

AUDIT COMMITTEE

Tuesday 3 October 2000
(*Afternoon*)

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AUDIT COMMITTEE

16th 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

WITNESSES

Paul Grice (Clerk and Chief Executive, Scottish Parliament)

Martin Mustard (Holyrood Project Team)

THE FOLLOWING ALSO ATTENDED:

Ms Margo MacDonald (Lothians) (SNP)

CLERK TO THE COMMITTEE

Callum Thomson

SENIOR ASSISTANT CLERK

Anne Peat

ASSISTANT CLERK

Seán Wixted

LOCATION

Committee Room 1

Scottish Parliament

Audit Committee

Tuesday 3 October 2000

(Afternoon)

[THE DEPUTY CONVENER *opened the meeting in private at 14:01*]

14:14

Meeting continued in public.

Holyrood Project

The Deputy Convener (Mr Nick Johnston): Good afternoon. Welcome to this, our second meeting dealing with the costs and management of the Holyrood Parliament building project. Our witnesses today are Mr Paul Grice, the clerk to the Parliament—who, I believe, has risen Lazarus-like from his sick bed to be with us this afternoon—and Mr Martin Mustard, who is the project team manager. Last week we heard evidence from the permanent secretary and principal accountable officer of the Scottish Executive, who was the official responsible for the project in the period before 1 June 1999, at which point client responsibility passed from the First Minister to the Scottish Parliamentary Corporate Body. Since that date, Mr Grice has been the project owner and is the most senior official responsible for the successful delivery of the project.

As we did last week, we will ask questions in five main areas: evidence about the state of the project at the time of the handover to the SPCB; project management arrangements more generally, including the interaction between project management and the corporate body as a client; arrangements for cost reporting for the project; managing project risk; and the current state of the project and its prospects over the two years to the forecast completion date of December 2002.

Mr Grice, I have been apprised of the fact that you do not intend to make an opening statement. Would you like to go straight into questions?

Paul Grice (Clerk and Chief Executive, Scottish Parliament): Yes. However, I will first introduce Martin Mustard, the project manager, who was referred to last week. I had in any case planned to bring him with me, as I thought that that would be useful.

The Deputy Convener: Before we get on to detailed questions, I would like you to provide us with some background. What was your role in the

Scottish Office before you took responsibility for the SPCB?

Paul Grice: I was a senior member of the constitution group. My principal responsibilities were the referendum legislation and running the referendum. I then took over responsibility for what became the Scotland Act 1998. I had other general responsibilities. As a senior member of the constitution group, I have had contact with the Holyrood project throughout. I had no responsibility for it, but during the designer selection process, for example, I gave support to the designer selection panel and provided input to the user brief, as requested. That input was based on the emerging conclusions of the consultative steering group. My principal responsibilities were legislation and, more recently, setting up the organisation for the Parliament in the temporary accommodation. However, the Holyrood project has been a major factor throughout the period. I had contact and involvement with it, but not responsibility for it.

The Deputy Convener: If you have read the evidence that we took at last week's meeting, as I am sure you have, you will have seen that Muir Russell said of the project:

"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."—[*Official Report, Audit Committee*, 26 September 2000; c 359.]

What were the procedures for the handover of the project in June 1999? What information on the key aspects of it did you and the corporate body receive from the Executive at that point?

Paul Grice: The most important point to make is that the entire project team was transferred across from the Scottish Office to the Scottish Parliamentary Corporate Body. That was the main plank of the transfer. In the early days of the corporate body's business—bearing in mind that it had many other things on its plate—its members were given extensive briefings by both the project team and the design team. There was a formal handover meeting that the First Minister attended with one or two of his senior officials to discuss wider contextual and political aspects of the project. A series of meetings and presentations took place, but the handover was founded on the fact that the team responsible for the project transferred en bloc to the corporate body.

The Deputy Convener: In his evidence last week, the permanent secretary told us that he had handed over a doable and robust project that could have been completed for £62 million. During the period immediately after handover in June 1999, many things took place. What was your view of the state of the project when you became responsible for it in June 1999?

