

# Governance, Internal Controls and Value for Money

Transport Scotland

**Reliance Restricted**

16 February 2022





Director of Aviation, Maritime, Freight and Canals  
Transport Scotland  
Buchanan House  
Glasgow, G4 0HF

16 February 2022

## Governance, Internal Controls and Value for Money

Dear Sirs

In accordance with the terms of our Agreement (Management Consultancy Services for Project Neptune) dated 9 March 2021, we have prepared this report to provide you with an assessment of the key governance structures and mechanisms in operation across the Tripartite.

### Purpose of our report and restrictions on its use

This report was prepared on your instructions solely to assist Transport Scotland in considering the current arrangements and options for the future of the Clyde and Hebrides ferry network only and should not be relied upon for any other purpose. Because others may seek to use it for different purposes, this report should not be quoted, referred to or shown to any other parties unless so required by court order or a regulatory authority, without our prior consent in writing. In carrying out our work and preparing our report, we have worked solely on the instructions of Transport Scotland.

Our report may not have considered issues relevant to any third parties. Any use such third parties may choose to make of our report is entirely at their own risk and we shall have no responsibility whatsoever in relation to any such use. We consent to providing this report to other members of the Tripartite including CMAL, DML and CFL. This report should not be provided to any other third parties without our prior approval and without them recognising in writing that we assume no responsibility or liability whatsoever to them in respect of the contents of our deliverables.

We only accept responsibility or liability to our client in respect of this report on the basis set out in the Contract. We accept no responsibility or liability to any other person in respect of this report, and accordingly if such other persons choose to rely upon any of its contents they do so at their own risk.

### Scope of our work

Our work in connection with this assignment is of a different nature to that of an audit. We have not sought to verify the accuracy of the data or the information and explanations provided. The report provides a description of the current governance arrangements and strategic framework of options, for consideration by Scottish Ministers, to help to identify the preferred corporate and governance structures. Our work has been limited in scope and time and highlights that further work will be required to conclude on a number of points raised within this report. If you would like to clarify any aspect of this review or discuss other related matters then please do not hesitate to contact me.

Yours faithfully

Ernst & Young LLP

# Abbreviations

CEO	Chief Executive Officer	RTPs	Regional Transport Partnerships
CFL	CalMac Ferries Limited	SG	Scottish Government
CHFS	Clyde and Hebrides Ferry Service	SPFM	Scottish Public Finance Manual
CMAL	Caledonian Maritime Assets Limited	SPT	Strathclyde Partnership for Transport
DML	David MacBrayne Limited	STAG	Scotland Transport Appraisal Guidance
DoA	Delegation of Authority	TS	Transport Scotland
EU	European Union	VfM	Value for Money
JV	Joint Venture	VRDP	Vessel Replacement and Deployment Plan
KPI	Key Performance Indicator		
LA	Local Authority		
NIFS	North Isles Ferry Services		
NSG	Network Strategy Group		
OBC	Outline Business Case		
PPG	Peel Port Group		
REC	Rural Economy and Connectivity Committee		
ROSCO	Rolling Stock Company		
RPTP	Regional Public Transport Plan		

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# 1 Executive Summary



# Introduction

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## Introduction

Transport Scotland (TS) seeks to deliver a safe, efficient, cost-effective and sustainable transport system for the benefit of the people of Scotland, playing a key role in helping to achieve the Scottish Government's (SG) Purpose of increasing sustainable economic growth with opportunities for all of Scotland to flourish.

Ferry services in Scotland fulfil a critical function within the wider transport system, providing lifeline services to island communities. Ferry services on the Clyde and Hebrides Ferry Service (CHFS) are subsidised by Scottish Ministers and delivered by three parties: TS, Caledonian Maritime Assets Limited (CMAL) and CalMac Ferries Limited (CFL) as a wholly owned subsidiary of David MacBrayne Limited (DML) (together "the Tripartite").

### Purpose

The delivery and cost of ferry services and the relationships between the Tripartite are complex, and Scottish Ministers are mindful of the perception which exists of a lack of accountability among the parties.

The objective of this project is to perform an independent review of the governance arrangements and legal structures between the Tripartite (including DML group structure of which CFL forms a part) to ensure that they remain fit for purpose.

This project will deliver a strategic framework of options for the CHFS network, for consideration by Scottish Ministers, to help to identify the preferred corporate and governance structures for the delivery of ferry services on Scottish Ministers' behalf under a range of potential future scenarios.

Any structure proposed for delivering ferry services on behalf of Scottish Ministers should enhance passenger experience and be accountable, transparent and capable of achieving best value.

### Approach

We have prepared the following reports in relation to this engagement:

Part 1: CHFS Network: Governance, Internal Controls and Value for Money (VfM)

Part 2: Project Neptune: Future Options

**This report is Part 1 of our overall work plan.**

This report addresses the following scope of our work:

- ▶ Perform an effectiveness assessment of the key governance structures and mechanisms in operation across the Tripartite.
- ▶ Perform an evaluation of the design effectiveness of key controls to ensure efficiency and Value for Money (VfM).
- ▶ Review the processes, controls and governance arrangements designed to deliver VfM against relevant components of the Audit Scotland Best Value Framework and other recognised VfM principles as appropriate.



## Overall Summary

The governance arrangements currently in place should be updated to enhance the level of accountability, transparency and shared working across the Tripartite. While we noted strong working relationships at the operational level, there is no overarching Tripartite Framework Agreement to provide clarity and accountability for the Tripartite members on purpose and shared strategic objectives aligned to Ministerial objectives. At times, this has led to delays in decision making / progressing projects, which ultimately creates a risk of ferry services not being delivered and developed in line with the needs of the island communities served by the CHFS contract, and in the required timescales.

A lack of alignment was also evident in our review of key operational controls, which identified that the roles and detailed responsibilities of the various organisations in relation to projects (for example, new ferries; harbour upgrades) are not well defined, documented and formally agreed. The controls review also noted gaps in the early stages of the project lifecycle, such as the lack of a formal project plan in one case, and absence of review of changes made to the pre-approval budget. This could lead to overspend and inappropriate decision making.

The lack of shared governance structures and objectives across the Tripartite, and the absence of expected key controls, means that it is difficult to assess whether the Tripartite as a whole is delivering VfM. We do note that foundational elements of many recognised best value indicators are already in place, either wholly or in part, at an individual entity level – for example, controls around financial stewardship, and engagement with local stakeholders. However, the governance arrangements, the approach to collaborative working, and the controls in place to monitor use of resources all require further development to align with sector leading practice and support the Tripartite to deliver a VfM ferry service that meets the needs of the communities it serves.

## Conclusion

There are a number of steps the Tripartite can take to improve their governance arrangements, the control environment for key projects, and their capacity to deliver VfM:

- ▶ Develop a long-term strategy for the delivery of ferry services on the west coast, and a complementary suite of KPIs that will incentivise delivery.
- ▶ Establish and align desired culture and behaviours across the Tripartite, to support delivery of the strategy. This would involve a collective exercise to decide what to keep, what to change, and ways of working in the future.
- ▶ Implement an overarching Framework Agreement, to provide clarity and accountability for the Tripartite members on purpose and shared strategic objectives aligned to Ministerial objectives.
- ▶ Formalise the relationships and expectations between Tripartite members. This includes formalising the Board level governance with each Tripartite member and the establishment of a Tripartite Executive Forum to review and agree collective strategic priorities (aligned to Ministerial objectives), plans, risks and provide an escalation / arbitration point for key decisions.
- ▶ Implement overall and detailed project planning and budgeting for all stages of a project, including pre-approval.
- ▶ Formalise and agree the roles and responsibilities of each organisation involved in the project, including the interaction of these groups and their interdependent responsibilities.
- ▶ Define and share a vision and definition of best value for the ferries service, both in terms of efficiency of operations and economic value to communities, considering both sustainability and the views and needs of the Scottish public.

Prompt, successful implementation of these recommendations will support robust governance and should be considered alongside any potential structural reforms.

# 2 Introduction





## Report Structure

As part of our evaluation of the CHFS network, TS has asked us to consider and assess the effectiveness and appropriateness of current corporate structures and governance arrangements, evaluate the design effectiveness of key controls, and consider how these impact on the delivery of VfM. This report is therefore split into the following sections:

### Overview of CHFS Operations

This section provides an overview of CHFS Ferry Network and the Tripartite bodies primarily providing the service, namely, TS, CFL and CMAL. We have set out:

- ▶ An overview of Scotland's current ferry network
- ▶ An overview of the current CHFS network and the background to the current Tripartite Structure.

While this section does not set out any findings or recommendations, the contents have informed our observations and suggested actions in the Governance, Project Controls and VfM sections of our report.

### Project Controls

This section evaluates the design effectiveness of key project management controls, illustrated by a review of two critical infrastructure projects, selected in consultation with TS:

- ▶ Ardrossan Harbour: the Ardrossan harbour currently services the Arran ferry route. The project aims to upgrade the harbour facilities and to improve effectiveness alongside the new vessel commissioned for the route (MV Glen Sannox). The project is a collaboration between North Ayrshire Council, the harbour owners Peel Port Group (PPG), TS, CMAL and CFL.
- ▶ New Islay Vessel: the Islay ferry route runs from Kennacraig in Kintyre to the ports of Ellen and Askaig on Islay. The project aims to replace the HM Hebridean.

### Governance

This section assesses the current governance structures and mechanisms in operation across the Tripartite relationship. Key themes considered include:

- ▶ Strategic alignment
- ▶ Governance framework
- ▶ Accountability
- ▶ Decision making
- ▶ Engagement and collaboration
- ▶ Oversight and assurance.

### Value for Money

This section considers whether current governance arrangements and operational controls across the Tripartite as a whole facilitate VfM delivery of the ferry services. We have considered four key themes which the Accountable Officer's guidance in the Scottish Public Finance Manual (SPFM) identifies as being critical to delivering best value:

- ▶ Vision and Leadership
- ▶ Governance and Accountability
- ▶ Partnership and Collaborative Working / Performance Management
- ▶ Use of Resources

We have assessed the Tripartite against key indicators set out in the Accountable Officer's guidance, identified gaps, and provided recommendations to address these.

# 3 Overview of CHFS Operations





# An overview of Scotland's Ferry Network

## Introduction

This section provides an overview of CHFS Ferry Network and the Tripartite bodies primarily providing the service namely TS, CFL and CMAL. We have set out:

1. An overview of Scotland's current ferry network
2. An overview of the current CHFS network and the background to the current Tripartite Structure.

## Scotland's Ferry Network

The organisation of ferry services in Scotland is complex, involving many different organisations. TS (on behalf of Scottish Ministers) currently subsidises routes to the Clyde and Hebrides and the Northern Isles through separate contracts with two ferry operators, CFL and Serco NorthLink.

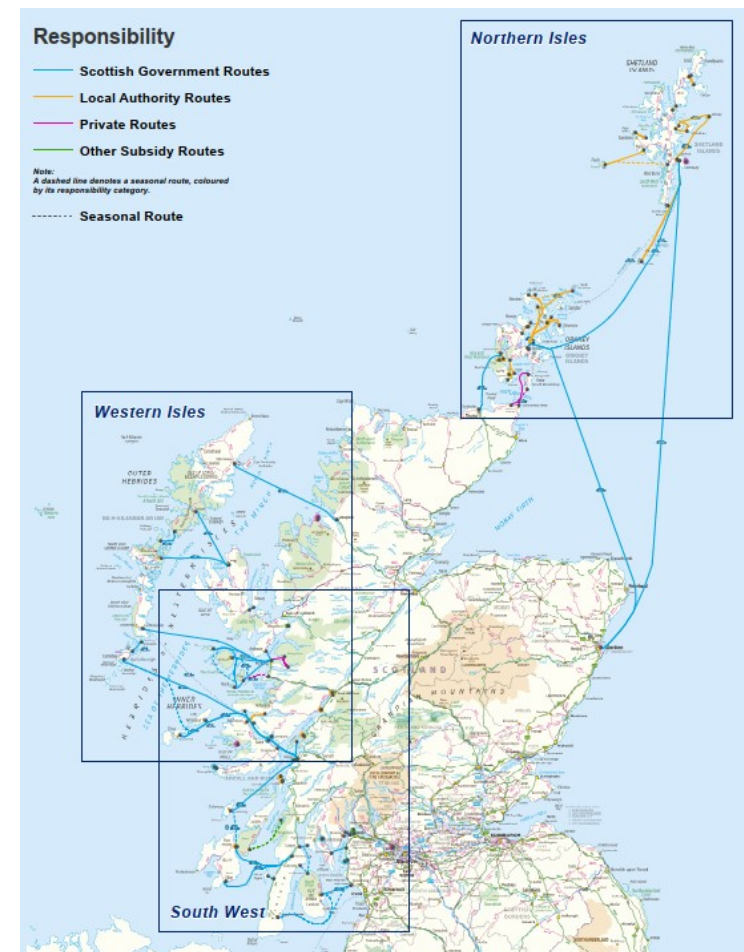
The infrastructure supporting the routes is owned by a number of different public and private sector bodies creating a complicated operational and funding structure. We have included more detail on the infrastructure arrangements within the table overleaf.

