

FINANCE COMMITTEE

Tuesday 11 February 2003
(Afternoon)

Session 1

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FINANCE COMMITTEE

4th Meeting 2003, Session 1

CONVENER

*Mr Tom McCabe (Hamilton South) (Lab)

DEPUTY CONVENER

*Elaine Thomson (Aberdeen North) (Lab)

COMMITTEE MEMBERS

*Brian Adam (North-East Scotland) (SNP)
*Mr David Davidson (North-East Scotland) (Con)
*Alasdair Morgan (Galloway and Upper Nithsdale) (SNP)
*Dr Richard Simpson (Ochil) (Lab)
*Mr Jamie Stone (Caithness, Sutherland and Easter Ross) (LD)

COMMITTEE SUBSTITUTES

Ms Wendy Alexander (Paisley North) (Lab)
Mr Keith Harding (Mid Scotland and Fife) (Con)
Mr Keith Raffan (Mid Scotland and Fife) (LD)
Andrew Wilson (Central Scotland) (SNP)

*attended

THE FOLLOWING ALSO ATTENDED:

Fergus Ewing (Inverness East, Nairn and Lochaber) (SNP)
Margo MacDonald (Lothians) (Ind)
Professor Arthur Midwinter (Adviser)

WITNESSES

Robert Brown MSP (Scottish Parliamentary Corporate Body)
Sarah Davidson (Holyrood Project Team)
Richard Dennis (Scottish Executive Finance and Central Services Department)
Paul Grice (Clerk and Chief Executive, Scottish Parliament)
Mr John Home Robertson MSP (Holyrood Progress Group)
Peter Peacock (Deputy Minister for Finance and Public Services)

CLERK TO THE COMMITTEE

David McGill

SENIOR ASSISTANT CLERK

Terry Shevlin

ASSISTANT CLERK

Emma Berry

LOCATION

Committee Room 1

Scottish Parliament

Finance Committee

Tuesday 11 February 2003

(Afternoon)

[THE CONVENER *opened the meeting at 14:04*]

Budget Documents 2003-04

The Convener (Mr Tom McCabe): I welcome members of the press and public to this afternoon's meeting of the Finance Committee. Our first item of business is consideration of "Scotland's Budget Documents 2003-04". I extend a warm welcome to the Deputy Minister for Finance and Public Services and his officials. He will make some opening remarks before we move to questions.

I have two points to make. After three years' experience of the process, our committee and some of the subject committees are beginning to flag up a degree of repetitiveness. Although everyone acknowledges that proper scrutiny of the budget is essential, a case could be made for a re-examination of the processes that we use. That would help us to avoid the repetition and enable us to free up parliamentary time for other important matters.

My second point is for the minister. Later, we will have a discussion on amendments to the Budget (Scotland) (No 4) Bill. Therefore, it would be helpful if the minister could refrain from commenting on those amendments at this point.

The Deputy Minister for Finance and Public Services (Peter Peacock): The convener mentioned the repetitiveness of the budget process. We are on a similar wavelength in that regard. As well as dealing with that issue later, I will mention it briefly in my initial remarks. I intend to go through a number of issues, which I hope will help with the succeeding discussion. Although I accept the convener's point about the budget process, we should not underestimate the progress that has been made over a significant period. I suspect that we have one of the most open budget scrutiny processes of any modern Parliament. Those processes are certainly more open than they were in pre-devolution days—there is now much more opportunity for scrutiny.

I have been involved in three budget bills. I have observed the process almost from the beginning and have noted year-on-year improvements. During that period, the Finance Committee has

been responsible for making significant suggestions to help that process. However, it is clear to us all that the process is highly repetitive. At this time of year, we debate the same matter three times in as many weeks. That follows on closely from the committee's stage 2 consideration, which covers exactly the same ground. Far from adding anything to the process, such repetition might have the effect of detracting from its overall value.

As recent speeches on the budget have shown, it is hard for members, let alone ministers, to find anything new to say. I confess that, in the most recent debate, I resorted to parodying Monty Python sketches in an effort to say "something completely different."

I would be happy to discuss the bill and the wider process with the committee before we give formal consideration to the amendments to the bill. To a large extent, the bill embodies the spending plans that were set out at the end of the spending review process. The most significant change is the transfer of £145 million from the Department for Work and Pensions for housing support services. That represents a transfer of functions, rather than the creation of new functions. There have been a number of similar transfers, both from Whitehall and between Executive departments.

I realise that members—including ministers—find it difficult to reconcile many of the numbers with those that were given in the draft budget. I will return to that point later.

Before that, I want to mention two things that are not in the bill. As the committee will know, next year we will reduce the rate for capital charges from 6 per cent to 3.5 per cent, to keep in line with changes that the Treasury made. That resulted from an unbundling of the discount rate and is to do with the rate of return for long-dated index-linked gilts. If the committee would like a fuller explanation of that, I would be happy to provide it in writing.

We decided not to implement that change through the present Budget Bill for two main reasons. First, as our process runs ahead of that of the Treasury, the final details have yet to be agreed. Secondly, the change will affect every budget with capital charges. We wanted to avoid changing more figures than necessary between the draft budget and the Budget Bill.

We will introduce change through a revision early in the new parliamentary session. There will not be a real impact on spending or on the value of spending. We will simply make an accounting adjustment to reflect the new discount rate. The adjustment will alter the total resources that are sought by around £400 million.

The second issue that is not covered in the bill relates to the Parliament building. I gather that the committee will question a representative of the Scottish Parliamentary Corporate Body after I have given evidence. I do not doubt that members, their advisers and the clerks have noticed a difference between the SPCB's most recent budget submission to the committee and the figures in the Budget Bill. The corporate body will, of course, receive the provision that it requires to deliver the new building, as agreed by the committee. Members will know that the most recent cost estimates for the Holyrood project became apparent only last month, long after the spending review and after the Budget Bill numbers had been finalised.

In light of that, we have decided to stick with the figures that we have used to date for the Budget Bill. We can and will deal with the subsequent revisions in a budget revision in the summer. Another reason for taking that approach is that, by then, we should be far closer to the building's opening and have even greater cost certainty. We do not wish to over-provide for the project any more than we wish to under-provide for it. In final budgetary terms, the budget will provide what is agreed for the project. At present, the key question is simply of cash flow and not of adjusting any agreed totals.

By giving ourselves a little more time, we are able not only to align the budget better through a revision for the final cash requirements, but to have a better handle on the early spending against the Executive's budget into the new year and the outturn figures for the current year's budget. In that way, it will be easier to manage the source of the cash in the budget. The cash is likely to come from a combination of the reserve and our more exact insight into end-year flexibility.

As the convener said, we will deal with the amendments that we have lodged to the Budget Bill later. None of the amendments is terribly substantive.

I will spend a little time reviewing the budget documentation and the process. The student loans amendment is interesting because it relates to a previous year and because it helps to show why members and ministers find it hard to read across from the draft budget to the Budget Bill. The amendment brings into the total cash authorisation for the Executive and the resources that have been sought for the enterprise and lifelong learning department spending that is outside total managed expenditure and does not score in our Whitehall estimates.

In budget bills and revisions, the key aggregate figures on which Parliament controls the Executive are total cash and total resources other than accruing resources. However, in the spending

review publications, the annual expenditure report and the draft report, we report against our departmental expenditure limit—the key aggregate against which the Treasury measures us.

For example, non-departmental public body budgets are given in cash terms in the Budget Bill and in resource terms in the draft budget. Capital charges are in the Budget Bill but not in the draft budget. The numbers in the two documents are always different, even if the spending plans that underlie them are the same. There is little that we can do about that without revising the Public Finance and Accountability (Scotland) Act 2000, which has, arguably, the unintended effect of undermining the joint aim of the Executive and the committee to provide greater transparency in the budget process.

I know that members have examined the supporting documents to the budget in considerable detail. That was apparent from questions that I was asked during the stage 1 debate. I will return for a moment to my parody of the Monty Python dead parrot sketch, which I use to describe the current condition of the Conservative party in Scotland. Few might have noticed that Mr Monteith's intervention in that stage 1 debate moved us from one Monty Python sketch to another, which involved a Hungarian-English phrasebook. Mr Monteith's knowledge of Monty Python is obviously deep. The reference that he made is useful to the debate, because I wonder whether the supporting document to the Budget Bill has become akin to the Hungarian-English phrasebook in the Monty Python sketch. The supporting document is capable of misinterpretation when read with the Budget Bill and all the other documentation that is available.

Members will be glad to know that, unlike that Monty Python sketch and Mr Monteith's intervention, the bill does not provide for a hovercraft full of eels. However, the documentation might make as much sense as that sketch did. The supporting document to the Budget Bill has no legal standing. It is meant to help MSPs, including those on the committee, and has evolved as part of our dialogue over the parliamentary session. However, as it has a different accounting basis from that of the draft budget, it has created the potential for significant confusion for MSPs who are less well versed in matters than committee members are, let alone the wider public and commentators on the budget process.

The document is almost three times as long as the equivalent document for 2000-01 and, when it is taken together with the AER, the draft budget and the supporting documents for revisions, we offer the committee more than 1,500 pages to explain the same numbers. I welcome the

committee's views on whether that deluge of information is helpful or whether—to revert back to the Monty Python sketch—it is as helpful as that Hungarian-English phrasebook. I wonder whether something akin to the schedule 2s in the supporting document together with a list of changes from the draft budget might be more useful. To be more radical, a simple list of changes from the plans at the draft budget stage might be enough for everybody's purposes.

14:15

As the convener said, the budget process is repetitive, although the timing of the coming election and the arrangement for next year's AER mean that the process will be shorter and simpler next year. In effect, we will cut out stage 1 of the process, which will be a useful experiment. This year, leaving aside the committee hearings and the revision process, we have had five full debates in the chamber and votes on the same budget.

I do not want to limit Parliament's opportunities to scrutinise the budget and to hold the Executive to account for its plans. Scrutiny has already been helpful in changing the Executive's practice on budgetary matters and in providing a closer focus on finance and financial control and a much better and more thorough internal budgeting process. Scrutiny is hugely important in the process.

I welcome views from committee members on whether the present process makes best use of the available time. My view is that we should not automatically return to the full three-stage process in 2004-05 simply because we can. There might be scope to merge the debate on the committee report on stage 2 of the process with the debate on stage 1 of the bill. The real debate ought to take place at the conclusion of stage 2 of the process, which is the debate on the committee report.