Paul Grice: There is no doubt that it was a difficult project, but it was in reasonable shape. I had no reason to doubt anything that the permanent secretary said last week in that sense. When the SPCB presented its report to Parliament last April, it came to the view that it might have been possible to build the project for the then budget—I stress that it said “might have been”, not “would have been”. There must be a degree of uncertainty.

If we had set off to build the project as it was handed over to us, I would be able to say something more definitive, one way or the other. The fact is that quite quickly, especially after the decision to redesign the chamber, we went down a different path.

The project was difficult and challenging, but it was in reasonable shape in the sense that there was a reasonable budget and we were reasonably close to getting a settled design at that stage. Adding those two points together, we thought it reasonable but by no means a certainty.

The Deputy Convener: Should you have been handed a completed design at that stage?

Paul Grice: Ideally, we would have had a completed design. As I understood the permanent secretary’s response last week, he too would have liked a completed design, but the transfer order that required the project to be transferred on 1 June prevented that. A completed design would have given us a better baseline, but the decision to reopen the issue of the debating chamber was prompted by the briefings that the design team gave to members, as well as by the debate in Parliament. With hindsight, I believe that the process of unravelling that design and redesigning it would have happened anyway. To that extent, I am not sure what the value would have been of a completed design other than that it would have given us a firmer baseline to look back on.

The Deputy Convener: Are you happy that the fact that you were not handed a completed design did not leave you in a position where you had to redesign virtually from scratch?

Paul Grice: We did not redesign from scratch. The SPCB was in a difficult position, as it is required under law to provide the services that the Parliament requires. It does not have a choice in that. It was clear to the SPCB, from the feedback that its members were getting from their colleagues, that the chamber was not adequate. The chamber of a Parliament is its centrepiece—it is not a minor part of the building—so it was the centrepiece of the Parliament that was unacceptable.

Later in the year, in autumn, it became clear from the immense amount that we had learned from running a Parliament—even for a few

months—that the building was not big enough either. The SPCB had no choice but to order a redesign. That would have happened, whatever state the project had been handed over in. Things that only the SPCB could learn, having worked in a real Parliament as opposed to a theoretical Parliament, caused it to make those decisions, which were the only ones open to it.

The Deputy Convener: How much did the revised design of the chamber change the forecast construction costs? Can you put a figure on it?

Paul Grice: I am afraid that I cannot. The biggest impact that it had was that for about three months it diverted the senior designers—the senior people, if you like—away from the project, as they were concentrating on finding a solution to the design of the chamber.

Again, with hindsight, that was a critical phase in the project. From June to September 1999, when we might otherwise have been engaged in trying to sign off stage D and test it against a £62 million budget, we were redesigning a fundamental bit of the chamber. That certainly had an impact on programme. As you will know, an impact on programme inevitably brings an impact on cost.

I cannot say whether the redesigned chamber is any more expensive than the previous chamber would have been. To minimise the increase in costs, there was a firm instruction from the SPCB that the designers had to work within the existing footprint. However, taking the leading members of the design team off to redesign a fundamental part of the building will inevitably have cost penalties both through programme and the fact that they cannot spend that time working on other important matters.

Miss Annabel Goldie (West of Scotland) (Con): I was curious, Mr Grice, when you said that the SPCB does not have a choice in these matters. Presumably, the SPCB could go back to the Parliament.

Paul Grice: That is true, and, in fact, it did so. The SPCB went back to the Scottish Parliament in April.

Miss Goldie: But that was a considerable time after the Parliament arrived in these buildings in May 1999. I wondered what advice the SPCB was getting. Do you advise it?

Paul Grice: Yes. The judgment on when to go back to Parliament is a difficult one. The point is that, formally, the Scottish Parliamentary Corporate Body is the client—that is clear in law and is important to understand—and it is for it to decide. It seeks a steer from Parliament as it sees fit. The first steer that it got was from the debate in the chamber—initiated by the Executive—in June last year. The end result was a direction from the

Parliament to get on with building the Parliament.