It is also important to note there are a number of other ferry services connecting Scotland's mainland to its island communities, in which TS does not have control or responsibility. These services are delivered by either local authorities, community trusts or private sector operators. The other models in place include the following:

- ▶ Four councils (Argyll and Bute, Highland, Orkney Islands and Shetland Islands) subsidise 22 routes. Councils operate some of these routes, while others are contracted out to other operators.
- ▶ Strathclyde Partnership for Transport (SPT) subsidises one route.
- ▶ The private sector operates eight routes without public funding and one route with funding from TS and Argyll and Bute Council.
- ▶ Community groups run two routes, one of which receives public sector subsidy from Argyll and Bute, and Highland councils.

We have not sought to include these routes within our analysis of the ferry network, however we have included a number of different examples of these successful routes when undertaking our options appraisal within the Future Options report.

We have included in the diagram below an overview of the subsidised ferry services in Scotland.



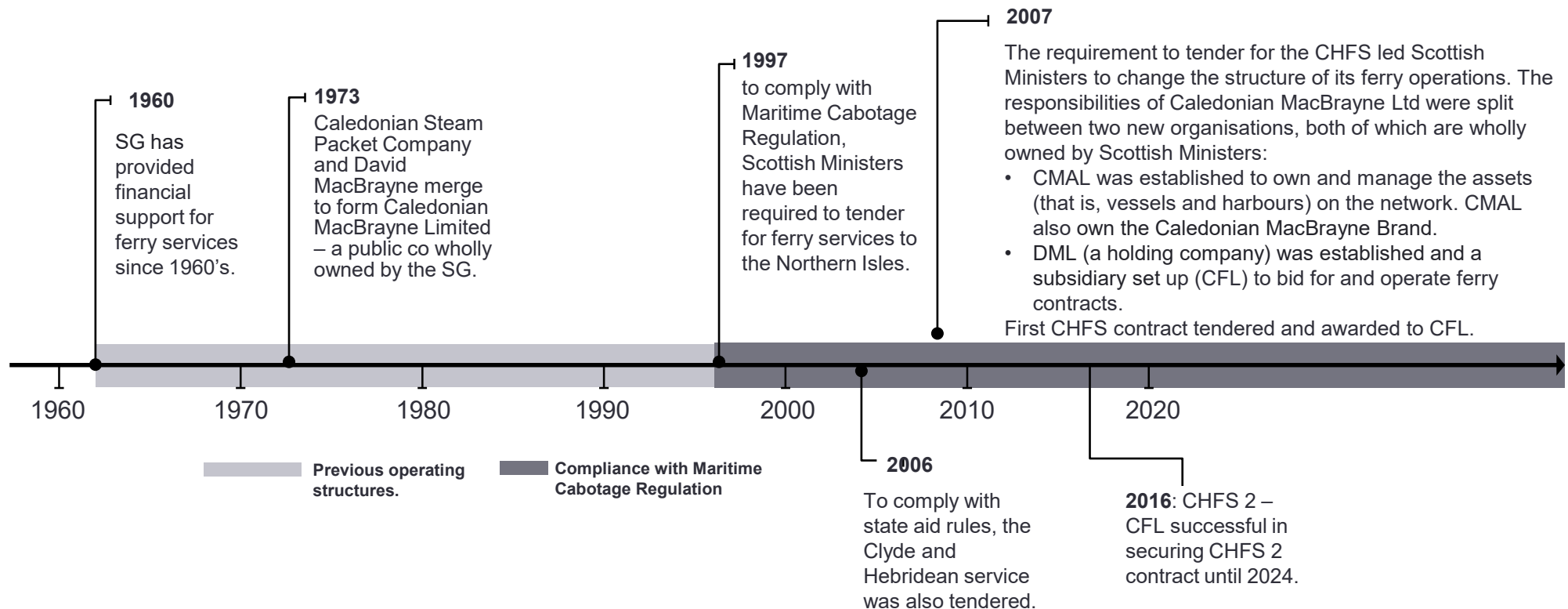
Source: Transport Scotland

# Regulatory and Legal Structures

## Regulation history

The timeline below includes an overview of the history of subsidised ferry services in Scotland. The SG has provided financial support to the sector since the 1960's. However, the structures currently in place differ to those of the past due to the requirement to comply with EU regulation.

These changes were intended to create a fairer competition for future bidders for the CHFS contract because it allowed bidders equal access to the ferry assets by leasing them from CMAL.

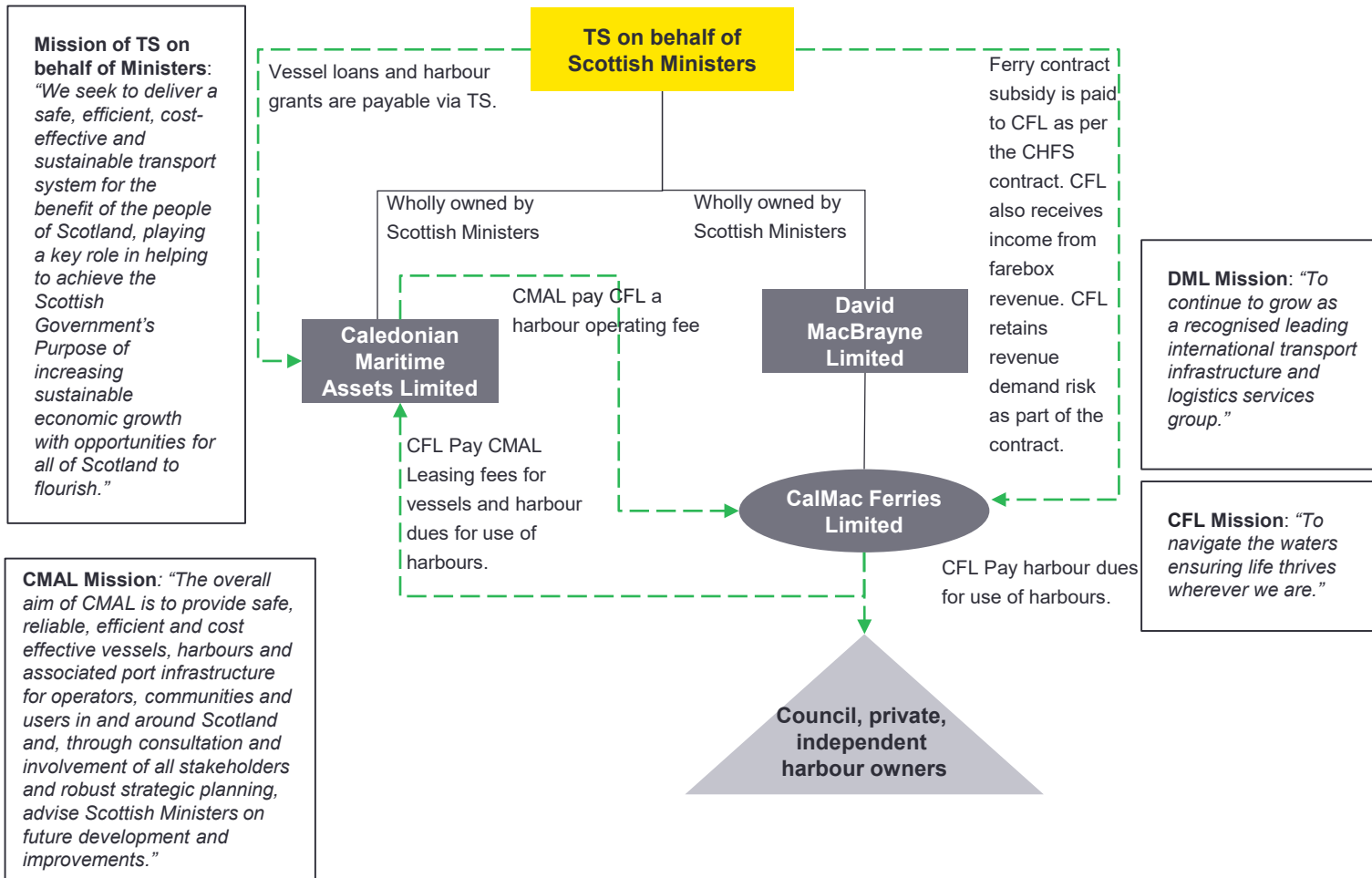




# CHFS Network: Current Structure

## CHFS Ferry Network

The diagram below includes an overview of the current CHFS Ferry Network.



The Scottish Ministers wholly own both CMAL and DML.

CMAL is the asset owner of all of the vessels and 25 of the harbours on the CHFS Network. It receives its funding in the following three ways:

1. Income from the leasing of vehicles to CFL for use on the CHFS network. Leases are on a bareboat charter.
2. Harbour dues payable by CFL / other users for the use of its harbours.
3. Vessel loans and harbour grants payable via TS.

CFL is the current operator of the CHFS 2 Contract. It receives income from TS in the form of subsidy and from CMAL for the provision of maintenance of its harbours. CFL is responsible for paying CMAL for leasing its vessels and for harbour dues. CFL is responsible for all maintenance of the leased vessels.

# CHFS Network: Roles and Responsibilities

## Roles and Responsibilities

We have included below an overview of the roles and responsibilities of the Tripartite

### Transport Scotland on behalf of Scottish Ministers

- ▶ Sole shareholder in DML - Provide sponsorship function including appointment of DML Board and assurance on governance.
- ▶ Sole shareholder in CMAL - Provide sponsorship function including appointment of CMAL Board and assurance on governance.
- ▶ Procure lifeline ferry services through CHFS and NIFS contracts, including contract award and management.
- ▶ Provide grant and loan funding to CMAL capital investment projects.
- ▶ Sets strategic policy for ferry infrastructure and operation for which Ministers are responsible, including strategic investment priorities, timetabling and fares.
- ▶ TS's Ferries Unit has 29 members of staff.

Our review will focus on the governance arrangements between the Tripartite and how they work together to deliver lifeline ferry services. Our recommendations will set out how this could potentially be improved.

### Caledonian Maritime Assets Limited

- ▶ Wholly owned by Scottish Ministers. Reports to the Minister for Transport.
- ▶ Board of directors appoint management team at CMAL.
- ▶ Responsible for the provision of vessels, harbours and associated port infrastructure (owns 31 vessels and owns or leases 26 harbours).
- ▶ Charges harbour users, including ferry operators, a 'harbour due' for using its harbours.
- ▶ Contracts CFL to operate its harbours.
- ▶ Responsible for harbour works.
- ▶ Procures new vessels. This includes concept design, running the tendering process and overseeing the build.
- ▶ Leases vessels to CFL on a 'bareboat charter' agreement.
- ▶ Inspects vessels twice a year, and is responsible for statutory works and owner upgrades.
- ▶ CMAL has approximately 40 members of staff.

### David MacBrayne Limited

- ▶ Wholly owned by Scottish Ministers.
- ▶ Parent company of CFL, the incumbent operator of the CHFS network under the CHFS2 contract.
- ▶ CEO is an executive director on the DML Board and a Ministerial appointee.
- ▶ Operator of Marchwood Military Port in Hampshire via Joint Venture with GBA (Holdings) Ltd

### CalMac Ferries Limited

- ▶ Wholly owned subsidiary of DML, responsible for the delivery of the CHFS 2 Contract, which has a duration of 8 years, to the end of 2024.
- ▶ Leases vessels from CMAL and decides where they should be deployed.
- ▶ Operates CMAL's harbours, which includes undertaking routine maintenance.
- ▶ Responsible, through the CHFS contract, for arranging consultation meetings with c. 25 local Ferry Committees.
- ▶ CFL has approximately 1,800 members of staff.



