



**OFFICIAL REPORT**  
AITHISG OIFIGEIL

# Public Audit Committee

**Thursday 19 May 2022**

**Session 6**



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Pàrlamaid na h-Alba

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**PUBLIC AUDIT COMMITTEE**

**15<sup>th</sup> Meeting 2022, Session 6**

**CONVENER**

\*Richard Leonard (Central Scotland) (Lab)

**DEPUTY CONVENER**

\*Sharon Dowey (South Scotland) (Con)

**COMMITTEE MEMBERS**

\*Colin Beattie (Midlothian North and Musselburgh) (SNP)

\*Willie Coffey (Kilmarnock and Irvine Valley) (SNP)

\*Craig Hoy (South Scotland) (Con)

\*attended

**THE FOLLOWING ALSO PARTICIPATED:**

Helen Carter (Scottish Government)

Nick Ford (Scottish Government)

Alan Morrison (Scottish Government)

Lawrence Shackman (Transport Scotland)

Andrew Watson (Scottish Government)

**CLERK TO THE COMMITTEE**

Lynn Russell

**LOCATION**

The James Clerk Maxwell Room (CR4)



# Scottish Parliament

## Public Audit Committee

Thursday 19 May 2022

*[The Convener opened the meeting at 09:15]*

### Decision on Taking Business in Private

**The Convener (Richard Leonard):** Good morning. I welcome everyone to the 15th meeting in 2022 of the Public Audit Committee. The first agenda item is a decision on whether to take items 2 and 4 in private. Do we agree to do that?

**Members** *indicated agreement.*

**The Convener:** That being the case, I will immediately move the committee into private session. We will resume with item 3 in public at around 10 o'clock.

09:15

*Meeting continued in private.*

10:00

*Meeting continued in public.*

### Major Capital Projects: Accountability and Governance Arrangements

**The Convener:** Good morning. I welcome everyone back to the 15th meeting in 2022 of the Public Audit Committee, as we resume in public session. Under item 3, the committee will look at major capital projects. We get regular reports on the performance of such projects. This morning, we are keen to examine their governance and accountability arrangements. I am pleased that we are joined by a panel of five to help us understand how those governance and accountability issues work.

From the Scottish Government, I welcome Helen Carter, who is deputy director of infrastructure and investment; Nick Ford, who is director of Scottish procurement and property; Alan Morrison, who is deputy director of health infrastructure, investment and personal protective equipment; and Andrew Watson, who is director of budget and public spending. Last but not least, I welcome Lawrence Shackman, who is director of major projects at Transport Scotland.

We have not asked you to make an opening statement. If it is okay with you, Andrew Watson, we will use you as a conduit. Obviously, there will be questions that relate to particular areas of work, which you should feel free to direct. If other members of the panel want to come in at particular points, they should indicate to me or the clerks and we will do our best to bring you in. I will begin by asking the deputy convener, Sharon Dowey, to open the questions.

**Sharon Dowey (South Scotland) (Con):** I will ask about the governance and management structures for overseeing the infrastructure investment plan. How does the infrastructure investment board carry out its role and interact with other boards and groups?

**Andrew Watson (Scottish Government):** I will start on that question and then bring in a couple of colleagues if need be.

As we set out in our paper—which I hope was a helpful scene setter—the IIB is a place where we can draw strategic advice from across Government to inform the development of products such as the infrastructure investment plan. We produce an IIP roughly every five years, and the intention behind it is to set out a medium-term vision in relation to the infrastructure projects and programmes that the Government wants to take forward with delivery partners.

The most recent IIP was very much informed by the findings of the independent Infrastructure Commission for Scotland. One of the points to put across about the development of the IIP is that we tend to take a consultative approach. The current IIP was put out for consultation, and the final version of the IIP reflected some of the views that came back. The IIB has a role, but it is by no means the only place where input comes into the infrastructure plan.

On the development of the IIP, the committee will understand that each IIP does not start with a blank sheet of paper. Given the nature of infrastructure investment, multiyear programmes and projects, and the need to maintain the existing public sector asset base, each IIP is, if you like, the next step in the journey rather than a complete redrawing of the infrastructure plan.

On how the plan is developed through working with portfolios, my team in the infrastructure division engages with portfolios with projects and programmes that have large infrastructure requirements. We look at their requirements and forecasts and we intersect the vision and overarching objectives that we want to set for our overall plan with the plans that are developed in individual sectors. For example, it is about things such as the strategic transport projects review in transport and long-term infrastructure plans in health. Our overall infrastructure plan needs to take into account the plans that exist in those sectors. There is a lot of engagement with portfolios in order to do that.

I will make one last initial point. The committee will be aware that the current infrastructure plan was published at the same time as a capital spending review. Another key link is therefore the link between the budget and the funding available to us, and the projects and programmes that we want to take forward. The current plan was published not only to set out the policies and programmes that we want to prioritise but to match with the budget process.

Those were a few observations, but I am happy to say more if that would be helpful.

**Sharon Dowe:** Will you tell us more about how you monitor overall progress and what information is provided to you? Once you have given out the plan, what updates do you get?

**Andrew Watson:** In many respects, we get similar updates to the ones that you get as a committee. The convener mentioned at the outset that you have six-monthly reporting around the pipeline of major projects. We use that ourselves internally, and then use it to show transparency around the delivery of the plan and to engage with groups such as this committee. That enables us to track overall progress against the plan.

There is distinct accountability for the individual delivery of specific projects and programmes within the portfolios and within the procuring authorities that are responsible for them. From the perspective of the infrastructure investment board, our interest is in the overall delivery of the plan and the contribution that it is making to some of the high-level outcomes that the Government has set around net zero and economic development and so on, as well as its contribution to the delivery of the national infrastructure mission. We take a strategic view of that. However, as the committee has seen itself from the information that we produce, we also have that information at a project and programme level.

**Sharon Dowe:** What relationships and communication do you have when projects start to go wrong? I will use the ferries as an example.

**Andrew Watson:** Through the pipeline project reporting, we are able to see how projects are comparing to the outline business case and how they are performing in relation to time and cost. We have that basic level of information about any variance between the different projects and their original plans.