This year, the first amendment was lodged to a budget bill, which reflected the fact that, at that point, the process is still fluid—beyond that stage, only the Executive can amend the bill. We have all had experience of the three stages of the budget bill and we know how repetitive it has become. After stage 2 of the bill, there might be a case for going straight to a vote without debate at stage 3 if there are no amendments at that stage.

There are a number of possibilities and, in the spirit in which the convener began the discussion, it would be useful if our respective officials and advisers considered the various options and reported back, having reflected fully on the committee's thoughts and my contribution. I believe that there is considerable scope for streamlining the system without compromising its openness or the scope for effective scrutiny.

I have covered a fair amount of ground and I hope that my comments will be helpful in opening up discussion on the matter. We can do much more to develop the documentation and the budget process. I look forward to hearing the committee's views.

The Convener: I prefix other members' questions by highlighting the figures on health and finance, on which there are significant differences between the Budget Bill and the draft budget. Will you comment on that before members ask their questions?

Peter Peacock: Perhaps my officials will help with particular differences. In part, I accounted for the differences in the information that I gave in my opening remarks. Are there particular figures that you wish to draw to our attention?

Richard Dennis (Scottish Executive Finance and Central Services Department): I draw to members' attention the reconciliation that I provided earlier.

The Convener: Perhaps the differences are simply apparent, but carry on.

Richard Dennis: The differences are largely apparent and are a result of different treatments in the draft budget and the Budget Bill.

The health example is fairly simple. The difference between the two is about £582 million, £574 million of which is the result of the treatment of national insurance contributions, which are included in the bill but not in the draft budget. The two changes to the health budget might account for the remaining £8 million difference. The first is a transfer from Her Majesty's Treasury to reflect the fact that Edinburgh royal infirmary has been brought on to the balance sheet. I think that we gave the committee information about that earlier. The second is the transfer of functions relating to the Scottish Commission for the Regulation of Care from the finance and central services department. Together, those figures match the difference between the Budget Bill and the draft budget.

The finance example is rather more complicated. If I may, I will highlight only the main elements—I am happy to go through the details with the clerks or the committee adviser later. The difference between the Budget Bill and the draft budget is rather more than £1 billion. That is largely because there are three elements that are not voted in the bill but are included in the draft budget: specific grants, which in the bill are included in the budgets of individual departments; capital spending, which is funded by borrowing and therefore not voted in the bill; and the centrally managed funds, such as the capital modernisation fund and the public sector reform fund, which are not voted until after they have been allocated. If

those elements are taken out, the two can be fairly easily reconciled. As I said, I am happy to go through the details with Professor Midwinter or the clerks.

The Convener: That is helpful, thank you.

Alasdair Morgan (Galloway and Upper Nithsdale) (SNP): I accept what Mr Peacock says about the process and that it is not now open to Parliament to alter the bill. Given that the bill has already had substantial scrutiny, it does not seem sensible to spend even more time talking about something that ultimately will just be passed or not, as the case may be. Moreover, having heard the minister's attempts to do Monty Python, I think that he should concentrate on his day job, although Mr Monteith might have an alternative career ahead of him.

I want to talk about the differences between the draft bill and the Budget Bill. I understand that the Public Finance and Accountability (Scotland) Act 2000 determines that one document deals with cash and the other deals with resources. How easy would it be to change the legislation to allow that part of both documents to be the same?

The second area of difference relates to where the vote in the bill covers what, in the budget documents, are two or more different portfolio areas. What determines what constitutes the different votes in the bill? What prevents us from changing that so that the budget documents match? Thirdly, can you explain why national insurance has to be treated differently in the two documents?

My fourth question relates to capital expenditure. I understand—I think—that, as capital expenditure is borrowing, it does not represent money that we are voting in the bill. How can we ensure that, when people pick up the two documents, they see only the substantial differences as opposed to the different accounting treatments?

Peter Peacock: I will ask my officials to pick up on the technical details. You have helpfully illustrated the point that I was trying to make earlier. We need to sit down and use the experience that we have gained over the past four budgets. Most committee members have experience of at least three budgets. We must reflect on all that experience and work out what we have to change. Once we have come to a consensus about what requires to be done, we would have to go through the standard parliamentary process to effect any change to the Public Finance and Accountability (Scotland) Act 2000. That would obviously depend on parliamentary time, as members are well aware.

In the first instance, however, we have to come to a firmer agreement about the way in which to handle these matters. Your point about capital spending was right. We must make the figures

more visible and transparent so that people who pick up the documents can reconcile the different figures—at times, we find it difficult to reconcile the figures.

I was trying to say earlier that the way in which the process works now does not add to transparency and scrutiny—indeed, it might obscure the process, which is not in our interests. We ought to work out precisely what we would have to change to deal with that issue. Richard Dennis will cover the points about national insurance and votes.

Richard Dennis: The Budget Bill is the document that is formally audited by Audit Scotland and through which we are held to account. So far, we have taken the view that the focus of the budget should be departments rather than portfolios, because portfolios are not necessarily stable. In order to present figures that could be easily read from one year to the next, we have therefore used departmental figures. In fact, for departments that cover more than one portfolio, there is a relatively clear divide between level 2s so that in almost all cases level 2s are either wholly in one portfolio or wholly in another. Therefore, there can be reconciliation. Perhaps officials and clerks could consider that issue when thinking about what should be in the supporting documents in future.

National insurance contributions are a highly technical area, which I think I understand, but members should forgive me if I fail to explain things properly. The health department receives as receipts from the Inland Revenue the Scottish share of that part of the national insurance fund that is set aside for health. It is a kind of cash funding. It does not affect the health department's DEL, its resources or what it can spend. It simply affects how much of that spending is funded from the national insurance fund and how much is funded from the Scottish consolidated fund. As it does not affect the budget and does not impact on the DEL, it is not shown in the draft budget, although it is shown in the Budget Bill, as there are receipts and we need to take authority for spending.

Peter Peacock: I would be more than happy to come back with an answer to your other question on that matter.

Alasdair Morgan: How is the share determined?

Richard Dennis: It is determined by population.

Alasdair Morgan: It is determined by population despite the fact that national insurance is an income-related contribution.

Richard Dennis: Yes. In effect, there is no real-world impact. Even if we receive nothing in that line, health spending will be exactly the same.

Professor Arthur Midwinter (Adviser): We could just receive less in the grant.

Alasdair Morgan: I think that I will wait and read the *Official Report* of the meeting.

Mr David Davidson (North-East Scotland) (Con): I thank the minister for the openness of his approach to the problems that we are beginning to see after the four years that we have been at this game. Some areas in particular need to be considered. Many subject committees have been fazed by the budget process and are not successfully joining in with it. Part of the reason for that is the complexity of the documentation, particularly when those committees are doing a lot of work on legislative changes, for example, within their spending briefs. Another factor has been highlighted by what Richard Dennis said about the differences between portfolios and departments.

Obviously, the subject committees want to look at services and to get information quickly in a form that translates into actual spend, as opposed to information about where the money comes from, for example. In discussions between the committee and the Executive, there needs to be input from the subject committees, such as the Health and Community Care Committee and the Local Government Committee. The issue concerns how they can use the documentation and whether they need a separate set of documents that is based on the master set, if you like.

I appreciate that Audit Scotland will hold people accountable for producing a set of figures that can be properly scrutinised, but what comes out of those figures in a usable form is important. It is helpful of the Executive to provide figures in a usable form. Those of us who have been members of the committee for a long time have raised that and similar issues in the past. Anomalies emerge every year, although I accept that we are learning to deal with the process.

Yesterday, I was down at Westminster with the Audit Committee to look at the work of the Public Accounts Committee. Through the informal discussions, it became clear that the Scottish Parliament still has to link the audit process directly to the budget process. We have two committees. I have recommended to the Audit Committee that we need to have discussions. Perhaps it would be useful if we had those discussions when we are discussing with the Executive how to simplify the documentation and make it easier to use.

I accept the comments made about the treatment of national insurance. I have always understood that that is based on population share. Perhaps the Executive's response could give a view on how that could be examined in future, to

take account of the differences in earnings around the country, the generation of wealth and some of the current problems in the Scottish economy.

I was pleased to hear the minister suggest that we might minimise the amount of time we spend in the chamber, without doing away with the scrutiny. Some of that time could be spent considering changes to the 2000 act. I suggest that we investigate that. I am not sure whether the minister can comment on the Executive's thoughts on that, but he has come to talk to us today. Minister, do you have any preliminary statement that you would like to make about that process from the Executive's point of view?

14:30

Peter Peacock: I shall try to pick up as many of those points as I can. I take the point about the burden that increasingly falls on subject committees to ensure that they are not only scrutinising our proposals but following through on performance reporting against targets that appear in our documentation in the lead-up to the budget. If I may, I shall link that to the point that was made about the audit process.

It is obviously for the Parliament to decide how it structures its committees; we do not have a specific view to offer on that at the moment. However, one of my responsibilities as a minister is to liaise with the Audit Committee—it is clear that that committee is increasingly getting into the performance reporting and management side of audit, and not just the numbers side. There is an obvious link between our developing work on producing sharper targets and the audit process. Alasdair Morgan has articulated his concerns, which I share, about the nature of some of our targets. However, we need to think through how the performance reporting aspect of audit will link back into the budget documents and the basis for performance monitoring that now flows from our target setting. As that develops and becomes more precise, and as we move further towards outcome budgeting, which will be the subject of discussion later, we must consider those issues.

I shall return for a moment to the point about subject committees. In our experience, subject committees are becoming more expert. Arthur Midwinter's work in helping to generate questions for them has been helpful, as has the work of their advisers. There is evidence that subject committees are beginning to make more recommendations than in the past, but I would caution against any further separate set of documents for them. As I said, we have a whole series of overlapping documents already and we should be cautious about creating a further set. All that needs to be picked up in the discussions with our respective officials.

On NI shares, we do not have a view on the specific distribution at present. It occurred to me when Alasdair Morgan was asking his question that I could see the angle that he was looking for—I am glad that he did not find it on this occasion. His point, and that of David Davidson, was that receipts to the south will depend on the country's earnings. It could therefore be argued that money coming back on a consistent population basis could benefit us considerably. We will consider the point that was raised.

The final point was about whether we had any initial thoughts on the nature of changes to the Public Finance and Accountability (Scotland) Act 2000. The answer is no. We need to get a clear consensus in Parliament and between the Executive and the committee about the nature of the documentation and the changes that we need to make. We can then look to where the act may require adjustment to allow the process to operate more effectively. I do not think that we can rush to a judgment on that. We now have four years' experience, but it would be a mistake to rush to legislative change and then discover that we had not really thought it through fully. We do not have any preliminary thoughts on that at the moment.