# 4 Governance Review



# An assessment of the current governance arrangements

## Introduction

This section assesses the current governance structures and mechanisms in operation across the Tripartite relationship. Key themes considered include strategic alignment, governance framework, accountability, decision making, engagement and collaboration, oversight and assurance.

## Our approach to the governance review

We undertook a detailed review of the existing legal, corporate and governance frameworks as they relate to Ministers' multiple interests as shareholder, sponsor team, procuring authority, contracting party and creditor in relation to voted loan arrangements. This included consideration of the relevant regulatory and legal structures (see overview on pp. 12-13), articles of association, framework documents and key contracts.

The particular commercial terms of individual contracts are out of the scope of this project, with the focus being on the general approach to governance and whether the approach secures accountability, transparency and VfM.

We completed a series of interviews with the key senior members of the Tripartite with a focus on areas they feel work well within the Tripartite, areas for improvement, their vision for the future and any barriers to achieving this. We also conducted a number of focused stakeholder interviews to understand the impact of the current governance structures on the operations of each of the organisations.

Following the interviews and the documentation review, key themes and observations were collated together with the associated risks and potential recommendations. Our findings were reported to an independent oversight group which had a mandate to offer constructive challenge and test key assumptions.

For a full list of interviewees, see Appendix A. For a full list of documents reviewed, see Appendix B.

## Our Point of View

- ▶ Our review of governance structures and practices identified a number of opportunities to improve existing governance structures.
- ▶ We noted many strong operational working relationships between individuals from the different organisations, particularly within project working groups.
- ▶ However, multiple stakeholders highlighted that a lack of clear roles and responsibilities following the decision to separate CMAL in 2006 which has historically caused conflict between senior personnel at CMAL and CFL. While stakeholder interviews highlighted that the conflict is now less pronounced, multiple interviewees stated that it is still evident on occasion.
- ▶ While conflict is not inherently unhealthy (it can facilitate challenge, accountability and improvement), we noted several instances of divergent viewpoints during our review, suggesting a lack of a joint approach and an aligned position.
- ▶ Some of the behaviours noted are attributable to the corporate structure and prevailing cultures of individual entities. However, the behaviours have not been fully addressed by the current governance arrangements, which at times has led to delays in decision making / progressing projects. Ultimately this could impact the island communities served by the CHFS contract, as there is a risk of ferry services not being developed in line with their needs and in the required timescales. Members of the Tripartite should commit to a culture of honesty and collaboration to improve accountability and transparency.
- ▶ However, while there are informal governance arrangements in place (for example, regular conversations between TS and CMAL / CFL; strong communication and working relationships at an operational level) there is a lack of a formal governance framework for the Tripartite at a strategic level, increasing the risk of potential misalignment on objectives, culture and shared vision. This may ultimately be to the detriment of the island communities as there is a risk of inappropriate decisions being taken, and individual entities working towards goals which do not align to Ministerial objectives.
- ▶ Establishing a formal governance structure has been shown in other entities to improve transparency, accountability and efficiency, as the risk of misalignment is reduced and there is a dedicated forum for communication and conflict resolution.



# An assessment of the current governance arrangements

## Summary of Key Findings and Recommendations

We have identified a number of opportunities to develop and embed an improved governance structure across the Tripartite, which could be implemented should the decision be taken to continue with the “as-is” structure. Please see Appendix E for definitions of risk ratings.

Ref	Risk	Finding	Key Recommendations
4.1	M	<p><b>Lack of a formal Tripartite governance structure</b> There is no overarching governance framework for the Tripartite as a whole, to provide clarity and transparency on collective responsibilities.</p>	<p>Implement an overarching Framework Agreement, to provide clarity and accountability for the Tripartite members on purpose and shared strategic objectives aligned to Ministerial objectives Formalise the relationships and expectations between Tripartite members. This includes formalising the Board level governance with each Tripartite member and the establishment of a Tripartite Executive Forum to review and agree collective strategic priorities (aligned to Ministerial objectives), plans, risks and provide an escalation / arbitration point for key decisions.</p>
4.2	M	<p><b>Culture and Behaviours</b> Our review identified differences in organisational culture and instances where public communications from one entity had been to the detriment of one or more of the other parties, which may hamper effective working relationships.</p>	<p>Discuss and agree the current and desired culture and behaviours for the Tripartite, over and above the organisation’s individual mission statements, to enhance alignment. The agreed culture and behaviours should be modelled consistently by all Tripartite members and will ensure communications are aligned amongst the Tripartite.</p>
4.3	M	<p><b>Strategic Planning</b> The Tripartite lacks a comprehensive approach to long-term strategic planning for the future of ferry services in Scotland and this is potentially counterproductive for members of the Tripartite and other interested parties.</p>	<p>A longer term strategy should be developed and agreed between parties to enable effective prioritisation and transparency of investment decisions.</p>
4.4	M	<p><b>Accountability and Transparency</b> As the sole shareholder of CMAL and DML, TS should be responsible for driving alignment, overseeing corporate decision making, and providing challenge and accountability. However, feedback from stakeholder interviews reflects that this does not consistently happen in practice.</p>	<p>Consider which processes should be partly or fully managed in common by the Tripartite, to manage the risk of inefficiencies, duplication or gaps – for example, risk management, project management, and stakeholder engagement.</p>
4.5	L	<p><b>Scottish Government Mandate</b> Documents setting out the mandate from the SG to both DML and CMAL in relation to strategy, finance and operations are insufficient / out-of-date.</p>	<p>Whilst it is recognised that there is routine Ministerial involvement and ongoing discussions, a formal approved Financial Memorandum / Framework / Shareholder Contract Agreement should be considered.</p>
4.6	L	<p><b>Board Composition</b> There is a need to assess the skills mix of Board members to determine whether they remain appropriate and aligned to longer term strategic priorities.</p>	<p>The skills and experience of the Board and senior management should be considered to determine whether they remain appropriate and aligned to longer term strategic priorities in order to provide sufficient challenge and support to each entity and the Tripartite.</p>



## 4.1 Lack of a Formal Tripartite Governance Structure

### Risk Rating

Medium

### Observation

Governance structures and reporting lines within the individual entities are well defined and understood, which is in line with the UK Corporate Governance Code and the requirements of the SPFM. Additionally, there are clear lines of reporting, performance monitoring and communication between Transport Scotland and CFL / CMAL.

However, there is no overarching governance framework for the Tripartite as a whole, to provide clarity and transparency on collective responsibilities and ensure that the Tripartite maintains focus on strategy, performance and behaviour and does not get diverted by detailed operational matters which are the responsibility of the respective Boards.

Whilst we acknowledge that the Tripartite cannot be collectively responsible for all areas of decision making, a formal overarching structure could enhance transparency, accountability and ownership, including to customers and stakeholders, by providing a forum within which TS, representing Scottish Ministers as the sole shareholder, can hold other Tripartite members to account.

We note that a previous Board level committee was disbanded with no replacement; however, we have been unable to evidence the reasons for the dissolution of the committee either from stakeholder meetings or review of documentation. There is a Network Strategy Group (NSG), which sits above the operational project working groups. However, the role and remit of this group focuses on projects only rather than strategic objectives, and interviews highlight that its role is not clearly understood by all parties.

### Risk

The absence of a dedicated forum in which TS can hold the other Tripartite members responsible for decisions and delivery against Ministerial objectives presents a risk to transparency and accountability.

The governance and oversight of the Tripartite is currently operating with a strong reliance placed on relationships between individual Tripartite members. There is, however, increased risk with such reliance on individual relationships when members may change and the corporate history and relationships are lost.

There is also the potential that differences of opinion may not be aired appropriately, increasing tensions between the parties who in turn do not communicate internally and externally with 'one voice.'

Ultimately this may lead to a failure to deliver appropriate services to the communities the Tripartite serves, as there is no formal mechanism to ensure appropriate input, and no dedicated forum in which Tripartite members are held to account and differences of opinion can be openly discussed and resolved.

# 4.1 Lack of a Formal Tripartite Governance Structure

**Risk Rating**  
**Medium**

Recommendation	
Area	Recommendation
Overarching Framework Agreement	<p>An overarching Framework Agreement would provide clarity and accountability for the Tripartite members on the purpose of the Tripartite, the intended and shared strategic objectives aligned to Ministerial objectives. The overarching Tripartite Framework Agreement could include, but is not limited to:</p> <ul style="list-style-type: none"> <li>▶ Strategic vision, shared values and desired cultures and behaviours going forward</li> <li>▶ Roles, responsibilities, accountabilities</li> <li>▶ Governance structures</li> <li>▶ Risk management and assurance framework</li> <li>▶ Communication and engagement strategy, including escalation routes</li> <li>▶ VfM framework</li> <li>▶ Contract management requirements which impact Tripartite members (to the extent deemed appropriate) and local communities</li> <li>▶ KPIs for regular performance evaluation of DML and CMAL by TS – for example, time taken to agree specifications, vessels replaced, completion of vessels to time and budget in line with overarching strategy, emissions.</li> </ul>
Formalise the relationships between Tripartite members	<p>Formalise the relationships between Tripartite members.</p> <ol style="list-style-type: none"> <li>1. Formalise the relationships and expectations between TS and respective Tripartite Boards. This will enable formal shareholder monitoring and performance management with bilateral discussions. This will also enable TS to review the corporate strategies of each party and ensure overall alignment to Ministerial objectives.</li> <li>2. Establish a Tripartite Executive Forum (constituting CEOs and CFOs of DML, CalMac and CMAL with TS representatives, including the TS sponsor team) as a collaborative working space for delivering common objectives and managing risks for example, on projects and contracts. This Forum could also provide an escalation / arbitration point if required for key decisions collectively impacting Tripartite members. This should include formal documentation of minutes, decisions, action tracking and a communications strategy to provide transparency of decision making.                         <ul style="list-style-type: none"> <li>▶ A key purpose of the Tripartite Executive Forum would be to provide effective leadership, direction, support and guidance to the Tripartite members and ensure that the policies and priorities of Scottish Ministers are implemented. The Forum members should demonstrate creative and innovative thinking and a strong desire and determination to break down any potential barriers, acting professionally with trust and respect with incentives to collectively deliver for the benefit of stakeholders, including island communities.</li> <li>▶ This would enable leadership to secure an effective and efficient approach based on shared outcomes for the Tripartite, together with transparent and objective scrutiny and challenge of decisions.</li> <li>▶ The role, function and effectiveness of the Tripartite Executive Forum should be defined and agreed between all members and reviewed at least annually to ensure it remains fit for purpose and is working for all parties.</li> </ul> </li> </ol>
Network Strategy Group	<p>The role / remit of the NSG should be revisited and aligned to the overarching Framework Agreement and the Tripartite Executive Forum – for example, defining the criteria for escalation of project issues from NSG to the Tripartite Executive Forum.</p>

## 4.2 Culture and Behaviours

**Risk Rating**  
**Medium**

### Observation

Principle B of the UK Corporate Governance Code highlights the importance of ensuring that the purpose, values and strategy of an organisation are aligned to its culture. In a corporate environment, promoting the desired culture is the responsibility of directors.

The Tripartite is collectively responsible for the provision of lifeline ferry services to the island communities, therefore we would expect to see the promotion of a collective working culture by the members of the respective entities' Boards, supported by a defined and aligned set of values.

Our review identified differences in organisational culture which are exemplified in the mission statements of TS, CMAL, and CFL / DML (see p.13). The TS and CMAL statements are focused on serving and benefitting the people of Scotland, while the CFL / DML statements are more commercially oriented (although we acknowledge that due to the current Tripartite structure they operate under a short term contract which they must operate profitably). This is aligned to feedback from interviews in terms of the culture noted within the organisations.

We have also noted that the entities do not always speak with "one voice" when communicating with external stakeholders. For example, multiple interviewees highlighted that the "ageing fleet" messaging communicated by CFL / DML has negatively impacted how CMAL are perceived in the public eye.

This is unusual behaviour from entities expected to be operating together to deliver a public service. Interviewees also articulated examples where the Rural Affairs Committee (REC) had been critical of TS and CMAL; however, resolution of the underlying issues will require all parties to work together as a collective.

### Risk

If culture and values are misaligned across the Tripartite then there is a risk of decisions being taken that are not in the interests of the Tripartite as a whole, while poor behaviours from senior personnel are liable to increase mistrust between parties and affect their ability to work together effectively. These behaviours may permeate across other areas of the organisation and hinder the ability of the parties to work together collaboratively and productively.

Ultimately this risks having a negative impact on the efficient delivery of ferry services to the island communities, and a lack of trust in the Tripartite from those communities.