The composition of the infrastructure investment board is deliberately set so that the members of the board represent the key areas of infrastructure development—such as transport and health—in the Scottish Government. We have that interaction at a high level with senior officials from the main areas that look after infrastructure.

**Sharon Dowe:** At what point do flags get raised in relation to overspend or overruns in projects? What is deemed acceptable and when would something be reported to Parliament?

**Andrew Watson:** The starting point is that, in many respects, movements in budget on capital projects are similar to those in the rest of our budget approach. There is monthly monitoring of outturn against budgets, which includes capital budgets. If material changes need to be made at the level of portfolio budgets, we would bring that to Parliament through autumn and spring budget revisions in relation to in-year movement. On multiyear investment plans, we have the opportunity to adjust at annual budgets, as well as through periodic capital spending reviews and so on. At the macro level, that would therefore feed through our overall budget processes.

Circumstances vary a little bit in relation to specific projects depending on the portfolio responsible and the procuring authority. In the larger areas, where portfolios are managing a suite of projects and programmes, it is their responsibility to ensure that those are brought in within the budget available to them. However, a portfolio that is managing a number of different

projects may have some scope to reflect an overspend in one with an underspend in another, and manage that as a portfolio of projects. There is a distinction between the central budget processes and the delegated responsibilities around individual portfolios and procuring authorities.

**Sharon Dowey:** So it is an annual update in the annual budget.

**Andrew Watson:** There are a number of opportunities over the financial year. At the highest level of our budget process, we tend to have two moments per year where in-year adjustments can be made, and, as you know, there is the annual budget process. However, those are very much at the macro level.

On the individual projects and programmes within that, we would expect portfolios to manage the movements in all sorts of spending programmes within the accountability that has been set for them. They are able to make changes during the year in their management of individual projects and budgets.

**Sharon Dowey:** Paragraph 19 of the submission states:

“All Accountable Officers, whether Director Generals or Chief Executives of Executive Agencies or NDPBs are personally answerable to the Parliament for the exercise of their functions and have a duty to:

- a. Ensure propriety and regularity of public finances;
- b. Ensure Value for Money – of all related resources judged for the public sector as a whole;
- c. Have clear lines of delegation and accountability; and support for undertaking these functions;
- d. Ensure risks are managed effectively;
- e. Make sure procurement guidelines are met;
- f. Secure Best Value; and
- g. Seek written authority from Ministers if any action is inconsistent with proper performance of the accountable officer’s functions.”

Looking specifically at the ferries, why would that go so badly wrong? Every single one of those guidelines seems to have fallen by the wayside.

**Andrew Watson:** You will appreciate that I am not personally involved in the ferries project.

**Sharon Dowey:** What about any other kind of procurement? The ferries issue started off with procurement, and loads of issues have been raised in relation to that. I am trying to see what could be put in place to make sure that those issues are not on-going. What happened with the ferries was disastrous. Why did it happen in the first place when we have those rules in place?

**Andrew Watson:** I will ask Nick Ford to say a little bit more about the procurement rules that we

follow and the guidance and support that we offer to portfolios in respect of those.

I am not in a position to comment in detail on the specific example of the ferries case, as you will appreciate. However, from a central infrastructure perspective, one of our key interests is in learning lessons from experience across the infrastructure portfolio. We are extremely interested in the overall support that can be provided to those managing significant contracts and in the guidance that we offer to accountable officers and senior responsible owners for projects and programmes. A lot of advice and guidance is set out in documents such as the Scottish public finance manual and there is a range of support for those leading major projects and programmes. If there are lessons to be learned from particular experiences, we would obviously want to feed that back into the processes that we have.

Nick will say a little bit more about the support that we can offer.

**Nick Ford (Scottish Government):** I was not directly involved in the ferries either, but I can talk from a general perspective about how we manage procurement. The assurance process is very similar. It is about empowered accountability, so every public body under the Scottish public finance manual needs to follow the procurement processes that are laid out. They will also have in place their own procurement governance procedures. The SRO and the contracting authority are, ultimately, accountable for procurement and ensuring that the procurement process is followed.

We operate under good governance and the project portfolio management design principles, which are about having a first line, a second line and a third line of defence reporting. The first line is fundamentally about the project team delivering—in this case, delivering the ferries. My directorate in the Scottish Government is part of the second line. We provide policy and guidance. If the body comes under the SPFM, we also provide the legislation that they must follow, since procurement is a devolved matter. We provide tools and capability building, and we can also provide assurance and support to the teams. However, accountability very much rests with the SRO. Fundamentally, the SRO and the accounting officer are best placed to understand the context and the risks, and how to mitigate and follow through on those. That is how it works.

The procurement part is often used in a broad and liberal sense. There are different stages, whether in relation to the design part and the actual specific procurement process itself, or more in relation to the contract management phase. I think that, with the ferries, the issues probably

occurred more in the contract management phase than in the procurement aspects.

Another key part that I will pick up on is the lesson learning that feeds back. Part of my directorate's role is to spread good practice, case studies and capability building back out into the procurement teams that might sit within a directorate or a public body.

**Sharon Dowey:** You said, "If there are lessons to be learned," Mr Watson. Your submission says:

"Finally, the IIB has a role to ensure that there is reflection and learning taken from new, complex or innovative investments, and that this is effectively shared across portfolios."

There are many lessons to be learned from the issues that have been raised with the ferries. What have you taken from that, implemented and shared among the portfolios so that it does not happen again? I refer to the likes of recording meetings and ensuring that paperwork does not go missing. What actions have you taken based on what you have heard about the issues in the handling of the ferries contract?

10:15

**Andrew Watson:** Recording meetings, for example, is, in some respects, a wider issue in the operation of Government and not specifically a point about infrastructure. However, we always expect good practice to be shown in relation to the audit trail and documentation on large infrastructure projects and the way in which contracts are managed. There is probably already a good set of guidance on good practice in the management of contracts.

The infrastructure investment board tends to look for strategic trends across the management of projects. For example, recent issues that we have considered include the impacts of Covid, supply chain risks and inflation on the delivery of the infrastructure programme. We tend to consider those types of issues in the forum that we are describing to you.

