop to be able to deliver the plan. The Chief Executive gave an overview of the seven strategic objectives for SRH and the actions and priorities that would flow from the objectives.

53. Carolyn Griffiths said that the plan should show SRH's ambition and innovation more and should include detail of doing more for the people of Scotland. She said further business opportunities should be explored and developing and the potential for shared SRH Group services should be highlighted. She said that there is currently no framework for monitoring SRH Group performance in relation to environmental and safety and consideration should be given to a management maturity model assessment. She said once the Group knows how it is performing in these areas then it can set plans to better performance.

54. The Chief Executive said that the full draft plan includes objectives for new business ideas and innovation, and the development of shared services is also included.

55. Brian Baverstock said that the development of the draft plan was excellent work. He said that shared services should be given more prominence as there is a high expectation for economies of scale and this should also relate to shared resources and shared efforts across the SRH Group. He asked how deliverability of the plan will be resourced and if the plan aligns with the business plans of the subsidiary companies.

56. The Chief Executive said that SRH has been working with the subsidiary companies in sharing knowledge on the development of the strategic plan. She said that the SRH plan and the subsidiary plans should be developed sequentially and while that has not happened this time, this will be set in place for the future. The Chief Operating Officer said that there are excellent capabilities across the SRH Group that may be deployed in the wrong places and resources to deliver the strategic plan will be enhanced with the right people being in the right jobs.

57. The Director of Rail, Transport Scotland, said that the revised strategy was comprehensive, impressive and encouraging. He said that he welcomed the focus on the tourist strategy and the revenue growth that should come from that. He said that there is a strategic business opportunity [Redacted] the trains to replace the HST fleet. General Counsel said that there is a wider matter regarding [Redacted] and he would welcome a conversation with the Transport Scotland legal team in this regard.

58. The Chair said that the revised strategic plan had developed positively. He said that the plan should seek to maximise the contribution of physical assets such as stations and the contribution they can make to revenue reputation, profile and the local communities. He said there are commercial opportunities to be developed which will assist in revenue growth.

59. The Chief Executive confirmed that she would circulate the draft strategic plan and 2025/26 business plan by email to the Board for comment. She said that the organisational design to underpin the business plan deliverables will be developed in January/February for submission to Transport Scotland in March with the final strategic and business plans.

Agenda Item 6 – Fleet Procurement Governance Revised Proposals

60. The Board considered the papers setting out the governance arrangements to manage the delivery of the new fleet procurements as amended based on the comments received at the previous meeting of the Board, and the updates provided [Redacted].

61. The Head of New Fleet Procurement and Delivery said that, in relation to the Intercity Fleet procurement, the wording for the variation to the Grant Agreement had not yet been circulated to the Board as this was being finalised between SRH, ScotRail and Transport Scotland. The Board agreed that this should be submitted to the Board by email for approval. The Board noted that the Contract Notice had been approved by the Board in correspondence.

62. The Board discussed the role of the Procurement Assurance Group (PAG) and agreed that guidance should be documented setting out clear criteria for escalation. The Board said that the guiding principles/criteria should be drafted and sent to the Board by email for approval.

63. The Board noted that the full business case will be submitted to the SRH Board for approval.

64. Brian Baverstock asked if Transport Scotland had confirmed that they are content with the proposed governance arrangements. The Head of New Fleet Procurement and Delivery said that Transport Scotland has been represented at all meetings to discuss the governance arrangements and has not raised any major concerns. He said that the independent audit stages will be undertaken through the Scottish Government Gateway Review Division. The Chief Operating Officer said that the Scottish Government Gateway Review Division has a well-defined process for this and has frameworks in place and an extensive network through UK experts and independents to undertake the audit stages.

65. The Chief Operating Officer said Transport Scotland will have the right to attend meetings, but non-disclosure agreements may be required for attendance at certain meetings throughout the procurement process and this was critical for the tender process.

66. The Director of Rail, Transport Scotland said that he welcomed this clear structure for the governance of the procurement process, but he questioned whether there was the [Redacted]. After discussion the Board agreed that:

- a named responsible person should be added for each group within the governance structure
- there should be a named responsible person for the overall project
- succession planning should be built into the process
- [Redacted]

67. The Board noted its thanks to the Head of New Fleet Procurement and Delivery and to all involved in this work.

Agenda Item 15 – Committee Updates

68. The Chair of the Audit and Risk Committee said that meetings of the three company Audit and Risk Committees had taken place over the past week to consider the three sets of 2023/24 annual reports and accounts. He said that all three committees had recommended respective Board approval of each of their annual reports and accounts subject to caveats in some which had now been resolved. He said that some of the main points from the meetings were:

- further consideration of the need for external audit of the subsidiary companies to come under the responsibility of the Auditor General for Scotland
- the need for and importance of a review of delegated authorities for the subsidiary companies
- legacy private sector based policies in use by the subsidiary companies and non-compliance of these with the Scottish Public Finance Manual

Agenda Item 16 – Risk Register

69. The Board considered the paper setting out the update to the SRH strategic risk register and planned developments in relation to risk management.

70. The Chair referred to the new risks that had been added to the register and asked for the justification in adding these. The Audit and Risk Manager said that these had been added from a review of the strategic plan and from the Cabinet Secretary's strategic direction letter.

71. The Board noted that the risk register would be submitted to the Board for review quarterly and any significant changes would be reported in the Chief Executive's monthly report to the Board.

Agenda Item 17 – Chief Executive's Update

72. The Board considered the Chief Executive's update paper.

73. [Redacted]

74. [Redacted]

75. In relation to SRH staff, the Chief Executive said that the strategic value setting session with staff had been well received and successful. She said that the staff group was setting up a social committee and a book club.

Agenda Item 18 – SRH Group Operational and Performance Update

76. This item had been discussed under agenda item nine.

Agenda Item 19 – SRH Group Finance Update

77. The Board noted the SRH Group finance update.

Agenda Item 20: Group Monthly Communications Report

78. The Board noted the Group Monthly Communications report.

Agenda Item 21: Board Planning Calendar and Board Lookahead

79. The Board noted the board meeting planning calendar and the lookahead paper.

Agenda Item 22: Any other business

80. [Redacted]

81. The Board noted that this was expected to be the Chair's last meeting as Chair of SRH. All members of the Board expressed their gratitude to the Chair for his commitment and dedication to the SRH Group and the work undertaken by him for the continuous improvement of Scotland's railway.

Agenda Item 23: Date of Next Meeting

82. The next meeting of the Board will be on 6 February 2025.