Mr Davidson: When I mentioned an extra set of documents, what I meant was a simplification of the documents that we currently have. We could have the legalistic document, which would be dealt with through the audit process, and one different document that would allow the subject committees to focus on the spending. I do not have a solution for that problem. However, I did not mean that there should be yet another set of books.

Peter Peacock: Good.

Brian Adam (North-East Scotland) (SNP): You referred to the £145 million that was transferred from the Department for Work and Pensions to fund programmes here and which is now more appropriately part of the Scottish block allocation. You also suggested that other funds were moved in a similar way. Will you at some point—not necessarily today—identify those funds to the committee? Moreover, have any funds that were previously part of the Scottish block been moved in the opposite direction?

Peter Peacock: We will certainly clarify that matter. I am not aware of any other funds in that category.

Brian Adam: I cannot see any others myself. The only one that I picked up was the £145 million of inward funds.

Peter Peacock: We will happily clarify the point.

Brian Adam: If you will forgive me, I want to raise a few other technical points. According to the document, there has apparently been a £50 million

drop in support to housing revenue accounts. You also referred—although not necessarily in such terms—to a £38 million drop in student loans new lending. Are there any technical reasons for such reductions, or are they real changes?

Peter Peacock: I am not aware of any real changes in expenditure plans on those matters, which leads me to suspect that they are technical points. Again, unless—

Brian Adam: I am quite happy to receive the answers in writing later.

Peter Peacock: Unless Richard Dennis can respond to your questions now, we will provide answers in writing as quickly as we can.

Richard Dennis: The drop in student loans new lending is a technical change and is reflected in one of the amendments that we will discuss later.

Brian Adam: In a similar vein, I find it rather odd that provision for pensions in the Scottish Executive environment and rural affairs department has been increased by £19 million when there is no parallel increase elsewhere. Is there some black hole in the pension provision in that respect?

Peter Peacock: I very much doubt that.

Richard Dennis: It reflects a difference in treatment. We still fund the pensions for the Scottish Executive environment and rural affairs department's agencies directly, whereas many other pensions have been endowed or are funded through the Scottish Public Pensions Agency.

Brian Adam: Yes, but why is there such a massive additional provision this year?

Peter Peacock: Well, again we will—

Brian Adam: Again, I am quite happy to receive the answer in writing later.

I am extremely interested by the change in resource accounting and budgeting and the drop in the rate of return from 6 per cent to 3.5 per cent. Will you elaborate on that? Again, it would be helpful if you could put the answer in writing to us. Does that decrease also have implications for some of the other rather arbitrary figures that the Treasury has chosen as markers? For example, are there any signs that changes will be made to the figures that are used for the public sector comparator in relation to the private finance initiative? Furthermore, does this particular drop in the rate of return have any implications for judgments on PFI in relation to figures that it would be reasonable to calculate as far as the maintenance of new capital provision is concerned? Do we have any detail on that matter?

Peter Peacock: Quite a lot of detail exists. Of course, there was a Treasury consultation on

these matters. Again, I am more than happy to write to you with the fine detail, because the subject contains some complex issues. The essential point is that the Treasury is simply updating the guidance that it applies and that we use—partly for the purposes that you have indicated such as making appraisals and so on—to reflect changing circumstances over the past number of years. Indeed, I mentioned some of those circumstances in my opening remarks.

In its recent consideration of decisions about public-private partnerships—for example, in relation to schools—the Executive has been internally applying the 3.5 per cent test rather than the 6 per cent test because we knew that the change was coming. As a result, we have made judgments with that very much in mind. The other factor is that other changes in the appraisal techniques that we employ run in the opposite direction to the changes that apply to the discount rate. For example, there have been changes in certain ways in which taxation has to be treated. As the whole matter is very complicated technically, the best thing would be to set everything out in some detail. We can by all means pursue the issue when I am back before the committee for other purposes.

Brian Adam: Forgive me for pressing the issue, but are there direct implications for the public sector comparators, or are they peripheral because this is based on maintenance rather than capital funding?

Peter Peacock: It is my understanding that the discount rates will now be used formally in all of the work that is done in relation to the point that you have made. However, because of other factors that are also at work within the changed appraisals, there does not appear to be any net difference in the outcome. The assumptions and the factors that are being used are simply changing to reflect changes in market conditions and opportunity costs for resources being used elsewhere. It might be best if we set it out for you, and when you have seen the detail we can pursue it further.

Brian Adam: Okay. Thank you.

Elaine Thomson (Aberdeen North) (Lab): I agree that although, increasingly, we have large documents with lots of numbers in them, sometimes the information they contain is not particularly accessible, especially to the wider public. Originally, we tried to produce a short, snappy view of the Scottish budget. I know that that has been discontinued, but there might be an opportunity to try again to produce information that is more accessible, in a more intelligible format. One recurring theme is the difficulties people have with budgets, particularly for health and local government. Those budgets are handed over as

block sums, and it is hard for people to trace whether the allocation to their child's school, for example, has increased or decreased. We need to revisit that problem.

Also, instead of producing more paper documents, we should look harder at options for electronic publications and use of the web. I have not mentioned this for at least two years so, as this is the last Finance Committee meeting for a while, I shall raise it again. All we are doing at the moment is publishing flat documents on the web; they do not do anything. There are all sorts of opportunities to present information at different levels of complexity or detail, and in different ways. The web lends itself to such presentation of information—whether one wants to see the information in the form of a pie chart or graph, or to compare trends from one year to the next. It is possible to build living, permanent documents. I suggest that if we are to reform some of these areas, that should be part of the thinking.

Peter Peacock: I concede that many documents are as incomprehensible—or as comprehensible—electronically as they are on paper. I suspect that from our point of view, it is simply a question of resources and priorities. It takes considerable effort to do what we are doing on paper. As you see, everything is now published on the web, and we just have not given attention to the point you are making about having a more dynamic electronic presentation. I have no objection in principle to our exploring that. However, we need first to sort out the use of basic information and a common understanding of what we require, and perhaps that will lend itself to such development. I do not have any ideological block about what you are suggesting.

A shorter, snappier version of a budget document was attempted, but it failed principally because it did not meet the requirements of any market. It did not hit the target. It was too simple, to the extent that it did not give enough information to allow a judgment to be made, or enough detail for other uses. Again, I do not have a problem with reviewing that, and as we come—as I hope we can—to a conclusion about how better to manage all the documentation, that might be one of the products to flow out of that process. I repeat that our priority has been to sort out the big documentation—the numbers, annual revisions and so on. That is a sizeable task, but I do not rule out that we could do what you suggest in future.

14:45

You made a point about the big blocks of expenditure that go to the health department and the local government budget. It is not quite fair to bracket those things together as if they are exactly the same. We provide detailed disaggregated

information about local authority budgets—indeed, the passage of the Local Government Finance (Scotland) Order 2003 last week provides for the overall block expenditure to be disaggregated down to individual council level.

We know the precise calculations from the grant-aided expenditure totals and share the information with the finance directors of the local authorities. We have achieved a high degree of detail in the local government sector and we have agreed to give the Finance Committee and the Local Government Committee the assumptions that underlie the additions that we feed into those budgets. We are making quite a lot of progress on the subject and I am sure that we will continue to do so.

The way in which the health department develops information does not have the same origins as for local government, which means that the degree of detail is not quite so easily available. I understand that Professor Midwinter and one of my officials met the head of finance of the health department last week and that progress is being made. I think that we will begin to illuminate the figures a good deal more, which will allow people to see the way in which the money flows, what the priorities are and how ministers can impact on those priorities at the local level in individual hospitals or health board areas.

You also made a point about whether individual schools were able to see the difference. In a sense, that example is untypical: devolved school management budgets mean that it is possible to see the detail at school level, although I am not entirely clear how well publicised that is at the local level. In other parts of local government or in the health service, it would be difficult to see that degree of detail. We are willing to work with the committee to continue to make progress. That said, I gather that there are signs that progress is beginning to be made on some of that work.

The Convener: It is worth emphasising the work that is under way between Professor Midwinter, the clerks and finance and central services department officials. Progress is being made.

That concludes our consideration of the budget documents, and I thank the minister and his team for their input.

Budget (Scotland) (No 4) Bill: Stage 2

The Convener: Item 2 on the agenda is our stage 2 consideration of the Budget (Scotland) (No 4) Bill. We will consider the bill in the following order: section 1, schedules 1 and 2, section 2, schedules 3 and 4, sections 3 to 5, schedule 5 and sections 6 to 10, followed by the long title.

No amendments have been lodged to section 1.

Section 1 agreed to.

Schedule 1

THE SCOTTISH ADMINISTRATION

The Convener: Amendment 1 is grouped with amendments 2, 3 and 6.

Peter Peacock: The amendments in the group are all technical adjustments that will correct errors in the drafting of the bill. Traditionally, normal practice would have been for such changes to be made at the next revision and for them to be passed largely unnoticed at that stage.

Amendments 1 and 6 will bring the bill up to date to reflect the passage of the Water Industry (Scotland) Act 2002. Amendment 1 will give ministers wider authority to spend resources on water other than by loans to Scottish Water.

Amendment 6 will change the reference in the bill to section 84 of the Local Government etc (Scotland) Act 1994 to a reference to section 42 of the Water Industry (Scotland) Act 2002, which replaced it. Amendments 2 and 3, which will correct errors in the numbers, seek authorisation for a higher limit of accruing resources for the Scottish Executive environment and rural affairs department and a higher level of resources other than accruing resources for the education department.

Amendment 3 will correct an unfortunate error that was made in the supporting document, which made it look as if we were cutting the tourism, culture and sport line, as Mr Monteith pointed out in the stage 1 debate. The error was caused by receipts worth £19 million being wrongly subtracted twice before the total resources sought were calculated. The amendment will bring the bill back in line with the “Building a Better Scotland” document.

I move amendment 1.

Amendment 1 agreed to.

Amendment 2 moved—[Peter Peacock]—and agreed to.

Schedule 1, as amended, agreed to.

Schedule 2

ACCRUING RESOURCES OF THE SCOTTISH ADMINISTRATION
WHICH MAY BE USED WITHOUT INDIVIDUAL LIMIT

Amendment 3 moved—[Peter Peacock]—and agreed to.

Schedule 2, as amended, agreed to.

Section 2 agreed to.

Schedules 3 and 4 agreed to.

Section 3—Overall cash authorisations

The Convener: Amendment 4 is grouped with amendment 5.