We have an existing programme of improvement across the infrastructure investment landscape. In the first instance, that is informed by the recommendations of the independent Infrastructure Commission for Scotland, but we also consider Audit Scotland reports and findings on the delivery of projects. That is a natural home from which to apply lessons learned from other experiences.

I ask Helen Carter say a bit about our current improvement programme.

**Helen Carter (Scottish Government):** The Infrastructure Commission for Scotland set out a number of recommendations, some of which were addressed in the current infrastructure investment

plan, which we published in February 2021. However, the commission also suggested some improvements that could be made over the course of the plan in time for the next publication in 2025-26.

We are working on three components for improvement. They include a long-term needs assessment to inform what Scotland requires to meet future infrastructure needs. The Infrastructure Commission considered a 30-year horizon but the current IIP spans only five years, so the question is what the next step is to take forward planning for the future. We are also considering the appraisal and prioritisation frameworks that are in place to assess where the capital investment is best used and looking at enhancing the role of public engagement in future plans.

**Sharon Dowey:** What is the IIB's role in developing the overall strategic direction for infrastructure investment and in balancing competing priorities between and within different portfolios and programmes?

**Andrew Watson:** I will kick off on that and might draw in a couple of colleagues.

Some of the points that I made earlier are relevant to that question as it relates to how the IIP is developed and how perspectives from across Scottish Government portfolios on the key sectoral plans, such as those for health and transport, are drawn in. The current IIP was very much informed by the Infrastructure Commission's findings and is based on priorities such as achieving net zero and the need to develop a strong, resourceful economy.

The point that you made about competing priorities is challenging for anybody who is involved in infrastructure at the Government level. The IIP tries to strike a good balance between achieving different objectives across a very wide-ranging programme.

In the current IIP, we consciously tried to shift spending towards the achievement of our climate change targets. For example, the announcement of the low carbon fund is in the IIP. In developing the IIP, we used that shift as a particular driver, so that we could achieve a cumulative impact on net zero by prioritising it across so many different portfolios and sectors. That was a device that we employed for the first time in this IIP, and its effectiveness has been borne out in the shifts that we are seeing towards net zero expenditure.

Another way of approaching the question is to look at principles for investment. One of the themes for the current IIP was the benefit of prioritising maintenance of existing assets. That does not mean that we do not invest in new projects as well, but there was a finding from the



commission that prioritising maintenance was important for a number of reasons. Therefore, if we can find overarching principles that are neutral in terms of individual portfolios, policies or sectors, that enables us to arrive at conclusions about how to prioritise across a diverse set of options.

Those are the two themes that I would point out from the current IIP.

**Sharon Dowey:** Thank you. Does anyone else want to come in?

**Alan Morrison (Scottish Government):** I will give a perspective from health. In some ways, our governance is similar to the infrastructure investment board as Andrew Watson described it. The national health service has its own infrastructure board, whose co-chair is a member of the Scottish Government's infrastructure investment board. He provides feedback to the Scottish Government's infrastructure investment board on the issues that are important to health and, equally, he will reflect its priorities to the NHS infrastructure board and make sure that they are reflected in our infrastructure plan.

For example, Andrew Watson mentioned the importance of maintaining our existing estate. We are committed to doubling our maintenance over the five-year period of the current infrastructure investment plan.

Another example is net zero requirements. We have said to NHS boards that, if they are going to develop an infrastructure project, it needs to be net zero. In itself, that is quite challenging, and we have challenged boards to come up with innovative designs and ways of designing new healthcare facilities that reflect that Government priority. That is a clear example of where we link in with the Scottish Government's infrastructure priorities while putting forward our case for investment in health and social care.

**Lawrence Shackman (Transport Scotland):** I will comment from a transport point of view. Earlier this year, we published the strategic transport projects review, which looked at all transport infrastructure across Scotland and at gaps and shortfalls in the networks, whether they are the ferries—which you mentioned earlier—the rail network or the road network. That was on the back of a national transport strategy refresh that was published a couple of years ago.

We are really aiming towards sustainable modes now. With regard to competing priorities, for example, sustainable modes are much more favoured over roads, although roads are still able to go forward if they have environmental or safety benefits. People mentioned maintaining existing assets and making sure that they are safe. There is quite a scale of different priorities. The emphasis is perhaps moving away from a lot of

road building, unless the improvements are targeted towards infrastructure around cycling, walking or public transport.

**Sharon Dowey:** Thank you. If you ever have any spare cash, I will give a wee shout out for the A77.

**The Convener:** For the avoidance of doubt, this is not an unscheduled proxy session on the delivery of vessels 801 and 802.

Let us return to governance and accountability. Andrew Watson mentioned that he had given us a written submission in advance, which is very useful to us. In one part of the paper, which struck me, he says:

“Infrastructure strategy is developed through a range of mechanisms.”

I note from the paper that there is a Scottish Futures Trust, an infrastructure investment board, an Infrastructure Commission for Scotland, an infrastructure advisory group and, as Alan Morrison has just told us, a departmental infrastructure board. How do those all fit together? What are their respective roles? Is there duplication? Is the system overly bureaucratic or does it work perfectly well?

**Andrew Watson:** It is working well. We should always challenge ourselves to avoid duplication, and we mitigate that by being really clear about the roles and responsibilities of different parts of our structure. We have that in place.

Some of the examples that you mentioned are not permanent; for example, the Infrastructure Commission for Scotland was established for a particular purpose and has reported. The structure and mechanisms reflect the complexity in the landscape. As we have discussed, our infrastructure investment programme is a diverse brief and it is a multibillion programme each year. The level at which we need expertise, oversight and accountability for individual projects requires infrastructure to be put in place to ensure effective delivery, governance and so on. We therefore—rightly—have a system of delegated responsibility within portfolios and public bodies for the delivery of individual projects and programmes. On top of that, we need a governance structure that reflects the system.

In relation to points in the governance such as the infrastructure investment board, as we said in the paper, it is primarily a strategy-setting board. Its *raison d'être* is having somewhere where we can bring in different perspectives to chart a vision and clear direction at the highest level across Government and across infrastructure.

