AUDIT COMMITTEE

Tuesday 26 September 2000
(*Afternoon*)

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CONTENTS

Tuesday 26 September 2000

AUDIT COMMITTEE
†15th Meeting 2000, Session 1

CONVENER

Mr Andrew Welsh (Angus) (SNP)

DEPUTY CONVENER

*Nick Johnston (Mid Scotland and Fife) (Con)

COMMITTEE MEMBERS

*Brian Adam (North-East Scotland) (SNP)
Scott Barrie (Dunfermline West) (Lab)
*Cathie Craigie (Cumbernauld and Kilsyth) (Lab)
Miss Annabel Goldie (West of Scotland) (Con)
*Margaret Jamieson (Kilmarnock and Loudoun) (Lab)
*Paul Martin (Glasgow Springburn) (Lab)
*Euan Robson (Roxburgh and Berwickshire) (LD)
*Karen Whitefield (Airdrie and Shotts) (Lab)
*Andrew Wilson (Central Scotland) (SNP)

*attended

THE FOLLOWING MEMBERS ALSO ATTENDED:

Linda Fabiani (Central Scotland) (SNP)
Ms Margo MacDonald (Lothians) (SNP)

WITNESSES

Mr Robert Black (Auditor General for Scotland)
Dr John Gibbons (Chief Architect, Scottish Executive)
Mr Robert Gordon (Head of Executive Secretariat, Scottish Executive)
Mr Muir Russell (Permanent Secretary, Scottish Executive)

AUDIT SCOTLAND OFFICIAL

Mr Arwel Roberts

CLERK TO THE COMMITTEE

Callum Thomson

ASSISTANT CLERK

Sean Wixted

LOCATION

Committee Room 1

†14th Meeting 2000, Session 1—held in private.

Scottish Parliament

Audit Committee

Tuesday 26 September 2000

(*Afternoon*)

[THE DEPUTY CONVENER *opened the meeting in private at 14:00*]

14:13

Meeting continued in public.

Holyrood Project

The Deputy Convener (Nick Johnston): Good afternoon. This is the Audit Committee's first meeting on the costs and management of the Holyrood Parliament building project, following the publication of the Auditor General's report and his presentation to the committee last week. We will hold another meeting next Tuesday.

Our two main witnesses are the accountable officers from the Scottish Executive and the Scottish Parliamentary Corporate Body, who were responsible for the project at different times.

I welcome also the Auditor General, the permanent secretary of the Scottish Executive and the other MSPs who join our meeting today. Linda Fabiani asked me to say that she is here as an observer and member of the Holyrood progress group. She does not expect to ask questions.

Mr Muir Russell is the permanent secretary and accountable officer at the Scottish Executive. Prior to the change of client on 1 June 1999, the Scottish Office, which became the Scottish Executive, was responsible for project management and reported to the Secretary of State for Scotland, who was the client. We shall hear evidence from the permanent secretary this afternoon.

We will also consider the period since 1 June 1999. Mr Paul Grice is the clerk to the Parliament and principal accountable officer of the Scottish Parliament. He is the current project owner—that is, the most senior official who is responsible for the successful delivery of the project to the client, which has been the Scottish Parliamentary Corporate Body since 1 June 1999. We will hear from the clerk to the Parliament at our next meeting.

We will ask questions on five principal areas. We will ask about the project management and how well it met the challenges of the project. We will explore the arrangements for the cost reporting of the project. We will ask related questions about managing the project risk. We will finish today's meeting by asking for evidence about the state of the project at different times. In particular, we will ask about the state of the project just before the transfer to the SPCB last June. In our meeting next week with the clerk to the Parliament, we will consider the current state of the project and look ahead to consider the risks over its remaining life, as well as the issues that I have just mentioned. We have a lot of ground to cover.

Before turning to the permanent secretary for his evidence, I have agreed with the Auditor General that it would be good to start the meeting with questions from members seeking clarification or advice on the Auditor General's report. I remind the committee—and, especially, our visitors—that the Audit Committee inquires into the report of the Auditor General, so it is important that we do not stray into policy matters.

14:15

Mr Robert Black (Auditor General for Scotland): I am happy to answer members' questions.

The Deputy Convener: What, in relation to the Holyrood project, do you regard as policy matters, and on which matters should we remain somewhat circumspect in our questioning this afternoon?

Mr Black: As members know, it is not in my remit to question Executive policy. I suggest, however, that five major issues arise from my report to Parliament. The first is whether the project management was adequate to meet the challenges of the project. That question is really about the mix of skills within the project management team at certain times and about whether the plan was sufficiently clear to ensure proper implementation of the project.

The second issue is whether there were shortcomings in cost reporting. As members will gather from my report, I believe that there were—the absence of a systematic process for monitoring and full cost reporting to the client is significant. I venture to suggest that the concern that has been expressed in the Parliament and by the public about the project seems to be linked to that weakness and to a general lack of transparency in reporting the costs consistently.

The third issue is whether there was proper accounting for the risk that was associated with the project. For any major capital project, the risks—especially at the beginning—can be great. Positive management is required to ensure that cost escalation is minimised and that there is no significant slippage in the programme. It strikes me that a possible weakness in the cost reporting arrangements for the Holyrood project was that there was no proper and separate allowance for risk in the project cost estimates, as good practice requires.

I suggest that the committee might also wish to consider the state of the project in June 1999 when responsibility for the project moved over to the SPCB. At that time, the project was one of many responsibilities that were assumed by the SPCB. Of course, the SPCB was coming into existence for the first time and none of its members had previous responsibility for, or direct knowledge of, the project. Therefore, the SPCB needed first to be made aware of the status and health of the project and secondly, to satisfy itself about the overall health of the project—possibly independent of the project management team. Of course, there was no independent review at that stage—it was nine months later that the SPCB received the report by Mr John Spencely, which highlighted significant changes in budget and time scale.

The final issue is the current state of the project, which is clearly important to us all. How real are the risks that surround the project's completion by December 2002 within the target of £195 million?

Since acceptance of the architectural scheme design in June this year, we have seen a much firmer basis for delivery of the project within the targets. However, construction on site is still at a relatively early stage. Only about a third of the contracts are financially committed and more than two years' work lies ahead of us. The project is large and complex and has some way to run. There are no guarantees on costs, and risks and uncertainties will arise in co-ordinating and completing the project. It might be appropriate for members to have those five issues in the front of their minds as they question the accountable officers.

Euan Robson (Roxburgh and Berwickshire) (LD): You pose a question in your report about the mix of skills—you also referred to that a moment ago. In paragraph 3.13, you refer to the absence of construction expertise. I can see that it was necessary to ask such questions, but what was the impact of not having a construction manager for a large part of the time?

Mr Black: I deliberately put my comment as a question rather than as an assertion. When I considered the material, it occurred to me that there was perhaps a weakness in the skills that were available to the project management team. Treasury guidance on that is interesting; it recognises the importance of having top-quality project management skills available to projects if they are to proceed according to plan. An added complication is that, for perfectly understandable and appropriate reasons, it was decided to take the construction management procurement route, which leaves more of the risks with the client. It is also quite a complex and demanding arrangement to manage.

The project is technically complex and uses an unusual procurement route. Against that background, it seemed to me to be especially important that an experienced construction professional should fill one of the three main posts on the team. Those posts are: the project owner, who looks after the project on behalf of the Parliament; the project sponsor, who looks after the interests of the Parliament full time; and the project manager, who manages the project with the construction manager.

When the project began, the project manager had the necessary experience. However, after December 1998 that person was no longer employed on the project. For most of the life of the project there has been no one who has senior professional construction skills in one of those three posts. It might have made a difference if someone with those skills had been on the team, not least in terms of cost reporting and recognition of the risk factors.

Euan Robson: Would a construction professional have been able to flag up risks that materialised subsequently?

Mr Black: Yes. That is speculation on my part, but it is reasonable to take the view that somebody who had experience of running such a complex project might have picked up some of the difficulties earlier.

Cathie Craigie (Cumbernauld and Kilsyth) (Lab): Mr Black, you say that the type of construction management contract left considerable risks with the project. Will you expand on the risks that you believe the project was left open to?

Mr Black: In the report there is an exhibit that outlines different types of contract. I will not go through the process in detail, but in a traditional contract an architect is appointed to design a building. Once the design is broadly settled, cost experts put an indicative price on it and the contract then goes to tender and somebody is selected through competition to build it. The advantages of that are that there is usually a fixed price and the risk is transferred to whoever accepts the tender.

The disadvantage of such a system is that it can be inflexible and can make it difficult to build adjustments into the contract once construction has started. At the end of the day, that can be costly. There can be variations that tend to be expensive and there can be claims, counter-claims and disputes. In all probability, cost overruns will occur. However, with a conventional contract, the risk tends to move away from the client towards the contractor, who accepts the contract to build to a price.

There are advantages with construction management, but a lot of the risks stay with the client. In what one might call a traditional contract, those risks move to the contractor. Under construction management, there is no main contractor to build the project. Instead, a construction manager is appointed to work for the client and the construction manager co-ordinates the designer, the client and the works package contractors who undertake the work on site. The client continues to bear the risks that are associated with the project, including the contract risk.

What, in summary, are the associated risks? They fall into three categories. First, there is the risk that is associated with the fact that construction might start when the design is not completed—that was the case in the Holyrood project. That was quite deliberate—the project team wanted to get ahead. However, because the design was incomplete, less detail was available for cost planning and control.

The second risk relates to the construction manager being paid a fee. Undoubtedly, the construction manager will act professionally, but is under no enforceable commitment to complete the building at a fixed tender price, as under a traditional contract. If somebody builds me a garage for £5,000, I get a garage for £5,000. There is no equivalent under construction management—there is no enforceable price.

Thirdly, as I have mentioned, the client retains some of the risks that would normally move to the builder under a traditional contract. Paragraph 1.39 in the report lists the risks that stay with the client. Construction management is significantly more risky than a traditional contract in that sense.

Cathie Craigie: I have a follow-up question. Throughout the report, you mention the uniqueness of the Holyrood project and the fact that it is difficult to compare it with other projects. Could any comparison have been made with other projects in which such a contract had been signed up to?

Mr Black: We were not able to find a comparable project on a similar scale. If I recall correctly, I used the word "unique" in answering a question at the previous meeting. The use of the word in that context reflected the fact that there was a change of client, which is extremely unusual. I would hesitate to use that word in relation to the contract, but it is true that we could not find in the public sector a comparable project of the size and complexity of the Holyrood project and that had been run using the construction management procurement route. That is a question that members might well care to put to other witnesses.

Margaret Jamieson (Kilmarnock and Loudoun) (Lab): On page 43, you indicate that

"Accounting for risk was insufficient".

Will you expand on why that was important?

Mr Black: I am afraid that the history of large public projects is one of cost overruns. That is not too sweeping a generalisation. A poor track record over decades ultimately led the Treasury to produce guidance. The guidance emphasises the importance of accounting properly for risk. On the Holyrood project, it is important to acknowledge that the Scottish Office recognised at the outset the importance of risk management. It was mentioned in the project brief and two risk workshops were held at early stages of the project—one in August 1998 and one in March 1999. My concern is that I am not convinced that that thinking about the importance of risk was carried forward into the quantification of the financial figures that were used. There was a hiatus somewhere in the process.

The Treasury guidance is quite clear—I explained that in my report. The report says that in a well-managed project, there should be a base estimate of the cost of the project that includes the things that have happened or will almost certainly happen.

There should also be a separate and distinct exercise to analyse in a structured way the risks that might occur and there should be an attempt to put a pound sign against those risks. That means that the cost that is reported to the client is a full cost. One element of cost reporting addresses the base budget—that will certainly be included—and another part alerts the client to all the risks and indicates what they might imply for the overall cost of the project. The cost reporting for Holyrood should have been based on that approach. There should have been a base estimate and a separate risk analysis, and the financial implications should have been spelled out. Clearly, that did not happen.

14:30

Margaret Jamieson: You indicated that Treasury guidance was issued in 1997. Are you satisfied that it was adhered to?

Mr Black: No.

