


CALEDONIAN SLEEPER LIMITED (CSL)
MINUTES OF BOARD MEETING

Wednesday 22 January 2025, 13:00 – 18:20
Pacific House, Glasgow / Microsoft Teams *

Present: Hannah Ross – Chair
 Kathryn Darbandi – Managing Director
 Graham Kelly – Commercial and Procurement Director
 Graham Eastwood – Operations Director
 Carolyn Griffiths – Non-Executive Director and Chair of SHEC
 Campbell Davidson – Non-Executive Director and SRH Finance Director
 Hugh Anderson – Finance Director

In Attendance: Sam Price – General Counsel
 Jackie Robertson – SRH Rail Management Lead
 [REDACTED] – Board Secretary
 [REDACTED] – Head of Sales & Marketing (for item 11)
 [REDACTED] – Guest Experience Director (for item 11)
 [REDACTED] – Head of People (for item 11)
 [REDACTED] – ESG Manager (for item 11)

Apologies: Graeme Cook – Non-Executive Director and SRH Chief Operating Officer
 John MacQuarrie – Non-Executive Director and SRH Rail Business Director
 Neil Amner – SRH General Counsel

Agenda Item 1: Welcome

1. The Chair welcomed everyone to the meeting.

Agenda Item 2: Apologies and Quorum

2. Apologies were noted. The meeting was quorate.

Agenda Item 3: Declaration of Interest

3. There were no declarations of interest.

4. Campbell Davidson said that due to capacity constraints he had not been able to review prior to the meeting the papers noted below:

- Agenda item 10 – 2025/26 Business Plan (he had reviewed the budget element of this)
- Agenda item 12 - Grant Agreement Report
- Agenda item 13 – Finance Report

Agenda Item 4: Minutes of previous meeting

5. The Board approved the minutes of the meeting on 27 November 2024 subject to amendment to paragraphs

6 (under *Action 33*) to note that this related to all SHEC KPIs and not just safety KPIs, and at paragraph 26 to note that the Board approved the two contracts.

6. The Board approved the minutes of the meeting on 10 December 2024 subject to amendment at paragraph 5, to note that reliance was placed on the forecast for 2025/26 as there was no approved budget for 2025/26 in place at that time.

Agenda Item 5: Matters Arising

7. The Board considered the list of actions arising from previous meetings and agreed to close all actions that were covered under the agenda and actions that had been completed ie action numbers 3, 17, 32, 33 to 42. The Board noted that actions numbers 27 to 31 were being monitored under the slides in the Grant Agreement report, and these could be closed from the Board action list. The Board also noted the following:

Action 9: Risk appetite

SRH Audit & Risk Manager is preparing a paper on risk appetite for the SRH Group which will be sent to CSL Executive team for discussion and will likely be submitted to the SRH Board at its meeting in February. Update CSL Board at next meeting.

Action 26: SRH feedback on CSL policy delivery report

Feedback awaited from Transport Scotland. Update at next Board meeting.

Agenda Item 6: Coach Cracking Update

8. The Operations Director said that a special meeting of SHEC had been held on 16 January to provide further assurance of the on-going work to approve the interim solution for coach cracking and to provide briefing on the next steps for the design life solution. He said that as at today's date 11 coaches were out of service due to cracking, the original seven coaches and an additional four where cracking was identified in December 2024/January 2025. He said that non-destructive testing inspections had identified another three coaches with sub-surface defects that were under close observation and monitoring, and these would likely result in cracking.

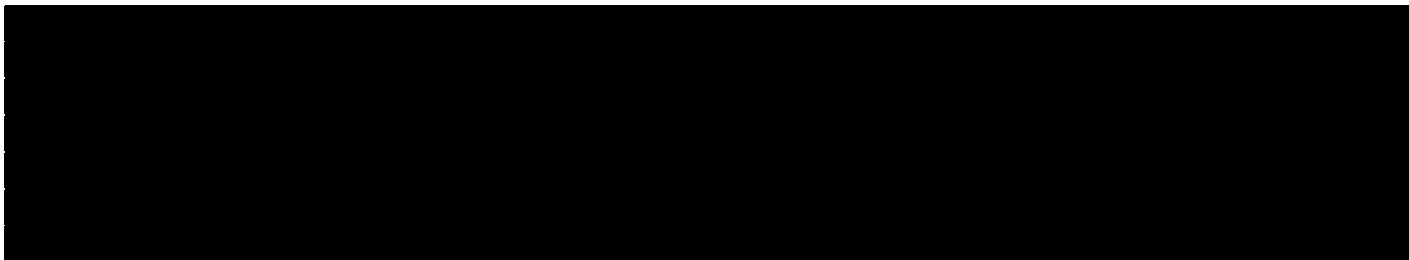
9. The Operations Director said that the interim modification had been fitted on the second coach today and the further nine coaches with cracking, plus the three with sub-surface defects, are in the program for the modification to be fitted. He said that the first modification fitment took six weeks to complete due to levelling issues but now that those issues had been resolved the fitments will take approximately three days to complete per coach. He said that the modification pack would be submitted to the independent third party, Aegis, by 24 January to seek approval and obtain the attestation certificate which will enable coaches to be returned to service. He said approval should be given within two to three weeks, but this may take longer if questions are raised or any clarification is required and it was likely that coaches could be returned to service by mid to end February. He said that CSL was currently assessing the impact of this on guests and revenue as the February mid-term break is a busy period, but CSL is not yet in a position to brief on this.