The remit of bodies such as the Scottish Futures Trust is different. It has been established to do a number of things. As the committee will know, in

its early years, the SFT was particularly engaged in the revenue-financed programme for infrastructure. However, it also provides a range of expert services and advice across Government, and beyond Government to other public bodies in relation to which it has a professional view and skills to offer. Each part of the landscape does something different and distinct. It is complex, but it hangs together reasonably well.

**The Convener:** You mentioned the Scottish Futures Trust, which is listed in your submission as being a “key advisor” to the IIB. The IIB also has an infrastructure advisory group. Who is on the SFT and who is on the advisory group? Why are their roles different and what advice do they give you that is different? Is it not simply duplication?

**Andrew Watson:** It is not duplication. The infrastructure advisory group is primarily a place where people developing policy in different parts of the Scottish Government can come together to ensure that there is consistency and join-up and that things are moving in a reasonably coherent direction in order to deliver things such as the infrastructure investment plan and some of the overarching outcomes that span more than one part of Government. That supports the IIB in many respects.

The Scottish Futures Trust is a public body in its own right with a range of different functions and a different set of skills. It not only provides input to the IIB but works in direct partnership with bodies that deliver projects on the ground. It brings in some of the skills that we see between the public and private sector in a way that can be more difficult to do within Government. It therefore has a range of functions in relation to not only providing input to the IIB but working across the public body landscape in Scotland.

**The Convener:** I have one final question, for the moment. Helen Carter, Nick Ford and Andrew Watson are on the IIB. Who is on the infrastructure advisory group?

**Andrew Watson:** We can provide its membership to the committee, if you would like. Although it is a slight generalisation, the IIB brings together senior leaders from the main functions in Government that have a stake or a role to play in the delivery of infrastructure. Nick Ford is here as an example of procurement as a cross-cutting function that provides professional support across Government. We also bring in senior officials from health, Transport Scotland and so on.

The infrastructure advisory group tends to be at director and deputy director level, bringing together policy makers from the main parts of Government. There is therefore a bit of a distinction around the seniority of the membership

of the different groups, which has a bearing on the agendas and topics of discussion for the different bodies, if that makes sense.

10:30

**The Convener:** Okay. Are the minutes available publicly?

**Andrew Watson:** We provide the IIB minutes to Audit Scotland.

**The Convener:** Are they published on the Scottish Government website?

**Andrew Watson:** I do not know whether they are.

**Helen Carter:** Not at present.

**The Convener:** You can get back to us with more detail on that, if that would be useful.

I turn to Craig Hoy, who has some questions to put.

**Craig Hoy (South Scotland) (Con):** Good morning, Mr Watson. I will dig a little bit deeper into governance assurance and oversight at portfolio and project levels and see whether any tension, overlap or gaps exist.

First, perhaps your colleagues could explain more about the role of the portfolio investment board in authorising projects and whether arrangements differ across portfolio areas. Let us hear about that from the perspective of Mr Morrison in health, for example, or Mr Shackman in transport.

**Andrew Watson:** I will ask Alan Morrison and Lawrence Shackman to give you some examples from their areas. My only comment is that—as you said—there is a bit of diversity across the portfolios, given their size, scale and function. There is therefore discretion for local arrangements to reflect that. My colleagues will say a bit more.

**Alan Morrison:** At the risk of throwing another group into the mix, in health, there is an NHS capital investment group that specifically reviews business cases for capital projects that are submitted to the Scottish Government. It basically covers all projects that are above a board’s delegated level. In general terms, for the bigger boards such as NHS Greater Glasgow and Clyde and NHS Lothian, anything in excess of £10 million needs to come to Government; for the smaller boards, anything in excess of roughly £5 million needs to come to us.

We provide bespoke guidance in the form of the Scottish capital investment manual. It sits underneath the Scottish public finance manual and sets out a step-by-step process for boards on what they need to do to develop a business case that

will be supported. There are three stages: initial agreement, outline business case and full business case. It therefore takes a long time. We are conscious of that and of whether we can speed it up and make it quicker.

The capital investment group includes representatives from across Scottish Government health and social care directorates. It has representation from the Scottish Futures Trust, which provides invaluable challenge and thought on a board's proposals. Health Facilities Scotland and NHS Scotland Assure also sit on the group. They consider whether a business case is supported. If they recommend it for approval, it goes to the director general and she makes the ultimate decision. If they do not accept it, which is not particularly unusual, we go back to the board and say, "Your business case fell short in these various areas and you need to go back to it." Almost always, it reconsiders and resubmits the business case, and we go through the process again.

**Lawrence Shackman:** In Transport Scotland, the chief executive is the accountable officer. He has in place a system—an investment decision makers process—that uses the other directors in Transport Scotland to advise him on whether projects should proceed through the various key gateway stages; in particular, those of strategic business case, outline business case and final business case. He is also guided by outputs from gateway reviews that are undertaken at key project stages.

We feed our projects into the IIB, too. I think that projects that are more than £20 million are typically registered with the IIB. As previously mentioned, they are updated on a six-monthly basis.

We have another fairly independent body in the form of the audit and risk committee—or ARC—in Transport Scotland. It has a challenge function to the various projects to ensure that they go through due process properly, that they have in place adequate funding and that they have looked at the risk profiles. That is fed back into the project, which is governed at project level in particular Transport Scotland directorates, depending on whether it is a road, ferry or rail project. There is a high degree of assurance for projects that go through the investment decision makers process and onwards to the IIB for reporting purposes.

**Craig Hoy:** Typically, how long does that process take to complete to your satisfaction?

**Lawrence Shackman:** It could take years. Road projects, for example, take several years to come to realisation. I will pick on the Queensferry crossing as an example. It took 10 years from start to finish, from implementation to completion. It will

have gone through several gateway reviews, been subject to Audit Scotland reviews and gone through investment decision makers processes at a much more pointed level because the chief executive sat on a bespoke project board, which typically met every six weeks. There was a high degree of control and oversight for the project to ensure that it ran smoothly and that, if there were any problems, they were picked up and acted on timeously.

