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Dean Lockhart MSP
Convener of Net Zero, Energy and Transport
Committee
The Scottish Parliament
Edinburgh
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17 March 2022

Dear Convener

Additional funding support for rail services

I am writing to update the Committee on the assistance provided by the Scottish Government to Serco Caledonian Sleepers Limited ('Serco') and Abellio ScotRail for the purposes of supporting the continuity of rail services and job security for staff throughout this period.

Serco has been operating under a series Emergency Measures Agreements (EMAs) since March 2020, which temporarily varied the existing terms of the Franchise Agreement in place since 2015. The most recent EMA expired on 28 February 2022.

Under the terms of the variations made by the EMAs, Franchise cost and revenue risk (normally borne by the franchisee) transferred to the Scottish Ministers. This was a proportionate response to the impact of the Covid pandemic on Serco's business and ensured that Caledonian Sleeper rail services continued to operate during this time.

Now we have reached the end of the EMA period, Serco's financial recovery is promising and it has strong bookings for 2022. Serco has responded well to the lifting of Covid-related restrictions through 2021, and has mobilised to support the opening-up of Scotland's tourism market.

While the future of Caledonian Sleeper is promising, it has not yet reached a stable financial position. From 1 April 2022, Serco has the option to request a contract rebasing, and reset profit levels. The Franchise Agreement requires that any review of commercial terms is based on the financial position of the Franchisee in the 26 Railway Periods (2 years) immediately preceding any rebasing request.


As the market for Caledonian Sleeper services has been severely depressed over the last two years, I have made the decision to extend the current franchise support arrangements through a Temporary Measures Agreement which will run up to 31 March 2023.

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I believe this is a prudent approach, and allows both Serco and Transport Scotland to better understand the potential for market recovery before committing to new commercial terms.

A TMA has also been put in place for Abellio ScotRail which will ensure the continuation of passenger rail services until 31 March 2022 ahead of the new arrangements coming into effect on 1 April 2022.

Yours sincerely



JENNY GILRUTH

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