Recommendation	
Area	Recommendation
Culture and behaviours	<p>Initiate a workstream to discuss and agree the desired culture and behaviours, over and above the organisation's individual mission statements. This should include defining the desired behaviours, and in light of this, agreeing what to keep and what to change. This will drive alignment and encourage behaviours that are beneficial to all parties.</p> <p>Evaluate the areas where current behaviours and culture are not as desired and agree actions that will help the Tripartite progress towards its desired state.</p> <p>All Tripartite members should be responsible for challenging unacceptable behaviours both within individual organisations and in relation to the Tripartite.</p>



## 4.3 Strategic Planning

**Risk Rating**  
**Medium**

### Observation

The long-term nature and impact of providing ferry services to the island communities means that the Tripartite should define and plan sustainable outcomes. This is in line with Principle C of the International Framework for Good Governance in the Public Sector, and with the duty of Best Values in Public Services (SPFM).

The current Ferries Strategy runs for 10 years from 2012 to 2022. While this outlines future investment requirements and working principles, it does not include metrics for evaluation of performance, and stakeholder interviews highlighted that there was no mid-point review of the strategy document.

The Tripartite lacks a comprehensive approach to long-term strategic planning (for example, vessel requirements and harbour needs to meet projected demand; environmental targets) which could lead to inefficient vessel/ infrastructure procurement, asset maintenance and replacement strategies. We acknowledge that there is a Vessel Replacement and Deployment Plan (VRDP) in place; however, this lacks a long-term, holistic, strategic view, and does not consider the broader structural and economic context within which ferries services operate.

The lack of clearly defined long-term strategy for the future of ferry services in Scotland is potentially counterproductive for members of the Tripartite and other interested parties.

While collaboration and joint working takes place, this is at an operational level as opposed to a strategic level which limits strategic thinking, forward planning and alignment to the SG’s longer term agenda, for example climate change. However, there is a lack of clarity over the measures / KPIs used to monitor the performance of each entity at an overall strategic level, linked to the objectives within the Ferries Strategy and Ministerial objectives.

**Risk**

An absence of long-term planning / strategy increases the risk that the maintenance and / or replacement of vessels is sub-optimal. This risk could manifest itself via higher than necessary or unforeseen maintenance costs, and in some cases has materialised in the need to procure expensive emergency vessels. This presents operational challenges and is unlikely to represent Best Value.

Recommendation	
Area	Recommendation
Long-Term Strategy	A longer term strategy for ferry services should be developed and communicated to all parties to enable effective prioritisation and transparency of investment, operational, contractual and commercial decisions. This would support greater alignment between members of the Tripartite and provide clarity of direction to reduce the risk of misalignment. The strategy should appropriately consider the holistic needs of the communities served – for example, the knock-on impact on road networks on the islands.
KPIs	KPIs should be embedded within the strategy and formally monitored together with agreed corrective actions by the Tripartite. Examples of KPIs could include, but are not limited to: customer service; reliability; vessel resilience; climate targets; VfM targets; complaints. Future CHFS contracts should be aligned to the KPIs outlined in the strategy, and consideration should also be given to whether similar targets would be beneficial on other routes.

## 4.4 Accountability and Transparency

### Risk Rating

Medium

### Observation

Principle G of the International Framework for Good Governance in the Public Sector states that those making decisions and delivering services should be answerable for them, and that activities should be carried out in a transparent manner. Assurance providers, such as internal and external audit, have a key role to play in this.

As the sole shareholder of CMAL and DML, TS should be responsible for driving alignment, overseeing corporate decision making, and providing challenge and accountability.

However, feedback from stakeholder interviews reflects that this does not consistently happen in practice. This is supported by some of the behaviours noted (e.g. communications with the media / external stakeholders that are detrimental to one party) and as highlighted above there is no dedicated Tripartite governance forum, with representation from all parties, to facilitate improvement.

We also noted the following areas where accountability and transparency could be improved:

- ▶ Whilst risks may be considered implicitly as part of ongoing Tripartite discussions, there is no overarching Risk and Assurance Framework, including internal audit, for the Tripartite. An overarching Risk Management Framework would provide a common language and consistent definition / assessment of risks and enable more effective risk management of shared risks or interdependent risks. Whilst TS, DML and CMAL have their own internal audit functions, TS does not have oversight of the assurance provision and management of risks within each entity. A risk and assurance map would provide visibility of assurance provisions and potential assurance gaps / duplication to enable a more co-ordinated risk and assurance view. The SPFM articulates the importance of clearly defining risks, assigning responsibility for them, and of regularly monitoring these. The Tripartite Executive Forum could define key risks requiring a collective response.

- ▶ There are no common processes across the Tripartite - for example, in compatible areas such as programme / project management, risk management, stakeholder management and engagement. We acknowledge that it is not necessarily appropriate for all processes to be shared, as this may have a negative impact on the appearance of independence for TS. However, collaborative working may be desirable in some or all of the areas highlighted.
- ▶ TS consult with CMAL, DML and other parties to inform policy issues, which is in line with expected practice. However, there should be clarity on the intent of the consultation, the expectations of parties to contribute, and any recharging mechanisms as compensation for the consultation. Interviews highlighted that not all stakeholders feel this is consistently the case.

### Risk

Without structured oversight and an agreement around common processes that could be shared, and the form these should take, there is a risk of inefficiency, duplication, or gaps developing – for example, if risks were not appropriately escalated and managed.

Additionally, any perceived lack of transparency around the nature and purpose of consultations may fuel further relationship difficulties within the Tripartite. This could impact negatively on public perception and ultimately on delivery of lifeline services.

# 4.4 Accountability and Transparency

**Risk Rating**  
**Medium**

Recommendation	
Area	Recommendation
Communications Alignment	While not all processes can or should be run in common, an example of where alignment and consistency is particularly desirable is communications. We have previously highlighted the “ageing fleet” messaging released by CFL to the detriment of CMAL, which has significantly coloured public and media perception of both organisations.
Common process	Consideration should also be given to which other processes should be partly or fully managed in common by the Tripartite, to manage the risk of inefficiencies, duplication or gaps.
Risk Assurance Framework	The Risk and Assurance Framework for the Tripartite should be developed including consistent risk assessment criteria / reporting / risk escalation and a risk and assurance map.
Assurance Mechanisms	We acknowledge that for independence purposes it is important for individual entities to maintain their own assurance mechanisms (e.g. internal audit); however, as the sole shareholder, it should be formally agreed what is reported to TS.
Reporting and Governance Framework	A formal reporting and governance framework should be developed by TS to outline key governance and reporting requirements. This should inform the Tripartite Executive Forum. This should clearly define what needs to be escalated out of individual entities and up to the Tripartite Executive Forum – for example, where risks in one party may affect another, and how these are rated and managed. This will improve transparency and support accountability.
Consultation Process	TS should formalise the expectations around the consultations process for all parties. This will reduce the risk of misconceptions around the nature of these consultations and their outcomes.



## 4.5 Scottish Government Mandate

**Risk Rating**

**Low**

### Observation

DML is wholly owned by Scottish Ministers. It is common practice among comparable bodies to have in place a Framework Agreement that sets the strategic, financial and operational parameters within which they operate.

For DML, the Framework Agreement is in draft form and has never been signed or formally approved. This has led to a lack of clarity on the Scottish Ministers' agenda for DML's commercial ventures and differing views on priorities within the Tripartite.

For CMAL, a Financial Memorandum / Management Statement is in place that sets out the overarching mandate and direction; however, review of this document is overdue. According to the Memorandum, which is dated 2017, the document should be reviewed every 2-3 years. However, this had not yet taken place at the time of fieldwork (May 2021), although we have not identified any instances of CMAL operating outwith the parameters of the agreement.

There is routine Ministerial engagement with both bodies and ongoing real time discussions of priorities; however, there is no formalised documentation to support / reinforce this.

### Risk

Without signed / up-to-date Framework Agreements setting out strategic, financial, and operational parameters for DML and CMAL, there is a risk of continued misalignment on priorities within the Tripartite.

The lack of a formal Framework also presents a further risk to accountability as the entities are not signed up to deliver against defined objectives (besides those outlined in DML's operating contract), making it more difficult for Ministers to hold Tripartite members responsible for any failure to deliver.

### Recommendation

Area	Recommendation
Shareholder Contract Agreement	<p>Whilst it is recognised that there is routine Ministerial involvement and ongoing discussions, a formal approved Financial Memorandum / Framework / Shareholder Contract Agreement should be considered. This should set out the strategic, financial and operational parameters within which each party operates, including:</p> <ul style="list-style-type: none"> <li>• Board remit, tenure length, appointment process, roles and responsibilities</li> <li>• Financial powers</li> <li>• Delegation of Authority</li> </ul> <p>Such an agreement would not by itself effect wholesale cultural change, but it would provide Ministers with a mechanism by which to hold Tripartite members to account, thus driving improved alignment in the medium to long-term, and increasing the likelihood of delivering value to the island communities.</p>

## 4.6 Board Composition

**Risk Rating**

Low

### Observation

Principle B1 of the UK Corporate Governance Code states that *“The board and its committees should have the appropriate balance of skills, experience, independence and knowledge of the company to enable them to discharge their respective duties and responsibilities effectively.”*

Whilst skills matrices are in place and regularly reviewed by TS, and Board members of the Tripartite entities have significant infrastructure, maritime and transport experience, the skills matrix does not include future focused skills such as data analytics or digital / technology experience. As such, these subjects may not receive adequate discussion and challenge at a Board level and the Tripartite entities may miss out on opportunities to deploy data and technology as part of strategic decision making.

### Risk

Failure to ensure appropriate skills and experience mix on Boards may lead to impaired discussion and decision making.

Recommendation	
Area	Recommendation
Board Skills and Experience	The skills and experience of the Boards and senior management should be considered to determine whether they remain appropriate and aligned to longer term strategic priorities in order to provide sufficient challenge and support to each entity and the Tripartite. Since the date of our fieldwork, management have represented that this has occurred for recent recruitment rounds.

# 5 Project Controls Review





# An assessment of the current project control arrangements

## Introduction

The purpose of this section is to assess the key processes and controls in place over projects managed by the Tripartite. To illustrate how these function in practice and to enable us to assess operating effectiveness, TS has asked us to focus our testing on two projects: Ardrossan Harbour and New Islay Vessel.

**Ardrossan Harbour:** the Ardrossan harbour services the Arran ferry route. The project aims to upgrade the harbour facilities and to improve effectiveness alongside the new vessel commissioned for the route (MV Glen Sannox). The project is a collaboration between North Ayrshire Council, the harbour owners Peel Port Group (PPG), TS, CMAL and CFL.

**New Islay Vessel:** the Islay ferry route runs from Kennacraig in Kintyre to Port Ellen and Port Askaig on Islay. The project aims to replace the HM Hebridean which has reached life expiry. The project therefore seeks to procure a new vessel to improve capacity on the routes between Islay and the mainland that meets the strategic aims of reducing inequalities, climate action and economic growth.

## Our approach to the controls review

We undertook a detailed review of the existing controls around project management and review, financial and budget management, procurement arrangements, risk management and legal interactions for the selected projects.

We completed a series of interviews with the key senior members of the Tripartite and reviewed supporting documentation in relation to general processes and controls and to both projects, including project plans, budgets, meeting minutes, business cases and terms of reference. We focused on the controls in place at a project level, specifically those currently enacted as part of the projects' pre-approval stage.

We compared the controls currently in place against expected project management controls, based on guidance from the Scottish Public Finance Manual and the Office of Government Commerce, and standard practice observed elsewhere. Following the interviews and the documentation review, key themes and observations were collated together with the associated risks and potential recommendations. At the time of our review both projects were at the pre-approval stage. Approval for the Outline Business Case (OBC) for the New Islay Vessel project has subsequently been granted by TS's IDM board, and the project is moving to stage one procurement with a budget for £75.683m. For a full list of interviewees, see Appendix C. For a full list of documents reviewed, see Appendix D.

## Our Point of View

Our review of current project operational controls identified two high risk findings, one medium risk finding and one low risk finding. Please see Appendix F for finding classification definitions.