**Craig Hoy:** There is a natural tension between the need to do things properly and the need to get infrastructure projects in place quickly, because they tend to follow demand—take the Sheriffhall roundabout, for example. Is there anything in the process that could be done to ensure that you keep all the checks and balances in place but accelerate projects where there is a need to get them done with some urgency?

**Lawrence Shackman:** There is. The issue is that we have to go through a statutory process. People have to have their say on projects, and that has to be open and transparent. We use our website to a large degree to ensure that the public are informed about our projects and that they have a chance to give their views. There were a huge number of letters of objection in the case of the Sheriffhall roundabout, which is likely to go to a public local inquiry so that people's views can be heard. An independent reporter will then report on it.

It is not always easy to accelerate projects. Sometimes, that is because of where they are and because they impact on many people. Other projects have minimal impact but might involve different kinds of issues, which might be environmental or people-driven issues. Wherever possible, we try to speed processes up. I am sorry to go back to the Queensferry crossing as an example but, alongside the procurement process for that project, we ran a parallel bill process to get authorisation for it, which saved at least a year on the project programme. It is possible to do such things.

**Craig Hoy:** So you can run two elements in parallel.

**Lawrence Shackman:** Yes.

**Craig Hoy:** Mr Watson, post approval, what is the role of the individual portfolio investment boards in overseeing programmes and projects as they develop? What is the nature of the engagement that they have and their interaction with the other bodies that deliver the projects and the individual project managers? How does that all relate to the infrastructure investment board as a project develops?

**Andrew Watson:** I ask Alan Morrison and Lawrence Shackman to say a bit about that and I will come back with the IIB link at the end.

**Alan Morrison:** We review post-project evaluations through the capital investment group. That is a mandatory part of the guidance that we issue. We have a network of, predominantly, NHS staff whom we update on a range of issues. If anything particular came out of a post-project evaluation, we would share that with the people who were developing projects.

We could probably do that better. It is difficult to find the balance between somebody writing an honest appraisal of things that we could get right and the natural inclination that there sometimes is not necessarily to be open about where things went wrong. However, we try to express that supportively. It is intended to help the people who are coming behind.

**Craig Hoy:** If you could do better, why are you not?

**Alan Morrison:** One of the challenges is the length of time that it takes to cover a big project. The people who started out with the idea to develop a piece of health infrastructure are often not there at the end, and that lack of continuity can sometimes make it difficult to go back and get a sense of what they did. A key thing is the benefits realisation that is done right at the start of a project. If it is discovered that the benefit is not as good as it should have been, that makes it difficult to make an assessment.

Craig Hoy asked a really important question about whether we can do things more quickly. In some business cases, we look at the benefits realisation and think that it is not good enough, so we need the people to go back and develop the project better. That is where there is tension. We realise that that process will make the project take longer, but we try to assess that. We look at the whole life cycle of a project; it will be in use for 50, 60 or 70 years, so we try and look at it that way, rather than at whether it will start six months later. However, it is difficult to strike the right balance.

**Craig Hoy:** Is the sick kids hospital an example of that?

**Alan Morrison:** A lot of reviews are going on about the sick kids hospital, and lessons will come from the public inquiry. Because boards have been focused on managing the pandemic, we have not been as demanding about post-project evaluations coming in, but we will look at that and share the lessons that need to be learned.

**Lawrence Shackman:** We have processes in place to make sure that we undertake robust post-project evaluation. As Alan Morrison said, setting out the benefits and objectives at the beginning of

the project is key, because there is no point in having objectives if no benefits will be realised. There are various other things to consider, including interaction with the public and there being lots of evaluation points, apart from the functionality of the infrastructure that has been built.

A good example of a post-project evaluation process is the Borders railway, which was built five or six years ago. The benefits realisation process looked at how the railway had impacted on the area, how it was built and how the impacts during construction were managed. There are several other project examples; I could go on about the Queensferry crossing again. Benefits realisation is keyed into asking what the project's original objectives were and whether they have been achieved or exceeded.

That is also tied to lessons learned, which we mentioned earlier, and how we can improve processes. I mentioned that many transport infrastructure projects take several years to develop and deliver. As projects have developed over the years, modern technology means that we can communicate better with the public. Because, to a large extent, of what has happened with Covid, we no longer have just face-to-face meetings. People can attend virtual exhibitions using their laptops, and we can get them to participate in communication exercises and express their views via online surveys. There are many new methods; that is where the lessons-learned process helps us a lot.

**Andrew Watson:** The IIB takes the overall learning from the various portfolios and considers whether particular things need to be emphasised in respect of how the organisation is working more generally. Those things could be in procurement, project management or learning and development for staff. There could be issues around capacity, so the IIB might legitimately take a view on capacity within the Government and public bodies.

Alan Morrison mentioned issues around legislation and statutory requirements. There is a range of what I describe as the cross-cutting lessons that have been learned from a number of experiences. The IIB might want to take a view on those and use them to influence the overall direction of the Scottish Government's approaches.

**Craig Hoy:** I have a brief final question, because I am aware that we are short of time. The two big risks are cost savings and overruns, with projects not running to schedule. Are those being effectively managed across portfolios? Are the lines of communication between the various authorities effective in ensuring that we get on top of cost savings or project overruns?

10:45

**Andrew Watson:** They are effective, but we are always open minded about areas for improvement. You will have seen for yourself from our reporting that we have a good awareness and grasp of how the major projects are performing against time and budget.

I mentioned that we have, as you would expect, in recent years had a particular interest in the severe impact of Covid on project delivery. It is an obvious statement to make, but it has been the key factor, which is borne out in some of the reports that we have provided. We have come out of that phase of activity and are looking at the impact of inflation on costs. We need to ensure that we understand the impacts and are able to understand their cumulative effect across the Government's overall programme.

That does not remove the need for individual budget holders, portfolios and delivery authorities to manage the risks and to build them into contracts and procurement. One of our roles is to continue to ensure that people have the right guidance and skills for that; we have a range of actions in hand to ensure that that is the case.

