

# The First Scotrail passenger rail franchise

## *Summary impact report, May 2010 (12 months)*

### Report findings and recommendations

1. Rail transport is a vital service for Scotland, providing access to employment, education, services and leisure activities. Most passenger rail services in Scotland are provided through a franchise contract between Scottish ministers and the private company First ScotRail Limited. Transport Scotland (an executive agency of the Scottish Government) is responsible for managing the franchise contract. The franchise was established as a seven-year term with the option to extend the term by a further three years. In April 2008, Scottish ministers extended the First ScotRail franchise to November 2014.
2. Audit Scotland assessed Transport Scotland's management of the contract, including the process for awarding the franchise extension, and First ScotRail's performance against the franchise terms.<sup>1</sup> We found that Transport Scotland was generally managing the contract effectively and that First ScotRail's performance was good, and improving, in most areas. However, information about the franchise contract and associated performance was not readily available to passengers, user groups and others. We found that the contract extension had been awarded following a review and rigorous appraisal process, and had resulted in a guaranteed investment of £73 million by First ScotRail. However, we reported that governance arrangements for the review could have been better.
3. The report contained 12 recommendations for Transport Scotland and the Scottish Government. Appendix 1 shows how these recommendations relate to the areas of impact. The key recommendations were that Transport Scotland should:
  - Develop a systematic project plan for awarding the next franchise. This should identify the key stages and their timeframes, consultation strategy, decision-making criteria and reporting and approval arrangements
  - Review performance measures to improve alignment with passenger and wider government priorities
  - Improve stakeholder engagement by clarifying its consultation arrangements
  - Establish a single source from which stakeholders can easily access the information they consider relevant regarding the franchise, including a guide to the franchise contract that identified key elements for passengers and taxpayers.

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<sup>1</sup> We did not examine the initial development and awarding of the franchise contract as this occurred prior to the devolution of rail responsibilities to the Scottish Executive.

## Raising awareness and communication of key messages

4. The report received significant media coverage, including discussion on broadcast news and in national newspapers. In the year following publication, *The First ScotRail Passenger Rail Franchise* report was covered in 103 media items. On average, a high profile Audit Scotland report is covered in 57 media items. The table below details the media coverage and website downloads from the Audit Scotland website in the three and 12 months following publication of the report, and indicates a continuing interest in the report during the year post publication.

	Number of items	
	3 months following publication	12 months following publication
<b>Television</b>	1	1
<b>Press</b>	37	78
<b>Radio</b>	5	11
<b>Web<sup>2</sup></b>	7	13
<b>Report downloads</b>	820	2253
<b>Key messages downloads</b>	221	322
<b>Podcast downloads</b>	96	318

5. Much of the coverage reflected the key findings, but focused predominantly on the role and shareholding of Transport Scotland's former Director of Finance and Corporate Services, perhaps diverting some attention from the positive messages about performance and performance management.

## Parliamentary scrutiny

6. The Scottish Parliament Public Audit Committee (PAC) first considered the report at its meeting on 10 December 2008. The PAC decided to take oral evidence from the Permanent Secretary (twice), the Minister for Transport, Infrastructure and Climate Change, Transport Scotland, Transport Scotland's former Director of Finance and Corporate Services, and the Auditor General for Scotland and Audit Scotland staff. The PAC also considered written contributions from these respondents and from the Cabinet Secretary for Finance and Sustainable Growth. Following these evidence sessions, the PAC published a report on 11 June 2009.<sup>3</sup> In total, the rail franchise was considered at 12 meetings of the PAC. See Appendix 2 for extracts from the PAC meeting minutes regarding the First ScotRail franchise.
7. The PAC's report focused mainly on the extension of the franchise, in particular, the following issues:
- The information provided to the Minister for Transport, Infrastructure and Climate Change to inform the decision to proceed with the franchise extension
  - The lack of external consultation on the franchise extension
  - The criteria used to assess whether a franchise extension would be appropriate, and

<sup>2</sup> Web stats are limited to those we have identified from standard searches.