Andrew Wilson (Central Scotland) (SNP): Despite that, there is a separate question. In paragraph 3.58, you mention that the risks that were mentioned by the permanent secretary did not materialise and were overtaken by subsequent changes. Despite the fact that the Treasury guidance was not followed, did the fact that a risk assessment was not done turn out to be detrimental?

Mr Black: The memorandum from the permanent secretary to which you refer gives the impression that the need for the separate risk assessment was not entirely accepted in the Scottish Office at the time. The language in the memorandum points to a reluctance to include any additional items without strong justification. Treasury guidance says that items that are definitely included in the base budget must be included in a risk assessment. It also says that things that might happen must be considered to give the client an indication of the overall liability that might be incurred. Treasury guidance is clear that there should be a separate risk assessment.

It is true, as Muir Russell says, that some of the risks did not materialise, but it is highly probable that some did. I say that because the estimated construction cost has increased from £62 million in May 1999 to £108 million. Something has happened.

It is interesting to note that some risks were not carried forward as separate items after May 1999—in other words, they disappeared from the schedule. The base estimate continued to increase, which means that something was happening. The Spencely report contains an interesting table that shows that the base estimate for construction costs increased by £32 million between May 1999 and September 1999. However, nothing in the client requirements changed fundamentally in that short period—the period between the project being handed over and the end of summer. Changes were introduced, but my impression is that the major changes came later, such as changes to the accommodation for MSPs and the fuller specification of the revised design of the chamber.

I venture to suggest that, while the risks might not have materialised as separate items or been carried forward as such, some elements were going into the base budget. That might explain the £32 million increase between May 1999 and September 1999.

Brian Adam (North-East Scotland) (SNP): When you spoke to us last week, you suggested that project management might have encountered major challenges in managing the complex environment, not least because of the change of client and the significant changes in the specification. It is not 100 per cent clear from the report how many of the changes were set in train before the handover.

Do you think that the project was handed over in good order when responsibility moved over to the Scottish Parliamentary Corporate Body? How many of the consequent changes were set in train before the project was handed over?

Mr Black: I acknowledge that there was a view within the Executive that the building could have been built for the budget that was available at the time of handover. However, I cannot give a positive assurance that the project was handed over in very good order. I have three reasons for saying that.

First, the major milestones had been missed. The first was to have an architectural scheme design agreed by March 1999. That did not happen until June 2000. The second major milestone that was missed—largely as a consequence of there being no settled scheme design—was that the cost plan was not prepared.

Secondly, as I record in my report, there was no agreement between project management, the design team and the expert cost consultants about what the best budget figure for the project was. There were differences between those groups—somewhere in the report there is a diagram that indicates that that was a long-running issue. For most of the life of the project, the expert cost consultants estimated figures that were significantly greater than those that were being reported by project management—whose figures were pretty much exclusively the construction costs plus a contingency cost.

The third reason why I am concerned—this addresses your second point, Mr Adam—is that there is evidence that, by August 1999, the project was in some difficulties. In paragraph 1.18 of the report, I list some of the difficulties at that time. The report states that

> "the architect continued to work on aspects of the overall design including the chamber."

That caused delay to other work on the project. There was continuing

> "uncertainty on Queensberry House"

and negotiations continued with Historic Scotland. The fact that the area of building was now likely to be some 4,000 sq m

> "was likely to increase construction costs".

However, there was no obvious explanation for the reason for that cost increase. The construction manager's critical path analysis indicated that, because of the extended design period involving the architect,

> "construction would run at least four months beyond the target completion date".

There was some evidence

> "that essential construction information from the design team would dry up."

That threatened the timeous execution of the works packages. There was also the continuing difference of view

"between the design team and project management on the £62 million target cost".

Against that background, I find it difficult to provide a positive assurance that the project was handed over in as good a state as it should have been.

Brian Adam: Can you give the committee an idea of what proportion of that list of difficulties came about as a consequence of decisions that were made prior to June 1999? Were any of the difficulties consequent upon what happened to the project management between June 1999 and the identification and reporting of the problems in August 1999?

Mr Black: It is difficult to say what proportion of the difficulties were the result of those decisions. Last summer, we were still at a very early stage of development of the project. In the report, I attempt to apportion the reasons for the increase in cost to extra floor space and improvement in quality. As members can see, some elements of costs of the extra floor space had started to kick in at an early stage. I am afraid, however, that it has not been possible to be specific about what elements of the subsequent cost increase were due to events that occurred before June last year.

Euan Robson: Was the Auditor General able to identify the status of the project at the point of handover? In other words, did the then Scottish Office hand to the corporate body a document or report that indicated the status of the project?

Mr Black: From the evidence that was available to me, it seems that the handover was relatively informal. There was an exchange between the antecedent client and the new client about the project, which was supported by the presence of senior civil servants.

The new client could take assurance from the fact that it was inheriting the project team that had been working continuously on the project from the outset. In the absence of any information to the contrary, it was not unreasonable for the corporate body to be assured that the project team was now working for it, as the new client, and that the team would be on top of all the issues.

Euan Robson: Despite the fact that the team had no construction expertise?

Mr Black: As I said, I have put the reference to construction expertise in the form of a question, as the observation is certainly made with the benefit of hindsight. At the time, there were good, well-qualified people from a variety of backgrounds on the team, including people who were experienced in project management. My reflection with the benefit of hindsight is that, in view of the complexity of the contract, perhaps the team needed something more.

Karen Whitefield (Airdrie and Shotts) (Lab): The last two paragraphs of the report refer to the establishment of the progress group. You have highlighted a number of concerns with the project up to that point. Do you believe that the establishment of the progress group and the work that it has done so far will ensure that effective control is exercised on the project?

Mr Black: You are right to say that my report stops at the point at which the progress group comes into being. We have not actively examined how things have gone subsequently. It is most encouraging that the corporate body accepted and put into effect pretty well all the Spencely recommendations, not least of which was the recommendation that the progress group should be created. It is also encouraging that the corporate body and the progress group have accepted the recommendations in my report. Against that background, we can be confident that the project is on a much sounder footing than it was before.

Also, of course, the architectural design is now settled and I understand that intensive work is going on to prepare a cost plan. Those factors must reduce the likelihood that there will be unforeseen problems in the future. However, as an auditor, I have to say that nothing is guaranteed. The general view is that the budget of £195 million is tight. I mention in my report that factors may arise, such as construction inflation between now and the end of the project, that will affect the final price, and, of course, there are issues around the completion of the project on time.

There is a large and demanding project to manage. I believe that the arrangements that have been made represent a significant move in the right direction.

Karen Whitefield: What one piece of advice would you, as an auditor, give to the progress group on how it should monitor the project to limit any future difficulties?

The Deputy Convener: Is this within the scope of your report?

Mr Black: This is like "Desert Island Discs". Can I choose a double album?

The group should undertake a risk assessment and ensure that the risks are quantified and reported. Secondly, it should ensure that good cost control and reporting procedures are in place, with milestones for regular reporting back to the group.

Ms Margo MacDonald (Lothians) (SNP): You referred to local inflation in construction projects. I am reliably informed that it is very high in Edinburgh and that it ain't getting lower. Are you satisfied that the risk assessments that are being built into the new management are coping with that factor? Although you do not make political pronouncements, you will understand that it is politically embarrassing to have to admit that even sticking to the scheme that we have will cost more because of local inflation.

My second question is more basic. On construction management, your report says on page 32:

> "In June 1999 the Treasury recommended that this route should only be used where there is a very clear value for money case for doing so."

As you have said that there was no clear cost estimate or cost control mechanism, and that no risk assessment process had been followed, how on earth could the project have met that recommendation? How could the people who chose this type of construction management contract demonstrate a clear value-for-money advantage? If they could not do that, was it a mistake to opt for such a contract?

14:45

Mr Black: Your first question related to the implication for the project of construction cost inflation in Edinburgh and whether I was satisfied that that would be taken into account through risk assessment. As I remarked a moment ago, the cut-off point for my report is the point at which the progress group came into being—there had to be an end date for my report. I have not examined the project subsequently.

The report makes the point that only 30 per cent of the budget is committed so far. That means that 70 per cent of the work either still has to be put out to tender or awaits the return of tenders. I know that project management are well aware of the risk of construction cost inflation and that they intend to consider carefully the tender prices that they receive this autumn and carry out a risk assessment of whether those prices are consistent with the project being delivered for £195 million. That is an entirely reasonable approach for them to take. It is difficult to say more on this subject until we have the results from that exercise.

Ms MacDonald: Can I ask one more brief question?

The Deputy Convener: A very brief question, as our time is tight.

Ms MacDonald: You were very generous in saying that the project had difficulties all through 1999 and the earlier part of this year. It took at least 15 months to put right problems that had been flagged up by Mr Bill Armstrong when he left his position as project manager. Do you agree that that suggests that there was very poor management of the project?

Mr Black: It is clear from my report that there were shortcomings in project management in all the areas that I mention—I do not have to repeat them here. The period to which you refer was a very difficult one for all the reasons that I outline in the report.

The Deputy Convener: Thank you. We will adjourn for a couple of minute to allow the next witnesses to take their places.

14:47

Meeting adjourned.

14:49

On resuming—

The Deputy Convener: I welcome Mr Muir Russell and his colleagues to the Audit Committee. I will run through the form that the questioning will take this afternoon. We are going to ask about project management, cost reporting, managing the project risk and the state of the project at the time of the handover from the Scottish Office to the Scottish Parliamentary Corporate Body. We also intend to consider the forward state of the project, although that is not your concern.

Perhaps, Mr Russell, you could introduce your colleagues and make a brief statement about your views on the project in the light of the Auditor General's report. It would help the committee if you could explain your role in relation to the project and tell us what you think are the most important points to bear in mind when considering the project and the Auditor General's report.

Mr Muir Russell (Permanent Secretary, Scottish Executive): Thank you, convener. I am the permanent secretary at the Scottish Executive and the principal accountable officer of the Scottish Administration. On my left is Robert Gordon, who is now the head of the Executive secretariat. Before that, Robert was the head of the constitution group and was responsible for the devolution project throughout. He was also responsible for matters including the selection of the site and the design team and the oversight of the project until it was transferred to the Scottish Parliamentary Corporate Body. On my right is Dr John Gibbons, the chief architect of the Scottish Executive; before that, he had been the chief architect of the Scottish Office since 1984. He has provided professional advice throughout the project, in support of the project sponsor.

As members will know from the report, my colleagues and I have given the Auditor General full co-operation in the preparation of the report—he acknowledges that. My responsibilities relate to the period to the beginning of June 1999, when, under the transfer orders, responsibility passed to the Scottish Parliament. I hope that my colleagues and I can help the committee to understand the evolution of the project in those early stages. As has been acknowledged, it is clear that much of the report and its recommendations relate to current matters, which are not within my responsibilities. There might be questions to which I will have to say that the committee should take up those matters with Paul Grice. I hope that the committee will understand that that is the situation and that I am not ducking things.

There is one point that I would like to make before members ask questions—I apologise if the Auditor General has already covered this. The report and the approach that we have taken differ from the practice of the Public Accounts Committee at Westminster, with which some members might be familiar. At Westminster, such reports would be agreed in terms of the accuracy and completeness of the facts and the inferences drawn from them. The Auditor General has taken a different approach in this report, by seeking agreement on the factual accuracy but taking individual responsibility for the conclusions and recommendations. I have said to Mr Black that I am content with the factual accuracy of the statements in the report, but that there are some points of interpretation on which I disagree and that I must offer my own view of the conclusions that can be drawn. That is a new approach to such reports. There is a good understanding between the Auditor General and me and my colleagues of the basis on which the report has been produced.

Convener, you asked me to comment on particular matters that the committee should bear in mind when considering the report and the project. The Auditor General has acknowledged the fact that the project has been a very challenging task. That is highlighted in the second paragraph of his preface to the report and in the executive summary. We must consider the matter as a process, which has been aimed at defining the project more closely as the requirements have been clarified, and which has enabled progress to be made. That should be borne in mind when considering the procurement process and the construction route.