10. Campbell Davidson referred to the sub-surface defects and asked if there was assurance that those coaches were safe to continue to operate. The Operations Director said that this matter was discussed at the SHEC meeting and all coaches are undergoing a robust inspection regime which is identifying matters at an early stage and the testing being undertaken is not showing any crack propagation. Carolyn Griffiths said the CSL engineering directorate was supported in its assurance of the continued service operation by Risktec, an external engineering consultancy who the Executive team had engaged specifically for their relevant expertise. Campbell Davidson said that consideration should be given to whether the risk to revenue from coach cracking should be built into the forecast budget.

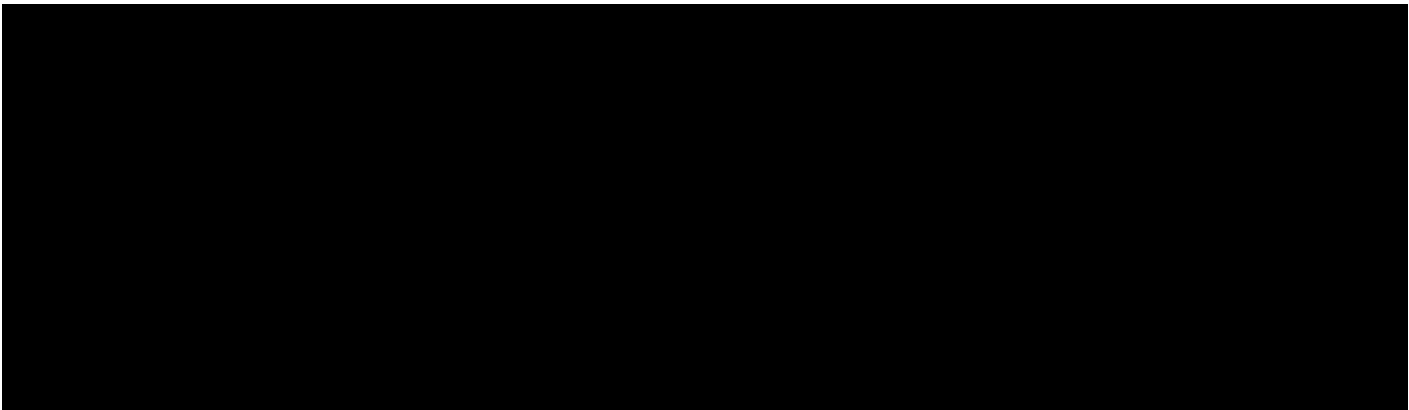
11. Carolyn Griffiths said that the recent SHEC meeting had discussed the safety margins in the design of the interim modification taking account of track forces and the quality of the aluminium. She said that there were

other factors discussed where SHEC has asked for clarification in relation to the geometry/fit of components on CSL coaches which may have higher stresses, and welding where there could be heat damage and whether the safety margins could directly read across to these two areas. She said that further work had to be done on these matters through the third party approval process. She said that an additional matter to be considered through the approvals process was whether the cracking could still be seen once the large bracket as part of the interim modification had been fitted. She said that the speed of the crack propagation had been gradual which indicates the likely cause as fatigue cracking and the non-destructive provides the ability to see defects not yet on the surface.

12. The Operations Director said that the continued service operation will continue to be updated covering how risks have been assessed and signed off etc which would provide assurances and briefing if needed. Campbell Davidson asked how this was being dealt with by CSL insurers given that the coach cracking issue was not a static matter. General Counsel said that initial notification had been given to the insurance broker, and he would update and keep the insurer apprised of movement with the issue. The Chair said that the insurance policies should be checked to ensure that everything was being done that required to be done to ensure there was no invalidation of the policy.