- ▶ Our review highlighted multiple instances of good control structures and foundations for future controls once projects have commenced works. For example:
  - ▶ Documented structure of oversight groups / committees, e.g. Ardrossan's structure of project manager, Steering Group and Ministerial Task Force.
  - ▶ A focus on lessons learnt from current and previous projects.
  - ▶ For Islay there is a well documented project plan, feasibility studies, decisions, actions and action tracking and a risk register.
  - ▶ When fully approved, projects have timelines and budgets to enable project management such as reviews, KPIs, milestones and escalation.
- ▶ However, our findings noted that key foundational elements of a well established operational control environment have not yet been thoroughly established as summarised on the following page. One root cause of the findings is that the projects are not viewed as properly started at the pre-approval stage, although key activities are required to gain approval and costs have been incurred. Good practice is to establish these elements early in a project's lifecycle to ensure a robust framework and environment in which to operate when the project's main works are underway, as per the Project Delivery Standards (7.2) in the Scottish Public Finance Manual.
- ▶ Following Ardrossan, a programme of improvements has been implemented, which we evidenced with the more recent New Islay Vessel project, which has a project plan with milestones covering the pre-approval stage, documented review with decisions, action tracking and risk awareness. Whilst there is not a budget in place for costs incurred at the pre-approval stage (£560k), spend has remained relatively low compared to the budget for the project once underway of £76.763m.

# An assessment of the current operational control arrangements

## Summary of Key Findings and Recommendations

We have identified a number of opportunities to develop and embed improved controls across the projects associated with the Tripartite, which could be implemented should the decision be taken to continue with the “as-is” structure.

These findings are set out below and in more detail on the following pages, together with an analysis of the associated risks and recommendations for improvement. We have assessed the risks for each finding to enable TS to prioritise actions. Please see Appendix F for finding classification definitions.

Ref	Risk	Finding	Key Recommendations
5.1	H	<p><b>Gaps in early stage project and budget management</b></p> <p>Neither Islay nor Ardrossan have a clear audit trail over changes to the pre-approval budgeted figure. Furthermore, Ardrossan has no pre-approval project plan, and so key activities and timelines are not set out. Without a project plan, there is no means to review project progress against key activities and timelines, which may lead to difficulty in assessing required next steps to meet project requirements.</p>	<p>Implement overall and detailed project planning and budgeting for all stages of a project, including pre-approval. This should include: timelines, milestones, KPIs and formalised project and budget review documentation.</p>
5.2	H	<p><b>Roles, responsibilities and interaction</b></p> <p>Whilst there is some documentation to support the organisations’ broad roles, the roles and detailed responsibilities of the various organisations related to projects are not well defined, documented at a granular level, and formally agreed. Furthermore, how the organisations interact across these roles, especially where there are interdependent responsibilities between organisations, has not been well established.</p>	<p>Formalise and agree the roles and responsibilities of each organisation involved in the project in line with a properly accredited and recognised Project Management Framework. This should include the interaction of these groups and their interdependent responsibilities.</p> <p>Legally formalise the arrangements between each organisation involved in the project, especially where the project involves non-Tripartite members.</p>
5.3	M	<p><b>Escalation and authority</b></p> <p>There is no established definition of when a risk, issue, decision or action requires escalation to a more senior group. This is due to a lack of documented Delegation of Authority to the oversight groups regarding decisions that impact project timelines or budgets. Without well defined limits on authority, there is no prescribed mechanism for escalation, and so timelines and budget impacting decisions may be taken at an inappropriate level.</p>	<p>Formalise and document the authority of each oversight group with respect to decisions and actions over risks and issues, including the requirement to escalate to a more senior group.</p> <p>Consider setting up PMO function to ensure compliance and escalation routes where projects are outwith tolerance levels.</p>
5.4	L	<p><b>Procurement alignment</b></p> <p>TS has informally reviewed CMAL’s procurement strategy, however TS has no formal periodic mechanism to gain assurance that procurement agents and third parties procure in line with public sector obligations.</p>	<p>Establish assurance procedures over procurement strategy, methodology and activity to gain assurance that parties are procuring in line with public sector requirements where part or wholly funded by TS.</p>

## 5.1 Gaps in early stage project and budget management

### Risk Rating

High

### Observation

There are gaps and inconsistencies between projects in the approach to project and budget management in the early stages of the project lifecycle.

The Ardrossan project is at the pre-approval stage (i.e. the business case has not yet been signed off) and has a total spend to date of £2.45m, which consists mainly of consulting fees and costs involved in scenario planning. However, there is no clear project plan and no shared Tripartite documentation for Ardrossan which provides an audit trail over updates to the initial pre-approval budget. As such, there is no mechanism to assess whether this spend is in line with the latest expectations, and whether activities required to achieve full approval (for example, full business case production; agreeing legal relationships and roles and responsibilities) are on track.

Clear, up-to-date project plans and budgets are foundational controls which form the basis for an effective project management framework. Without a project plan or up-to-date budget, related controls cannot be properly put in place, such as:

- ▶ Review of project progress
- ▶ Cost monitoring
- ▶ Action planning and tracking
- ▶ Key Performance Indicators (KPIs) and milestones
- ▶ Processes for the escalation of risks, issues, decisions and actions

In the case of Ardrossan, key activities such as agreeing legal interactions between involved parties have not been completed, despite initial activity commencing seven years ago. This was due to the absence of a clear, shared, mutually understood and agreed project plan at the pre-approval stage to guide next steps and decision making. As a result, the harbour owner no longer participates in the Steering Group, which has now not met for over a year, and there is a lack of clarity around next steps needed to progress.

The Islay ferries project was also at the pre-approval stage, but, demonstrating learnings from the Ardrossan project, there is a high level project plan in place with

clear milestones. This has enabled project level review of progress, decision making, action tracking and risk awareness. The project has subsequently progressed through to stage 1 procurement with approval of the OBC.

However, as with Ardrossan, there is no audit trail over changes to the pre-approval budgeted figure for Islay. While costs to date remain low in comparison to Ardrossan, without a budget there remains a risk that costs increase without proper oversight at a project level.

Progress reviews for Islay are performed orally at the Working Group (project oversight committee) meetings and captured in the minutes. Though this fulfils the purpose, a formal structured document would allow for audit trail and focused discussion on the project's risks, issues, decisions and actions, as well as any requirement to escalate to more senior stakeholders.

### Risk

The absence of a project plan and budget covering activities to full approval results in:

- ▶ A lack of clarity around key milestones to be achieved
- ▶ A lack of clarity over the order actions must be taken in
- ▶ An inability to hold the project and its associates to account over delays, and so an inability to push the project forward
- ▶ A lack of understanding of potential costs to be incurred before the project works begin
- ▶ An inability to monitor and track acceptability of costs incurred
- ▶ A decreased ability to properly escalate problems or potential issues, as there is no clarity around timelines or costs

Ultimately, these could hinder the successful delivery of the project, and may lead to a failure by TS to deliver VfM and / or achieve their strategic objectives.



# 5.1 Lack of a formal pre-approval plan and budget

**Risk Rating**

**High**

Recommendations	
Area	Recommendation
Project Management Standardisation	For all projects agree and implement a standardised project management framework and process (consideration could be given to existing frameworks such as PRINCE2), including standardised controls and documentation around project plans, budgets milestones, KPIs, reviews, roles and responsibilities, delegation of authorities and escalation routes. Input should be obtained as appropriate from all Tripartite members but final approval should sit with TS. Training should be provided to relevant staff from each entity to promote standardisation and high quality key control activities.
Project Planning	At the outset of all projects create an overall high-level project plan that includes milestones and key actions. From this produce a more detailed project plan for the immediate steps of the project, including a pre-approval project plan.
Project Budgeting	At the outset of all projects, create, agree and gain appropriately senior approval for the budget aligned to the project plan. This should include a budget for immediate project steps, e.g. costs associated with pre-approval activities, and not only activities following on from approval, such as procurement.
Milestones	When agreeing both the overall high-level project plan and the more detailed immediate project plan, agree the key milestones that must be achieved for project success.
KPIs	When agreeing both the overall high-level project plan and the more detailed immediate project plan, agree the KPIs in order to facilitate review of the success and potential issues for the project. There may be more detailed KPIs relating to detailed sections of the project, e.g. for pre-approval, design, procurement, works etc.
Documented Project and Budget Review	Using the project plan and budget, establish formalised documented project and budget review processes that include: <ul style="list-style-type: none"> <li>- Expected progress to date vs actual progress to date</li> <li>- Budget vs actuals</li> <li>- Issues and risks to project success</li> <li>- Decision making on actions</li> <li>- Actions ownership and tracking</li> <li>- Escalation of issues and risks for more senior decision making</li> </ul>
Escalation and authority	Please see Escalation and Authority for a recommendation to establish delegated authorities and escalation requirements.
Roles and Responsibilities	Please see Roles, Responsibilities and Interactions for recommendation of more clearly documenting each party's roles and responsibilities at each stage of the project.

## 5.2 Roles and responsibilities and interactions

**Risk Rating**

**High**

### Observation

Projects for upgrades to ferry routes involve a complex interaction between different parties in terms of funding, vessel ownership and leasing, operation of routes, port ownership and leasing, land ownership and improvements, as well as procurement, project management, governance and budgeting. However, the roles and responsibilities of each party in relation to the projects, and each other, are not well defined and documented.

There are broad roles for oversight groups and the relationship of organisations to those oversight groups for both Ardrossan and Islay in their business cases and Terms of Reference. The roles as defined are in line with our expectations for groups of this nature. There are also high-level roles given in draft meeting minutes from the Ardrossan Steering Group dated 14<sup>th</sup> May 2020. However, neither the business cases nor the Terms of Reference assign key roles such as project management, procurement, governance, budget management etc, and the detailed responsibilities that align to these roles, nor agreement by those organisations to fulfil them. We do see this level of broad role and detailed responsibilities in Islay’s OBC concerning CMAL’s role of managing the ship building contract; however, we do not have the same for other key areas such as procurement and project management.

The lack of defined and documented roles and responsibilities impacts how the organisations interact, as one organisation’s role may impact heavily on another’s responsibility, e.g. CMAL as vessel procurer impacts on CFL as vessel operators. However, the way these entities should interact, the level of input required from CFL and level of responsibility on CMAL for operational success is not documented. This has previously resulted in delays – for example, where CFL desired additional input on scenario planning for Ardrossan.

The need to define roles, responsibilities and interaction is particularly important for projects with a more complex structure – for example, where the port is owned by a third parties. We noted a recent instance where legal arrangements had not been put in place between all parties, resulting in key parties not attending steering group meetings for an extended period of time.

**Risk**

Without documented roles and detailed responsibilities for each party to the project as a whole, specific responsibilities may not be clearly allocated to an organisation, and the interaction and interdependent responsibilities of organisations may not be fully understood. There is also a risk that resourcing needs may not be fully identified and understood. The result is that responsibilities may not be fulfilled, and organisations cannot give input to decisions that directly impact their operational success, and so the success of the project.

### Recommendation

Area	Recommendation
Roles and responsibilities	Transport Scotland, in their capacity as sponsor body, should define and document the broad roles, and detailed responsibilities aligned to each organisation at each stage of the project. This should be aligned to a properly accredited and recognised Project Management framework such as PRINCE2 or the Office of Government Commerce, and should define the level of required input and interdependent responsibilities between the organisations and their roles, to ensure that adequate resource will be in place for delivery and oversight of key projects.
Legal agreements	For each project, as the sponsor body TS Ferries should liaise with Transport Scotland’s legal advisors to determine and define the appropriate legal agreements and ensure that these are in place for each project, such as interactions and responsibilities between each party in relation to fulfilling the project. These should consider any pertinent complexities / intricacies inherent in the nature of public sector vs. private sector contracting – for example, the different objectives and approach of privately owned infrastructure operators and Scottish Government’s delivery of lifeline ferry services.

## 5.3 Escalation and authority

**Risk Rating**  
**Medium**

### Observation

There is no documented policy or Delegation of Authority for the escalation of risks, issues, decisions or actions, and so no clearly prescribed threshold after which decisions must be escalated. Instead, the decision to escalate from the project oversight committees to a more senior forum is determined on an ‘as needed’ basis. In addition, there is no Programme Management Office to hold project sponsors to account.

A lack of clear authority and thresholds is exacerbated where there is no project plan or budget, as there are no clear indicators of when projects are deviating from acceptable timelines or costs, or when more senior interventions may be required or project reapproval may be appropriate. We see the effect of this with the Ardrossan project where timelines and costs have increased, however with clarity over acceptable spend and timely escalation to more senior decision makers, these issues may have been addressed more efficiently and effectively.