The report does not describe a project that is out of control or one that has been so at any time. It is clear that, at every stage where there has been an increase in the cost estimate, the client has accepted it and the decision has been made after the most careful scrutiny. Such increases have arisen from the need to provide something that has been specifically requested by the client, such as more space, design changes and a higher-quality finish. That has resulted in the step changes to the figures. That view is supported by the comments made by the Auditor General in the second paragraph of his preface, in which he concludes:

> "If the new building can be completed within the approved project budget, the Scottish Parliament will have a distinctive high-quality building of historic significance at a cost which seems to bear comparison with other major public buildings."

That is where the process has led us.

The Deputy Convener: Thank you, Mr Russell. We are not the Public Accounts Committee at Westminster and I hope that in Scotland we will find new ways of working. We might not follow the old and hallowed paths of tradition, but I hope that our approach will lead to a certain amount of elucidation, rather than obfuscation.

I want to begin by asking a question on the scheme design, which is a subject that does not fall neatly into any of the five categories that I mentioned earlier. In paragraph 1.9 on page 11 of the report, the Auditor General states that the scheme design approval was originally scheduled for March 1998. However, paragraph 1.12 states that the design submitted in March 1998 was insufficiently detailed to allow the client to approve the design, which meant that no cost plan could be finalised. That seems to be the fundamental point from which things began to go awry.

What caused the delay in finalising the design at that time—March 1998? Why at the point of handover in June 1999, was there still no finalised design or cost plan? A year had gone by with no finalised plan. To what do you attribute those delays and could you have done anything to minimise or eradicate them?

Mr Russell: I am not quite clear on the dates—the 1998s and the 1999s—to which you have just referred. The point about freezing the scheme relates to March 1999 and the architect was appointed in July 1998. There was an optimistic sequence of expectations about when various stages would be reached, but the period in question runs from July 1998 to March 1999 and to the handover in June 1999.

I would be happy to comment on what was happening at that time, because it has a bearing on the process and the general approach that I was trying to take.

Let us go back to the beginning. There was a process of site selection, architectural feasibility studies were carried out and four sites were shortlisted. All that was publicly displayed, as were the associated costings. On that basis, ministers made a decision in favour of Holyrood. At that stage, the concept had a construction cost estimate of £50 million. In his report, the Auditor General says that that was a suitable benchmark against which to assess the rest of the process. At the beginning, the project was based on realistic assumptions including a desk assessment of space requirements, a detailed schedule of areas, feasibility studies and inputs from the quantity surveyor.

15:00

The Auditor General acknowledges that the design remained notional at that stage; that is quite right. Paragraph 1.9 of his report is important. It says that when Miralles and RMJM were appointed, they confirmed that it would be possible to deliver the overall concept proposed in the brief within a construction cost budget of £50 million. The people who were running the project had reason to believe that they were in the right sort of target area and that the design brief and the budget were sensible. The process went on from there. My thesis of defining the project and working to the target figure of £50 million was being followed.

As the report brings out, at each stage there was constructive tension in the best sense. People came forward with ideas. Members of the design team came up with ways of meeting the brief and the project managers discussed the ideas with them. At all stages, those involved sought to live within the target cost, which was a realistic figure. That is why there are references to the design team being asked to reduce the cost of elements that were beyond the budget. Real questions were asked about the balance area and what correct areas should be.

The result of that process was inevitably that formal sign-offs were being delayed. I do not dispute that. It was a result of the project's being defined against a target towards which the project managers were working. In June 1999, it was agreed that increases in area had to be made and other aspects developed from the brief. When we come to talk about risk management, we can talk about the contingency elements.

The development was built in as a result of the process that I am describing and resulted in two stages of the design being exhibited, including one that was, effectively, going to be stage D. That was exhibited in April 1999. The project was close to being completed to that stage by June 1999.

That is the theory behind the process; I hope that that explains why some of those formal points were missed. The project was focusing and crystallising within that design concept and target cost. Some increases and changes were accepted as part of that process of dialogue between the project managers and the design team. Does that answer your question?

The Deputy Convener: When I said March 1998, it was a slip of the tongue. I meant March 1999, of course. However, there was almost a year between the appointment of the architect and the handover. The report seemed to suggest that that was quite a long time to come to a point at which the scheme design could be frozen. Let us now move on to deal with the project management.

Euan Robson: I want to talk about how the construction management type of contract was chosen. The report says that it was

"innovative in the public sector".

Can you explain why the decision was taken to go for that type of contract?

The report also talks about that fact that the decision was taken after "due professional consideration". What did that entail? Given that the project was meant to be handed on, what specific consideration was given to managing the risks?

Mr Russell: First of all, let us talk about the choice of the construction management approach, which is discussed in the third section of the report. Quite a lot of thought was given to the elements of procurement. Paragraph 3.19 considers the issue of having private finance initiative procurement for the project. Throughout the process, experienced construction professionals in the office—experienced administrators—were advising on the approach that should be taken.

The construction management route was chosen for reasons that are largely to be found in the table on page 32. To sit back and wait before an absolutely final design had been arrived at before putting the project out to tender did not fit with what was happening with the process of defining the project. We were seeking to make progress and to keep going on the critical path while recognising that some elements of the design would take longer than others. We were able to do that by using the relatively innovative method of eating up time on the critical path by using construction management, which lets the project progress in bits and pieces with specialist management while ensuring that there is, for good or ill, a direct relationship between the contractors and the clients, although we were working in a situation of some uncertainty, as I have described.

The Spencely report does not suggest that that was the wrong thing to do. Based on discussions with various professionals associated with the project, the Auditor General for Scotland has indicated that there is no suggestion that the approach should have been changed.

I think that the approach turned out to be a sensible one that—if truth be told—will enable the changes that are now being envisaged to be made without the immense problems associated with undoing contracts, which the Auditor General for Scotland referred to earlier. I think that it was the right thing to do.

Euan Robson: You used the interesting phrases "in the office" and "associated with the project" in relation to how the decision was arrived at. Did the Scottish Office take outside views on the appropriateness of that type of contract or was the decision entirely internal?

Mr Russell: In Paragraph 3.20, there is a suggestion that we should have had a strategy and taken all the decisions at the beginning of the process. What we could do was consult the design team when it was appointed. The design team confirmed that, in its view, the approach was correct. That provided a degree of external validation. My assertion would be that, first and foremost, we were using our professional resources. With hindsight, the decision seems correct.

Euan Robson: If the decision were correct, it would be imperative to manage the risks closely. If the risks were left with the future owner of the project, careful consideration would have to have been given to what risks might develop. Is that a fair summary?

Mr Russell: The arguments about the procurement route acknowledge that it contains more risks for the client than a single, traditional, one-off contract.

Euan Robson: I want to pursue the question of risks. How did the Scottish Office and the Scottish Executive decide who should be the project management personnel?

Some of our questions to the Auditor General before you came in concentrated on the apparent absence of a very senior construction professional on the team. Why was there such an omission for a large part of the life of the project management before the project was handed over to the SPCB?

Mr Russell: Project management was arranged in accordance with the good practice gained from the models that are illustrated in section 3 of the report. For example, paragraph 3.8 of the report says:

"The creation of the Holyrood project team broadly reflected . . . good practice."

Paragraph 3.11 says:

"Project management had a mixture of the relevant experience and skills. . . . The project sponsor could draw on advice from the Chief Architect and Head of the Building Directorate . . . The successive project managers were appointed on the basis of significant previous experience in the specialist areas of project management."

The Auditor General has made many positive comments on the way that the arrangements for project management were handled. As a result, I do not accept the thesis that project management contained significant gaps.

The Auditor General was careful to acknowledge that his report simply asks questions about project management. For example, did it possibly have a deficiency? Did it always have the best possible mix of skills? I am not sure that I would go along with those questions. The project manager left in December 1998 and was replaced in January 1999 by another experienced project manager. As the report points out, although he might not have been from a "construction discipline" in the narrow sense that he was not an architect, he had

"significant experience in project management in the construction field and formal qualification and"

was

"supported by two deputies who are quantity surveyors".

As exhibit 11 in the report illustrates, that team went alongside the client adviser, who is our chief architect and a man of immense experience—if I can say that while sparing his blushes. As a result, the project management set-up is not susceptible to the questions that the Auditor General has posed, however tentatively.

Euan Robson: Yes, but in paragraph 3.13, the Auditor General quite clearly raises a question about the seniority of the construction professional throughout the process and particularly after December 1998 when the previous project manager resigned. Bearing in mind the fact that you chose an innovative construction management contract that leaves many of the risks with the client, are you absolutely clear that the project management team was as robust as possible to cope with the risks that might have been left behind?

Mr Russell: I do not want to be facetious, but I was taught never to say never. Your question refers to a world where one could have had more people and a bigger team. However, the project management was properly put together with the right mix of skills and there was no gap for any material period. Furthermore, we were meeting the Treasury guidance's suggestion that where the project sponsor is not a construction professional, a client adviser should be on hand. I really think that we were covered in the project management set-up.

Ms MacDonald: I wonder whether the points outlined in paragraph 3.20 of the report represent one of the areas where you have a different perspective to, or disagree with, the Auditor General. He is not asking a question in that paragraph. He says:

"There should have been a reasoned analysis supporting the adoption of the construction management route".

We have now been told that, if the traditional type of construction contract had been used, you could have been liable under certain penalty clauses. However, that presupposes that you would have been under the same pressures as with the construction management type of contract, which is putting you under tremendous pressures with unforeseen difficulties, risk assessments that were not undertaken at the correct time—

15:15

The Deputy Convener: Could we have a question, Ms MacDonald?

Ms MacDonald: Yes, the question is coming.

Are you willing to accept that, in the initial decision-making process, you did not undertake sufficient cost and risk estimates and that, by choosing this type of construction contract, you chose the riskier route?

Mr Russell: I do not accept that, nor could one make such a judgment even with hindsight. The contract was the right route to provide the flexibility and the ability to make progress that we needed. Even if we could wind things back, we still could not inject some fixed contract arrangement into the process. I do not know whether either of my colleagues wants to comment on that point.

Dr John Gibbons (Chief Architect, Scottish Executive): Construction management is still the most appropriate route to take. It would be very interesting now to see where we would have been with the traditional Joint Contracts Tribunal 1980 contract, taking into account all the problems that the project has encountered.

Ms MacDonald: That is the point. You might not have had the same problems.

Dr Gibbons: We would have had enormous problems with a traditional contract. The flexibility of the construction management procurement route has enabled us to manage our way round some changes to the brief and so on. For those reasons, contrary to what the Auditor General's report suggests, construction management is an increasingly commonplace method of building procurement.

Cathie Craigie: I want to follow on from Euan Robson's line of inquiry. How big was the project management team?

Mr Russell: Dr Gibbons has just suggested to me that, in round terms, 20 people were involved.

Cathie Craigie: In paragraphs 3.11 and 3.12 of the report, the Auditor General recognises that the project managers had a lot of previous experience, but he questions whether

"project management provided the best possible combination of skills".

What experience of construction management contracts did the 20 members of the project management team have?

Mr Russell: I do not have that information with me, but Dr Gibbons will try to answer the question.

Dr Gibbons: As client adviser, I can say that this is one of many projects since 1984 on which we have built up an historical database. We came off the National Museum of Scotland building to the Holyrood project, which means that we had an historic base from which to start.

I am just a figurehead for an organisation with 30 people that has some depth in terms of cost, architectural and regulations experience. I brought a broader base to the affair; for us, the project was part of a continuum. Construction management holds no fears; it is a natural development from management contracting, which was employed at the National Museum of Scotland. For example, the Tate Modern building has just been completed using the construction management route.

We are, if you like, right at the coalface of best practice. There has been continuing dialogue with the Treasury on procurement advice. Its guidance is exactly that—guidance. Obviously, we listen to it and we gain advance information from it. For example, some of the guidance that is now referred to as current was not current at the time, but we were well aware of Treasury thinking. The Scottish Office and the Scottish Executive have repackaged Treasury guidance for the Scottish context; it would be wrong not to, because the industry in Scotland is different. We have different contractual and construction law in Scotland, so things have to be repackaged. We are completely au fait with Treasury views, but we do not necessarily share them.