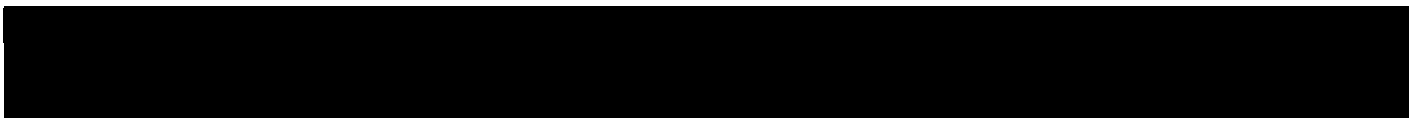


Agenda Item 7 – 



Agenda Item 8: Approvals Tracker

15. The Board considered the status of outstanding approvals from SRH and Transport Scotland.



Derogation on Grant Agreement patronage KPI

The Board noted that the patronage target was not being met due to coaches being out of service as a result of the coach cracking issue, which is a matter outwith the control of CSL. Further discussion of this between SRH and CSL was undertaken in December/January with a view to developing a paper for SRH Board in the near future.

Issuing of PIN for future locomotive provision

The Board noted that this item would be discussed under item nine of the agenda, Locomotive Workstream Update.

Birmingham International Proposal

The Board noted its previous approval to serve Birmingham International Airport with its Highlander Services subject to obtaining paths from Network Rail and ORR and agreeing necessary changes to the Grant Agreement re timetabling. The Board noted that a briefing was submitted to Transport Scotland on 14 January following completion of the detailed timetable planning work to confirm availability of paths and consequential changes required to current service timings. The Managing Director said that a lot of work has gone into this project and CSL stands by the benefits of providing service to Birmingham International as this is a good strategic move to expand the CSL brand outside of London. She said that the impact is a required change to the Fort William service leaving at 7pm each night instead of 7.45pm, this is the current schedule for the Sunday night service, and a change to arrive at Euston 15 minutes later than currently. She said that approval for these changes to the Grant Agreement is needed by 28 January to avoid CSL losing the path via Birmingham.

The Board considered the risks and mitigations set out in the briefing paper and noted that the requested timetabling changes did not have any cost effect. The Managing Director confirmed that the rostering team had put together options to cover the timetabling changes for discussion with staff and, subject to approval for the Grant Agreement change, CSL would have 10 months to discuss these options with staff and reach a favourable outcome.

The Board supported the request for the change to the Grant Agreement to reflect the timetabling changes.

Agenda Item 9: Locomotive Strategy Update

16. The Commercial and Procurement Director said that the next key stage in the locomotive strategy process was to issue the Prior Information Notice (PIN) to obtain market engagement. He said that this was a critical point in the process as it will allow CSL to explore options. He said that the strategic business case, including the draft PIN, had been provided for the Board and this would be submitted to the IDM for its meeting on 3 February to seek approval of release of the PIN. He said that pre IDM engagement sessions are being set up to allow key stakeholders to understand the context ahead of the IDM meeting. He said that once the PIN is issued, CSL will use the inputs from the market engagement to draft the outline business case by June 2025.

17. Campbell Davidson said that in discussions with ScotRail in relation to their new fleet procurement projects, it had been determined that, ordinarily, PINs do not require Board approval.

18. The Chair asked for details of the additional procurement support that CSL had built in to manage the procurement steps post PIN. Carolyn Griffiths said that there needs to be a clear map of the process with clear identification of the responsibilities of the Board, who the Board gives delegated authority to etc and it was very important that a stage gate review model is submitted to the Board. She said that ScotRail was currently undertaking a project to set out stage gate reviews for capital projects and once this work was finished, CSL should decide how to adopt the outcomes from that work. The Managing Director said that the Commercial and Procurement Director would consider this and bring recommendations to the Board.

19. The Chair said that stage gates were a common approach for project delegations, but consideration would need to be given to the procurement project governance and how this aligns with the stage gate process. She said that while consideration was being given to this, the importance was to get the PIN issued.

Agenda Item 10: 2025/26 Business Plan and draft budget

20. The Board discussed the next steps in the process for the draft business plan to be approved by SRH and Transport Scotland and agreed that clarity was needed on the timeline for this. It was agreed that the SRH Rail Business Director should provide a timeline for SRH Executive consideration of the business plan and

feedback to CSL and then for the Rail Business Director approval recommendation of the business plan to SRH Board for submission to Transport Scotland for final approval before end March 2025.