Peter Peacock: Again, these are technical amendments to reflect errors in the bill's production. Both will make changes to the overall cash authorisations sought: amendment 4 deals with that for the Executive; and amendment 5 deals with that for Audit Scotland. Amendment 5 will correct the fact that the resource number has been included in the bill rather than the resulting cash required. Amendment 4 is more complicated, in that the change reflects the removal of resource elements from the cash authorisation followed by an increase as a result of amendment 3. I move amendment 4.

Amendment 4 agreed to.

Amendment 5 moved—[Peter Peacock]—and agreed to.

Section 3, as amended, agreed to.

Sections 4 and 5 agreed to.

Schedule 5

SCOTTISH EXECUTIVE HEALTH DEPARTMENT

Amendment 6 moved—[Peter Peacock]—and agreed to.

Schedule 5, as amended, agreed to.

Sections 6 and 7 agreed to.

After section 7

The Convener: Amendment 7 is grouped with amendment 8.

Peter Peacock: Amendment 7 will make several changes to the Budget (Scotland) Act 2001—the act that covered the past financial year. The amendment will make changes to the treatment of student loans that we agreed with the committee before Christmas. Similar changes are included in the spring revision for this financial year, and the Budget (Scotland) (No 4) Bill includes the new treatment for the next financial year. There is, of course, no real-world impact from the changes that were made to last year's bill beyond the opening position for this year's accounts.

The committee has already considered the changes and has taken advice from Professor Midwinter, so members will be aware that they are purely technical changes. However, the amendments are more exciting—my notes say—than those that we have considered previously, at least to the lawyers and accountants, because the amendments embody changes to a previous year's budget act. Amendment 8, which will change the long title of the bill, reflects discussions between the lawyers on both sides and ensures that amendment 7 falls within the bill's compass.

I move amendment 7.

Alasdair Morgan: I would like to speculate as, according to Mr Peacock, the Executive is not living in the real world anyway. What would be the effect of not agreeing to amendment 7? I wonder whether the minister could comment on that in his summation.

The Convener: Will you try to make your answer as exciting as possible, minister?

Peter Peacock: My understanding is that not agreeing to amendment 7 could result in Audit Scotland qualifying the accounts of the Executive in relation to the item in question.

Mr Davidson: That would be tempting.

The Convener: No other members have points. I take it that you have finished, minister.

Peter Peacock: Absolutely—no more excitement.

The Convener: On this point.

Amendment 7 agreed to.

Sections 8, 9, and 10 agreed to.

Long Title

Amendment 8 moved—[Peter Peacock]—and agreed to.

Long title, as amended, agreed to.

The Convener: That concludes stage 2 consideration of the Budget (Scotland) (No 4) Bill.

Outcome Budgeting

The Convener: We move to item 3 on the agenda, which is outcome budgeting. Again, we will receive evidence from the Deputy Minister for Finance and Public Services.

Peter Peacock: I do not have anything in particular to say about outcome budgeting, other than that we understand that in our reports to the committee on the issue we are making progress. We want to make progress in the spirit in which we have been discussing the issue. I hope that our officials and the committee's clerks can work together to ascertain how in practical terms we can move the issue forward.

We think—as I think the committee does too—that there is something to be said for getting more precision into outcome budgeting as a means of getting a much better handle on what difference our resources and spending make to people in communities throughout Scotland. I indicate our support for making further progress on the issue of outcome budgeting.

The Convener: I would like some clarification. Obviously, the Executive welcomed the initiative from and support of the committee on the issue. However, the Executive's response states:

"Pure outcome budgeting is probably unachievable by large, complex organisations."

Can we assume that that does not apply to the Executive, even though it is a large and complex organisation?

Peter Peacock: Earlier today, I was reading our response. I would not want to tie myself too firmly to the particular words that you quoted. The spirit in which we want to discuss the issue is that we think that we can make progress on it. The reason for that comment in the response is that although we want to make substantial progress on outcome budgeting, we still need to have regard to inputs and outputs in terms of budgetary control processes. The comment is intended more to signal that although we can move down the road of outcome budgeting, elements of input budgeting will still be required. The comment is not intended to indicate that we cannot make progress on outcome budgeting.

Alasdair Morgan: I am just reading the Executive's response and wondering whether the term "outcome budgeting" is helpful, as perhaps we are looking for something that is too radically different. Perhaps we should be talking about a budget process having greater regard to outcomes that are sought and whether they are achieved.

Peter Peacock: You might be right. I have not given particular thought to the language that was used in the response. The term "outcome

budgeting" came about because we were not satisfied with where we were. We wanted to focus much more on the outcomes of the spending that we were approving and not so much on the inputs and outputs. I am relaxed about how we describe the issue. We just have to make progress on taking the issue forward in a practical way and ascertaining how far we can get. We have agreed with the committee for some time that there is a need to focus much more on outcome budgeting and concentrate on what the money buys rather than just the volume of money.

Mr Davidson: I refer to my earlier comments about the changing roles of Audit Scotland and the Audit Committee, and how the subject committees are picking up on outcome reports from the Auditor General for Scotland. I think that the subject committees sometimes start consideration of such reports more quickly than the Audit Committee does because the reports are the meat of what they seem to be involved in. However, we must return to the fact that we cannot do away with inputs and outputs—the actual moneys voted and spent. We have got to look at that for some kind of control process.

We need to make an advance on the usability of the figures that are available to the Parliament and its committees, because they act on behalf of the public in addressing not just how much money is going in, but what is happening on the ground. We cannot duck the issue. I understand why you cannot apply that to everything, but we need to continue to work together to find out what aspect of that we can apply in practical terms to the government process. As Elaine Thomson said, the issue is aiding the public's understanding of what happens when money is voted and spent and decisions are made, and of whether the policy is operating correctly and delivering. I am happy that we move on with this exercise.

15:00

Peter Peacock: I concur. We have been moving to more precise information, and although some of it is still imprecise, we are moving in the right direction. I know that the committee supports that in relation to our target setting. It provides us with a much better basis for moving the agenda further forward to measure outcomes much more effectively.

Brian Adam: As these things are relative, and as we are not going to move in the big-bang way that we did with resource accounting and budgeting, has the Executive given any thought to measuring the efficacy of outcome budgeting by using the new targets that are being set to determine whether there has been a measurable difference between using the new approach and using the traditional approach?

Peter Peacock: I do not think that we have done an exercise that shows that outcome budgeting—whatever that ultimately is—is by definition more efficient than other forms of budgeting, but we have all gained a strong sense that if we want to know the impact of our spending, we have to look not at the spending but at the impacts. That means that we have to shift the agenda forward.

I return to the point I made earlier that we will begin to see how we can make progress in relation to our targets, but there is an awful lot of work to be done. Nobody should be under any illusions about that. However, the committee and the Executive have a common agenda and are trying to move forward. To the extent that the outcomes of expenditure and its impacts on people's lives—and where it does not impact as we first thought—can be measured, that adds to the overall efficiency of the spend and aids understanding of what works, why it works and where we ought to concentrate spending in the future. We have not absolutely measured efficiency in that sense, but that points us in the direction of where we can improve the efficiency and use of our resources, because we are focusing on the outcomes and not the money itself.

Brian Adam: Wonderful as it is to set targets—and they can come back and bite you, as has happened to the Executive on a number of occasions—you do not have a programme that says, "This is how we used to do it. This is how we do it now, and this is why it is so much better." I am not aware that you are doing that formally. Does the Executive have such a programme?

Peter Peacock: I am not sure that I fully follow your point. If you are referring to the way in which we compose budgets in outcome terms, we do not have such a specific programme. We are working incrementally and organically towards that, as we see change happening. On the other hand, if you are asking whether we are monitoring what we are doing in relation to the activity on the ground as a result of spending, whether it is working and why it is working better than other approaches, and how we can apply those lessons to other bits of the organisation, the answer is yes. We have growing performance and monitoring mechanisms inside the Executive to deal with departments and what they are trying to achieve and how well they are achieving things. We will monitor that much more effectively than we have been doing in the past and bring about change to other parts of the organisation as a consequence of the lessons we learn. However, I am not sure whether that was your point.

Brian Adam: I am looking for an evidence-based approach that addresses not just the

individual target, but the process. Is there evidence that the process will deliver a change?

Peter Peacock: There is evidence, in the sense that we as finance ministers see the changes in behaviour in the Executive as a result of requiring people to focus on the outcomes that they are pursuing. If you are asking whether that has been systematically evaluated, it is fair to say not yet. After the recent spending review, we spent some time reviewing that. In fact, Richard Dennis and his team were largely responsible for a lot of the backroom work on that. We spent some time evaluating how well that process performed, how we would change it in the future, and how we could develop it to ensure that it is even more productive. I have seen with my own eyes, and—this is anecdotal—I know from conversations about outcomes and focusing on targets and trying to require people to state the outcomes that they are going to generate from the income, that behaviours have changed, but there is a long way to go on that.

Brian Adam: Do you not think that, valuable as the anecdotal evidence is, it would be better if it were more formal?

Peter Peacock: I am quite happy to look at that. We have received reports inside the Executive on how well the process has gone in the past three years, and we have got ways of beginning to measure that. I think I am correct in saying that we have never brought anybody in externally to help evaluate that, but I am more than happy to think about that.

The Convener: That has exhausted the discussion. Our last issue is to consider how we take the issue forward. Would the committee be happy to pass the work on to the incoming Finance Committee in the new session for further consideration?

Members indicated agreement.

The Convener: I thank the minister and the officials.

Our next item is the Scottish Parliamentary Corporate Body. It is down on the agenda as not happening before 3.15, so we will have a 10-minute break. I am sure that committee members will be pleased to hear that.

15:06

Meeting suspended.

15:16

On resuming—

Holyrood Project

The Convener: I welcome members of the press and public, and Mr Fergus Ewing and Ms Margo MacDonald, who have joined us for item 4.

We will consider a report from the progress group on the project. We will also take evidence from some officials and members: Paul Grice, who is the chief executive of the Parliament; Robert Brown, who is on the Scottish Parliamentary Corporate Body; John Home Robertson, who is the convener of the Holyrood progress group; and Sarah Davidson, who is the director of the Holyrood project team.

I will set today's session in context. As most people will know, the Finance Committee expressed some concern over the project following the stage 2 report to the Parliament. We decided to take additional evidence on the Holyrood project on 17 December. At that meeting, we received an assurance that there would be a further programme review during December and January and on 16 January we received a letter from the Presiding Officer that provided the information that the committee had sought, which was very welcome.

We have also received a letter from Robert Brown that attempts mainly to address some of the points that were raised by Mr Ewing and Ms MacDonald at that previous meeting. That letter is helpful and, together with the information in the Presiding Officer's letter, has gone some distance towards meeting the committee's concerns and has made a considerable contribution to defining costs and completion dates better. That is extremely welcome.