I have talked about the broad background that I brought to the project; I will move on to talk about the project management. The original project manager, in a slightly earlier life, was the project adviser. For 10 or 11 months, he advised the project sponsor on the wider issues of procurement, but he was not the project manager. He therefore brought, from an extensive private sector background, a lot of up-to-the-minute thinking. On construction management, he was a valuable source of advice.

He was replaced by a project manager who may not have been from a construction background but was a very experienced project manager in other areas. He was something of an expert in risk management and—most important at the time—he spoke Spanish. That may seem trivial, but we were having real communication problems and it was a great advantage to have a Spanish-speaking project manager who could understand the nuances and subtleties of the architect's thinking. He was supported by two experienced quantity surveyors. There was little gap, because when we lost a project manager, we already had a deputy project manager in place, Martin Mustard, who simply took over, supported by two able deputies.

Cathie Craigie: That is all useful information, but a construction management contract was put in place and I was looking for information on people in your project team who had expertise in managing such a contract.

Dr Gibbons: In theory, all members of the project team were up to speed with the difficulties of construction management. Forms of construction contracts are what those people live and breathe. They were all well aware of the opportunities and benefits that construction management brings, and the risks that one takes in going down that route.

Cathie Craigie: Did any of your team have practical experience?

Dr Gibbons: We very quickly moved to employ Bovis Land Lease (Scotland) Ltd as the construction manager—not as a contractor, but as a member of the team. Bovis supplies us with advice. It is employed as a member of the team and not in the traditional way. It is the biggest construction manager in the world.

Cathie Craigie: Are you saying that none of the 20-strong team that was involved in the construction management had any practical experience of running a project of the construction management type?

Dr Gibbons: I cannot be sure of their exact experience, but all were well versed in the issues that surround construction management.

The Deputy Convener: It might be helpful if you were to find out and let us know, in writing, specific details of the experience that the team had had with construction management projects that were the rough equivalent of this project.

Dr Gibbons: Yes, that information would be easy to provide. A point that I did not make is that you cannot generalise to any great extent about construction management. Every contract is a bespoke contract. We have certainly learned lessons from this project that we will apply to the next. However, I can certainly give you more specific information about the team's relevant expertise in construction management.

The Deputy Convener: One presumes that the members of the project team were there for a purpose.

Dr Gibbons: Yes.

The Deputy Convener: Their previous experience would be important.

Dr Gibbons: Yes, and that experience was in managing construction contracts.

The Deputy Convener: But not this particular type of contract.

Dr Gibbons: What I am trying to say is that every contract is different. However, one approaches every contract with the same basic discipline and knowledge.

Cathie Craigie: Euan Robson mentioned that the original project manager had resigned in December 1998. I appreciate that that position was filled by another person, but why did you not think it appropriate that someone from a construction background be appointed to fill that vacancy?

Dr Gibbons: It is important to get the most appropriate person for the job. I do not accept that, in this context, the construction manager had to have a construction qualification. My experience of working with a number of project managers who do not have construction qualifications is that, by and large, they turn out to be very good project managers. This man had other skills, and that was attractive at the time. He was highly recommended by the person that he replaced—in fact, he was initially recruited by the person that he replaced ultimately to replace him. I therefore do not accept that the role had to be filled by someone with a construction background—especially when that someone had two immediate deputies under him with exactly the skills that you refer to.

Cathie Craigie: Do you believe that the person who was appointed had a strong enough personality to handle the people with whom he was negotiating?

Dr Gibbons: The personality of the project manager is terribly important. We certainly needed a person who could manage carefully the situations that we had at the time, and that is what we got. I made the point earlier about his being a Spanish speaker. He is an able facilitator between the various members of the design team.

Cathie Craigie: Did I pick you up correctly: did you say that he was recommended by the outgoing person?

Dr Gibbons: Yes—that person endorsed the appointment.

Margaret Jamieson: You said that the individual who left recommended his successor. Are you saying that the job was not advertised and that there was no specification for it?

Dr Gibbons: At the time, the project manager that we had was due to remain on the project for another nine months. For the interim parliamentary accommodation, we had to recruit another project manager. That recruitment was done with the aid of the first project manager. That is how it came about. I was not involved, but I understand that it was done through a form of competition. I do not know the details.

Margaret Jamieson: As you were not involved, I will ask Mr Russell—the senior accountable officer—exactly who was involved. Was an advertisement placed, and was the post open to competition? What was the specification for the job? If you do not have the answer to hand, I would be grateful if you would supply me with that specification.

Mr Russell: I would be happy to do that. However, I would make the point that filling the gap and ensuring that there was not a problem seemed a sensible way to respond at the time.

Margaret Jamieson: I am not disputing that. I am asking about the method by which the post was filled.

Mr Russell: I would be happy to provide you with information about that.

The Deputy Convener: Do you not have that information with you this afternoon? Can you not tell the committee how the post was filled?

Mr Russell: No. I am sorry, but I do not have that kind of detail with me.

Karen Whitefield: At the outset of the project, it was expected that the completion date would be July 2001. That was a pretty tight time scale for so challenging and ambitious a project—especially for a Parliament that, at that point, had yet to be established. Do you think that the time scale was sufficient? What led you to believe, at that point, that three years would be long enough?

15:30

Mr Russell: As I explained, that judgment was made on the basis of the initial feasibility work and costings that were done and on the set-up following site identification and the appointment of architects. It was the best professional judgment that could be made. Anybody looking at it would have said that it was demanding. It was not stupid or ridiculous; it was not a figure that was simply plucked out of the air. It was based on the work that John Gibbons and his colleagues were doing.

Because of the processes that I have described—getting the design right, aiming to live within the target cost and working with an international signature architect—it proved difficult to deliver some of the key milestones. Anyone considering such a project at the outset would say that the time allowed was not unreasonable. As things turned out, that time stretched a bit, and the dramatic changes that were made following the handover have stretched it still further, but it was not an unreasonable time scale at the beginning.

Karen Whitefield: If the figure was not plucked out of the air, who took the decision? Can you give any examples of similar challenging projects that were completed in such short time scales and on budget?

Mr Russell: The decision was ultimately a ministerial one, based on the best advice—of the kind that I have described—that we could give. In drawing up time scales, people consider what is achievable in all aspects and phases of a construction project. To that extent, the decision is based on a composite of experience, rather than saying, “There is a parliament building or office block that we are just going to mimic.” The decision is not made in quite that way. This project will have different kinds of construction demands and emphases. Anyone considering the project in the notional design stage at the outset will simply say roughly how things will go and how long they think it will take.

I cannot point you to a specific example of some other project that we thought the Holyrood project would be like. By the same token, I rather doubt whether one could learn a great deal from a list that said, “Building X was completed in time Y to budget Z.” What is more important is what one can distil from such examples in terms of what the professionals know about how long different bits of the design, construction and fitting-out processes can take. That may sound rather theoretical, but my colleagues may have more to add.

Karen Whitefield: I can appreciate that you did not look at a list, but did you look, for example, at Portcullis House, which Spencely referred to? That was a considerable building project that affected the Westminster Parliament and involved parliamentarians. Could you have learned anything from that project, or compared the Holyrood project with it?

Mr Russell: I do not think that we could have said explicitly, “We are mimicking it”, “We are not mimicking it” or, “Don’t build a building on top of an underground station.” The project was not viewed in that way, to the best of my knowledge. John Spencely’s report, pointing out the cost of Portcullis House, offered the unit costs that he worked out as a benchmark for a parliamentary building that is built to good-quality international design. The costs were high, but we did not think that that sort of information would be needed up front by John Gibbons and his colleagues.

Mr Robert Gordon (Head of Executive Secretariat, Scottish Executive): At the point of selection, all the architectural contenders showed us their plans for delivering the project. A number of architectural firms made that commitment; all of them said that it was tight but deliverable in autumn 2001.

Karen Whitefield: Was any mechanism to monitor the time scale built in, to see whether it was going to work and that the timetable was a serious one?

Mr Gordon: Yes. One of the key roles of project management and the project sponsor was to see that the very detailed project timetables were being met. The permanent secretary mentioned that in spring 1999 we faced the problem that stage D finalisation was not being achieved as quickly as had been intended, that we were not getting sign-off in March. We were close to it in June.

The Deputy Convener: Time is marching on. Please make your questions and answers succinct if possible.

Karen Whitefield: I will keep my second question short. You anticipated that the design period would be nine months but it was nearly two years. Can you give me any examples of similarly challenging projects where the design period was as short as nine months? If you had looked for similar projects, do you believe that might have suggested that nine months was a bit tight?

Mr Russell: John, are there examples you can point to in the profession?

Dr Gibbons: We put the design and building programmes to all the competitors and all agreed that the time scale was realistic. The building component of the programme is based on spend and there are distinct advantages to building quickly. I have no doubt that we could have built a £50 million project in the time available. Yes, it was a challenging design programme and that is the more difficult aspect to estimate because design does not just happen, as we found out in the protracted design period. It did not all come together as sweetly as we would have liked—but that would have been difficult to predict.

If you look at what happened, we were only weeks away from completing stage D after a nine-month period that was difficult for the architects because of the challenging problem that we gave them in the brief. We gave them a tough task in the balance area that the permanent secretary mentioned. A circulation area of 10 per cent relative to the rest of the building turned out to be impossible, but they spent a long time trying to make that work. Ultimately, that was to our benefit because the plan that was developed was very efficient in cost terms. We felt quite comfortable that the timing for design and construction was about right.

Mr Russell: Just to be clear on the timings, the design for what was going to be stage D was available and exhibited in early April. As I will explain when we talk about the state of the project at handover in June 1999, the stage D report was for all practical purposes ready at that time and planning permission for that design was about to be obtained. The project was really quite well crystallised at that point. The following year is another phase in the life of the project and there was slippage in terms of the initial judgments that we made and targets that we set. It should be thought of in terms of the period March to June 1999 rather than March 1999 to June of the following year.

Brian Adam: You discussed the replacement of the project manager following his resignation. Would you say that the appointment procedure was usual or unusual?

Mr Russell: Filling a post urgently with a suitable, available professional who is in the system does not seem to me a silly thing to do. I come from a culture that commonly moves people from one post to another; you would not axiomatically look outside if you had resources inside. We will get back to Margaret Jamieson with details of how that appointment was handled, but to fill a gap with somebody who was suitable, on all the grounds that John Gibbons has explained—

Brian Adam: With respect, that is an answer to a different question than the one I posed. I asked if it would be a usual or unusual procedure. However I am happy to have the details as part of your written response. We need to know whether in such circumstances that would be the normal course of action.

On the time scale, would there not usually be a range of dates given rather than a single date? Can you give us an idea, in terms of the time scale range in the plan, whether what was being reported was at the optimistic or the pessimistic end of that range?

Mr Russell: You are right to indicate that there needs to be a range of dates—that is the real world. When we were talking about the various announcements made on timing we used phrases such as “the second half of 2001” or “autumn 2001”, acknowledging that it is not possible to be precise at the stage when you are talking about preferred sites, for example.

I do not think that there was an unreasonable degree of optimism but I would say, which is relevant to what we say about risk, that the approach that we were taking was one of setting targets and trying to meet them. The project team had that approach very much in mind, in terms of timing and cost and what was to be allowed and how the design might or might not change. If things had to be added in, they would have to be fought for because there was always an attempt to keep to a target for costs and timing. You could call that optimism, I suppose, but it is not an unrealistic way to go about things.

Brian Adam: It is always difficult to draw the line between optimism and being unrealistic.

Ms MacDonald: For clarification, did you ever advise against the original timetable? I think you said earlier that it was a ministerial decision.

Mr Russell: I said that it was based on official advice—

Ms MacDonald: Did no one advise Donald Dewar that it was an extremely tight timetable?

Mr Russell: I do not have the words at my fingertips, but I think that the advice he would have been given would have indicated that it was demanding but achievable.

Ms MacDonald: Could you explain why you switched the competition from a design to a designer competition, as the Auditor General's report says?

Mr Russell: I do not think that we switched it. The decision taken at the start was to go for a designer competition.