<sup>3</sup> The PAC's report on the First ScotRail passenger rail franchise is available at [www.scottish.parliament.uk/s3/committees/publicAudit/reports-09/paur09-06-01.htm](http://www.scottish.parliament.uk/s3/committees/publicAudit/reports-09/paur09-06-01.htm)

- The First Group shareholding and role of Transport Scotland's former Director of Finance and Corporate Services, particularly during the review process leading to the extension, and his departure from the organisation (this occurred a day or two before publication of the Auditor General for Scotland's report).

## Significant developments

8. The Permanent Secretary indicated that, in future, fully documented business cases will be produced to inform ministerial decisions in line with the Scottish Public Finance Manual and that these will always be provided to Ministers.
9. The Scottish Government has reviewed and revised its recruitment and management procedures in order to improve the identification and management of interests:
  - A question has been added to the senior civil service (SCS) application form which asks applicants to indicate whether they are aware of any possible conflict of interest that might arise should they be appointed.
  - The Scottish Government's Human Resources team committed to review SCS recruitment procedures to see whether anything further is required.
  - The Permanent Secretary has indicated that anyone with private financial interests will now have six-monthly discussions with their line managers on the management of those interests rather than the "once-and-for-all" arrangement that was previously in place.
  - The Permanent Secretary has indicated that clear guidelines will be introduced regarding senior civil service recruitment and the management of potential conflicts of interest.
10. A letter from the then Chief Executive of Transport Scotland included a summary of actions being taken to implement the recommendations relevant to it. Details of progress to date against the recommendations in *The First ScotRail Passenger Rail Franchise* report are listed in Appendix 1.
11. Some of the recommendations relate to what will happen in preparation for the next franchise period. Since the franchise now runs until 2014 these recommendations have yet to be implemented at the time of this 12 month impact report. It is also worth bearing in mind that a further franchise may not be considered the appropriate way forward by the Scottish Government.
12. In a letter to the PAC in April 2010, the Permanent Secretary noted that, following a programme of internal review within the Scottish Government, there would be a structural change relating to transport responsibilities. He explained that planned to bring the Scottish Government's Transport Directorate and Transport Scotland into a new, single, transport unit covering all of the Scottish Government's transport responsibilities. The planned reorganisation will proceed on the basis of the Directorate and Transport Scotland combining as a single Executive Agency.

**Appendix 1 - Summary of report impact against Audit Scotland’s framework for measuring impact**

<b>HOLDING TO ACCOUNT AND HELPING TO IMPROVE</b>		<b>Assurance and accountability</b>	<b>Planning and management</b>	<b>Economy and efficiency</b>	<b>Quality and effectiveness</b>
<b>General Impacts</b>					
<b>Impact of report’s recommendations</b>					
<p><b>Transport Scotland</b> should review performance measures to improve alignment with passenger and wider government priorities.</p>	<p>Transport Scotland is satisfied that the SQUIRE regime (used to assess ScotRail’s performance) does not require a systematic review, although it intends that the broader alignment of Ministers’ and passengers’ priorities will be a key matter of consideration for the next franchise.</p> <p>In the meantime, Transport Scotland continues to work with ScotRail to address specific areas of concern to passengers. For example, Transport Scotland has reached agreement with Scotrail over the toilet facilities on board trains for one route that was subject to the highest levels of customer dissatisfaction (for toilet facilities).</p> <p>Transport Scotland is also making adjustments to performance standards to ensure ScotRail is encouraged to focus on issues directly affecting passengers, rather than trying to cover all potential problems.</p>	●	●	●	●
<p><b>Transport Scotland</b> should consider allocating and monitoring a budget for franchise performance payments.</p>	<p>Following the recommendations contained in the Audit Scotland report, the franchise Rail Business Plan and Budget has specific lines for all individual elements of franchise performance payments: Performance Incentive Payment, Short Formation Incentive Payment Timetable Change Incentive Payment and Service Quality Incentive</p>		●	●	