**The Convener:** Willie Coffey has related questions.

**Willie Coffey (Kilmarnock and Irvine Valley) (SNP):** Good morning, everybody.

I will take Andrew Watson back to the beginning of all processes for all projects. Over many years, the committee has been focused on quality standards and their application in the design and specification part of projects. We are believers in the idea that, if you get it right at the outset, you are likely to get it right at the end. The opposite is also true: if you do not get it right at the beginning, you are unlikely to deliver anything on time and within budget.

We have mentioned a couple of examples; Lawrence Shackman mentioned the Queensferry crossing. We can see the success of the Queensferry crossing, the Borders railway and even the A77 Maybole bypass, but at the other end of the scale we see the ferries issue.

Do you insist that quality standards are in place for all projects, no matter what we are building? It could be a bridge, road, school, piece of software or ferry. Do we look specifically for the presence of such standards in the whole range of projects that are on the books? Do we require that of all such projects? It seems to me that, if we do not, we are at great risk of projects running out of kilter and over cost. Do we require quality standards at the outset?

**Andrew Watson:** Yes. I mentioned at the outset some of the responsibilities for accountable

officers and budget holders around value for money and regularity of expenditure. There is a set of requirements on management of public money, including in relation to infrastructure projects.

I ask Nick Ford to say a little bit more about the standards that we set on procurement and contract management. You are right: there are guidelines on those. There is good practice and it is important that good portfolio project management—PPM—principles be applied to projects.

**Nick Ford:** Whether it is procurement or programme management, the example is similar. I described earlier the first, second and third lines of reporting. Procurement professionals—I use the procurement example because it is more my home—are a broad church. The people who undertake public procurement are scattered the length and breadth of Scotland in local authorities, health boards and central Government. The question is how we drive up those individuals' capability so that good practice and good standards are consistently applied across all procurements that are undertaken.

From the centre, we provide legislation, policies and guidance. We have an industry-leading procurement journey, which is an online platform that the Scottish Government provides free of charge to all public procurement professionals. That is where we put the guidance, tool sets, standards and what we expect. It provides people with tools with which they can measure their capability, and we can update it quickly when new lessons are learned.

However, because the profession is a broad church and our remit is more in the second line, the challenge is to achieve the level of assurance that drives things up. We have changes in staff and personnel. It is a difficult and challenging job to keep raising the bar on standards, but that is absolutely what we need to try to drive. Leadership and capability are key areas on which we need to focus. We also need good PPM.

We have mentioned lessons learned a lot. Whether they are at project level, functional level or at the third line—in Audit Scotland reports—there are plenty of lessons to learn. How are we building that learning culture in teams, such that they absorb it and embrace it, and seek out and apply best practice? That is the next step that we need to continue to work on.

**Willie Coffey:** Do we invest enough time and effort at the beginning of capital programme processes to make sure that the specification, design and cost estimate work is thorough, good, reliable, deliverable and all that? There are examples of great delivery, but there are also

spectacularly bad examples. I am interested to know why we cannot spot issues early enough to stop a project becoming a bad one. Key ingredients must be wrong in certain projects. People must be familiar with all the tools at our disposal, but what are the secrets to finding out as early as we can that something will, potentially, go wrong?

**Alan Morrison:** From a health perspective, I say that we had a couple of major problems with the Royal hospital for children and young people and the Queen Elizabeth university hospital, which resulted in public inquiries being set up. Immediately after the ventilation problems were identified in the Royal hospital for children and young people, we accepted that we needed to do something different, so we established NHS Scotland assure, which is basically an assurance role that is run by NHS National Services Scotland. It outlines the full business case and goes through a key-stage assurance review with the board. In effect, it considers six critical systems—including water, ventilation, electrics and fire safety—and it challenges the board on whether the systems comply with all NHS standards and whether strategies are in place to ensure that they will be delivered.

That is where we find the challenge, because sometimes the board needs to go back and do things differently, which can push back when a project starts the construction phase. However, the potential time that is saved by identifying a problem is worth that investment.

NHS Scotland assure is a relatively new body, so most of its work has been focused on business case development. It is a key part of our work. We will not approve a business case unless NHS Scotland assure has said that it supports it. As we have more projects going into the construction phase, we expect on-site visits and reviews of the construction that is taking place. That is what we have put in place to address the problems that we have clearly had in our programme.

**Willie Coffey:** Does that not tend to happen after the event? The thing was built and installed; it was done. Why did we not spot that there was an issue before it was done?

**Alan Morrison:** We recognise that that was the problem, and that quality has been an issue. We are going back to the design phase. All the design drawings will be submitted to NHS Scotland assure and it will undertake a technical review. It will challenge any problem that it sees. I am not technical, so I cannot give details of the kinds of things that it will look for, but compliance with the technical guidance that is produced by the NHS will be a key part of that review. We expect that the process will lead to better quality and to identification of problems in advance, so that they

are fixed at that time rather than halfway through the project, when someone says, “This doesn’t fit into that.”

**Willie Coffey:** I understand what you say, and I am familiar with that, but these issues keep coming to us; the Auditor General discovers them and the committee gets oversight of them. Committee members are always left wondering, “Why could we not spot these things earlier?” Is there a lack of rigour in the design phase? We heard the example of the ferries where the cables were not long enough to reach where they should have reached. Why can we not see an issue like that earlier, even in a design document, in order to avoid doing that? It tends to be the case that something happens and then we try to correct it, learn the lessons at the end and feed those back into the next process. That is great and it is the right thing to do, but I am curious about why we cannot see the issues at an early enough stage to prevent the initial errors.

**Lawrence Shackman:** I cannot comment on the ferries issue that you mentioned but, in roads projects, over the past 20 or 25 years, the way we monitor projects from the initial phases of development has moved on in leaps and bounds. It is also about spending money at an early stage on things such as ground investigation, because most of the problems on civil engineering projects emanate from what is—or, sometimes, is not—in the ground. It is about doing our homework at an early stage and getting the right team in place, so that we have a good professional team, which is often a blend of civil servants and consultants who are professionally qualified, to develop designs and implement them through the procurement processes that Nick Ford alluded to.