Ms MacDonald: Given that the reason for a designer competition was that you felt that by having a relationship with a designer, as opposed to a design target to be met, you would bring the project in on time and on budget, was that the correct decision?

Mr Russell: I will ask John Gibbons to comment on that, but the basic judgment was that with a designer you would have more of a relationship and more control over what was happening than you would have had following a design competition.

Dr Gibbons: That is the case. We looked very carefully at the question of design versus designer and selected a designer competition for that reason. It meant that we could move very quickly to having an architect working with us on developing the brief rather than waiting until the brief was finished. He also had a responsibility for the development of the brief.

15:45

The Deputy Convener: I am going to move on but, as convener, I want to indulge myself with a short question. You raised an interesting point about communications—that one of the reasons for choosing the project manager's successor was that he spoke Spanish. Was he the only Spanish speaker on the project team? How was communication between the Spanish architect and the project team handled? I met Enric Miralles and thought that his English was remarkably good, but I can understand how the nuances of architecture may be lost in the mists of language.

Mr Russell: I shall ask John Gibbons to comment on that, as he has been integrally involved. We should bear in mind that the project is a joint venture with a large Edinburgh-based practice, RMJM. The interface with the project team was not always and uniquely with people in Barcelona.

Dr Gibbons: Enric Miralles had a substantial team in Barcelona, and he and his wife both spoke excellent English. That was not a difficulty. I was careful to say "nuances", because any difficulties involved only nuances of the language. It was in matters of contract rather than design that we had to be very careful and specific, so it was a help to have a Spanish-speaking project manager. I would not place a great deal of stress on that, but it was a benefit.

The Deputy Convener: Did you have any other Spanish expertise? Did you have Spanish lawyers on the project team?

Dr Gibbons: No.

The Deputy Convener: I shall now move on to the next section, on cost reporting, and I invite Paul Martin to open the questioning.

Paul Martin (Glasgow Springburn) (Lab): In paragraph 3.50 on page 41 of the report, Mr Black states that

> "project management did not inform the Secretary of State as client in November 1998 that the projected construction cost based on the then available design was £69 million compared to a budget then of £50 million."

Why not?

Mr Russell: The answer to that is essentially in the same area as the reasoning that was set out in the annexe to the report that relates to the other incident or phase that is mentioned, involving the estimates that were built up at the time of handover. The approach that was being taken was quite clearly to aim to deliver the project for the £50 million. The design that came in at that stage was quite a preliminary one and was the subject of a huge amount of discussion and debate between the project team and the design team. It is in the nature of such things that a design team will come forward with ideas on many features that it would be nice to have but which, when aiming to stay within a certain cost, the project team must reject. That is the process, and nothing that the Auditor General has said about putting a risk margin on top undermines the notion that it is the proper function of a project team with such a brief to react in that way.

That is what the project team did, and its members were pretty confident that they could move those numbers. To sign off the project at that stage and say, “Okay, we’ll lie back and play dead, although it is actually going to cost this much larger sum”, was simply not their brief and not their job, so that is not what they did. As I recall, a price of £69 million could be put on that at that stage of the project’s evolution. At the end of the day, after it had been acknowledged that the balance area needed to go up and other changes needed to be made, it emerged that the cost came back to £62 million, if I remember rightly.

Members can therefore see that the process has validity. That is what was happening and that is why the project team did not say, “We now need to view this as a much more expensive project.” They were saying to themselves, “It is our job to ensure that that figure is brought down, so that when we present the design that will happen—stage D—the cost will be back to the announced target spending figure, or we will have some pretty good reasons why it is not.” They reached the stage where they had such reasons.

Paul Martin: You are almost saying that you were uncertain about the figure of £69 million. Is it correct to say that you and your team were uncertain about that figure?

Mr Russell: The figure of £69 million was an estimate of the cost of the preliminary design as it appeared at that stage of its evolution. I think that that estimate was made in the autumn.

Paul Martin: I am trying my best to translate exactly what you are saying. You are saying that you were uncertain about that figure and that that is why the Secretary of State for Scotland was not advised of the exact figure in November 1998. You have not answered that question.

Mr Russell: The answer is that that was a stage in the design process. A quick costing was done, and it looked as if the cost would be £69 million. It was clear that it was more than the budgeted amount. The job of the project team was to get the amount back within budget rather than to accept it. That is why people did not tell the secretary of state that the budget needed to be increased. They were working to get the cost down.

Paul Martin: Can you clarify this point? Mr Black’s report shows that up to £2 million has been spent so far on cost consultants to the project management. That is a large amount of money. Why did you not accept the consultant’s cost analysis? Why did you not take that expert advice?

Mr Russell: I will answer that by reference to the comparable process that took place for the handover estimate. Annexe B of the report explains that the cost consultant produced an expected cost of £62 million—there was contingency and various other elements to add to that. One element was a little list of things that might happen. Those things were sliced out and not included in the published estimate. Paragraph 3.58 acknowledges that they did not materialise.

It is not that there was anything wrong with what the cost consultants were doing. They were saying that there was a possibility that we might add some things on, but the project team was saying: “Oh no. With respect, we will not allow those things to be added.” Therefore the amount was reduced. That does not mean that the cost consultants were incompetent. They identified matters that had to be considered and were being considered.

Robert Gordon may want to add to that.

Mr Gordon: Could I come in on that point?

The Deputy Convener: Could I ask you to wait a moment?

Paul Martin: Who in the project team took the decision not to provide this information to the secretary of state? Was it you, as the accountable officer, or was it the project team?

Mr Russell: The decision was taken by the project team, which said that, in its professional judgment, those things, which would burst the budget, need not happen, and that therefore it would keep working on them and would not report them as an increase in the budget.

Paul Martin: With the greatest respect, I have asked a very clear question. Who decided not to advise the secretary of state of the fact that costs were escalating? Was it you or the project team? I am asking for an answer to a very clear question, Mr Russell.

Mr Russell: I will give you a very clear answer. That decision was taken by the project team.

Robert Gordon wishes to offer some extra information.

Brian Adam: Were you made aware of the £69 million cost estimate, and of the fact that the project team had decided not to inform the secretary of state of the estimate?

Mr Russell: I do not recall being told that there was a price for the preliminary design in November 1998 that was higher or lower than £50 million. The design was very much a preliminary exhibit of what was evolving from the work of Miralles and RMJM. It was part of a process of explaining how the project was coming on and how the design was developing, after all the talk in the summer of upturned boats.

Brian Adam: You are telling us quite clearly that you were not informed that the cost estimates were well over budget, and that therefore you could not have advised the secretary of state.

The Deputy Convener: It would be fair to let Mr Russell refer to Mr Gordon at this stage.

Mr Gordon: The point is that in autumn 1998 illustrative options were displayed. There was an iterative process going on between the architects, the cost consultants and the project team. The message that went back to the design team at that point was that, if it continued with such a design, it would be over budget, so it had to work to bring the design back within budget. That process could reasonably be contained at project level and was not one that needed to engage ministers at that stage, as no one was saying that more money would have to be spent on the project. There was a professional process of telling the design team that, although the design, which was then at outline stage, was all very well, the team had to get the costs of developing it down.

Mr Russell: That is the real world. In accepting that such a process was going on, I would not expect to be involved in any crunch decision about what was or was not advised, and I was not involved.

Ms MacDonald: Who was the head of the project team? Does it not seem unusual to have an estimate that is higher than the original budget of £50 million by a third? How could you say with any certainty that you would reduce such an overrun, given that there was an evolving design? If the design were evolving, one would not know what the end point would be. You did not have cost estimates done, so how could you say with any certainty that that amount would be reduced to the figure of which the secretary of state had been informed and which he had announced to Parliament?

Mr Russell: One could not say that with certainty, but people were trying to reduce the amount.

Ms MacDonald: Who was the head of the project team?

Mr Russell: The project owner was the then director of administrative services in the Scottish Office. That person was between Robert Gordon and the main team.

Ms MacDonald: And that person, who was not as senior as Mr Gordon, took full responsibility for the overrun of the budget?

Mr Russell: Remember, there was no overrun of the budget. A design was being developed. People were working on it and attempting to make it cost as close as possible to the budget amount. As you say, the budget had been announced, and one does not change such things lightly.

Ms MacDonald: I appreciate what you say, but I cannot see how you could have any confidence in the outcome. If you had no confidence in the outcome, I would have thought that the secretary of state should have been informed that there was a problem.

Mr Russell: All I can say is that people were doing their best to get the project on track. A few months before, when they were appointed, the architects had made it clear that they thought the project could be completed for £50 million. It was the job of the project team to say to the design team, "Right, guys, come on." When, after the first cut at it, the design looked more expensive than had been envisaged, it was the project team's job to get the cost back into shape. I do not think that it is unreasonable that a project team should try to do that.

Ms MacDonald: The process is not unreasonable.

The Deputy Convener: We will move on, as I think that what is being discussed will be developed in further questions.

Paul Martin: In paragraph 3.34, Mr Black talks about the lessons that the Government learned in 1997 from the British Library project in London and refers to the financial incentives to complete projects on time. Why were there no incentives in place for the consultants?

Mr Russell: Do you mean the idea that the fee might have been scaled in some way?

Paul Martin: Yes, I am talking about incentives for the consultants to complete the project in time. There were quite clearly lessons for the Government to learn from the 1997 British Library project in London.

16:00

Mr Russell: As far as the handling of fees is concerned, we must remember that what the Auditor General is saying is pretty tentative stuff. It is not possible to say with certainty what wider impact different fee arrangements may have had; they might not necessarily have been more economic in this case. I hope that that sets the context. We are talking about a pretty tentative suggestion.

In a project such as this, we set about things by trying to get a perfectly competitive fee agreed with the design team. We have an inclusive fee, including all the associated costs of being in Barcelona. The impression that the fee goes up if the cost goes up, as though that was costless to the designers and was all profit, is also a notion that one should not run away with. In fact, everything that the designers have had to do around the changes in cost has cost them a great deal of work. Intrinsically, the fee arrangement that we have got is not as flawed as one might think from looking at the rather neat little table in exhibit 15 in the report.

We were operating with a designer competition, a signature architect, some pressure of time, a budget that was certainly tight and a project that was very much in the political gaze. My judgment is that it would not have been possible, in that context, to have negotiated the sort of fee that is being suggested in the report. In fact, what we negotiated was a much more standard arrangement. That was a judgment that the people who were managing the project made about what was realistic. I shall ask John Gibbons to comment because, again, we are moving into a discussion of what the professional world is actually like.

The Deputy Convener: Before we do, Mr Russell, Paul Martin has another question for you.

Paul Martin: I know that we are pressed for time, so I shall conclude on this point. It is quite clear that, in 1997, it was Government policy for fee incentives to be used, lessons having been learnt from the British Library project. Are you telling me, Mr Russell, that you decided, as permanent secretary at the Scottish Office, not to act according to the Government policy of the time, which was to introduce fee incentives for cost consultants? That was clearly Government policy in 1997, but you decided not to follow that line for the Holyrood project.

Mr Russell: The context in which that is being offered does not state that it will always automatically be possible to agree with the profession the sort of fee that would be in exhibit 15. I do not think that the Auditor General is suggesting that it would have been doable, and I do not think that he is insisting that it would have been better. He is saying that it is something that might have been considered. In so far as there is a lesson for us to learn for the future about that, you may rest assured that we will learn it.

I would now like to ask John Gibbons to say a little about the real-world context in which we were operating.

Dr Gibbons: We fully support the concept of fee incentivisation. There is a place for it, but this was not the place for it. The context was set by an international designer competition, and that is the real world in which we were working. We had to find a fee package that would be compatible with the people that we were trying to attract. The mechanism that we set in place was to use a database of competitive fee arrangements as a yardstick. At the end of the day, we compared the fee that was put forward with the database, and it was acceptable.

It was a very keen percentage fee, because this type of project was never going to suffer from repetitive aspects or a simple expansion in volume. If there was going to be change in this project, there would always have to be carefully considered change. Change involved detailed design, and the best way of recompensing that is to relate the fee in a percentage way. That was the judgment that was made at the time.