21. Carolyn Griffiths said that she would provide comments on the content of the draft business plan by email to the Board.

22. The Board considered the draft budget for 2025/26. The Finance Director explained the bottom-up approach and assumptions made in preparing the draft budget and said that the draft budget portrayed realistic expectations at this point in time. The Chair referred to the underlying assumptions that all coaches were available for service and noted her concern that there was a level of uncertainty in this assumption given the number of coaches out of service due to cracking. The Managing Director said that assurance can be taken on the budget assumptions that all coaches are available, from the progress on the fitment of the interim solution and the non-destructive testing being undertaken to identify any defects prior to cracking which will allow for quick remedy through fitment of the interim modification. She said that the risk would be if CAF didn't have enough materials available to undertake the modifications quickly.

25. Carolyn Griffiths referred to berth availability in the budget assumptions and asked why the percentage of berth unavailability could not be lower. The Managing Director said that analysis work was being undertaken in this regard and a paper would be submitted to the Board on this in the near future but given the heavy programme facing CSL in the coming year eg in relation to the 61 way jumper work and the coach cracking, the assumptions re berth availability were the correct ones at this time.

26. After the discussion of the draft budget, the Board agreed:

- SRH needs to formally review the CSL budget and feedback to CSL

Agenda Item 11: Quarterly Business Updates

27. The Guest Experience Director gave the Board a presentation on her business area covering:

- Voice of the Guest – post trip survey feedback from guests and outcomes from the Transport Focus guest satisfaction survey
- Key trends to inform improvement
- Focus areas that CSL can influence

28. The Board noted that there was no specific question in the survey on whether there was something that guests thought CSL was not doing but this feedback was often given to CSL by guests.

29. The Head of People gave the Board a presentation on her business area covering:

- Human Resource Operating Model
- Key priorities during transition
- Employee recognition
- On-going training

30. The Managing Director said that the human resource systems and training are scalable and shareable and are open for SRH use. The Head of People said that she had been discussing this with the SRH Culture and People Lead, in particular e-learning modules that may be of benefit to SRH. The Head of People said that communications to staff are undertaken through various mediums including the CSL intranet and she said that she would make this available to Board members.

31. Carolyn Griffiths said that she was pleased to see that apprentice recruitment was being developed and consideration should be given to recruitment from socially deprived areas.

32. The Operations Director gave the Board a presentation on fleet stewardship. He provided an update on key projects and working towards final acceptance. He also provided an update on reliability of systems including WiFi, CCTV and HVAC and on berth, galley and coach availability.

33. The Head of Sales and Marketing gave the Board a presentation on his business area covering new business partners, advertising, and the launch of the new online souvenir shop.

34. The Board noted that the business update on sustainability KPIs would be discussed at the next meeting of SHEC on 24 February. The SRH Rail Management Lead said that she would share the quarterly business update information with Transport Scotland.

35. The Board thanked everyone for the excellent and informative presentation.

Agenda Item 12: Grant Agreement Report

36. The SRH Rail Management Lead said that the SRH Rail Business Director had asked for information relating to the upturn in staff abuse and safety. The Managing Director said that there had been a slight increase in guest accidents and one staff accident related to tripping on the platform, which is being followed up with Network Rail. She said that other than the trauma incident involving the youths who boarded the train and caused disruption, previously reported to the Board, there were no adverse trends and no major safety events in the period. The Board noted that the Rail Business Director would be attending the SHEC meetings going forward.

37. Due to time constraints the Board agreed that any other comments on the Grant Agreement Report should be submitted by email to the Managing Director.

Agenda Item 13: Finance Report

38. The Board considered the finance report. The Finance Director said that a further re-forecast for the current year would be undertaken and submitted to the Board. He said that an issue had arisen in relation to the accounting for certain costs relating to the IT transition project where CSL had classified these as CDEL but the CSL external auditors view was that some of these costs should be treated as RDEL. He said that he would be speaking to Scottish Government Accounting Department to obtain their view on this. Campbell Davidson, in his role as SRH Finance Director, said that each component of the total amount needs to be looked at and there is confidence that some of the costs can be capitalized. He said that this will be managed with Transport Scotland and a risk based evaluation should be prepared for the next discussion with Transport Scotland.