We note that routes do exist for operational issues, running from the technical sub groups via the Project Manager and Steering Group up to the Ministerial Task Force. There is also a Delegation of Authority in place for procurement for Islay (although this has not yet been used as procurement has yet to take place). What is currently absent, is clarity over when issues should be escalated.

**Risk**  
 Without a clear requirement for escalation, there is a risk of inappropriate decision making or an unapproved increase in costs or timelines, impacting delivery of the project and the achievement of overall strategic objectives.

Recommendation	
Area	Recommendation
Escalation and authority	<p>Produce a Delegation of Authority (DoA) for each level of project oversight that defines their authority to make decisions and take actions over risks and issues, especially deviations to project timelines and budget. The DoA should also stipulate when each level must escalate decisions and actions over risks and issues that will effect either timely delivery of the project or project costs, and overall success of the project.</p> <p>When developing these, consideration should be given to the sponsor body framework documents and the DoA requirements in the SPFM.</p> <p>Providing a centralised repository (for example, a SharePoint solution) to store such guidance and proactively encouraging their use may improve awareness of the existence of these documents.</p> <p>Consider setting up PMO function to ensure compliance and escalation routes where projects are outwith tolerance levels.</p>



## 5.4 Procurement alignment

**Risk Rating**

**Low**

### Observation

CMAL is responsible for procurement of ferries and related works on behalf of TS who wholly or partly fund the works. CMAL has their own procurement strategy and methodology, which is currently still being revised and approved.

Though TS Ferries Unit have informally reviewed CMAL's procurement strategy, they do not have an agreed method for periodically gaining assurance that CMAL's procurement strategy, methodology and activities fulfil TS's obligations to meet public sector procurement requirements.

Similarly, where a project involves working with third parties and TS wholly or partly funds the third party's works, TS Ferries Unit could fail to meet their public sector procurement obligations if the third party's procurement activities do not meet the required standard.

**Risk**

While CMAL are bound to the same SPFM requirements as TS, there is a risk that TS Ferries Unit could be perceived as not having obtained sufficient assurance over the procurement activities, or that an element of non-compliance goes undetected due to a lack of ongoing / periodic assurance.

Recommendation	
Area	Recommendation
Procurement methodology	TS, in their capacity as both project sponsor and organisation sponsor, should formally review the procurement strategy, methodology and activities of related parties to gain reasonable assurance that CMAL are conducting procurement that they are funding or part funding in accordance with relevant requirements. They could also consider obtaining periodic attestations from CMAL that they continue to comply with the relevant requirements of the SPFM.

# 6 Value for Money





# Introduction

## Purpose

The purpose of this section is to provide a view on whether current governance arrangements and project operational controls across the Tripartite as a whole facilitate value for money delivery of the ferry services to island communities.

## Approach

Due to the unique structure of the Tripartite, there are no “ready made” frameworks for assessment of VfM which are an exact fit for its nature and ways of working. As such, we worked with Transport Scotland to design and tailor an appropriate assessment methodology. We reviewed recognised definitions of best value for public sector entities, and identified key considerations (the National Audit Office “four E’s” of economy, efficiency, effectiveness and equality). We also took into account the contents of the ‘Value of Ferries’ scoping note, which outlined a range of options for measuring the value of ferries to the Scottish economy. We then aligned our considerations to four of the seven key themes which, per the Accountable Officer’s guidance linked in the SPFM “will support the development of an effective organisational context from which public services can deliver key outcomes and ultimately achieve best value”:

- ▶ Vision and Leadership
- ▶ Governance and Accountability
- ▶ Partnership and Collaborative Working / Performance Management
- ▶ Use of Resources

For each of these themes we compared relevant best value indicators per the guidance linked in SPFM to the current status, based on our assessment of governance arrangements and key controls across the Tripartite.

Assessment	Definition
<b>Absent</b>	No best value indicators against this theme are in place, either wholly or in part.
<b>Basic</b>	A few of the indicators of best value against this theme are at least partially in place, though significant gaps may also be present.
<b>Developing</b>	Many of the indicators of best value are at least partially in place, with few outright gaps noted.
<b>Embedded</b>	The majority of the indicators of best value are in place, with only minimal gaps noted.
<b>Leading</b>	All indicators of best value are in place, with at least some comparing favourably to sector leading practice.

The remaining three themes (working with communities; sustainability; fairness and equality) are cross cutting and have been considered holistically in our findings and recommendations. Not all indicators listed in the SPFM are relevant for the Tripartite as it is not a single entity operating with its own assets and employees, and in line with our scope we have not provided an assessment of absolute values capable of being achieved through changes to processes or overall Tripartite structures.

We have assessed each indicator as being:

- ▶ **Fully in place** – all elements of the indicator are in place for the Tripartite as a whole and can be clearly evidenced.
- ▶ **Partially in place** – some elements of the indicator are in place and can be evidenced, and / or are in place within individual entities but not the Tripartite as a whole.
- ▶ **Not in place** – few or no elements suggested by the indicator are in place.
- ▶ **Not evidenced** – insufficient evidence to assess whether the Tripartite meets this indicator.

It is important to note that the absence of an indicator does not equate to a high risk finding as per the Governance and Key Controls sections; this simply denotes a gap against SPFM expectations for organisations set up for success in terms of delivering best value. As such, based on the proportion of indicators in place across each theme, and the extent to which each one is in place, we have assessed the maturity of each area on a five point scale, as follows:



# Value for Money Assessment

## Overall Assessment

Developing

### Summary of Current State

Delivery of VfM in the public sector requires a focus on improvement to deliver the best possible outcomes for the public. This in turn requires those outcomes to be clearly defined, and that they are understood by all parties responsible for delivering them.

As has been highlighted in the Governance section of our report, the individual entities within the Tripartite have clear internal governance structures, and objectives/ KPIs which they measure against. This means that many of the selected indicators can be demonstrated at least in part.

However, the lack of shared governance structures across the Tripartite and the absence of shared objectives means that it is difficult to assess whether the Tripartite as a whole is delivering best value, and we noted a number of areas where efficiency could be improved. As such, we have assessed the current overall status as 'Developing.'

We have summarised below some of the key gaps noted against the themes set out in the Scottish Public Finance Manual. On p. 37-38, we provide our overarching recommendations, many of which are aligned to our review of governance arrangements and/ or key controls. A detailed analysis of the current status against selected indicators within each theme is outlined in Appendix G.

Theme	Assessment	
<b>Vision and Leadership</b>	<b>Developing</b>	Individual entities have clearly defined corporate plans which are regularly updated. However, the lack of shared strategic planning across the Tripartite means that the sense of a clear, consistent vision is absent – this can be seen in the differing mission statements of the organisations, as highlighted in section 3. As such, a shared vision cannot be communicated by leadership to staff and stakeholders, which in turn creates a risk of misalignment in several areas key to delivering best value. This will require all parties to commit resources to creating and embodying the shared vision.
<b>Governance and Accountability</b>	<b>Basic</b>	There is no shared Tripartite governance framework to facilitate shared decision making (where appropriate) and to monitor performance against agreed roles and responsibilities, objectives, and outcomes. This specifically contradicts Scottish Government guidance for Accountable Officers on the duty of best value, which calls for a robust framework of corporate governance where delivery is through others.  Furthermore, our review of project controls highlighted that budget monitoring, milestone reviews and triggers for escalation (e.g. where projects are forecast to exceed agreed spend) are not consistently and clearly defined, nor are they appropriately monitored, presenting a risk that costs could significantly exceed acceptable levels and negatively impact on the provision of VfM.
<b>Collaborative Working and Partnership (inc. Performance Management)</b>	<b>Developing</b>	All interviewees clearly articulated the importance of delivering the best possible service to the island communities, and our review of key controls highlighted multiple instances of strong engagement with local stakeholders. However, due to the lack of shared objectives and strategic planning within the Tripartite, the link between these engagements and decisions taken / outcomes delivered is not always clear. Furthermore, the lack of shared objectives and governance structures is not aligned to the indicators of best value per SPFM guidance in this area.
<b>Use of Resources</b>	<b>Developing</b>	Each entity has clear systems of financial stewardship and risk management, although we note that a shared approach to risk management across the Tripartite would be beneficial.  We acknowledge that the Tripartite as a whole is not collectively responsible for some aspects of "Use of Resources" as defined by the SPFM – for example, IT assets. However, given the absence of Tripartite-specific objectives to track against, and the absence of key monitoring controls against the delivery of some projects, it is not possible to conclude that the Tripartite as a whole is currently using its resources to deliver best value.

# Value for Money Assessment

## Overarching Recommendations

### Recommendations

Area	Recommendation
Shared long-term strategy	<p>As noted in the governance section, a shared long-term strategy would be beneficial, together with agreed objectives and KPIs in order to periodically assess performance. This would provide clarity and accountability for the Tripartite members on the purpose and intended outcomes for the Tripartite, which in turn should enable focus on an agreed and mutually understood definition of best value (see below).</p> <p>Responsibility for the delivery of KPIs / objectives should be clearly defined, and where objectives / KPIs are not met, lessons learned exercises should be conducted to facilitate continuous improvement. These should be constructive and focused on how to deliver VfM for the island communities in future.</p> <p>One impact of the current lack of a long-term shared strategic vision is reduced opportunity for savings where multiple similar vessels are required, or where multiple similar projects are run in parallel – for example, bulk discounts, and synergies in project management. Such opportunities should be considered in the development of the strategy and should feed into long-term decision making once the strategy is in place. Additionally, without a long-term strategy, there is a risk that reactive decision making (e.g. the procurement of emergency vessels) will continue and lead to unnecessary expense.</p> <p>Consideration should also be given to incentivising DML to invest time and resources or provide input into policy consultation where appropriate; the contract award periods do not currently encourage this.</p>
Define and share a vision and definition of best value for the ferries service	<p>As the sole shareholder and sponsor, TS should set out their vision of what constitutes best value for the delivery of services across the Tripartite. (We note that this exercise has begun, with the scoping of the “Value of Ferries” exercise.)</p> <p>This should not be based purely on delivering the service at the lowest possible costs. Key factors to consider include:</p> <ul style="list-style-type: none"> <li>▶ Sustainability, both in terms of living within environmental limits, and building a strong, stable and sustainable economy which provides prosperity and opportunities for all.</li> <li>▶ The views and needs of the Scottish public, which should be established via continued engagement with stakeholders and the communities served, and aligned to the Scottish Government National Performance Framework.</li> </ul> <p>Clearly defining the desired outcomes will facilitate economy, effectiveness and efficiency, in line with the National Audit Office’s key considerations for achieving VfM. This vision and the related objectives should be communicated to the other Tripartite entities, who should be made aware of the role they play in the delivery of best value.</p>

# Value for Money Assessment

## Overarching Recommendations (cont.)

Recommendations	
Area	Recommendation
Identify potential efficiencies / gaps	<p>Consideration should be given to which processes should be partly or fully managed in common by the Tripartite, to manage the risk of inefficiencies, duplication or gaps. Per our review of Governance and key project controls, we would suggest a focus on:</p> <ul style="list-style-type: none"> <li>▶ Risk management. Develop a shared Risk and Assurance framework for the Tripartite which defines areas of shared risk, how these are rated and managed, triggers for escalation, and upwards reporting routes. This would prevent inefficiencies from multiple parties trying to manage the same risks, and minimise the chance of gaps in risk identification and management, which could lead to costly issues and consequently a failure to deliver VfM.</li> <li>▶ Roles and responsibilities. These should be clearly defined for each project, with careful consideration given to areas for potential overlap, and any areas where responsibilities are unclear.</li> </ul>
Project Budgeting and Management	<p>At the outset of all projects, create, agree and gain approval for a detailed budget aligned to the project plan. This should include a budget for immediate project steps, e.g. costs associated with pre-approval activities, to ensure that these do not exceed acceptable levels and maximise the chances of delivering VfM.</p> <p>Project budgets and milestones should be clearly and transparently monitored against an agreed project plan. A threshold should be set, above which deviations from the budget and timeline require escalation and sign off. This could be done via the Network Strategy Group, with the Tripartite Executive Forum (see below) being sighted on particularly critical variances.</p>
Tripartite Board Level Executive Forum	<p>A Tripartite Executive Forum (constituting CEOs and CFOs of DML, CalMac and CMAL with TS representatives, chaired by the TS sponsor) should review and agree collective strategic priorities (aligned to Ministerial objectives), plans, performance and provide an escalation / arbitration point for key decisions.</p> <p>This should include periodic oversight of assessments as to whether VfM objectives (see above) are being delivered.</p> <p>This could also provide a forum for differing views and disagreements to be aired and resolved in an open and transparent manner, to prevent any public blame-laying and improve the likelihood of parties working together constructively.</p>