The Deputy Convener: What the committee would like to know in this context is whether any attempt was made to negotiate a fee or whether it was just accepted, in the view of someone in the organisation, that it would not be acceptable to the sort of architect who would be attracted to the competition. I would have thought that a project such as the Scottish Parliament building—with international prestige and visibility—would have presented an ideal opportunity to negotiate on the basis of a reduced or capped-fee basis.

Dr Gibbons: I do not see it quite like that. The arrangements that we had in place were appropriate for what we were trying to do. We know that signature architects are at the expensive end of the market. The arrangement that we put in place was to select the architect on the basis of the quality of what the architect had to offer. There was no attempt to get a specific design, but there was an attempt to talk to the architect about the concept that he brought to the project.

The Deputy Convener: For clarity, let me confirm that you are saying that there was no attempt made to negotiate fees. Things were accepted on the basis of what happened to be in a database.

Dr Gibbons: Yes. A fee that we thought represented value for money was placed on record. We used a two-envelope system. The second part of the competition consisted of the final five architects submitting an envelope that contained the fee proposal. The envelope from the architect who had been selected on the basis of quality was opened first. It was agreed that, if that fee proposal fell within the band, it would be accepted. That was agreed on the basis of advice from the International Union of Architects and the Royal Institute of British Architects.

The Deputy Convener: Paragraph 3.43 talks about the lack of a cost plan. Why did the project team, the design team, the project manager and the cost consultant not agree a cost plan in March 1999 for delivering the project as first planned?

Mr Russell: We have touched on the fact that it was not possible to freeze the design at that stage. I have said that the design was about to be frozen at the beginning of June. That is the stage at which one would have expected to see the material that was immediately to hand come together in the shape of a draft cost plan. A cost plan would have been available on that basis had the design as it stood at that stage gone forward.

People were ready to make a cost plan as soon as they had a stage D design to work with. I understand that they had the drafts and the material ready. However, because the design was not freezable in March, there was no frozen cost plan in March. I will defer to John Gibbons if there is anything that he wants to add to that.

The Deputy Convener: I can see that it would be difficult to produce a cost plan if there were no firm design. However, the Auditor General suggests that a provisional cost plan could have been agreed between the parties. At that stage, would it not have been sensible to prepare at least a brief outline cost plan on the basis of the design, even though that design had not been finally signed off?

Mr Russell: John, can you say how much information there was around the cost plan at that stage?

Dr Gibbons: At that stage we felt that we could have moved to a finalised cost plan within the four-week period. Some issues had to be agreed between the design team and the project team about the extent of the specification, but we had quantified those. We felt comfortable that we could have moved to a completed cost plan on the basis that there would be no change to the design that was agreed at that time.

Mr Russell: I would not want to leave the committee with the impression that people were negligently breezing ahead without going through various disciplines. The reason why there could not be a finalised plan was that the design was not finalised. However, that plan was coming together.

The Deputy Convener: I am sure that people were going through the disciplines, but the fact is that no cost plan was produced. The fact that they went through the disciplines did not have much effect on the final outcome, did it?

I have been asked whether we could have a short break. I suggest that we take five minutes.

16:10

Meeting adjourned.

16:16

On resuming—

The Deputy Convener: We will move on to discuss whether there was insufficient accounting for risk.

Andrew Wilson: Convener, before we move on, I would like to ask one other question on the previous topic, if that is all right.

The Deputy Convener: Yes, of course.

Andrew Wilson: Mr Russell, you said that you were unaware of the explosion, or the increase, in costs in November 1998. When did you become aware of it?

Mr Russell: I think that we should be aware of the phraseology that we use. We are talking about a preliminary design with a cost rounded higher than the budget. To call it an explosion in costs is perhaps a little over the top.

Andrew Wilson: I corrected that to “increase”.

Mr Russell: I became aware that the project team was forming the view that it was not possible to live within the £50 million in the advice that was being prepared in the period leading up to handover. The questions then were to what extent ministers would accept the changes and increases that were envisaged, how those increases would be handled and explained, and what the relationship would be with the SPCB. That was when dealing with the issue became an active process.

Andrew Wilson: You are saying that that happened broadly around the time of handover, but you do not give a specific date.

Mr Russell: It was part of the process of working towards handover.

Andrew Wilson: Are you saying that the cost consultants, who were paid a considerable sum of money, reported to the project team in November that there was an increase—or whatever you want to call it—in costs at that time, but that you, as accountable officer, knew nothing of it until six months later?

Mr Russell: In terms of engaging it as an issue that I had to tackle, yes.

Andrew Wilson: The project team did not report an increase in costs in November 1998 to the accountable officer or to any of your colleagues, and that increase emerged only during the approach to the handover, but at no specific date.

Mr Russell: I will have to defer to others in the hierarchy on points concerning the supervising of the project. Robert Gordon can explain more about that.

Mr Gordon: Mr Wilson refers to this as an increase in costs. As I explained, what we had in autumn 1998 was an indicative proposal that the cost consultants said would cost more than the budget. Thereafter, the design team was sent away to rework the proposal to bring it within budget. That iterative process continued throughout that period and into spring 1999. As Mr Russell said, at the point of preparing for handover, when we were almost rounding off stage D, we were having to take decisions on whether the £50 million budget was the right budget or whether an increase should be allowed—which, of course, is what was done.

Andrew Wilson: So no one stewarding the project—from the First Minister through to the accountable officer or anyone else in the civil service—was aware that the significantly recompensed cost consultants had suggested that this issue was a live one before the turn of the year. I find that bemusing—in terms of the control of the significant costs by the civil servants as opposed to the project team.

What is your reaction to the Auditor General's statement in paragraph 3.49 of his report that

"the high level of the estimates made it *more* not less important that the client was informed about the higher figures from the cost consultant, in order to allow judgements to be made at the highest level".

The client referred to was Mr Russell, as the accountable officer, and the Executive. You are asking us to accept that those points emerged only at some undefined point approaching handover. That sounds terribly convenient.

Mr Russell: I am asking you to accept that the project team was zealously doing its best to contain the cost of the project. It was working on design and on ideas that were coming from the design team, and it was conscious of the obvious need—which I do not think anyone here would challenge—to live within an expressed target figure. That is what it was trying to do. It was not satisfied that it was ready to trigger a process of putting up the budget, and it was not satisfied that it was ready to say that, in its professional judgment, that had to happen. Now, the team may have been wrong—that is a judgment that this committee will make, informed by the comments that the Auditor General has made. However, the team was as zealous as it could be.

Andrew Wilson: Would you, as accountable officer, not have found it desirable to know that the cost consultants had said that there was at least a possibility that the budget would be breached and that more funding would be required? Do you agree with the conclusion that it was more and not less important that the client, at the highest level, be informed of the cost consultants' report? Do you think that that was desirable or not desirable? We know that the team was doing its best—there is no question about that—but the question is whether it was right to keep that information from you.

Mr Russell: I do not believe that it would have kept it from me or from anyone at a point at which it would have had an impact on commitment of money.

Andrew Wilson: Nor do I.

Mr Russell: Remember that this all happened at the design stage when many things were fluid. The team would not have kept information from me if it had related to some part of the financial processes of the office. The team was working away in its area of business trying to get this right. That is what was happening, and it is not clear to me that reporting to me, as a matter of practicality, would have—

Andrew Wilson: Accountability, surely?

Mr Russell: I was not spending that money and I was not signing cheques. The project was still at a pretty early stage, well in advance of tender documents or designs that would have led to spend. The notion that there was accountability for money that was going out the door is not valid.

We are in hindsight world here. If I had known all this, I would probably have breathed very heavily on the project team and said, "Keep on keeping on; I want to see you getting the costs back down."

The Deputy Convener: I must insist that we move on to ask about insufficient accounting for risk.

Andrew Wilson: The report said that the procurement strategy lacked a systematic assessment of the risks to the project. What was your appreciation of the risks in the chosen procurement route—designer appointment and subsequent construction management—and how did you plan to manage the risks, given that no systematic assessment was made?

Mr Russell: We have already discussed the construction management route and have established that it provided flexibility to cope with the evolving nature of the project. I hope that we have established that nobody thinks that that was wrong. The fundamental question of assessing risk at the beginning is logical and acceptable for particular projects and contracts. However, at the very earliest stage, when discussing working to a target budget, I find it difficult to accept the practice of adding on another number. I suggest that it makes it harder for the project team to live with the basic target if one lets it be known that one has another £N million in one's back pocket.

As I said, the team was trying to manage the project down to meet the target figure. However, people recognised that the project would have many uncertainties and that many questions would be asked about the standard of construction and the implications of having a high-quality architect and of opting for a high-quality project. The figure of £50 million recognised those features of the project and took into account the costings that we knew about from high-quality projects that we had seen, such as the prestige court projects with which John Gibbons and his colleagues were familiar. It was not as though the project were proceeding on the basis that there was no risk and that it would be clean, tight and low cost. People were building with the notion that this would be a quality project and had to be priced accordingly. To that extent, there was a realistic basis for the £50 million figure.

As the project proceeded, towards spring 1999 people began to say that the handover figure would include extra things, such as the increase in area. At that point, it was perfectly reasonable, with stage D imminent and the design that much clearer, to begin to think in terms of a more specific contingency. In the figures that built up from the £62 million that led to the £109 million, which was the handover figure, members will find a £6 million contingency figure. That is the standard 10 per cent; from memory, I can say that the current figure for the augmented and changed project is also 10 per cent. As I said when I was talking about the emergence of the stage D design and costs, people were getting ready to put in the disciplines of managing the more specific design and contracts that were to arise. That is where risk assessment and value engineering come in.

At the current stage, as tenders are put out and come back, techniques such as risk assessment are at the heart of how the professionals react to what is happening and how they judge what the project will cost. That will be relevant to the questions that the committee may want to ask about the current state of the project and its progress.

The situation has evolved from targeting, based on something reasonably sound, through an acceptance of changes to a more conventional approach, including a contingency element. That is the process that has taken place and that no doubt continued after the quantum shift from June 1999 to the June 2000 sign-off of the new stage D, which is so dramatically different.

16:30

Andrew Wilson: I would have thought that the early stages to which you are saying it is not legitimate or realistic to apply a risk assessment are the very stages where such an assessment is necessary. Surely, when dealing with such an open-ended project, a contingency well beyond that of 10 per cent, which is in place now the plans are firmer, should apply at an early stage.

Why was the Treasury guidance not considered? Did you raise with the Treasury the fact that you did not think that the guidance was reasonable? Do you pick and choose what guidance to follow depending on the project? The whole point of having the guidance is that there can be—and have been—significant overruns in such public sector projects. The point of a risk assessment is to accommodate that possibility within the budget planning. I understand why you might not want to let the project team see that figure, but that is irrelevant to the question that I asked. Did you take account of the risk in your management of the project? Why did you not report the potential cost to the minister who was responsible? Why was Treasury guidance ignored?

Mr Russell: You are saying that it might have been prudent to have said that we were working to a £50 million target, but to have run the public finances on the basis that it might cost more.

Andrew Wilson: Is not that what the Treasury asked you to do?

Mr Russell: I do not think that that is the point of the Treasury guidance. The guidance is about saying, “We are going to build this for £50 million, but we might be beaten up to £70 million.”

Exhibit 18 in the report shows a graph that allows for the building cost estimate to rise; it doubles—whoosh. That is the problem with importing that aspect of the guidance at such an early stage. I understand that it works at a later stage, as I will ask John Gibbons to explain. It was not being ignored, but at the early stage of targeting, when people were driving hard to work to a certain figure, I am not sure that it would have been relevant to have said, “We don’t really mean that figure.”

Andrew Wilson: Are you saying that a risk assessment should apply only when the risks are small and intangible, rather than at the start of a project when they are quite the opposite?

Mr Russell: I will not say yes to that question. I would say that a risk assessment should not apply at that stage of such a project.

Andrew Wilson: And the Treasury guidance?

Mr Russell: It is guidance—the sort of thing that has to be tailored to meet the circumstances of particular projects at various stages. We would not ignore Treasury guidance. I would not say that my office would ignore Treasury guidance systematically; it will use such guidance maturely. It is important to understand how that is translated from the general to the particular.