It is perhaps worth mentioning at this point that the quarterly report that the committee receives on the project would normally be due this month. However, for all intents and purposes, the information in the Presiding Officer's letter will suffice as a quarterly report on this occasion.

Robert Brown MSP (Scottish Parliamentary Corporate Body): The convener has laid out the background, but it is probably worth reminding people that the December meeting was out of sync, as it were, because it came when we were awaiting the outcome of the risk review and so were not able to be as precise as we would have liked to be about the current state of play.

Members now have the other two letters on which we have touched, and I have taken the liberty of asking John Home Robertson, convener of the Holyrood progress group, to attend today. It

is fair to say that John and his team have done a power of work on the day-to-day nitty-gritty of the project. Parliament is indebted to John, Linda Fabiani and Jamie Stone for carrying out what is not, in anybody's view, the most popular job in Parliament. It will be interesting to hear from them to give us a feel for things at the coalface.

We are now on the home straight with the Holyrood project, and the information in Sir David Steel's letter of 16 January on cost and programme is much more solid than was possible previously. I say that for three reasons. First, the corporate body and the progress group were encouraged by the positive tone of our meeting in mid-January with the construction manager. Nothing is certain on a unique project such as this, with a signature architect, a novel and creative design, the resultant need for individual design and manufacture of several components—the Finance Committee is aware of that—and particular issues that have arisen on blast-proofing work and the like. However, we now have much greater certainty on the final cost and timings than we were able to give while major issues remained outstanding.

Secondly, we have received the results of the programme review, which we told committee members about at our previous meeting, and which are detailed in Sir David Steel's letter. The review examined the outstanding risks and was followed by the cost consultant's review of the figures. Thirdly, we are past the stage of letting contracts, so there is a much higher degree of programme certainty, which correspondingly reduces risks and threats to anticipated cost. In the construction manager's words, construction completion is now anticipated for November 2003 with

"a very high degree of confidence".

On costs, we have explained on previous occasions the reasons for the increases as the project has developed. Those increases have developed over time for a variety of reasons, such as the overheating in the Edinburgh construction market and resultant higher tender prices, the fallout from the Flour City Architectural Metals (UK) Ltd collapse, the requirements of Historic Scotland and, more recently, the glazing design and bomb-blast issues. Now, the principal reason for pressure on costs is delay resulting from some of those things, which have a knock-on effect for the entire project due to the tight site and programme.

From the previous risk review of May 2002, and the provisional estimate of the costs of delay arising at that time, the estimated total project cost was £310.5 million when I last reported to the committee. We now estimate a figure of £324 million, and the Presiding Officer's letter deals with

some of the reasons for that, which include some individual packages having come in above target, site running costs of £600,000 a month—a direct consequence of being on site longer—and, on top of that, consequential VAT and so on. I can say to the committee that the management arrangements that were put in place by the Scottish Parliamentary Corporate Body and the progress group have kept a tight grip on that, notwithstanding the delay that has resulted from those issues.

The interrelation between the detailed design information and the programme is obvious, which is why we have homed in on keeping firmly on top of many of the small but crucial pieces of design information that are needed to conclude the project. If the design information is in place, people can go on to manufacture and build. The more precise information on costs that we are able to give today is, broadly, not out of line with what was expected back in December.

The Scottish Parliamentary Corporate Body would like to discuss with the next Parliament's Finance Committee a suitable format for reporting for the last few months of the project. This is the last quarterly report before the dissolution of Parliament at the end of March. In the usual order of things, the next routine report would not be needed until May.

Mr John Home Robertson MSP (Holyrood Progress Group): I like the idea of being on the home straight of a coalface.

I have read the committee's December proceedings, and I should like to emphasise that the progress group, as well as the corporate body, is asking many of the same questions that committee members are asking. We are concerned about delays and costs. Week in and week out, the progress group is striving for the best solutions—whether we achieve them or not is another matter. We have all inherited the project under a certain contract, according to a certain design on a certain site. It is in the interests of the whole Parliament to take the project through to completion as efficiently and as quickly as possible, which is what the progress group is trying to do.

The Convener: I appreciate those comments.

At the previous meeting, the committee acknowledged that members of the SPCB and, in particular, of the progress group have a difficult task indeed. We are faced with a *fait accompli* with regard to the form of construction and many other aspects of the programme. However, members of the committee were increasingly concerned about moving targets, which reflects why some of the questions at the previous meeting seemed rather strident.

Mr Home Robertson: That is quite understandable.

The Convener: The letter that we received spoke about the completion date of the project, and said that

“the majority of the complex ... should be complete between the end of August ... and the end of October.”

The letter goes on to say that the chamber walls will not be complete by the end of October, but the building in its entirety will be handed over in November. There might be an explanation for that, but those dates seem to be quite close together.

Robert Brown: I think that the boundary walls will not be completed, rather than the chamber walls.

Mr Home Robertson: The letter says that it is unlikely that the chamber walls and the boundary walls, which are two separate elements, will be complete by October.

The Convener: Thank you. That is helpful.

Alasdair Morgan: You are saying that you are setting a target date between the end of August and the end of October, which is a fairly lengthy period. You are, however, suddenly able to move from that uncertainty to a position of confidence in which you can say that the whole shebang will be finished a month later. How, logically, does that work?

Robert Brown: I will ask Sarah Davidson to deal with that. The project has many different elements, as you know.

Sarah Davidson (Holyrood Project Team): The Parliament complex is made up of a number of buildings and progress on construction throughout the process has been from the west side to the east side. The project completion dates for the various parts of the complex have always been different. Therefore, the earliest parts of the complex that will be completed—the MSP block and Queensberry House—are intended to be entirely complete, to all intents and purposes, by late spring or early summer 2003.

In January, the project manager laid out for the Scottish Parliamentary Corporate Body and the progress group the dates on which he was confident that various parts of the complex would be complete. He is highly confident—about 90 per cent to 95 per cent confident—that he will deliver one bit at the end of August, the next bit at the end of September and the next bit at the end of October. He is confident that he can deliver the final part of the complex by the end of November. There is a rolling sequence of dates rather than a wide margin of error.

Alasdair Morgan: About which bits is he not highly confident, if any?

Sarah Davidson: He is highly confident about the dates that he has given us as completion dates for each part of the complex from the end of May until the end of November. In other words, we have for the completion of each part a date about which he is highly confident.

Alasdair Morgan: I do not want to put words in his mouth or in yours, but are you saying that he is highly confident about everything?

Sarah Davidson: He is highly confident about the dates that he has given us. He is as confident that he can deliver the debating chamber and the boundary walls at the end of November as he is that he can deliver the MSP block four or five months earlier than that.

Brian Adam: The building will be handed over in its entirety in November 2003, but we are also talking about the earliest completion date. Are the dates that you are talking about the same as the dates on which the buildings will be ready for occupation? If not, when will the buildings be ready for occupation?

Robert Brown: The construction completion date is when Bovis Lend Lease (Scotland) Ltd and the other contractors will be finished on the site. The place will have to be fitted out and tested after that.

Paul Grice (Clerk and Chief Executive, Scottish Parliament): The decision that will have to be made at that point is how we, as an organisation, move into the building. We had some discussion about this the last time I came before the committee. Everything—the equipment and so on—will be in place, but there is the question of how long we want to test the set-up for. Furthermore, we need to think of a way in which we can move the Parliament down the road with the minimum of disruption to parliamentary business.

We are considering various options for achieving that. Christmas and new year fall in the middle of the relevant period. After the election, when the situation is more certain, I propose to put a series of options to the Scottish Parliamentary Corporate Body. Those options will need to be discussed with the business managers, among others, because we will need to assess how we can fit parliamentary business around the move. That will determine when we sit in front of the Finance Committee down the road, rather than here.

If we have a clear run at it, the migration period might be four to six weeks. It might be done quickly, but it could take longer; that will depend on a variety of issues. We need to judge the moving-in period. I must stress the need to make time available to test systems, which is a key point. If we rush in before checking whether, for example, the sound system or the voting system

work, there will be a risk of failures. We must make a judgment on that and the decision will be taken early in the new session of the Parliament.

15:30

Alasdair Morgan: We will be at the same stage of completion as could be expected if we were moving to a new house.

Paul Grice: I think so.

Sarah Davidson: Many of the systems to which Paul Grice referred will have been installed by the construction handover date. The client and their specialist consultants have access prior to the handover date to enable them to install broadcasting systems, sound systems and so on. The contract includes carpeting the whole place, for example. Given that parts of the complex will be finished quite a bit earlier than the handover date, the Parliament might well decide to move furniture in. The client's involvement in making the building fit for their purpose does not start on the handover date. However, the process of moving people from the present site to Holyrood cannot begin until we have responsibility for the building.

Brian Adam: Your most optimistic estimate for the earliest date at which occupation would be possible is January 2004.

Paul Grice: That would be my judgment. Although it is possible that it could be done just before Christmas, there are many things to weigh up. We need to consider how fast we would be prepared to move, what the parliamentary business will be at that time and whether we would want to move over Christmas and the new year. A move at that time raises many issues. It would be feasible to move in by January 2004. Although we might be able to move in a bit sooner, we might decide, because of parliamentary business, that we want a few more weeks beyond that.

We have to consider how we will get the public in and out and how the whole site will operate successfully. We have already reported to the committee that we expect hundreds of thousands of visitors a year to the new complex. We must be confident that we can manage those visitors as well as being able to manage normal parliamentary business. It would be a mistake to open for business before we were satisfied that we could handle that. We are considering those issues with the corporate body. A firm decision will be made in the new session, when we can discuss matters with business managers and the corporate body.

Brian Adam: It would also be a mistake to give the impression that the building will be ready in November, given that, according to you, the earliest realistic date is Christmas.

Robert Brown: I do not think that we have suggested that it will be ready by then.

Brian Adam: The building will be fit to use only once it is kitted out and ready. The construction phase might well be complete by November—I will not dispute that—but I am concerned that the public might be misled by a suggestion that the building could be finished by October or November, even though it will not be ready for occupation until some time after that. Unless we give realistic dates and costs to the public, there will be further criticism. That is why I am asking questions.

The Convener: I am equally concerned about the number of delays to the project, every one of which has been regretted. However, we should not move into the territory of ignoring the practicalities of life in such situations. Holyrood is a major complex. Our job is to determine when the building will be handed over to the parliamentary authorities and what they will do with it—that is what we are trying to establish.

