

**DELIVERY ASSURANCE GROUP (DAG)
MINUTES OF 15th MEETING
Scottish Government, Victoria Quay, 15 March 2023**

Attendees:

Jon Rathjen, Scottish Government (Chair)
Stuart McCaskell, Scottish Government
Barry Greig, Scottish Government
Ruby Keddie, Scottish Government
Simon Parson, Scottish Water
Mark Dickson, Scottish Water
Tracey Gee, Scottish Water
Barbara Barbarito, Scottish Water
David Satti, WICS
Sharon Forrester, SEPA
Sue Petch, DWQR
Gail Walker, Consumer Scotland
David Harley, SEPA
Niki Maclean, SPSO

ITEM 1 – WELCOME AND APOLOGIES

1. There were apologies from Alan Sutherland, Douglas Millican, Michelle Ashford, and Ian Buchanan.

ITEM 2 – MINUTES AND ACTIONS ARISING FROM MEETING OF 7 December 2022

2. The minutes from the previous meeting on 7 December 2022 were agreed to be an accurate record.
3. The action points were reviewed:
 - Action 1 – SG to review ToR – **Carried Forward**. Barry Greig confirmed that the WG has a similar action, and that SG wishes to understand the learning points from the reporting redefined workstream, due to complete in autumn 2023. The Chair suggested that an initial update could be provided at the next meeting.
 - Action 2 - SG to submit DAG report to Ministers and publish on website – **On-going**.

Action 1 – SG to review ToR.

ITEM 3 - DAG WORKING GROUP REPORT

4. Barry Greig presented the working group update report. He noted that:
 - SW was asked to amend the DAG Report overview to summarise the challenges which are impacting the delivery of projects and to create more transparency and visibility on those issues. It was suggested that discussions from bilateral meetings could be summarised in the report.
 - There was a detailed discussion on the IPOD measure and how it is presented and interpreted in terms of whether SW is on track., SW would consider adding more information into the report to demonstrate whether projects are being delivered on time and what lessons SW is learning from any delays arising.

ITEM 4 – PROGRESS REPORT OF PERFORMANCE AGAINST THE COMMITTED LIST

5. Mark Dickson presented the report. Key points included:
- By the end of quarter 3, the total Tier 2 investment for 2022-23 was £511m; made up of planned repair and refurbishment (£316m), enhancement (including flooding) (£134m) and growth (£60m). It also includes £45m invested on the delivery of projects that were planned to be completed in the previous period.
 - **The Indicator of Progress of Overall Deliver (IPOD)** – At the end of December 2022, SW's IPOD position was behind target at 484 points against a range of 484 to 619 points. This is due to the acceptance milestone for a number of projects having to be reforecast due to some slippages in the projects. acceptance was also impacted by severe weather disruption in December.
 - **Overall project progress water portfolio** – The Gate 100 Acceptance milestone out-turned at 90 projects, behind the target range of 104-124.
 - **Overall project progress wastewater portfolio** – Overall, 194 points have been achieved, behind the target range of 213-266. The Gate 100 Acceptance milestone continues to be challenging due to risks being realised.
 - **Overall project progress CE&FS&SS portfolio** – All milestones are currently within the target range.
 - **Progress in delivering SR15 projects** – Of the 86 delayed projects, 18 have still to achieve Gate 100 acceptance.
 - Regular bilateral take place with SEPA and DWQR; invites have now been extended to WICS.
 - SW will begin reporting on Investment Forecast Against Commitment (IFAC) to explore the outturn cost of delivery compared to the projected cost at Commitment.
 - In terms of the year-end position, SW expects IPOD to be back within the target range.
 - The key point to note is that SW is learning valuable lessons from Delivery of projects and measuring how it is doing against the forecast dates.
 - SW was asked to include Outputs in the report and a new table has been added to show what the report could look like. SW welcomes feedback from members and an update would be provided in May 2023.
6. David Satti noted that WICS wants to assess whether SW has delivered a project on time and to budget. He noted his concerns about the time aspect, particularly in relation to the acceptance milestone. David highlighted that the high level of inflation is impacting the cost of construction materials and noted that whilst SW is investing in line with expectations, it may be the case that it is costing more to deliver a project. David asked where the forecasted money is being spent if projects are delayed i.e., if there is a risk that projects could go over the planned budget as well as being delivered late. Mark Dickson explained that when projects are added to the Committed List SW adds a provision for risk based on previous experience. He indicated that the IFAC measure is currently at 94-95% which means that on average, projects are being delivered at about 5% below the allowance on the Committed List.
7. David Satti asked whether the 95% project outturn cost includes a risk allowance. Mark confirmed that SW typically builds a 12% risk provision into project forecasts so roughly 7% is arising; some dates may have been re-forecast, but the project is still within the allocation. David asked where the unspent 5% risk provision goes. The Chair also whether the £4.4bn investment scenario includes the 5% provision. Mark clarified that the £4.4bn scenario is stated in 2017/18 prices and that the Committed List is out-turn costs. He added that if the full cost allocation is not spent on a project then it will be available for other priorities. Mark noted that the inverse also applies; if a project costs more, less money is available elsewhere.