Dr Gibbons: On the Treasury guidance, there is a gap between theory and practice. We are aware of the guidance, which, as the permanent secretary has said, is just that—guidance. We have considered using the risk allowances as the Treasury suggests on other projects. It is very difficult to work in that way without encouraging inflation within the project. As soon as we identify a risk, we have to have the resources to deal with that risk.

Andrew Wilson: You seem to be telling us that a risk assessment is an incentive to overrun on cost.

Dr Gibbons: In theory, it is desirable to carry out a risk assessment. However, in practice, particularly in the public sector, where we disclose our accounting, what we set on one side as a risk allowance will become known to the design team fairly quickly and soon becomes the upper working limit. That is the difficulty that we have encountered when we have tried to translate the theory into practice.

In this case, we chose to use the traditional method of a contingency followed by regular risk management exercises and a series of value engineering exercises in order to identify and manage the risks as we proceeded.

Andrew Wilson: With respect, you are asking us to agree to the idea that Treasury guidance is inappropriate in this case and that it is an inappropriate policy approach because it encourages inflation in public sector projects, although it is designed to do the opposite. I find that bemusing.

Dr Gibbons: All that I was saying is that that approach can cause inflation within the context of an individual project.

Andrew Wilson: In that case, why does the guidance exist?

Dr Gibbons: We have to develop a method to apply the guidance in practice. The new building was not a project on which we wanted to develop another bit of theory; it was a project that had to be delivered in a tight time scale and in the public arena. The theory on risk allowance has developed largely from the private sector, where there is greater flexibility in the approach to procurement.

Andrew Wilson: I assume that you have written to the Treasury about your views on the inappropriateness of the guidelines, not just to this specific project, but in general.

Dr Gibbons: The Treasury is well aware of the Scottish Executive's views on some of its guidance.

The Deputy Convener: We are straying from the point slightly.

Margaret Jamieson: Annexe B of the Auditor General's report includes your minute to the First Minister, which explains that the project team had made the judgment that a number of risks that your cost consultants had included in their reports would not materialise. What advice had they received to support such a judgment?

Mr Russell: That was the team's professional judgment. Those people work daily with designs and plans, talk to the design team, look at the brief and decide that the standard is already high enough, that high spec has already been designed in; and that we do not need some of the major risk allowances that are mentioned in the minute. For example, we do not need any art, as the art is the building. However, we need to take into account issues such as contingency. The project team makes those judgments as professionals, keeping their end of the wicket with the design team at the other end. Although I might be getting boring about this point, the matter comes back to the project team's aim to live within a budget. At the time, the team had accepted that the figure was moving from £50 million to £62 million; however, it had recommended that identified specific elements should not get into the frame, except to the extent that I have explained.

Furthermore, I guess that other judgments that did not achieve such conspicuousness were being made all the time about something in a design, idea or a fax from Barcelona. That particular list of risks crystallised because the cost consultants, Davis Langdon & Everest, said that money should be provided for them in addition to the £62 million, and the project team said no. As paragraph 3.58 of the report makes clear, the risks did not materialise in the form that DLE identified. As a result, and with hindsight, it was right not to include those risks; and indeed it was probably a slightly isolated snapshot of a bigger process that was ongoing.

Margaret Jamieson: Given the professional advice that you had received, were you satisfied with that report to the First Minister?

Mr Russell: Yes. Given the way that things had been handled, it was very important to be crystal clear for the public record that this had happened in the middle of activity between the design team and project team and had not broken out into First Minister world at all.

Margaret Jamieson: One of the cost consultants' risk allowances that the project team completely rejected was £5 million for delays during the handover to the SPCB. What was the rationale underpinning that judgment?

Mr Russell: The rationale was that we were handing over the whole running show—the people on the project team who were fully familiar with the project. That risk allowance was recommended in case the team would have to stop and start one month along the chart, and the clear implication of ruling out such a recommendation is that that would not happen. When we come to discuss the handover, I will mention what was flowing through the system at that point, and nothing in the mechanics of the handover would have stopped anything. As it turned out, a quite different dimension of change was created. However, the cost consultants were not saying that the Parliament would redesign the project.

Margaret Jamieson: If I understand you correctly, there was a recommended £5 million allowance for a brief delay in the construction following handover, which you discounted, but there were no allowances for the client making any design changes.

Mr Russell: That is correct. If the client wanted to make design changes, that would be a budget factor for the client.

Ms MacDonald: Last week, the Auditor General said that he was concerned that

"a firm cost plan has still not been agreed between all the main parties".—[*Official Report, Audit Committee*, 19 September 2000; c 305.]

Has a firm cost plan been agreed; and, if not, are we not in danger of repeating the mistake referred to paragraph 3.52 of the Auditor General's report, in which he says—and excuse me for paraphrasing—that the Parliament might have been misled because the full costs of the project were not intimated to Parliament?

The Deputy Convener: That question probably does not lie within Mr Russell's province. We have already established that there was no cost plan in place on handover, and I think that that is as far as Mr Russell's brief goes.

Ms MacDonald: For my information, convener, who is currently responsible for a cost plan?

The Deputy Convener: The responsibility now lies with the new client and, through it, Paul Grice as clerk to the Parliament and principal accounting officer of the Scottish Parliament.

Ms MacDonald: I just wanted to know because it has been difficult to find out who knew what, when.

The Deputy Convener: If you will just pause as we move on to discuss the status of the project on handover, we might explore the subject more fully.

Mr Russell: There is a short answer to Ms MacDonald's question. Although I do not want to transgress on Paul Grice's area and the ground that you will cover with him, I understand that there is a definitive cost plan reflecting the stage D that the changed design has now reached.

The Deputy Convener: Thank you. I want to move on to the next stage, which is the status of the project in June 1999 at the point when responsibility for the project was transferred to the SPCB.

Brian Adam: I do not know whether Andrew Wilson set a bad example, but I will follow him and start with a question on the previous matter. Throughout this evidence-taking session, cost and time pressures have been mentioned as reasons why you used certain processes for the management and cost reporting of the contract. Do you accept that, as the project is outside the budget and the deadline, those processes actually failed?

Mr Russell: I agree that the processes did not deliver a project for £50 million and that it was right to amend and increase aspects of the brief, with associated cost drives. Beyond that, "failed" is a big word to use to describe an evolving process. You will understand if I do not agree with the use of that word. The outcome was different in a number of what I believe are explicable and justifiable respects. We have got into semantics now—I am sorry.

16:45

Brian Adam: Given that much of what we have covered so far is to do with the process of how the situation was arrived at, and given that you have dismissed the alternatives that were suggested by the Auditor General for Scotland, have you an idea of how you would tackle the matter now? Dr Gibbons said that lessons were to be learnt from the process. Would you use the process for another major project, or would you use an alternative?

Mr Russell: That is a difficult question. I am not sure that the Auditor General for Scotland is offering you a set of prescriptions that he thinks would definitively have made a great difference. I am not sure that he is doing more than answering what he described as quite tentative questions. With regard to his comments on the project management expertise, I am not sure that he has made the linkage between his risk graph and the outcome as I have explained it. There are wee gaps between the Auditor General for Scotland's comments, which are about aspects of process as defined in guidance, some of which is dated 1999, which means that it came after we had started on the project and is not relevant to the reality of what we were trying to do. That does not mean that everything that we did is perfect.

I am quite sure that you will find moments in the exchanges between the project team and the design team when a design issue could have crystallised or when something could have been done more cheaply or quickly. However, I do not think that the processes that we have been talking about today would have helped that. I do not see the cause-and-effect links in the report.

Valid as the suggested alternatives might have been for other projects, I do not think that they would have been suitable for the project that we were involved with. Obviously, there has been much to learn and think about that could be applied were we ever to embark on a similar project. I do not want to give the impression that we would not study this report before embarking on such a project, but I do not see it as obvious that the points in the report would have made a difference to the project at that stage, given the conceptual elements that were involved.

Brian Adam: Mr Black was at great pains to indicate to us that he had some questions. Perhaps you might care to offer your view of what the answers should be—perhaps not immediately, but after having had some time to consider the issue further. Perhaps Dr Gibbons could tell us what lessons could be learned from what has happened—again, that could be done at a later date.

In order to satisfy the convener, I will move on to the next point.

The Deputy Convener: If we could at least get the train out of the station, Mr Adam.

Brian Adam: The report says that, when the project was transferred to the Scottish Parliamentary Corporate Body in June 1999, there should have been an independent review. What evidence did you have about the health of the project immediately prior to transfer?

Mr Russell: We must think of what it was that was handed over. It was a project that had been subject to all the processes that I have talked about, going right back to the setting of the target figure and the one-year consultation on the brief in the real world. The process had built and developed the design during that time and, after a lot of huffing and puffing and reluctance on the part of the team, it had been agreed that there were some increases that should go in and were perfectly well justified.

By that time, the concept was pretty firm and contained the elements of a pretty good building in terms of design and the capacity to deliver what was wanted, according to the brief as adjusted. So the design was credible. Then the question is, were the budget, expectations and timing credible? There was a thick stage D document ready in draft. Still to be tidied up were checks of area, detailed room adjacencies—things like that. At that stage, the project had been designed to the point of being put in for planning permission and historic buildings approval and it had the support of Historic Scotland. There was a lot about it that was pretty firm and credible. That is why I think the project was viable and in good health when it was handed over.

You may say that there was a cost element—as discussed already, £25 million or £27 million—but we have dealt with that. All that leads me to believe that the project as handed over was credible, buildable, well described, properly priced and an entirely reasonable project to hand over to the SPCB for it to take forward as it wished. The SPCB's response to the Spencely report was that it may well have been possible for the project as it then stood to have been completed for around £109 million. Again, that has not really been challenged.

Subsequently, as I understand it, the project team was able to accept the stage D report within a few weeks of the June date. The team was able to drive on and do value engineering, as we had envisaged. As the report shows, that released the potential for about £20 million of cost savings. That gave some comfort on deliverability for the costs that were being mentioned. In my view, for those reasons, it was a respectable, credible project at the handover.

Brian Adam: I know that you listened to Mr Black's evidence earlier. I asked him, in relation to the statement that he made to us last week, whether he would clarify where and when in the process the additional specifications that led to some of the additional costs came in. He said that he was not sure whether he could differentiate between what was before and what after the handover. Will you or your colleagues give us guidance on how much of the 47 per cent additional costs due to enhanced specifications was as a consequence of decisions, thoughts or discussions prior to the handover and how much after the handover?

Mr Russell: There was a lot of redesign work as a consequence of a decision to revisit the shape of the chamber. Somewhere we are told that 75 per cent or 80 per cent of the design work had to be redone as a result of that and the other changes that were—

Brian Adam: That is one element of it, but it might be helpful if you could write to us about that. It is a detailed technical point. Would it be reasonable to ask you to do that in a fairly short time scale?

Mr Russell: Can I make sure that I fully understand the question? The report says that 50 per cent of the cost increase was due to size factors, and that 50 per cent, give or take, was due to quality—or rather area and quality. You would like me to say how much of that rise in the construction costs from £50 million to £108 million was included in the £62 million and how much came later. You are asking whether that was to do with area or quality.

Brian Adam: I am not just referring to the amount of the increase taken into account for the

£62 million figure, as there must be some doubts about that figure. How much of the increase was because of processes, discussions and decisions? How much of that was before the handover of the project to the SPCB and how much of it was post-handover?

Mr Russell: We will do our best to answer that. Remember that the £62 million contained a DLE estimate. The base estimate was DLE, and there was then an extra figure.

Brian Adam: I know that there was another £6 million in contingencies.

Mr Russell: There is a lot of firmness around the £62 million figure. I am very happy to try to answer that question for you, Mr Adam, and we obviously want to do that fairly quickly. The question of what happened over the cusp is something that you might also have questions about.