The Scottish Parliamentary Corporate Body had always intended to go back to the Parliament from time to time. The question is at what point that should be done. When the SPCB went back to Parliament in April 2000, it had a design that it was confident was adequate to meet the needs of the Parliament, a budget that met that and a plan to establish a progress group. A number of things were in place. In an ideal world, that would have taken less time, but that was the point at which to go back to Parliament. As the committee knows, one cannot arrive at fine decisions in a debate in a plenary session of a Parliament. One ends up with big decisions, one way or another. The SPCB had to be careful to go to the Parliament with a package of reliable information. It felt that the next point at which it could reasonably go back to the Parliament and invite it to make a decision based on sound data was April 2000.

Brian Adam (North-East Scotland) (SNP): Mr Grice, you suggested that the redesigned chamber may not necessarily have cost any more than the original design. Did I hear that correctly?

Paul Grice: Yes. I could not put a figure on it, although I would like to. Some of the engineering became a bit more complex, which might lead one to think that the construction costs would be higher. The point that I was making was that the main impact of the redesign was the redesign process, which took the principal architects off the project for a while. If that design had come up first, I do not know whether it would have cost any more or less than it did.

Martin Mustard (Holyrood Project Team): The main impact of redesigning the chamber was vis-à-vis programme. Of course, delay in programme equals cost—although not a cost in terms of the actual product. Like Mr Grice, I think that there would be almost a negligible difference between the cost of the chamber as designed previously and as the design stands now. Nevertheless, costs were incurred, including programme costs and disruption costs to the design team, which resulted in increased fees.

Brian Adam: The redesign might explain part of the increase in fees, but it does not explain in any way the increase in the cost of construction, which seems to have escalated significantly.

The implication of what you have told us today is that the £50 million or the £62 million—or whatever the figure is—cannot be broken down to show the cost of various elements of the project, such as the debating chamber, the committee rooms and the MSP accommodation. You do not appear to have access to those costs, which seems to be one of the major difficulties in getting to the bottom of what happened and when it

happened.

14:30

Paul Grice: You raise an important issue, and I would like to say a little about it. I want to explain to the committee as best I can how the £62 million became £108 million. We have access to those costs, and I studied them so that I could report to the committee.

As the Auditor General's report makes clear, one of the principal reasons for the rise in cost—accounting for about half of it—is the fact that the parliament building will be bigger by between 6,000 sq m and 8,000 sq m. That has incurred a substantial increase in cost, and gives rise to the figure that we ended up with in April rather than the figure that we inherited in June 1999.

Because of the problems that we encountered when we stripped the plaster off the walls in Queensberry House and realised what a poor state that building was in, a couple of million pounds were added to the cost. The rest of the increase is down to what might be called increased specification, a major element of which is the amount of security advice that we had to take on board to cover eventualities such as bomb blasting. That has had a major impact on the cladding of the building.

I could not nail down every penny, but those elements identify reasonably clearly where the cost has come from over that period.

Brian Adam: In written evidence to the committee, could you give us a broad-brush breakdown of the costs, to the nearest million or whatever? That has not been forthcoming so far. Could you also tell us when the decisions were made on each of those elements?

Paul Grice: I would be happy to do that.

Ms Margo MacDonald (Lothians) (SNP): I remind you that the debate in June 1999 took place at the behest of Donald Gorrie and me, not at that of the Executive.

Paul Grice: Sorry.

Ms MacDonald: That is quite all right. However, that makes a difference, as the debate took place in the Parliament. I presume that advice was given to the Executive on how to handle those two stropky back benchers.

Paul Grice: I would not know.

Ms MacDonald: Was that advice to the effect—to use your words—that the project was in good order? Was the advice against undertaking what Donald Gorrie and I were asking for—a moratorium to review the project—which would have been in line with what the Auditor General

said should have happened when the project was handed over? No audit was undertaken.

My second question goes back to what you said at the start about having had an input into the choice of architect as part of the competition. On what basis did you form the judgment that Señor Miralles could handle such a complex building?

The Deputy Convener: I am sorry, Margo. The choice of architect does not fall within Mr Grice's remit.

Ms MacDonald: He told us that he had contributed to the process—that is why I asked the question. The choice of architect impacts later, on the design changes that I presume relate back to the design brief that the architect was given during the competition and the changed brief that was presented to the client by the architect. Mr Grice must have had an input into both those parts of the project.