8. David suggested that if the group used the same RAG system as in SR15, a number of programme areas would currently be flagged as “red”. Mark noted that the acceptance delays concern some 50-60 projects. He added that in SR15 SW reported on a minimum level of delivery but that in SR21, tramlines are provided to assess whether the group is comfortable with the delivery range provided in each portfolio. Mark highlighted that SW is out with the range currently, but that delivery will be back on track by year-end. Mark offered further clarity on the risks arising:
 - A number of financial closures were delayed due to (the closure of a construction partner).
 - Severe weather impact in December.
 - Scope – less impact than in previous periods as projects are only added to the Committed List once the scope is agreed.
 - 3rd party – Issues due to receiving new power connections. Power companies also have the same challenges due to the construction market conditions.
 - Market conditions – the impact of Brexit and Covid-19 remains an issue. The main challenge for SW relates to electrical components due to a 38–40-week delivery process. SW is forward purchasing as much as is practicable.
9. The Chair raised third-party risks and asked whether lessons had been learned from previous regulatory periods. Mark Dickson answered that land acquisition and planning have generally gone well but that 3rd party provision is a challenge. He re-stated that utilities are an issue e.g., power connections and raised Burncrooks as an example; the power company cannot get the necessary parts. Mark Dickson highlighted that for future projects that get added to the Committed List, SW will try to be transparent about any adjustments based on experience. He added that SW will need to balance having a reasonable forecast with having the right challenge.
10. The Chair agreed that if there are any overt assumptions (i.e., building in additional time for power connections), they should be highlighted to the group and that SW can also explain any learning points based on experience.
11. Sue Petch raised the SR15 completion projects, noting that due to the pause on construction during Covid-19, delays have been compounded i.e., further impact from market conditions and adverse weather windows. She suggested it would be helpful to highlight this issue. Mark noted that information could be added in SW’s Performance and Prospects report.
12. David Satti mentioned that he is a staunch supporter of SW providing challenging forecasts for itself. He noted that WICS’ expectation was that when SW moved to IPPF, delays due to scope risks arising would no longer be an issue and therefore performance would be closer to forecasts. David asked whether the inclusion of the risk allowance means that projects will always be reported as under budget. Mark noted that when SW previously had a fixed allowance and set of projects the investment programme needed to be delivered within a certain cost envelope. He added that under IPPF, money is only allocated when a project is added to the Committed List.
13. Sue Petch highlighted that the conclusion does not include information on customer impact. She suggested that it should also include information on benefits that are not received if a project is delayed. Gail Walker noted that she had stated these points to the reporting redefined workstream. The Chair added SW should draw out any significant customer impacts or significant delays. Sue noted that the SR15 completion programme is now moving into its third year, so there will be customers impacted by the delays. It was suggested that SW expand the conclusion to provide more detail and consider how to report on delays and customer impacts.

14. Sue Petch raised output reporting and asked how this links to Management Approaches as it did not appear to be consistent. Mark highlighted that the outputs reporting is a first draft and he welcomed feedback from all stakeholders. It was also requested that DAGWG consider whether a Short Life Task Group (SLTG) reviews outputs or if the review forms part of the SRC process.
15. The DAG Q3 2022-23 report was agreed. The Chair requested the report be submitted to Ministers.

Action 2 - SW to update conclusion in DAG report.

Action 3 - All to provide feedback on appendix F(outputs).

Action 4 - DAGWG to review output reporting.

Action 5 - SG to submit DAG report to Ministers and publish on website.

ITEM 5 – AOB

16. The group requested that future meetings start no earlier than 10 am if meeting in person.
17. The next meeting was scheduled for 21 June 2023, to be hosted by Scottish Water at Fairmilehead, Edinburgh.

Ruby Keddie
Scottish Government
May 2023