In any major building project of this nature, the client has decisions to make. In major building projects, the client can often do that in private, but in a project such as a new Parliament building, those decisions are far from private. We need to distinguish between what contractors tell the corporate body and what the Parliament as an organisation decides to do to make the building usable. There is a significant difference.

Robert Brown: I thought that I said that clearly in my introduction. I talked about construction and completion, as we have at recent meetings when that has been an issue. At our previous meeting, I explained in some detail the difference between the two, the gap of time and how that would be organised. There should be no public uncertainty.

Mr Davidson: In the interests of absolute clarity—there is still some uncertainty on our side about where we are at—I ask what the difference is between being “highly confident” and totally confident. What are the construction factors that your advisers have told you would make that difference? It is obvious that some uncertainty remains about the completion of construction. What variable might go off balance?

Robert Brown: The central point is that we are past the major design and contract-letting risks, such as blast-proofing, with which we have had problems. The major risks are behind us. There are little risks, as with any project as it proceeds. For example, the weather might be horrible. All sorts of things might happen. The advice that we have is that the risks ahead of us are small and manageable and should not cause such difficulties as we had with earlier risks. Perhaps Sarah Davidson can give a flavour of the situation.

Sarah Davidson: That is along the lines of what I would say. The process that we are following

involves individual contractors either working through the final detailed design to get it ready for manufacture or, post-manufacture, addressing buildability and installation issues on site.

As Robert Brown said, the building is complex. Quite a lot of people there are doing things that are slightly different from what they have done before. Until every window is installed and every component is exactly in its place, an ever-decreasing risk that things will not go exactly according to plan is inevitable.

However, the construction manager has reassured the corporate body, the progress group and the project team that none of those issues poses problems that he considers to be intractable. He knows that he must crack the whip over the design team to produce the remaining information, and over the individual package managers to ensure that they progress issues. If all those things happen in the order in which he believes that they can happen, the project will be okay. However, even since Christmas, nine or 10 days of work on window installation have been lost because high winds prevented cranes from being moved. We hope that the weather will improve as the year continues and that it will pose less of a problem, although while such issues are outstanding, the possibility of delay remains.

Mr Davidson: I asked simply what factors are causing that little bit of lack of confidence. The weather could be one, but in general terms, you are talking about construction. The blocks, brickwork and beams are in. Are you talking about the commissioning of what is to be installed, such as artwork and kitchens?

Sarah Davidson: Commissioning is not causing delay. Certainly, co-ordinating the final services provision with the building is important. When commissioning starts in such a project, it is not unusual to find at this stage some places that do not have cabling exactly where it is needed, but those are little wrinkles, rather than big problems.

Mr Davidson: Are those wrinkles built into the dates that you have given?

Sarah Davidson: They are things that Bovis fully expects to happen, so they are encompassed in the dates for completion.

Mr Davidson: Another issue is the consequential costs of not entering the building at the predicted time. We rent the present buildings for committee chambers, parliamentary headquarters and the debating chamber. Until when will that lease be kept? Do we know the precise dates or do you have a let-out clause?

Paul Grice: We have sufficient flexibility on all the contracts to accommodate the situation.

Alasdair Morgan: What are the £900,000 of migration costs in the current financial year for? Does that represent rental?

Paul Grice: The cost is principally in staffing and other matters. Clearly, we must put in an enormous effort. Something like 70 service contracts, for example, have to be let at Holyrood; we must re-let all our service contracts.

We have always recognised that there would be what might be called a period of double running. Even at this distance, we must put much organisational effort into getting things ready for moving down the road and that effort will become more and more intense. During migration, there might be a period when we have two sites to manage, which is when the heavy cost will be incurred. The early cost is from the organisational effort, which we have costed in order to help us to understand it.

Alasdair Morgan: That cost is about £1 million. Is that for staff costs?

Paul Grice: Yes; that has been our principal spending so far.

Alasdair Morgan: Therefore our staff, who may be temporary or contract—

Paul Grice: All of those projects are co-ordinated by an implementation team that not only co-ordinates them, but links them to the building project. Of course, that has been quite a challenge. I have tried sometimes to release some of the experienced staff to help get projects right and backfill them, for example. In other cases we have kept the permanent staff on their existing jobs and brought in temporary staff—there has been a mixture. Sometimes it means drawing on contractors where we have call-off contracts to bring people in. We have done a range of things to give us the extra capacity to get over this hump of activity.

Elaine Thomson: Do the builders move out at the end of November? Does the management of the building then move away to a large extent from the project management team that is building it? The management will then fall to you, because it is beginning to be run as the parliamentary complex.

Paul Grice: That is a good way to express the situation.

Brian Adam: Since December, an additional necessary £14 million has been identified as being required, of which £6.9 million relates to the increase in site running costs and fees. We have been told that the additional cost of running the site is about £100,000 a month. I presume that the bulk of the £6.9 million relates to fees. What are the total fees that are related to the project? What proportion of those costs go to the construction manager? Will the fees be restricted in the light of

the criticism that Audit Scotland made about the construction manager in relation to Flour City?

Sarah Davidson: I do not have a breakdown of fees to hand. We have given the global running total of fees to the committee in the past, and we can do so again.

Brian Adam: Before the £6.9 million was mentioned, I recall that the total was £42 million. The increase in the running costs on the site is £100,000 a month, but not many months have been added; therefore, the bulk of that £6.9 million must be fees, unless there are other reasons.

Mr Home Robertson: It costs £600,000 a month to keep that site running.

Brian Adam: It costs £600,000 a month? Even then, considering that there are still not many additional months, the bulk of the £6.9 million must be fees. In the light of the disappointment—I put that as mildly as I can—with the project management, it seems to me to be inappropriate that we reward failure by racking up the level of fees. What steps have been taken to restrict those fees, in particular in the light of the criticisms of the Auditor General for Scotland on the Flour City contract?

Robert Brown: We are beginning to stray into areas on which I am reluctant to give detailed answers, particularly as we do not have the detailed figures available today. This is more of an audit issue for afterwards. The committee can rest assured that the Scottish Parliamentary Corporate Body, the progress group and our advisors are conscious of any legal issues that might arise from the project. They will do the necessary with regard to that, but it is not particularly helpful to pick over the bones of the project in the middle before we are actually finished with it, especially as we are trying to put the emphasis on finishing it and having everybody work together and all the rest of it.

Brian Adam: It is reasonable for the committee to want to know what the fees are. It is a simple, straightforward question: what are the fees? Figures such as the £6.9 million have been packaged together for us, but I am asking you quite simply: how much of that figure is fees? How much of the £42 million on top of whatever proportion of the £6.9 million has gone to the construction manager? There is nothing inappropriate about that question, although I understand your reluctance to address any potential redress that you might seek from the construction manager. I also accept that you might not be able to answer the question at this point and that the Audit Committee might deal with the matter. However, the amount of money that is being paid to the construction manager in fees is relevant. You are accountable to the Parliament

for spending the money and, as representatives of the public, we want to know how much you have spent on fees and, in particular, what the construction manager has received.

The Convener: I believe that Ms Davidson said that she has already supplied those figures and that she is happy to update them. Will she do that at the earliest opportunity?

Sarah Davidson: Yes.

15:45

Alasdair Morgan: I have a supplementary question, although I will perhaps not go down exactly the same route as Brian Adam did. The sentence in the letter of 16 January is technically simple—the £6.9 million is away. How many months of site running costs and what other elements are included in that £6.9 million?

Sarah Davidson: When I get back to the committee with the global fee figure, I will confirm this, but I think that the six-month extension from May to November is included in the sum. The figure also includes two separate elements of fees, one of which is the fees that are payable under the individual agreements with each consultant. Those fees are constantly revisited with the consultants as the construction period lengthens and the construction cost increases—as the committee is aware, the fees are a percentage of the construction cost. The other element is fees for work done by consultants that is over and above the contractual work, which is time charged to the project. Sometimes architects or engineers do additional work that is not covered by the percentage fee agreement. I see no problem in breaking down that information and making it available to the committee when I come back with the global sum.

Alasdair Morgan: So the consultants get it both ways: if the price of the construction goes up, they get a percentage; and if they have to do extra work to justify whatever has caused the price to go up, they get more money for that, too.

Robert Brown: That is the nature of the contract.

Alasdair Morgan: Okay, but I wanted to be clear about that—it is a win-win situation for the consultants.

Robert Brown: As I understand it, the contract is not unusual. That is the normal way in which fees for architects and others are dealt with.

Mr Home Robertson: If the committee could suggest a way out of the situation, we would be interested.

Alasdair Morgan: I think that I joined the wrong profession.

The Convener: Members might say that on an awful lot of occasions.

The important point is that it is not non-standard for professional fees to be linked to construction costs and for there to be a separate charge for work that is outwith the contract, which is termed day work.

Mr Davidson: In the letter of 5 February, the second paragraph under the heading “Capital Expenditure” mentions

“underspends of £1.3m on landscaping and £1.9m on IT refresh at the end of September”.

Robert Brown: Will you clarify which letter you are talking about?

Mr Davidson: The letter from 5 February.

The Convener: It is from 6 February.

Mr Davidson: No, it is from 5 February.

The Convener: Who is it from?

Mr Davidson: David Steel.

The Convener: The letter from David Steel is from 16 January.

Mr Davidson: The letter that I have is from 5 February. It is about the SPCB’s financial performance for the six months to 30 September 2002.

The Convener: That letter is the SPCB’s monthly report, on which we are not taking evidence at the moment.

Mr Davidson: I was going to ask about technical issues. I understand why the landscaping money is not being spent—that is a result of delays in other contract work—but have there been any changes to the IT exercise?

The Convener: I do not think that the witnesses are prepared for questions on that letter. As it is not on the agenda, it is not fair to ask the witnesses about it.

Paul Grice: If David Davidson writes to me about why the technical refresh has slipped, I will be more than happy to respond—there are reasons for that.

Mr Davidson: My question was also about changes to costings as a result of the slippage.

Paul Grice: If David Davidson lets me know in writing, I will be happy to give a full reply.

The Convener: It is unfair to spring questions on witnesses when they have not had prior notice.

Alasdair Morgan: To clarify, the letter refers to increased underspends. The sentence states:

“The reported underspends of £1.3m on landscaping and £1.9m on IT refresh at the end of September are forecast to increase to”

X and Y, which means that less is being spent.

Paul Grice: That is either because we are spending less in total, or because the cost has slipped into next year.

The Convener: We are into the territory of saving money, now.

Alasdair Morgan: It is end-year flexibility.

Paul Grice: We are not spending more, anyway.

Brian Adam: The letter of 16 January states:

"The budget for the landscaping scheme is of course separate from this total."