# 7 Appendices



## Appendix A: Governance - Stakeholders Interviewed

Name	Position
Erik Østergaard	Chair, CMAL
Kevin Hobbs	CEO, CMAL
Duncan Mackison	Chief Executive, DML
Robbie Drummond	MD, CFL
David McGibbon	Chair, DML
Albert Tait	Chair, Audit Committee, DML
Frances Pacitti	Director of Aviation, Maritime, Freight and Canals, TS
[REDACTED]	Head of Ferries, TS
[REDACTED]	Head of Business Support, CMAL
[REDACTED]	Policy Lead, Ferries Strategy, TS
[REDACTED]	Head of Ferries Infrastructure Branch, TS
[REDACTED]	Project manager, Infrastructure Branch, TS
Ramsay Muirhead	Director of Port Infrastructure, CMAL
[REDACTED]	Senior Civil Engineer, CMAL
James Anderson	Director of Vessels, CMAL
[REDACTED]	Assistant Technical Superintendent, CMAL
[REDACTED]	TS Sponsor, CMAL / CalMac
[REDACTED]	Head of Service Delivery Planning, CalMac

## Appendix B: Governance - Documents Reviewed

### CFL / DML

- ▶ ARC ToRs
- ▶ Articles of Association
- ▶ Board Committee Composition
- ▶ Change Board ToR
- ▶ Framework Agreement
- ▶ Project Board ToR
- ▶ Project Management Handbook
- ▶ Remco ToR
- ▶ SafetyCo ToR
- ▶ TS CHFS Reporting Pack Feb 21

### CMAL

- ▶ Annual Report 2020
- ▶ Articles of Association
- ▶ Board profiles and organisational chart
- ▶ CHFS2 Fleet Bareboat Charter
- ▶ CHFS2 Tripartite Agreement
- ▶ Corporate Plan 20201
- ▶ Financial Memorandum for CMAL
- ▶ Harbour Operating Agreement

### TS

- ▶ Articles of Association
- ▶ Audit Scotland report on Ferries Services
- ▶ Ferries Plan 2013 - 2020
- ▶ Findings of internal TS consultation
- ▶ Island Connectivity Plan Scoping Paper
- ▶ National Transport Strategy Roles and Responsibilities
- ▶ Network Strategy Group Minutes – Sept 20, Nov 20, Jan 21
- ▶ Organogram of Transport Scotland Ferries Unit
- ▶ Vessel Replacement Development Plan (VRDP) 2020 - DRAFT
- ▶ VRDP Programme Steering Group and Project Steering Group ToR



## Appendix C: Project Controls - Stakeholders Interviewed

Name	Position
██████████	Project Manager, Transport Scotland
██████████	Finance Business Partner, Transport Scotland
██████████	Joint Head of Ferries Infrastructure Branch, Transport Scotland
Robbie Drummond	Managing Director, CalMac Ferries Ltd
██████████	Head of Operational Planning, CalMac Ferries Ltd
Duncan Mackison	CEO, CalMac Ferries Ltd
Kevin Hobbs	CEO, CMAL
Ramsay Muirhead	Director of Port Infrastructure, CMAL
██████████	Senior Civil Engineer, CMAL
James Anderson	Director of Vessels, CMAL
████████████████████	Head of Ferries Infrastructure Branch, Transport Scotland
██████████	Special Project Manager, Ferries Unit, Transport Scotland

## Appendix D: Project controls - Documents Reviewed

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<p>Steering Group Terms of Reference May 2020</p> <p>Taskforce Terms of Reference May 2020</p> <p>Steering Group Minutes May 2020</p> <p>Taskforce Meeting Minutes December 2020</p> <p>Taskforce Meeting Presentation December 2020</p> <p>Taskforce Meeting Governance Document December 2020</p> <p>Taskforce Meeting Minutes February 2020</p> <p>Risk Register June 2020</p> <p>Communications Sub-Group Long-Term Strategy</p> <p>Independent Project Review April 2019</p> <p>Outline Business Case September 2019</p> <p>Sponsor's Requirements Statement June 2020</p> <p>Outline Funding Agreements – NAC – June 2020</p> <p>Estimated Cost Profile</p> <p>Email discussion of professional fees</p> <p>Draft Analysis paper</p> <p>ATF Meeting December 2020 on Draft Analysis paper</p> <p>Draft Funding Agreement – Ardrossan Harbour Company March 2021</p> <p>Draft Appropriated Birth Agreement – Ardrossan Harbour Company and CalMac Ferries Ltd</p> <p>Draft Direct Agreement (Appropriated Birth Agreement) – Ardrossan Harbour Company</p>	<p>Various CalMac invoices June 2019 – March 2021</p> <p>New Islay Ferry – Budget Project Costs and Forecast March 2021</p> <p>CMAL New Islay Vessel Procurement Strategy</p> <p>Evidence of TS's review of CMAL New Islay Vessel Procurement Strategy</p> <p>Delegation of Financial Authority Schedule March 2021</p> <p>Transport Scotland Procurement Toolkit January 2021</p> <p>Islay – Roles and Responsibilities October 2020</p> <p>Terms of Reference Rev 3 October 2020</p> <p>Working Group Meeting Agenda March 2021</p> <p>Working Group Meeting Minutes March 2021</p> <p>Working Group Meeting Agenda May 2021</p> <p>Working Group Meeting Minutes May 2021</p> <p>Working Group – Action List May 2021</p> <p>Working Group – Decision Log May 2021</p> <p>Working Group – Lessons Learned ongoing</p> <p>RACI Rev 2.2 January 2021</p> <p>CMAL Risk Register Management Policy</p> <p>Project Plan Gantt Char Rev 7</p> <p>Project Initiation Document August 2019</p> <p>Gateway Review June 2020</p> <p>Strategic Business Case October 2019</p> <p>Outline Business Case March 2021</p> <p>IDM Board follow up on Outline Business Case</p> <p>Presentation on Outline Business Case to IDM Board</p> <p>IDM Board Approval of Outline Business Case</p> <p>Communication to Minister of IDM Board approval June 2021</p>

## Appendix E: Governance - Findings Classification

### Findings Classification

Priority	Description
High	<p>The absence or failure of fundamental / key controls.</p> <p>A risk which if realised would significantly or materially impact on the Tripartite's ability to meet its objectives or deliver regulatory responsibilities.</p> <p>Risks require immediate attention.</p>
Medium	<p>Non-compliance with fundamental / key controls.</p> <p>A risk which if realised would impact the Tripartite's ability to meet its objectives or regulatory responsibilities.</p>
Low	<p>Isolated instances of non-compliance with controls.</p> <p>A risk with limited exposure to the Tripartite at a strategic level but which warrants the attention of management. This includes housekeeping and document control.</p>
Improvement	<p>An area for potential improvement including efficiency and VfM. Not considered for report classification.</p>



## Appendix F: Project controls - Findings Classification

### Findings Classification

Priority	Description
High	<p>The absence or failure of fundamental / key controls.</p> <p>A risk which if realised would significantly or materially impact on delivery of a project, or a project's ability to meet its objectives or regulatory responsibilities.</p> <p>Risks require immediate attention.</p>
Medium	<p>Non-compliance with fundamental / key controls.</p> <p>A risk which if realised would impact a project's ability to meet its objectives or regulatory responsibilities.</p>
Low	<p>Isolated instances of non-compliance with controls.</p> <p>A risk with limited exposure to a project but which warrants the attention of management. This includes housekeeping and document control.</p>
Improvement	<p>An area for potential improvement including efficiency and VfM. Not considered for report classification.</p>

## Appendix G: VfM – Vision and leadership

### Overall Assessment

Developing

### Overview

Guidance for Accountable Officers in delivering best value, linked in the Scottish Public Finance Manual (SPFM), states that “a Best Value organisation achieves an open and inclusive leadership style, with a clear vision and sense of purpose, securing continuous improvement and improved outcomes with transparent, accountable processes and robust governance.” At all times this should be focused on making Scotland a better place to live and work, and a more prosperous and successful country.

The guidance goes on to highlight that the strategy should display a clear sense of purpose and place and be effectively communicated to all staff and stakeholders.

### Performance Against Selected Indicators

Level	Indicator	In Place?	Current Status	Impact
Strategic	Strategic priorities are agreed, reviewed and updated on a regular basis; leaders communicate the strategy to all staff and stakeholders and ensure that it is translated into meaningful actions and outcomes.	Not in place	While we note that CMAL and DML / CFL have corporate plans which are updated and reviewed as part of their own internal governance procedures, there is no long-term Tripartite approach to strategic planning (for example, vessel requirements and harbour needs to meet projected demand; environmental targets), and therefore a lack of shared vision and objectives to communicate to key stakeholders.	Absence of clear shared strategic priorities may undermine / detract from a sense of shared purpose, while a lack of clear shared objectives may result in misaligned priorities.  Ultimately this may impede effective decision making and lead to a failure to deliver best value to the people of Scotland.
Strategic	Overall strategic priorities are informed by a good understanding of the needs of the organisation's stakeholders, the Scottish Government Strategic Objectives and how the individual Public Body is making a contribution to sustainable development.	Partially in place	All Tripartite stakeholders interviewed consistently articulated the need to focus on the requirements of the island communities, and all organisations have clear objectives with regards to sustainability; however, there is no shared Tripartite approach to setting these, and differing views were expressed on what the needs and priorities of the public are. A shared approach to strategic planning could highlight some of the misalignments identified and facilitate a more productive, streamlined approach.	Due to a lack of long-term strategic planning across the Tripartite, there is also a risk to best value via a failure to make savings / efficiencies. Where decisions and delivery are short term and reactive, the Tripartite is likely to miss out on (for example) bulk discounts on purchasing, and the synergies that could arise from working on multiple similar projects at one time.

## Appendix G: VfM – Vision and leadership

### Overall Assessment

Developing

### Performance Against Selected Indicators

Level	Indicator	In Place?	Current Status	Impact
Operational	There is a strategy with realistic and achievable objectives and targets which are matched to their financial, asset base and other resources and which is explicitly translated into clear responsibilities for implementation.	Partially In Place	While this indicator can be evidenced within the individual organisations (to an appropriate extent commensurate with their size and roles), the absence of shared strategic planning across the Tripartite means that shared objectives are not explicitly set, with responsibilities for implementation assigned.	We acknowledge that in practice there are multiple forums for informal and ad hoc discussion between TS and CMAL, and between TS and DML. Additionally, the roles of the entities within the Tripartite are distinct from one another, as outlined in section 3. However, there is still a risk of misaligned priorities and objectives without a shared approach to strategic planning.
Operational	Statements, strategies and plans clearly show a systematic approach by the organisation towards risk management.	Partially In Place	Individual entities have a defined approach to risk management and an internal audit function; however, there is no shared approach to risk management across the Tripartite.	Without a shared approach to risk management and escalation, there is a danger that a risk may only be noted within one entity, even though it could potentially affect other Tripartite members.  Conversely, there is a risk of duplication if all parties are individually managing similar risks, which does not represent best value as this is an inefficient use of resources.
Operational	Interdependencies between different activities and outcomes are recognised and effective co-ordination and alignment is actively championed by senior management.	Not in place	Our review of internal controls highlighted that, while the broad roles of each entity are highlighted within project business cases, there is no evidence of consideration of where one organisation's role may impact on another's responsibilities, and therefore no identification and monitoring of interdependencies.	Gaps and inefficiencies may arise where interdependencies are not appropriately considered, leading to inefficient use of resources and a failure to deliver best value.

## Appendix G: VfM – Vision and leadership

### Performance Against Selected Indicators

Level	Indicator	In Place?	Current Status	Impact
Operational	There is an explicit and systematic approach to integrating continuous improvement into everyday working practices and involving all staff in developing the organisation's approach to Best Value.	Partially In Place	While the need to deliver best value to the Scottish public has been articulated by all stakeholders interviewed during the review, there is no shared systematic approach to delivering this across the Tripartite. We note that the draft DML framework agreement with TS does not contain a reference to best value.	There is a risk that Tripartite members have differing views on what best value means and how to achieve it, leading to inappropriate decisions being made which ultimately impact negatively on local communities.