The Deputy Convener: Mr Grice, you are answering questions as the accountable officer from 1 June 1999. However, are you happy to answer that question as a point of background information?

Paul Grice: Of course, but thank you for reminding the committee of the basis on which I am here. I provided support to the designer selection panel; I did not choose the designer. You would have to ask the designer selection panel any question about the designer.

I was the adviser to the Scottish Parliamentary Corporate Body at the time of the debate in June 1999. I did not advise the Executive, so I cannot tell the committee what advice was given regarding Margo MacDonald or Donald Gorrie. I recall that the corporate body took a fairly neutral stance, as one would expect—it had had responsibility for the project for only about two weeks. The advice that we received from the corporate body was simply to present it with as much information as we could in a short time, relating to the design as it stood and all the other aspects. As I recall, the corporate body took instructions.

I take the point about who initiated the debate, but I recall that the First Minister spoke in it. Members of the corporate body may have spoken, but they were not speaking in advocacy; they were seeking to explain their role.

Ms MacDonald: Two did.

Euan Robson (Roxburgh and Berwickshire) (LD): I would like to ask about the changeover and the type of contract. We heard evidence from Mr Russell last week that a construction management approach was adopted. He claimed that there were advantages in that, because it allowed you to let the project progress in parts and to have

several contracts. However, the risk was greater, because it would fall on the owner of the project. On the other hand, there might be no difficulty in renegotiating a single contract. At what point did you become aware that what Mr Russell described as an "innovative" form of contract was in operation? Was it 1 June, was it sometime afterwards, or were you told in briefings beforehand?

Paul Grice: You are testing my memory. We had a long discussion with the corporate body that summer—my instinct tells me that it was after the debate, but perhaps not that long after the debate. I remember a long discussion with the corporate body—which was obviously very interested—about the nature of the contract. I recall that it was not that easy to grasp—at least, I did not find it easy to grasp immediately. The discussion inevitably began with the corporate body asking whether a particular cost could be guaranteed. Under construction management, the short answer is, "No, it can't." I think that you explored the reasons for that with Muir Russell last week.

After that, there was a long discussion about the pros and cons, and the flexibility, of this type of approach, and about the fact that one manages the risk oneself. Looking at it the other way, one sees that the advantage of a contract with a guaranteed maximum price is that it is exactly what it says it is. However, there is no such thing as a free lunch; it has to be paid for in some sense. I recall quite a long debate within the corporate body, and I would guess that it might have been in July or August, although I could not swear to it. I certainly remember that we discussed the issue at some length. I was learning alongside the corporate body at that point.

Euan Robson: The key question is this: did someone from the Scottish Executive explain this type of contract to you before you took over the project or prior to the discussion that took place within the corporate body? Was there any report, any exchange of letters, or anything that said, "Look, we have chosen an innovative route: these are the advantages, but these are the disadvantages"?

Paul Grice: I think that I was briefed at the same time as the corporate body.

The Deputy Convener: Mr Grice, would you have had any choice? Was it possible for the corporate body to revisit the whole thing and decide to do it under a different regime and not go with the construction management approach?

Paul Grice: We have considered that seriously, even recently; having learned about the types of project, one should always ask oneself that question. As members know, we passed a major milestone in the project early this year when we

achieved stage D in design terms, the cost plan, and so on. At that point we asked ourselves that very question: "Is this the right project?" We had no choice in what we inherited. Under a transfer order, we took on all the liabilities relating to the project; we had no choice at all in that. However, there is always an option, and we did consider that. The view that we came to, and the view that the corporate body has stuck with, is that the premium that we would, in effect, have to pay to the contractor—Bovis Lend Lease (Scotland), in this case—to accept our risk would be very high. A contractor is not going to take on the project without a very large premium, because they would be being asked to take the risk. The judgment was that that premium would have been of a higher value than if we managed the risk ourselves. The further on that we have got with the project, the less benefit there is in handing it over.