Will you please give us an update on the budget for landscaping, for which I understand that you are now responsible?

Robert Brown: There has been no change in that budget.

Brian Adam: So, it is still about £14 million.

Paul Grice: Yes.

The Convener: Ms MacDonald has been waiting for some time. I am sorry about that. Would you like to ask a question?

Margo MacDonald (Lothians) (Ind): Do not worry, convener; it is always a pleasure.

The Convener: Thank you very much. You have made my day.

Margo MacDonald: I did not say that you were a pleasure; I said that it is always a pleasure.

Let us go back to something that was proving to be a bit of a mystery—the date by which we will be able to consider ourselves to be in and settled, with our feet under the desks and the information technology working. The two aspects are linked. Paul Grice said that there is a flexible arrangement with the Church of Scotland. What is the end date for that? By what date have you said to the Church of Scotland that we will definitely be out? That will give us a clue.

Also, how long have your IT contractors indicated they will need to test the building? That will be one of the problematic aspects of the move. It would not be advisable for us all to be running about in the building when it is being tested. I appreciate that testing is a difficult task, but time must have been allocated for it.

In addition, the contingency cost is still recorded as being £7.8 million. If the construction manager's advice is sound and so little slippage is to be expected in the packages that are still to be completed or let, will we get that £7.8 million back? It is quite a lot of money to have as a contingency fund if such an assurance is attached to the packages that we have just now.

My last question is on the fees. I do not think that it is good enough for the Finance

Committee—which is responsible for looking after the bawbees—to say that there is no other way out of the contract because it was inherited, so we will have to pay fees upon fees and, if somebody makes a mistake, they will get paid for putting it right. In his report, Robert Black said that there should have been an examination of how the fees structure could be changed at that stage in the game. I presume that that is what he had in mind.

The Convener: In fairness to the witnesses, I do not think that anyone said that when somebody makes a mistake, they will get paid for putting it right. It was not expressed in that way. However, I leave it to the officials to answer the question.

Robert Brown: I ask Paul Grice to deal with the first couple of points, and Sarah Davidson will pick up on the other ones.

Paul Grice: I, personally, have not been negotiating with the Church of Scotland, but I have not made any approach to it suggesting that it will not have the assembly hall back for next May. I hope that that is helpful to you.

Margo MacDonald: Bingo!

Paul Grice: I am not quite sure what else you would expect.

IT is being installed already and will be installed over a very long time. We will not wait until the building is finished to install the IT, although some of the looser pieces, such as the desktop equipment, will be plugged in afterwards. Margo MacDonald makes a valid point in saying that testing is important. That echoes the point that I made earlier. It is a matter of judgment. The longer that there is to test, the more likely it is that bugs will be ironed out. That is true for any building—I am sure that everyone here has moved into a new office before.

The new building will have possibly 1,000 users on site, plus hundreds of thousands of visitors. We have to be confident that the systems will work. Therefore, the migration will include a period of testing of all the systems. Some of the core IT systems will be in place before then, and where we can test before the building is ready to be handed over, we will do that. However, there is no better way of testing the systems than having members, staff and others try them out. That will form part of the migration plan.

I do not know whether there is much more that I can say about the fees. We have undertaken to write to the committee in the terms that Sarah Davidson has described. We will do that as quickly as we can. I ask Sarah to pick up on the contingency fund point.

Sarah Davidson: The £7.8 million that has been identified for contingency is not envisaged as being required to deal with delays. The money that

would be required for anticipated delays is allocated against individual packages. It would be too much to say that there is an expectation that that money will be spent, but it is anticipated that it will be required, given where the individual packages are at the moment.

The £7.8 million is an additional sum of money that has been identified to deal with daily problems that might arise on the site. Those are exactly the kinds of issue that we would hope and expect the construction manager to manage day by day. If that money is not required, it will not be spent.

Margo MacDonald: However, it might be used for security if you have to stay there longer.

Fergus Ewing (Inverness East, Nairn and Lochaber) (SNP): At the previous meeting on this issue in December, we did not have the benefit of the Auditor General's report. It was published separately at the end of last month and indicates his views on the Flour City matter. Some serious questions have to be asked, and I have given notice of them to Mr Grice and Ms Davidson. Indeed, I have had some correspondence with Mr Grice on the matter.

I acknowledge that the witnesses have done a lot of work. Although I do not agree with many of the decisions that have been taken, I have never indulged in name-calling or the like in respect of any of the people involved. As I say, I recognise the work load that they have had to undertake. As a result, it gives me no pleasure to raise these matters today, but they have been signalled by the Auditor General, and so we have a duty to raise them.

The Convener: That is appreciated.

Fergus Ewing: Paragraph 22 of the Auditor General's report says:

"The two interim contracts the Corporate Body awarded to Flour City in December 2000 and January 2001 had two unsatisfactory features ... Both interim contracts were based on wording devised by the construction manager's legal advisors. But project management did not obtain advice from the Parliament's own legal directorate prior to issuing either interim contract, despite the construction manager's recommendation to this effect ... The tender authorisation document approved in January 2001 specified the requirement for Flour City to provide both a performance bond and a parent company guarantee. However, while the second interim contract issued in January 2001 provided for Flour City to provide a parent company guarantee on request, it did not contain any requirement for a performance bond. This was a serious omission because, taken with Flour City's failure to deliver a performance bond under the full trade contract issued in August 2001, it left no simple remedy for the Corporate Body to recover part of the extra expense required to complete the contract."

In paragraph 25, the Auditor General goes on to state:

"On 25 January 2001 - the day just before the award of the second interim contract - Flour City sought agreement to an advance payment of £2 million of the contract sum. The request was not accepted. Although the request alerted project management and the construction manager to possible difficulties with Flour City's financial capacity, it was not until March 2001 that Flour City was asked to confirm that it was not 'experiencing difficulties obtaining the usual level of credit required within the industry'."

There are more criticisms about the failure to obtain a thorough financial analysis of Flour City. Perhaps I can put the matter into simple terms and ask Mr Grice and Ms Davidson several questions. The first criticism that is made of Mr Grice as clerk of the Parliament and Ms Davidson as project director and head of the project team is that they were at fault in not obtaining legal advice, despite the fact that Bovis Lend Lease made a recommendation that—

Robert Brown: On a point of order, convener. I think that we are getting into very difficult territory here. I am not entirely convinced that the terms of Mr Ewing's questions are the immediate business of the Finance Committee as opposed to that of the Audit Committee. I request guidance on the extent to which the Finance Committee will seek answers to the sort of questions that Mr Ewing is asking.

The Convener: I will hear what Mr Ewing has to say and come back to you before anyone has the chance to answer.

Fergus Ewing: Thank you, convener. We are here today because the public are concerned about the cost of the Parliament building. My aim is to try to recover £4 million of that money and to cut costs by that amount. I believe that mistakes were made that have resulted in the Parliament incurring an additional liability that is currently estimated at £3.85 million. I want that money to be recovered for the taxpayer. Mistakes are made by individuals—by me and by everyone else in the room. This is not a witch hunt or an exercise in seeking scalps. Instead, it is an exercise in recovering £4 million for the Scottish taxpayer, which is something that the Finance Committee is very directly concerned with.

My first question is, do Mr Grice and Ms Davidson accept that mistakes were made and that the Auditor General's findings are factually correct?

The Convener: Before Mr Grice and Ms Davidson answer that, will they confirm whether they have received any legal advice on whether discussing such matters at this time would prejudice the Parliament's position in any recovery action that might be under way or that might take place in the future?

16:00

Paul Grice: To be honest, we are in an awkward position. Robert Brown gave the committee an important assurance. I entirely respect Fergus Ewing's motives. Nobody would be happier than the corporate body or I would be to recover any moneys that are missing—Fergus Ewing is not the only person who would be happy about that. Indeed, the corporate body has a duty and a responsibility in that respect and we will pursue that duty where we can.

The area is complex. I would be extremely reluctant to say anything that might in any way prejudice the completion of the project or the future legal position, and there is a risk of doing so. There is no lawyer at my shoulder telling me that I must never talk about the matter, but the good advice that I have received is that we should focus on finishing the project. The Auditor General has been mentioned. I think that he shares the view that the best advice is to finish the project and so place ourselves in a position in which, if legal action is justified, we can take it effectively. That is the awkward position in which I find myself. We focus a lot on Flour City, but 70 or 80 contracts are running.

On the performance of the Holyrood project team, which includes me, I reassure the committee that the Auditor General's comments have been discussed at considerable length with the corporate body, to which I am accountable in the first place. Within that process, I think that there was discussion with the Auditor General himself. I think that the corporate body has explored all the issues to its satisfaction. To go beyond that would get us into some tricky areas. It would be unfortunate if Robert Brown or I said anything that would harm the project.

The Convener: I am in the same position as you are, Mr Grice. I do not have a lawyer at my shoulder either, and I would prefer to adopt the precautionary principle. However, the information that is sought should be in the public domain at some point. You have been asked a perfectly legitimate question. The issue is whether this is the right time to ask it. Can you assure the committee that you fully expect that we will reach a point at which the answers to Mr Ewing's question can be given and can be placed in the public domain?

Robert Brown: The issue is really about timing and the appropriate way of dealing with the matter. Mr Ewing has made a number of stark observations and has asked questions that need to be looked into. However, if I may say so, I think that they would be most satisfactorily looked into in retrospect, through the Parliament's audit procedures, rather than in the Finance Committee.

The parliamentary motion that set up the progress group and defined the relationships between the various bodies involved did not envisage a treble-accountability approach and that everything would be gone over at all levels. It envisaged that the Finance Committee should receive from the progress group through the corporate body information about

"inflation and the materialisation of risk in order to inform the committee's consideration of the annual Budget Bill."

That is the primary role of the Finance Committee. I accept that the role is difficult to pin down and that it is difficult to say where it stops.

The corporate body has no desire to withhold information, but we are genuinely concerned that issues are flowing over into areas that we find difficult while the contract remains on site. We do not want to be unhelpful to the committee, but the matter would be much better dealt with as an audit matter later, once we have finished the project, got the building operative and the Parliament is in the building, rather than when the project is on-going. Apart from anything else, people's eyes would otherwise be taken off the ball.

The Convener: So you expect that information will be provided at some point that can answer Mr Ewing's questions.

Robert Brown: Absolutely. I am certain that people will be crawling all over the project in great detail when it is finished—there are no two ways about that.

Mr Home Robertson: That includes us.

Robert Brown: Absolutely.