39. Carolyn Griffiths referred to the costs for CSL external auditors and asked why the costs had increased as her understanding was that the external audit fee was a fixed cost. The Finance Director said that the work involved had been more than first quoted given the complexities involved with this being a first year audit but

he was negotiating the additional costs with the auditor and this matter had been discussed by the Audit and Risk Committee.

Agenda Item 14: Financial Approvals

40. The Commercial and Procurement Director said that three contracts required Board approval. He said that one was a contract extension, allowed for in the original contract and the other two had been through a full procurement exercise and all three were in compliance with public procurement rules. The Board approved all three contracts.

41. Campbell Davidson said that the delegated financial authority limits were low, and there was a need for these to be reviewed.

Agenda Item 15: Committee Updates

42. The Committee noted the approved minutes of the Audit and Risk Committee meeting held on 11 September 2024. Carolyn Griffiths asked if any further work had been done in relation to risk scoring. General Counsel said that work was being done on this at SRH Group level, but nothing had changed yet at CSL level. Carolyn Griffiths said that, once completed, the SRH Group risk ranking methodology should be shared with SHEC. Campbell Davidson said that the SRH Group risk management strategy will be discussed at the SRH Audit and Risk Committee on 12 February and that will then cascade to SHEC.

43. Carolyn Griffiths said that SHEC should be contributing to the development of the assurance programme. The Operations Director said that he would discuss this with General Counsel.

Agenda Item 16: Revised Terms of Reference for Remuneration Committee

44. The Board noted that the Chair and the chairs of SHEC and the Audit and Risk Committee had discussed the Remuneration Committee terms of reference in December. She said that the Chair of SHEC had proposed some additional changes since that meeting and she would send the revised terms of reference to the Board for discussion at the next meeting.

Agenda Item 18: Any Other Business

45. This item on the agenda was taken prior to item 17 to allow Executive Directors to recuse themselves from the meeting for discussion of item 17.

Transition Programme

46. The Managing Director referred to the Board's previous decision to give delegated authority to the IT Transition Programme Board which is chaired by the SRH Chief Operating Officer. She said that all decisions for the transition project had been taken by the Programme Board and all meetings are minuted but formal terms and conditions for that board had not been approved. She asked the Board to give retrospective approval of the terms and conditions for the Programme Board.

47. The Board also considered the AO approval paper for an increase in forecast spend for the IT transition project. The Finance Director said that, subject to Board approval, the additional funds would come from the existing CDEL envelope through SRH Capital Investment Panel approval. The Board discussed the component parts of the reason for the increase and noted that it was still within the contingency amounts forecast for the project. The Managing Director said that a case management system had been added to the project, as agreed by the IT Transition Programme Board, as it was less expensive to add this to the transition project rather than undertake it as a separate project.

48. After discussion, the Board approved the terms of reference for the IT Transition Programme Board and approved the AO request for additional funds for the project which will be submitted to the SRH Capital

Investment Panel.

49. Carolyn Griffiths asked if terms of reference were in place for the capital investment panel. Campbell Davidson said that everything from the capital investment panel is submitted to the SRH Board for approval and terms of reference would be submitted to the SRH Board for approval in the near future.

New Leases

50. The Managing Director said that new leases would be required for the Glasgow lounge and the Euston staff space, and these would require Transport Scotland approval and she said that governance process for this should be discussed and agreed. The Board noted that the Managing Director previously had delegated authority from the Board to sign leases on behalf of CSL. The Board agreed that CSL should discuss this with the SRH Rail Business Directorate to confirm the process for lease signing.

Policies

51. The Managing Director said that CSL was rewriting its policies and there were around 50 policies in the pipeline. She said that the terms of reference for the Audit and Risk Committee require draft policies to be considered by the Committee with recommendations for approval to the CSL Board. She said that a pragmatic approach was needed as CSL needs to have these policies in place and the time to take these through committee then board would cause delay in implementation of the policies. She said that there were two policies considered by the committee in October which have not yet been approved due to differences in interpretation of the Scottish Public Finance Manual.

52. After discussion the Board agreed that if the Managing Director provides assurance to the Board that all policies being drafted are in compliance with the Scottish Public Finance Manual and any other relevant public sector rules, then the Chair will discuss this with the Chair of the Audit Committee for agreement to the policies being drafted and implemented and submitted to the Committee for noting with any required amendments being dealt with at the first review of the policies.

53. In relation to the two policies that had been considered by the Committee but were not yet approved due to differences in the interpretation of the public sector requirements, these should be submitted to the Board for discussion.

Agenda Item 17: This section has been minuted separately

Date of Next meeting

59. The next meeting of the Board will be held on 19 February 2025.