Quite often, the devil is in the detail, so we need to have people looking at the documents and making sure that the contract documents are written correctly and checked and double checked. It is also important to have the right monitoring team on site, so that things are not missed out and enough competence checking is done. A lot of the civil engineering projects in Transport Scotland are self-certified, which means that the contractor has to sign up to all the drawings that he does. The works that are undertaken are designed and checked not only by the contractor but by the contractor’s designer, so that there is a high degree of confidence that what we see built out on the park—or wherever—is competent and complies with all the relevant standards. A lot of things go into making sure that a project stands up to the rigours that it should be judged on.

In the past 20 years, we have moved more towards collaborative contracts. As a client, Transport Scotland has tried to collaborate with the industry—the contractors and designers who

help us to deliver the projects. I am sorry to go back to the Queensferry crossing, but that is an example in which all the people involved in the project were co-located on the site, to try to make sure that, when issues arose—as they do in every project—they were addressed as quickly as they could be and everybody could see everybody else's angle.

Throughout the whole of that programme, we regularly used to go to committees such as this to report on progress. If Transport Scotland is working on a briefing for a committee, it is important that everyone understands their role and that we can work together as a team, as much as the contract allows. Contracts are moving on all the time to be more collaborative and make sure that issues are foreseen and solved as soon as possible.

**Willie Coffey:** I have a final query. The principles that Lawrence Shackman described are applicable no matter what people are building. The question for us is whether those principles are being applied across the board to other sectors. I mentioned a range of things that we might build in this capital programme. If that level of depth, rigour, investment, time, effort, design and specification is replicated across the board, we stand a good chance of delivering all the stuff in the programme on time and on budget. Andrew Watson, can you give the committee an assurance that that is your understanding of the whole range of what is in front of us and what is in the programme right now? Can that depth and rigour across the board, which Lawrence described in his sector, be applied to all the capital programme, so that we can look forward to all the projects being delivered on time and on budget?

**Andrew Watson:** I cannot personally guarantee that every project in our wide programme will be delivered on time and on budget, and nobody could do that.

We spoke earlier about the relative complexity of our structures, but they are designed to ensure that some of the learning across those quite different portfolios is applied more generally. Therefore, there is a space to consider that and feed those standards and experiences into the guidance that we offer across Government, through our procurement practices and the recruitment approach to people coming into the Government and delivery authorities, for example, in the construction of teams.

There are a number of parts of the public sector that have long experience of delivering major projects. You just heard about two. We are thoughtful about areas in a portfolio where there is a lack of experience or scale in delivering a project. That is where we bring in some of the support that we can offer from a procurement

perspective and, sometimes, bodies such as the Scottish Futures Trust. There is something important about creating that supportive culture to ensure that the best standards that you have heard about from colleagues in health and transport are spread across the piece.

11:00

**Willie Coffey:** Those are very helpful answers.

**The Convener:** I am conscious of time, but Colin Beattie is next.

**Colin Beattie (Midlothian North and Musselburgh) (SNP):** I have a slightly lumpy question for you to answer on prioritisation and funding of major capital projects. How do you determine the overall budget and type of funding for different programmes and projects? How do you prioritise between portfolios, including what the roles are for ministers and officials?

**Andrew Watson:** We have talked a bit about what goes into the development of the IIP. One of the purposes of the infrastructure investment plan is to set the overall strategy for the projects and programmes that we want to progress. That can give us the ability to shift priorities if we want to or reach difficult decisions about competing priorities. I have talked a bit about the focus on achieving net zero and maintenance as two examples of that. That overall strategy helps with the prioritisation approach.

I mentioned that each IIP does not start from a blank sheet of paper. One of the key factors in our budget setting is existing projects and programmes and the maintenance of our existing assets. In setting annual budgets or, through a spending review, a multiyear financial plan, we consider existing legal and contractual commitments and we need to factor those into our budget setting. In relation to the current IIP, we worked in parallel on the capital spending review to ensure that we had a multiyear budget plan that stacked up against the policies and programmes in the IIP.

You will be familiar with the fact that, in the annual budget process, we set out updated annual capital spending plans in each successive budget. That is part of our routine budget processes of engaging with portfolios about their spending projections and priorities for the year ahead. We consider the mix of funding sources. For example, you will be aware that we have a strategy for capital borrowing, which we set out in our medium-term financial strategy. We have a medium-term plan on capital borrowing and how that supports our programme, but we also take annual decisions about actual borrowing in any given year depending on the trends in spend against budget.

A range of processes around the budget are relevant to the matter. The IIP sets the overall strategy and we engage with portfolios on the state of existing projects and their future strategies. Ultimately, we have the task of supporting ministers to reach an overall view about how to prioritise and allocate budgets between all those different elements. As you know, we have also made significant efforts to ensure that that is a public process. The Parliament needs to approve the annual budget, but we have also consulted widely on our infrastructure plans and fed that into our process.

**Colin Beattie:** You mentioned giving ministers advice on the value and prioritisation of projects. Is that a lengthy and complex process?

**Andrew Watson:** It is a continuous process in many respects. There is a need to set a medium-term perspective on financial planning and projects. We also have the annual budget process and the management of spend in year. There are many layers to it, so it is a continuous process.

There are other factors as well. There could be movements in our overall funding position as a result of, for example, United Kingdom fiscal events, UK spending reviews or cost increases.

The set of issues that we need to manage is complex. Some of that is managed within our overall budgeting processes and some of it is specific to infrastructure. The best way of putting it is probably to describe it as a continuous process.

**Colin Beattie:** As an extension of that, to what extent is the affordability of planned infrastructure investment determined by, or dependent on, external factors?

**Andrew Watson:** A number of external factors have a bearing. We have talked a little bit about issues around supply chains and inflation. The cost profile of projects is subject to some fluctuation because of those sorts of external factors. A lot of the overall composition of the Scottish budget is still determined by block grant from the UK Government, including on capital, which can also have an impact on the overall funding envelope available to us for projects. We have also discussed a bit this morning movements in the time and budget of individual projects, which we also need to take into account. Overall movements in the economy can also have an impact.