Brian Adam: Yes, I would appreciate that. It was not until June this year that the project management, the cost consultants, the design team and the construction manager were able broadly to agree on the expected total construction costs of the project. Why did that not happen before the transfer to the corporate body in June 1999? Exhibit 18, the graph on page 41 of the report, shows the consistent gap between the different figures for the estimated expenditure, and the figures only come together at a later stage, this year.

Mr Russell: The process that would have ensued in June and July 1999, if the decision had simply been to continue with the handover, would have closed that gap fairly quickly. Manifestly, the £25 million or £27 million would not have been included, stage D would have been ready and some of the issues that were subsequently opened up would not have been opened up. Planning permission was about to come through. The figures were on a convergence course—and that is the difference. Perfectly legitimately, for reasons that I do not remotely want to challenge, the members of the Parliament decided that they would consider other options, and that led in different directions.

The team, given its degree of impetus and commitment, and given the stage that it had reached, would have closed down the gap between the different estimates fairly quickly. We could argue back and forth about the validity of anything that was done subsequently, but that is my judgment, based on what we handed over and on what had gone before. The estimates were not just pulled out of a hat; they were the result of what had become quite a big process by that stage.

Brian Adam: I notice that you used the phrase "closed down". In reality, the gap between the two estimates was closed up, was it not? By that I mean that the figure which was budgeted for had to increase in order to meet the figure that had been suggested by the cost consultants. In fact, it got very close to the cost consultants' figure, which had been in existence for several months.

Mr Russell: You will have to ask the people who have formal responsibility for that.

Brian Adam: Yes, but my point is that the gap between the different figures was always there. At the time when the figures closed together, if I may phrase it that way, it happened to be under someone else's responsibility. However, the gap was consistent throughout.

Mr Russell: Do not forget the value of engineering, the £20 million. Most of that was lost because, in the mêlée of redesign, the savings could not then be delivered. It is a dynamic situation, and you have to remember that, once the constraints are taken off, a lot of different things run in.

Ms MacDonald: Can I ask—

The Deputy Convener: No, sorry. I want to bring in Euan Robson first.

Euan Robson: For the sake of clarity, I refer you to annexe B, paragraph 1, in which you say:

> "The First Minister was not made aware of the existence of the higher figure"

of £89.2 million, which, as the annexe says, was quoted in the Spencely report. Was the corporate body—or those to whom the project was handed over—also not informed of that figure?

Mr Russell: I cannot tell you what the project team then did in relation to the corporate body in terms of indicating any aspects of the back history. Given that the team had made the judgment that those things were not going to happen, I suspect that that is right, but I am guessing. I have not asked.

The Deputy Convener: Why did you not insist on a firm design before the transfer to the SPCB? Was it not originally intended that there should be a firm design?

Mr Russell: Yes, it was.

The Deputy Convener: Coming back to my question about cost transfer, why did you not insist on a firm design, so that you could at least give a baseline to the SPCB for any changes that it might want to make?

17:00

Mr Russell: The transfer date was set in statute. People were doing their best to work towards it. I know that it was not a firm design, because stage D was not complete. The information that I have is that it was a few weeks away. It was substantially complete; there were a few details to deal with to complete it. I have given you the other elements of context that suggest to me that the design was firm and was being reacted to by planning authorities and others. People were working very hard. They missed the date by a few weeks, but the numbers that they had for the cost were robust in terms of what stage D was going to show.

The statutory date came upon us. The job had to be done; the handover had to be made. The First Minister was given the best advice that we could give him and he made a statement explaining that the project, looking as it did, would cost a certain amount and that there was a budget for it. In an ideal world, it would have been nice if all that had happened just a little bit earlier, but it could not. We had the business of getting the architects and the team together to sort out those last few things. It was damned hard going, and that is why.

Brian Adam: One of the areas of potential risk identified in the report is the recommended £5 million allowance for the handover. That struck me as rather odd, as it was broadly the same project team before and after the handover. Where was the big risk?

Mr Russell: Precisely. That was the judgment that members of the project team also made—that is why they knocked it out.

The Deputy Convener: We now know that the project ran into difficulties in August 1999, about three months after the SPCB became responsible. How many of the points in paragraph 1.18 on page 12 of the Auditor General's report do you think arose from the Executive's period of stewardship? In particular, I would like to get back to the business of the design element, as it seems that the design team designed the chamber to a design that did not meet with universal approval—that is an understatement—when it came before MSPs.

What sort of consultation had taken place when you were in charge of the project on issues such as the design and shape of the chamber? Were those things imposed by the architect? Was it only when things came to open, bloody rebellion that they were redesigned? If so, would an earlier period of consultation have resulted in rather lower costs at a later stage? Redesigning the chamber meant redesigning the site, as I understand it, to allow circulation areas and other changes that impinged on other aspects of the design.

Mr Russell: I could make the rather jejune point that there were no MSPs until May 1999, but there was a process of consultation, which Robert Gordon and John Gibbons can explain.

Mr Gordon: There were public exhibitions of the emerging proposals and people had an opportunity to comment on them. There had been consultations with the political parties on the design brief. The design team was picking up the language from the consultative steering group, to get a feel for what kind of Parliament this was going to be. For example, one of the objectives was to avoid the adversarial nature of the chamber in Westminster, and the architect had come up with a shape to achieve that. Ministers were not inclined to impose a view on the design at that stage.

Dr Gibbons: We had developed a well-detailed brief on the basis of a series of desk appraisals of modern parliamentary designs and the consultation process that Robert Gordon mentioned. The design, in what we call the not-quite-finalised stage D, fully met the requirements of that brief, so the architect had not in any way strayed from what he had been asked to do. At that time, the concern that you have referred to was emerging: some MSPs were not entirely enamoured of the idea of a banana-shaped chamber, as I think it was described at the time.

The Deputy Convener: That was one of the descriptions that was applied to it.

Andrew Wilson: I would like to be clearer about some of the answers that have been given to Mr Adam and to you, convener. Looking at the various items in the Spencely report for stage D at the end of May, we see such headings as "Enhancement" and "Contingencies & Design Reserve". You did not think that the risk of change to those items was alive before handover. However, within 12 weeks, all but one of the figures has considerably increased. The Auditor General was clear that, in his view, not a great deal had changed during that 12-week period to have brought the increases about. However, you have said that they were all due to changes in that 12-week period. As Lord James said, both views cannot prevail. How are we to make a judgment? Whom do we trust? Can we have more of an explanation?

Mr Russell: If Mr Wilson will allow me just a second, I will try to decode some numbers from Spencely.

The table that I am looking at on page 8 of the Spencely report attributes a huge hunk of the difference between the "Stage D" number and the "Interim Cost" number at end August to the chamber change. Much smaller amounts are attributed to things that are called "Design risk Assessment" or "Contingencies & Design Reserve". I would like to go away and have a look at this, because this quick look at the numbers could provide a basis for answering the question about what happened—on, almost literally, the day of the handover—that shook the thing off the rails.

I will come back to Mr Wilson on that.

Andrew Wilson: Okay.

Mr Russell: I heard the Auditor General suggesting that, if I may put it crudely, things could not have been all that well with what was handed over if so much changed so quickly. Mr Wilson has made that point too. The other view is that specific things were changed that accounted for the differences. If that is the case, it is only fair that members should know about it. My gut feeling is that the latter view is correct, but I will need to analyse these numbers to help Mr Wilson with that.

The Deputy Convener: That would be helpful.

Mr Russell: I will do that by next week, when you are seeing Paul Grice.

The Deputy Convener: I asked a question about paragraph 1.18 of the Auditor General's report. We have acknowledged that there were no MSPs to be awkward before the Parliament first assembled, but what about the other elements in paragraph 1.18? Which ones were in your control and affected the project after it was handed over to the SPCB?

Mr Russell: My clear impression is that the process that I described, with much hand waving and words like "closed down", did in fact change quite dramatically, instantly, in terms of where resources were going. People were travelling, looking at different design possibilities, and they were not closing it down, but were into a different ball game.

I think that is why the dynamic that would have led to the agreement between the design team and the project management—the last bullet point on page 13—which would have led to the construction information continuing—the second last bullet point—which would have delivered that crisp stage D and everything that goes with that—the third last bullet point—really slacked off, for perfectly understandable reasons. I am disinclined to believe that those bullet points, valid though they may be as statements of what happened, reflect a fatal weakness in what was handed over, as distinct from a dependence in what was handed over on the process continuing to that closedown. I keep using that word, I apologise. That is my answer in relation to that set of bullet points.

When people started looking at design-related issues that were coming up, there began to be quite big uncertainties. Once they started stirring the shapes around, measuring what they were and what the associated costs would be got difficult. That explains the second bullet point on page 13. Similarly, once they started looking at things affecting Queensberry House garden and the like, that led to a whole new ball game with Historic Scotland.

Looking at the first three bullet points, I think that pulling quite a little thread pulled an awful lot of the pattern. As you can see from the comment about 70 or 80 per cent of the design having to be redone, in a project like this elements that are easy to describe produce quite a big change in the work, in estimating and costing. I think that it is reasonable to sustain my position that the design was set to go though and work, but that things that were very big in their impact came along very quickly—right then, bang, in June—and changed the dynamic of what people were doing. All their energies were thrown in different directions and they had to look at the ramifications.

The Deputy Convener: I think that there are distinct possibilities of overlap on this issue between you and the other accountable officer. I am sure that Paul Grice's views will also be taken into account. We may want to return to that in the future.

We are drawing to a close, but I should go back to Paul Martin, who has one more question on cost reporting.

Paul Martin: In Mr Black's report Mr Russell points out that the cost reporting was unsystematic and did not give equal emphasis to different aspects. Why did you not make sure that all the relevant cost information was reported up the line on a regular and consistent basis?

Mr Russell: What was being targeted was in the public eye. The headline number was the construction cost; that was the thing you could find all the way through. At various times, as things began to crystallise, other elements entered into the information as people were able to give it. The central thing was the construction cost, which was systematically reported on. As I say, when other elements were settled and people began to get a handle on the associated costs, they emerged into the public domain as well.

In terms of regular reporting, it all comes back to the fact that it was not the sort of project that was following a standard little plan. Robert Black talked about buying a garage, but the project was so different to anything that one would usually conceive that we did not intuitively expect a report on the third Thursday of every month that said how things were going in the discussions between the project team, RMJM and the Barcelona people. There were moments of quiet, when people were away working and drawing, and then there were great bursts of activity, when people costed the proposals and went back to the brief. It was bound to be a very bumpy process.

17:15

Given the intensity of effort, negotiation and creativity that was going into the project, I would forgive people for not sitting down on the third Thursday of every month to write a report. That does not mean that people took their eye off the ball when it came to reviewing the key figure, both within the team and when they were ready to report to the secretary of state. That is half an answer—it is what I think was happening. It does not imply that people were not doing their job or not working as hard as they could to deliver on target.

Paul Martin: I would like a yes or no answer. In paragraph 3.51, Mr Black points out that the reports were

“not regular and systematic in relation to the total costs of the project”.

Do you agree with that statement?

Mr Russell: They were systematic in relation to construction costs. At various times, reports included elements such as fitting out costs—that is what the Auditor General is referring to when he talks about estimating fees, furniture and VAT. Some reports included those costs and others focused on the central construction cost. I am content to put up my hand and say that the Auditor General is right on that point. He has seen the documents; I would not say that he cannot read.

The Deputy Convener: I thank Mr Russell, Dr Gibbons and Mr Gordon. I would like to remind you what we have agreed this afternoon. You will provide: notes on the degree of practical experience of construction management projects in the project team; details of the job specification for the replacement project manager and the method of his recruitment; an outline of the general lessons that the Executive has learned from its involvement in the construction of the new Parliament—I look forward to that one—and a note on the proportions of the increase in construction costs that are attributable pre and post-handover.

Thank you again for appearing before the committee. I have no doubt that we will talk again in the near future.

Mr Russell: On behalf of my colleagues and myself, I thank members for the courtesy that they have shown and the mature way in which the debate has been conducted. If the committee needs further information about the project during the time that it was in my stewardship, I will be very happy—perhaps that is the wrong word, I should say “prepared”—to offer any help that I can, in the form of written or oral evidence as the committee wishes.

17:19

Meeting continued in private until 17:30.

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