Last summer, we had instructed the design team to redesign the chamber, and not long after that the team was instructed to redesign the building to find more space. If, at that point, we had tried to hand the project over while looking for a guaranteed maximum price, I suspect that the contractor would have asked for quite outrageous sums of money, because that was a risky time for the project. The answer to your question is yes, we have considered this matter on at least a couple of occasions, for the obvious reasons that I think you are alluding to.

The Deputy Convener: We will probably come back to this line of questioning later.

Karen Whitefield (Airdrie and Shotts) (Lab): I would like to take you back to the stage at which you inherited the project. Last week, the permanent secretary said that the project was doable and robust. When you inherited the project, what steps did you take to ensure that it was as robust as people claimed it was? It has fallen from being seen as a robust project into, some would say, a project in a state of disarray. Who is responsible for that? When did that happen? Did it happen before or after you took over the project? Was the project robust?

Paul Grice: I do not accept that the project is in a state of disarray, although I accept that there is a perception that that is the case.

"Inheriting" is a nice term—one thinks of an inheritance as something that leaves one better off. When we inherited the project—inherited is the right word—our first step was to arrange for the corporate body, as the new client, to be briefed quite intensively. The steps that we instituted ranged from giving briefings about the design, examining the costs and holding meetings at a senior political level.

We also held long discussions with the members

of the corporate body last summer on their responsibilities as the client and we introduced them to members of the project and design teams. We prepared them for the project through that intensive period of briefing.

I have already tried to answer the question about whether the project was doable. I rest with the line taken by the corporate body: it might have been, but I cannot say that with any certainty.

Karen Whitefield: Did you do any work to assess whether what you were being given matched what you were being told, or whether the targets that you were given for the next stage of the project could be achieved?

Paul Grice: The committee should bear in mind the fact that we inherited the entire project team. The situation would have been different had we set up our own project team, as we would certainly have crawled over the project with a fine-toothed comb. However, I inherited the entire project team, from project sponsor all the way down the line. The members of that team were comfortable with what we inherited, which I took as a pretty good reassurance. They had lived with the project for the previous two years and that seemed to me to be a pretty reasonable basis on which to start.

The Deputy Convener: Paragraph 1.18 of the Auditor General's report refers to the identification in August 1999 of

"serious difficulties with the project".

There are a number of bullet points in that paragraph. Is it possible to identify, in relation to each point, the extent to which they were either new problems or inherited from the Executive's earlier period of stewardship and control?

Paul Grice: Do you want me to go through them one at a time?

The Deputy Convener: Whichever way is more comfortable. Going through them one at a time might be more useful in providing clarification to the committee. I think that you have covered the first bullet point, which deals with delay.

Paul Grice: Yes, I think that we did.

The issue of Queensberry House straddled the handover. I understand that, as one would expect with an old building in a poor state, Queensberry House has been—*[Interruption.]* I will check with Martin Mustard whether we stripped off the plaster after we inherited the project.

Martin Mustard: Yes.

Paul Grice: We took the plaster off the walls and that was the point at which the building's true state of disrepair was revealed. As I recall, the Scottish Office commissioned a report from James Simpson and Brown, which said that the building

was basically structurally sound. However, that report did not have the advantage of an invasive investigation, which we were able to conduct.

Queensberry House was in no worse condition when we got it than when the Executive had had it, so, in a sense, that is a problem that we carried over from the Executive. However, we did not identify the disrepair until we were able to take the plaster off the walls.

The issue over the 4,000 sq m emerged over the summer—in other words, after we had taken over the project. It came first from the design team—that is, it was not instructed.

Muir Russell made it clear that the Executive did not manage to achieve stage D sign-off. Indeed, convener, you have already asked me questions on that. We could not achieve stage D sign-off either, although Muir Russell thought that we were within weeks of doing so. The advice that I received was that we were reasonably close to stage D sign-off, but that it had to be put to one side the minute that we reopened the question of the debating chamber and other issues.

Martin Mustard might have something to say on the next bullet point, which is more detailed. It begins:

“Some works packages had been let”.

Martin Mustard: That particular point goes back to diverting design team resources during the summer. With the principal architects otherwise engaged, there tended to be a lack of direction in the information being produced for work packages that were about to be let. In the report, the Auditor General points out the fact that there was a fear that construction information from the design team would dry up. It did not quite dry up, but the design team was finding it increasingly difficult to hit the design programme dates set by Bovis.