Alasdair Morgan: I do not swallow the argument that we should not consider anything retrospectively and that we should only consider future matters, which seems to be what Robert Brown suggests. The Auditor General's report is already in the public domain, so if any legal action were to be prejudiced by the information, it has already been prejudiced. Can we give Mr Ewing a chance to rephrase his questions in such a way that the respondents might feel that their answers would not prejudice the outcome of any legal action?

Paul Grice: That might be helpful to the committee. As Mr Ewing will acknowledge, he has lodged a large number of parliamentary questions on the matter and has written to the Presiding Officer and others. We have attempted to answer an awful lot of questions and have put an awful lot of information in the public domain. Mr Ewing had the good courtesy to write to me at the end of last week with two or three of his points. We will of course endeavour to answer anything that can be answered at this stage.

On the Auditor General, the contractual relationship is not between the Auditor General and all these people; it is between the corporate body and all these people. That is why the Auditor General is duty bound and free to make his comments. The difficulty is what the clients—the corporate body and its officers, such as I—say. What the Auditor General says does not necessarily prejudice anything. He makes observations. What the client—in this case, the corporate body—says and does is relevant for legal purposes.

Mr Davidson: I will clarify the audit process. As deputy convener of the Audit Committee, I discussed yesterday with that committee's convener its likely role in the Parliament project. We both came to the view that we had to see the building completed and accounts produced. However, we felt that the Audit Committee would not be tied merely to examining the numbers, but would also examine the management of the project—the outcomes and governance.

I assure the committee that it will almost certainly be suggested to the successor Audit Committee that it will need to do all those things. That is separate from today's consideration, but I say that for clarity.

The Convener: Thank you very much.

Mr Ewing, I am coming to a conclusion. You have been assured that the information that you seek will come into the public domain, and Mr Davidson has told us about the Audit Committee's planned work. I am minded to suggest that it would be in the interests of the Parliament and any legal proceedings not to discuss the issue any further. However, Mr Morgan has made a suggestion to which you might wish to respond.

Fergus Ewing: We are discussing a public document that the Auditor General published. I believe that it is unusual for the Auditor General to publish a separate report, but he did so under section 22 of the Public Finance and Accountability (Scotland) Act 2000. As Mr Morgan says, the information comprises not allegations that I am making, but the Auditor General's findings of fact in a carefully produced report.

I understand that Mr Grice, in a letter to me of 30 January, agrees that those findings of fact are correct. If that is the case, the question arises whether, because the clause that would have required and entitled us to obtain a performance bond for 15 per cent of the contract value, or £7.2 million, was missing from the contract, it could be argued that mistakes were made and, at the very least, an additional cost of £1.074 million was incurred.

If I cannot pursue the matter in the Parliament, what opportunities are there to raise it, given that

Mr Davidson has said that the Audit Committee will not consider it in any detail until after 1 May? We cannot raise it with the Scottish Executive, because it is the Presiding Officer's responsibility. To raise the issues gives me no pleasure, but it seems to me that serious mistakes have been made, as the Auditor General indicated, and that the witnesses, Bovis Lend Lease or both are responsible for those mistakes. The public interest requires those matters to be debated, explored and investigated fully. I am afraid that I cannot say that I have had full and frank information from the Presiding Officer, which also gives me no pleasure.

I will leave the matter at that and move on to an entirely different area of questioning for Mr Brown and Mr Home Robertson.

We all want to see successful recovery of the £3.85 million from Flour City International. However, as I suspect both Mr Brown and Mr Home Robertson know, Flour City International has no employees, is not trading, was kicked off the NASDAQ, made a \$17 million loss during its last trading quarter, had bonding agents pay out \$70 million, never had any fixed assets, lost every contract it ever had, did not pay its employees and faces multiple insolvency in all its companies throughout the world. Therefore, it seems to be a reasonable proposition that the chances of making any recovery are zero.

If that is the case, I ask Mr Home Robertson as the convener of the progress group and Mr Brown as a member of the corporate body whether they think that we should be pursuing a recovery action on Bovis Lend Lease. As the construction manager, it was responsible for taking on the company—

The Convener: I do not think that I want an answer to that question at the moment. It might cause prejudice. I do not think that the question is appropriate.

Fergus Ewing: I will move on to another question then, if I may.

I understand that the corporate body has spent nearly £44,000 on obtaining legal advice on the prospect of recovery. Without asking the witnesses to say what the prospect of recovery is, is not that an awful lot of money to pay lawyers for what will almost certainly prove to be an abortive debt recovery? The information that I have previously provided in committee must indicate that the attempt is likely to be abortive.

Why have we spent £44,000 on what will prove to be the most expensive debt recovery in history? Why has no court action been raised against Flour City International? Finally, is either gentleman aware that Bovis Lend Lease is a creditor of at least one of the companies in the Flour City

group? Do they not consider that a conflict of interest exists between the Scottish Parliament and the Flour City group of companies?

The Convener: You are in danger of some kind of double standard, Mr Ewing. You have made it clear that you are keen to pursue some sort of recovery from people who have defaulted on the project. The very nature of pursuing that recovery will incur other expenditure. You are also a member of the legal profession and know that it is usually fairly expensive. You are in danger of facing both ways at once.

Mr Home Robertson: It is the first time that we have had free legal advice.

Fergus Ewing: I never charged £44,000 for not recovering a debt. I might charge £100. The point is fairly serious. Why have we spent all that money and not raised a court action? Perhaps Mr Brown can tell us why a court action has not been raised. We have had advice from Shepherd and Wedderburn, and their American agents. Will there be a court action or not?

Robert Brown: I am sorry to be difficult—I do not want to appear to be unhelpful in any sense of the word. As Mr Ewing is well aware, the corporate body has taken legal advice on the matter, is continuing to take legal advice and will pursue such remedies as are possible. That is really all I am prepared to say on the matter at this time.

The Convener: I do not consider that you have been in any way unreasonable, Mr Brown.

Fergus Ewing: I will raise one final point and then stop, because this is the final opportunity we have in the session to pursue these matters.

There are facts in the public domain and available on the internet that indicate that Flour City International is bust and has no assets or money. I obtained that information from public sources more than a year ago. Therefore, why are we spending £44,000 on a fruitless exercise? Do not the witnesses accept that there is information in the public domain that shows that Flour City International is not a company worth suing and that to do so would be to throw good money after bad?

The Convener: Mr Ewing, you are making the same point. I have already said that I do not expect the people giving evidence to answer that.

Margo MacDonald: I am not a lawyer but I recall telling the project group right at the outset that Flour City did not have any money so why not just go after Bovis. I think that you will find that in the *Official Report*.

I do not think that we should spend too much time today discussing whether the Finance Committee or the Audit Committee believes that

that money was spent wisely. People outside the Parliament are concerned about the millions of pounds that we are talking about, and I am concerned about the politics. We have to try to explain to people what happened to the money and whether any of it can be recovered. I agree with Fergus Ewing on that point.

I go back to the third-last paragraph in Robert Brown's letter to the committee, which says:

"the Contract allows for the actual costs of a trade contractor delay or failure to be recovered unilaterally."

I appreciate that there will be reasons why the witnesses might not want to tell us just how much will be recovered unilaterally, but the Finance Committee might be interested in finding out whether any unilateral recovery is likely to take place, and whether it is likely to be in the bigger design or construction contracts—just a step for a hint about what we are likely to do.

The Convener: We are not in the business of steps for a hint, but it would be appropriate for Mr Brown to assure us that where there is such a facility, the matter will be pursued vigorously.

Robert Brown: The relationship between the various contractors, the construction manager, the client and others is hugely complex. We are taking all steps to minimise the cost of the building and to recover if there are legitimate claims open to us. That is common to building contracts generally. I hope that it does not need to be said that that is being done; it is being done.

16:15

Margo MacDonald: I hope that the convener will indulge me in one final question about finance, as this is the last meeting on the subject. I assume that the modifications to the original design will impact on the operation of the working building. For example, very little light now enters through the wee windows of the MSP offices. I am informed that artificial light rather than daylight will now provide the bulk of the lighting. Have that and other design and construction changes had a measurable impact on the anticipated maintenance and running costs for the project?

Paul Grice: It is my understanding that the balance of natural and artificial light has not changed in the MSPs' rooms. It was always envisaged that there would be a lot of natural light. In fact, from memory, a lot of natural light comes in, not through those windows but from the glazed corridor on the other side.

As with any new building, we are doing our best. We are trying to assess all the costs of running the new complex, as incorporated in our report to the Finance Committee on running costs. The minor changes to which you referred are unlikely to have

an impact. Obviously, there are big issues associated with running a brand-new complex, and we are doing our best to estimate the costs, but I have not seen any link between them and late detail or design changes. The issues that count include cleaning, heating, lighting and running IT systems, and those fundamentals have been unchanged for some time. Actual usage will have an impact on our running costs—for example the number of visitors that we get. In my judgment, those factors are likely to be more significant.

Mr Home Robertson: I return to a couple of points that were made at the beginning of the session, because they could be misinterpreted, and we run a slight risk of suggesting that the new building will not be ready until some time into the new year. There are risks—the weather is a factor; the site is crowded, with about 1,000 people working on it; and the interfaces between different buildings, trades and contractors could cause problems. However, it is important to reiterate that both the Holyrood progress group and the SPCB have interrogated the construction manager closely and he has reported that, notwithstanding those risks, he has a high expectation—indeed, he is confident—that the building will be handed over, carpets down and paint dry, ready to begin the migration process in November.

It would be a pity if there were any suggestion from this session that we think that there are weasel words in that and that the building might not be ready until January or February. We are confident that it will be ready in November, and we are going to work to achieve that.

The Convener: I do not think that the committee is of the view that there has been any material change to the information that was supplied previously.

Robert Brown: It is also open to members of the Finance Committee to have a look round the building before the end of the parliamentary session, if they want to see what they are getting for the committee's money.

Mr Home Robertson: It is the taxpayers' money, of course.

The Convener: We very much want to take up that invitation. Thank you for extending it, and for attending this afternoon.

Invitation

The Convener: The next item concerns a visit by the Modernisation of the House of Commons Select Committee on 4 March. Members are invited to attend a lunch with that committee. I do not think that we need to spend too much time on the matter at the moment. If members are interested in attending, I am sure that they can let the clerk know.

Alasdair Morgan: I would certainly be interested in that. After all, I have experience in both places.

The Convener: Good. If any other member is interested, they should just let David McGill know their availability.

We will have a few moments' silent reflection while we wait for Professor Midwinter. We are moving into private session anyway, so we will cut off the official report and give the sound guys at the back a break.

16:21

Meeting continued in private until 16:54.

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