## Appendix G: VfM – Governance and accountability

### Overall Assessment

Basic

### Overview

According to the Accountable Officer guidance, “a Best Value organisation will be able to demonstrate structures, policies and leadership behaviours which support the application of good standards of governance and accountability in how the organisation is improving efficiency, focusing on priorities and achieving value for money in delivering its outcomes.” These good standards should clearly delineate roles and responsibilities, and should assure openness, accountability, and transparency.

### Performance Against Selected Indicators

Level	Indicator	In Place?	Current Status	Impact
Strategic	There is a corporate plan which is focused on the successful delivery of outcomes, takes account of statutory responsibilities, and is translated into specific actions to be carried out at both corporate and operational levels to achieve those outcomes.	Partially in place	While the individual entities have defined governance structures and documented corporate plans, and internally monitor performance against these, there is no shared Tripartite governance framework to facilitate shared decision making (where appropriate) and to monitor performance against agreed roles and responsibilities, objectives, and outcomes.	As noted above, a lack of shared strategic planning may lead to misaligned objectives, and therefore actions being taken which do not lead to best value outcomes.  Further, the absence of a dedicated forum in which TS can hold the other Tripartite members responsible for decisions and delivery against Ministerial objectives presents a risk to transparency and accountability.
Strategic	Plans, priorities and actions are informed by an understanding of the needs of its stakeholders, citizens, customers and employees.	Partially in place	All Tripartite stakeholders interviewed consistently articulated the need to focus on the requirements of key stakeholders; however, there is no shared Tripartite approach to ensuring all entities are aligned on what these are. A shared approach to strategic planning could highlight some of the misalignments identified and facilitate a more productive, streamlined approach.	Misaligned views on the needs of stakeholders heightens the risks of individual organisations setting objectives which are not fit for purpose and do not contribute to delivering best value.

## Appendix G: VfM – Governance and accountability

### Overall Assessment

Basic

### Performance Against Selected Indicators

Level	Indicator	In Place?	Current Status	Impact
Strategic	Decision-making processes are open, transparent and clearly based on evidence that can show clear links between the activities and the outcomes to be delivered to customers and stakeholders.	Not in place	The current Ferries Strategy expires in 2022, and decisions are already being taken which impact beyond this time frame. Stakeholders interviewed stated that they were aware that changes to the strategy may mean that decisions taken in the near future are ultimately rendered obsolete.	While we acknowledge that key decisions (for example, vessel replacement) receive significant discussion and internal scrutiny, these cannot currently be linked to desired medium and long-term strategic outcomes, presenting a risk to the delivery of best value.
Strategic	Where delivery is through others, a robust framework of corporate governance is in place to manage that delivery which sets out roles and responsibilities, objectives and outcomes and a process for performance and risk management and reporting.	Not in place	<p>There is no formal corporate governance framework in place for the Tripartite setting out key roles and responsibilities, objectives and outcomes. The governance and oversight of the Tripartite is currently operating with a strong reliance placed on the individual relationships between Tripartite members.</p> <p>For DML, a Framework Agreement is in draft form and has never been signed or formally approved. This has led to a lack of clarity on the Scottish Ministers' agenda for DML's commercial ventures and differing views on priorities within the Tripartite.</p> <p>For CMAL, it has in place a Financial Memorandum / Management Statement that sets out the overarching mandate and direction; however, review of this document is overdue.</p>	In the absence of an overarching framework there is a risk to clarity of objectives, and to accountability. This may lead to a failure to deliver appropriate services to the communities the Tripartite serves.

## Appendix G: VfM – Governance and accountability

### Overall Assessment

Basic

### Performance Against Selected Indicators

Level	Indicator	In Place?	Current Status	Impact
Operational	Organisational budgets and other resources are allocated and regularly monitored to ensure that they are not only delivering agreed objectives but also (crucially) outcomes in a manner which is keeping a suitable balance between cost, quality and price in making the best use of public resources.	Not in place	Our review of key controls governing projects highlighted multiple weaknesses and gaps in terms of monitoring against budgets. The Ardrossan harbour project has been in the pre-approval stage for seven years, £2.45m has been spent, and this is not being monitored against an agreed total spend. There are no agreed milestones for escalation where spend is forecast to exceed the initial plan.	Absence of budget monitoring results in an inability to monitor and track acceptability of costs incurred, and therefore an inability to assess whether best value is being delivered.
Operational	The organisation ensures that its approach to external accountability is supported by its governance arrangements, including an Outcomes Based Approach, continually improving the clarity of reporting structures, responsiveness and accessibility for all stakeholders.	Not in place	There is no shared Tripartite governance framework to support a “united front” to external stakeholders. This is evidenced by the failure of the entities to speak with “one voice” and to pass blame from one entity to another when issues are identified and raised (see Finding 3.2 in the governance section).	<p>The tone from the top is critical to ensure appropriate behaviours across the Tripartite. Poor behaviours from senior personnel are liable to affect their ability to work together effectively. These behaviours may permeate across other areas of the organisation and hinder the ability of the parties to work together collaboratively and productively.</p> <p>Ultimately, this risks having a negative impact on the efficient delivery of ferry services to the island communities, and a lack of trust in the Tripartite from those communities and other key stakeholders.</p>

## Appendix G: VfM – Partnership and Collaborative Working

### Overall Assessment

Developing

### Overview

This theme focuses on how a Best Value organisation engages with partners in order to secure continuous improvement and improved outcomes for communities.

In relation to performance management, the Accountable Officer guidance states that “a Best Value organisation will ensure that robust arrangements are in place to monitor the achievement of outcomes [...] as well as reporting on specific activities and projects. It will use intelligence to make open and transparent decisions within a culture which is action and improvement oriented and manages risk.”

### Performance Against Selected Indicators

Level	Indicator	In Place?	Current Status	Impact
Strategic	There is an organisational culture which recognises the value of working with wider stakeholders and partners to achieve more effective and sustainable policy development, better services and customer-focused outcomes.	In Place	All stakeholders interviewed, at all levels of each organisation, articulated the importance of continued delivery of the lifeline services to the island communities, as well as stating the criticality of considering sustainability and the environmental impact of services. The majority of stakeholders acknowledged that, despite some specific issues, individuals from all organisations had a role to play in sharing their expertise and experience to deliver the best possible service to the end user.	There is an evident desire to do the right thing by the island communities and to deliver best value; however, as previously highlighted, this is difficult to achieve without assurance that all Tripartite members are aligned on key objectives, and on what constitutes best value to the communities being served.
Strategic	Plans are informed by engagement with stakeholders and the communities affected by the work of the organisations involved in the relevant partnership.	Partially in place	Through our key controls review, we have evidenced multiple instances of engagement with stakeholders including local councillors and representatives of communities served by CHFS, although we note that the link between these engagements to agreed strategic objectives is not clear, due to the lack of agreed outcomes across the Tripartite as a whole.	



## Appendix G: VfM – Partnership and Collaborative Working

### Overall Assessment

Developing

### Performance Against Selected Indicators

Level	Indicator	In Place?	Current Status	Impact
Strategic	Partnership plans have agreed a set of measures and targets to track progress and can clearly demonstrate (and regularly reports on) the impact of, and the outcomes from, any partnership working.	Not in place	While this indicator can be evidenced within the individual organisations (to an appropriate extent commensurate with their size and roles), the absence of shared strategic planning across the Tripartite means that shared objectives are not explicitly set, with responsibilities for implementation assigned.	A lack of clear shared objectives may result in misaligned priorities and a lack of understanding of critical outcomes to deliver.  Ultimately, this may impede effective decision making and leading to a failure to deliver best value to the people of Scotland.
Strategic	Where the partnership is involved in joint delivery, governance arrangements include: (a) agreeing appropriate respective roles and commitments and areas of collective responsibility; (b) integrated management of resources where appropriate; (c) effective monitoring of collective performance; and (d) joint problem-solving and learning.	Partially in place	There is no shared Tripartite governance framework to facilitate shared decision making (where appropriate) and to monitor performance against agreed roles and responsibilities, objectives, and outcomes.	We acknowledge that in practice there are multiple forums for informal and ad hoc discussion between TS and CMAL, and between TS and DML. Additionally, the roles of the entities within the Tripartite are distinct from one another, as outlined in the introductory section. However, there is still a risk of misaligned priorities and objectives without a shared approach to the indicated areas.
Operational	Working openly to agreed objectives, performance management and reporting mechanisms.	Partially in place	Outline business cases (OBCs) provide desired ultimate end states on a project by project basis, and there are KPIs contained within the operating contracts, which TS monitor. However, the draft framework agreement with DML has never been signed off, while the Financial Memorandum in place with CMAL is out-of-date.	Without agreed objectives there is a risk of misalignment within the Tripartite. There is also a risk to accountability as the entities are not signed up to deliver against defined objectives (besides those outlined in DML's operating contract), making it more difficult for Ministers to hold Tripartite members responsible for any failure to deliver.

## Appendix G: VfM – Use of Resources

### Overall Assessment

Developing

### Overview

The Accountable Officer guidance linked in the SPFM states that *“a Best Value organisation will show that it is conscious of being publicly funded in everything it does. The organisation will be able to show how its effective management of all resources (including staff, assets, information and communications technology (ICT), procurement and knowledge) is contributing to delivery of specific outcomes.”*

### Performance Against Selected Indicators

Level	Indicator	In Place?	Current Status	Impact
<b>Strategic</b>	The organisation is making the best use of public resources (including employees, ICT, land, property and financial resources) based on evidence.	<b>Not evidenced</b>	Given the lack of monitoring of performance against agreed objectives, the absence of key monitoring controls on major projects, and the fact that interdependencies are not actively identified and managed, it is not possible to evidence that the Tripartite as a whole is making the best possible use of public resources.	Without appropriate targets, objectives and budgets agreed, aligned to a best value framework which all parties are signed up to, it will not be possible to make an evidence-based assessment as to whether the Tripartite as a whole is delivering best value.
<b>Strategic</b>	Leaders and managers regularly review the management of resources across all activities, including their impact on outcomes.	<b>Partially in place</b>	While this can be evidenced for the individual entities, it is not being performed for the Tripartite as a whole.	
<b>Strategic</b>	The entity maintains an effective system for financial stewardship and reporting in order to ensure appropriate financial governance as well as provide evidence to support continuous improvement.	<b>Partially in place</b>	This is in place for the individual entities, and TS review management accounting packs as well as the year end accounts. However, given the lack of budget monitoring on key projects, we cannot conclude that this is happening effectively on a more detailed / granular level.	Failure to appropriately monitor spend may result in ineffective / inefficient use of public funds, and therefore a failure to deliver VfM.

## Overall Assessment

Developing

## Performance Against Selected Indicators

Level	Indicator	In Place?	Current Status	Impact
<b>Strategic</b>	It has in place a systematic approach to risk management in relation to the organisation's resources which is cascaded, as appropriate, throughout the organisation.	<b>Partially in place</b>	Individual entities have a defined approach to risk management and an internal audit function; however, there is no shared approach to risk management across the Tripartite.	Without a shared approach to risk management and escalation, there is a danger that a risk may only be noted within one entity, even though it could potentially affect other Tripartite members.  Conversely, there is a risk of duplication if all parties are individually managing similar risks, which does not represent good value as this is an inefficient use of resources.
<b>Operational</b>	Interdependencies between different activities and outcomes are recognised, that organisational budgets and other resources are allocated and regularly monitored to ensure that they are delivering agreed objectives, and outcomes and effective co-ordination and alignment is actively championed by senior management in making the best use of public resources.	<b>Not in place</b>	Our review of internal controls highlighted that, while the broad roles of each entity are highlighted within project business cases, there is no evidence of consideration of where one organisation's role may impact on another's responsibilities, and therefore no identification and monitoring of interdependencies.	Gaps and inefficiencies may arise where interdependencies are not appropriately considered, leading to inefficient use of resources and a failure to deliver best value.
<b>Operational</b>	The organisation has evaluated and assessed opportunities for efficiency savings and service improvements, including through joint funding, joint management of activities with internal and external partners and sharing initiatives with partners.	<b>Partially in place</b>	In its role as sponsor, TS is in the process of undertaking a number of reviews to identify improvements and efficiencies, including the current piece of work; however, in practice, there is little evidence that this is performed as a whole across the Tripartite (see above point regarding interdependencies and roles and responsibilities).	Without a robust review of potential efficiencies and savings, involving all Tripartite members, there is a risk of inefficient use of resources and a failure to deliver best value.



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