Mr Beattie is therefore right that a wide number of factors need to be taken into account, which is one of the challenges in setting a strategy for infrastructure. In my opinion, setting that medium-term strategy is the right thing to do. It gives us the capacity to plan, but we also need the ability to be flexible along the way as we deliver each of those medium-term strategies.

**Colin Beattie:** On a slightly different aspect, the non-profit-distributing model has been with us for some time. We have had discussions about it in this committee over a number of years. Could someone supply the committee with a copy of the formula for NPD as it is at the moment?

**Andrew Watson:** I might ask Helen Carter to comment.

**Colin Beattie:** I am not necessarily asking you to give us a dissertation on it now, but could you supply that?

**Andrew Watson:** I am very happy to do that. There is a range of information about the underpinning of NPD on the Scottish Futures Trust website. We have provided a fair bit of information on it to Parliament over the years. As you said, it has been a long-standing programme. However, given the time, rather than going into that just now, I will take that away and we can provide further information.

**Colin Beattie:** You are busy developing a new mutual investment model. How far along the road is that?

**Andrew Watson:** I will ask Helen Carter to comment briefly on that.

**Helen Carter:** As part of the national infrastructure mission, the Government agreed to increase the level of infrastructure investment by 2025-26. The Scottish Futures Trust was commissioned to prepare a paper on the use of the mutual investment model, which set out the sectors that it would be applicable to. The Government reviewed that paper, which also went to the IIB. Ministers then ultimately took the decision to agree that the mutual investment model could be considered as a future funding route for central Government as opposed to local authority projects, as local authorities have access to Public Works Loan Board borrowing whereas central borrowing is constrained.

The model is a variation on the Welsh model. A couple of projects are under way using it in Wales, and consideration is being given to using it for projects in transport. We said in the capital spending review that it can be considered for the remaining elements of the A9, but there are no active projects yet and no decision has been taken on its use. It is another tool in the toolbox to maximise infrastructure investment in the national infrastructure mission, utilising all the various funding sources that we have at our disposal.

**Colin Beattie:** Given that it seems to have been fleshed out, would it also be possible to see the formula for that?

**Helen Carter:** Yes.



**Andrew Watson:** We are very happy to take an action away to give the committee a paper on the fundamentals of the NPD and the MIM.

**Colin Beattie:** That would be excellent.

**The Convener:** That would indeed be very helpful.

Let me deal with a contemporary issue that has its roots in a bit of history, namely, private finance initiative and public-private partnership contracts. I cannot remember whether it was in the programme for government, but I am reminded of when the First Minister announced—fairly recently—that the 24-bed East Ayrshire community hospital was going to be taken out of PFI and brought back into the public sector, as almost an early glimpse of what was to come.

We know that those contracts are coming up towards the end of their period of private operation. We are interested in understanding a bit more about how that is working and what the plans are to manage that transition. The 24-bed East Ayrshire community hospital is small, but there are some big projects with presumably quite significant revenue implications for the public sector coming towards the end of their life in the private sector. Are they all coming into the public sector? What will that look like? What plans does the Government have to manage that transition and run those assets after they have been transferred?

**Andrew Watson:** I will offer a couple of comments and then ask Alan Morrison to comment on the health position.

We produced guidance on those matters in 2020, I think, so guidance is available through the Scottish Futures Trust for those who have those issues on their plates. We provide support in that sense to the range of authorities that are affected by the issues that you have described. Alan, could you comment on how the NHS approaches the issue?

**Alan Morrison:** We are very aware of the issue, and we have a separate team that looks at the PFI landscape. One key thing is that the horizon scanning needs to be years in advance, because all the contracts are different. In some contracts the asset will return to the public sector, in some contracts it will be bought back and some contracts will get extended if nothing is done. We need to make sure that the decision that we are making is the best decision rather than the only decision that we can make, because we do not have time to do everything in advance.

Another key consideration is making sure that the contractor has been maintaining the asset in the way the contract stipulates, because it would be no use if we take it over and there is a £15

million maintenance backlog. We need to get out ahead of that.

The East Ayrshire community hospital was opportunistic; the PFI provider was open to a buy-out. It was initially proposed by NHS Ayrshire and Arran, but that is not always the case; it is not unusual for the PFI provider to be very happy with the contract and not want to be bought out. We do not anticipate that happening very often in the near future. Most of the first wave of PFIs are at least five years away from the end of the primary period, so we have that time, but a lot of work needs to be done to make sure that we do not inherit something that we do not want and which is not at the standard that we expect it to be.

**The Convener:** I understand that from an operational point of view, and I know that you cannot speak on matters of policy, but is it not matter of Government policy that it wishes those contracts to be brought back into the public sector, or have I misunderstood that?

**Andrew Watson:** We would look at the individual specifics. As Alan Morrison says, there are a variety of contracts. Looking back over the period, we have aimed with things such as the NPD programme to see where improvements can be made to that approach to contracts. Some of that is reflected in the more recent revenue-funded projects that have been delivered through the NPD and hub models.

As Alan Morrison describes, it is difficult to generalise when there is such variability in the state of contracts and the position of those who are in possession of the contracts. We always seek to ensure the best use of public money to ensure the outcomes that we want to deliver from particular projects and assets.

**The Convener:** That is helpful. In addition to the information that you have agreed to supply to the committee following the questions that Colin Beattie, for example, asked, it would be useful if you could furnish us with a copy of your 2020 guidance. If you are in a position to supply us with the current policy guidance that you receive as civil servants and the plans that you have, that would be helpful. We understand that there are a multitude of different contracts and different exit arrangements and so on, but to the extent to which you can furnish us with the information that allows us to get an overview of where things are, that would be helpful.

I am sorry that we have run out of time, and I appreciate that you have given us an undertaking to provide some of the evidence that we are looking for in writing. That is very helpful. Thank you for coming in to give us the benefit of your insight into how the governance arrangements are working on these major capital projects.

I draw the public part of the meeting to an end.

11:15

*Meeting continued in private until 11:44.*

This is the final edition of the *Official Report* of this meeting. It is part of the Scottish Parliament *Official Report* archive and has been sent for legal deposit.

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