HOLDING TO ACCOUNT AND HELPING TO IMPROVE		Assurance and accountability	Planning and management	Economy and efficiency	Quality and effectiveness
	<p>Payment (SQUIRE).</p> <p>Each budget line is subject to analysis, forecasting and setting for each four-week Rail Industry Period prior to the commencement of each financial year, based on targets set for improvement contained with the Franchise Agreement, data from previous years and the franchisee's views contained in their Business Plan Update for each Franchise Year. The forecast and budget for each element is subject to monitoring and review throughout the year.</p>				
<p><b>Transport Scotland</b> should clarify whether all funding commitments relating to the franchise are secured until the end of the extended franchise term in November 2014.</p>	<p>Transport Scotland identified one further potential funding commitment and is currently considering whether it relates to the franchise extension.</p>		●	●	
<p><b>Transport Scotland</b> should clarify its consultation arrangements, both for passenger rail and its overall transport responsibilities, to improve stakeholder engagement.</p>	<p>Transport Scotland did not accept this recommendation but has noted that the Scottish Government's Shaping Up report includes recommendations on ensuring relationships with stakeholders are effective. Transport Scotland has indicated that it is considering (alongside colleagues in the Scottish Government and other executive agencies) how best to act upon the recommendations in the report.</p>	●			●
<p><b>Transport Scotland</b> should establish a single source from which stakeholders can easily access the information they consider relevant regarding the franchise.</p>	<p>The information on Transport Scotland's website regarding the franchise has improved. It now includes a 'measuring performance' section for the rail franchise that includes train running performance information (<a href="http://www.transportscotland.gov.uk/rail/rail-franchise/measuring-performance">http://www.transportscotland.gov.uk/rail/rail-franchise/measuring-performance</a>) and a link to</p>	●			

HOLDING TO ACCOUNT AND HELPING TO IMPROVE		Assurance and accountability	Planning and management	Economy and efficiency	Quality and effectiveness
	<p>First ScotRail's performance information.</p> <p>Transport Scotland has also put in place performance text and links, including links to ORR Trends and the Passenger Focus survey.</p>				
<p><b>Transport Scotland</b> should ensure a guide to the franchise contract is developed that identifies key elements for passengers and taxpayers, is reviewed for its readability and made publicly available.</p>	<p>Transport Scotland has produced a guide to the franchise contract that is available on its website.</p>	●	●		
<p><b>Transport Scotland</b> should publish a summary of the performance meeting minutes identifying key elements for passengers and taxpayers.</p>	<p>Transport Scotland now provides performance meeting minutes on its website.</p>	●			●
<p><b>Transport Scotland</b> should develop a systematic project plan for awarding the next franchise. This should identify the key stages and their timeframes, consultation strategy, decision-making criteria, and reporting and approval arrangements.</p>	<p>Outline high level project planning for the next franchise has commenced. Transport Scotland is committed to preparing a comprehensive project plan, which will address inter-dependencies, stakeholder engagement and all other relevant issues.</p>	●	●		●
<p><b>Transport Scotland</b> should specify under what conditions an extension will be considered or the criteria that will be used to decide whether an extension is appropriate, should the next franchise agreement include an extension option.</p>	<p>It is too early for Transport Scotland to act on this recommendation. However, Transport Scotland has indicated that it remains committed to ensuring that extension criteria and conditions are transparent in the next franchise contract.</p>	●	●		●
<p><b>Transport Scotland</b> should consider any relevant recommendations from the recent National Audit Office report on letting rail franchises.</p>	<p>Transport Scotland has carried out initial analysis of the NAO report and the recommendations will be considered in more detail as part of the systematic project plan for replacing the franchise.</p> <p>Transport Scotland also intends to take account of recommendations made by the Competition</p>		●		

HOLDING TO ACCOUNT AND HELPING TO IMPROVE		Assurance and accountability	Planning and management	Economy and efficiency	Quality and effectiveness
	<p>Commission in its report on Rolling Stock Companies.</p> <p>Transport Scotland is also considering its contribution to the Department for Transport's broad consultation on the future of rail franchising, which may have implications for Scottish Ministers' franchising policy</p>				
<p><b>The Scottish Government</b> may wish to consider introducing an obligation for all public transport providers to consult with other affected transport providers when proposing service or timetable changes, to assist further integrated transport improvements.</p>	<p>As noted above, the Scottish Government's Shaping Up report includes recommendations on ensuring relationships with stakeholders are effective.</p>		●		●
<p><b>The Scottish Government</b> may wish to consider introducing versions of the Service Quality Incentive Regime (SQUIRE) for other transport and service providers.</p>	<p>We are not aware of any specific developments or proposals to introduce similar regimes for other service providers.</p>	●		●	●