14:45

Ms MacDonald: Why?

Martin Mustard: Because the principal members of the design team were otherwise engaged in examining the redesign of the chamber.

Paul Grice: I would not dispute anything that the final bullet point says. There was a great difficulty. There was a crunch meeting at the end of August last year at which the principals—the leading members of the design team and of the project team—got together to try to resolve the situation, but it was not resolved. There continued to be an insistence—rightly, from a project management point of view—that there was a budget of £62 million, which had to be stuck to. It is however only fair to say that the design team did not feel that the

project could be done within that amount. We must also add in the fact that there were an extra 4,000 sq m and it was not clear where they had emerged from.

I agree with the Auditor General's assessment that that was a critical point. There was a design team facing a major redesign and, at the same time, a fundamental disagreement about what could be achieved. We tried to get round that by sitting down with the design team and the cost consultants to plot a way ahead. It was agreed that there should be immediate examination of where the critical 4,000 sq m had come from and a value engineering exercise to reconcile the figures as far as possible. That is the action that resulted from a meeting of, I think, 30 August last year, which followed on from what is set out in the final bullet point of paragraph 1.18 of the report.

The Deputy Convener: If I understand correctly, the design team took its instructions from the corporate body and produced the extra 4,000 sq m that were needed. Is that the way round it happened?

Paul Grice: No. As I understand it, when the design team produced a set of drawings at the end of the summer, which were costed by the cost consultants, they noticed that there were 4,000 sq m in addition to what had previously been briefed, which most certainly was not instructed by the corporate body. That was the problem. It had emerged uninstructed. Two immediate action points were therefore instructed. The first was to find out where the space had come from. The second was to initiate a value engineering exercise to reconcile the latest cost projections from the cost consultants and the budget.

The Deputy Convener: Did you find out where the 4,000 sq m had come from?

Paul Grice: We were in the process of finding out when that was overtaken by events. That was at the end of August, spilling into September. The sequence of events was that, around the middle of September, the design team came back with a redesign of the chamber, which the corporate body accepted and, I think, reported to MSPs on. The value engineering exercise was proceeding at that time, as were investigations into where the 4,000 sq m had come from. By November, we had reported to the corporate body that there were quite significant pressures on space, because we were learning a huge amount about what was needed to run the Parliament—we needed more clerks, more researchers, more reporters and more IT people. All that translated into demands that simply could not be met. On that basis, the corporate body accepted our advice that we needed more space. It could not be managed by simply stretching the buildings upwards or sideways; it needed a fundamental re-

examination. The design team was sent away to do that. Once it was decided to do that, the other information was not relevant—we were moving into a different phase altogether.

Ms MacDonald: This 4,000 sq m was moving around space. I will put this in layman's terms that will be understood, because people will be confused that we cannot account for this extra square metrage. What happened was that a design brief was given and the architect changed the design brief. As the Parliament built up experience and knew more about its practices and facilities requirements, it asked that those requirements be added. Therefore, what was a complicated design became all the more complicated. I go back to my original question about the choice of architect and the fact that—

The Deputy Convener: We have covered that point Margo.

Ms MacDonald: We are still paying for it.

The Deputy Convener: I am sure that there is a question in there somewhere, Mr Grice. Was the design team prescient in realising that you were going to need more space, or did it produce 4,000 sq m that were not asked for, but which subsequently you found you needed anyway?

Paul Grice: It is an unfortunate coincidence that the numbers are the same. I do not think that you could credit the design team with prescience. The additional space that was commissioned in November was separate from the extra 4,000 sq m. In fact, you do not commission extra space; you send the team away and say that you have extra demands to be met. That is what happened. It just so happens that the numbers were the same. It was not that over the summer the design team had looked ahead and said, "We think you need this extra space." It was different from that. The space was space that the team could not satisfactorily account for, so it was sent away to work with the project team and cost consultants to explain it in a satisfactory way or take it out.

There were separate lines of events, which Margo MacDonald alluded to, from which we learned a great deal in a short period of time about what it takes to run a Parliament. On that basis we explicitly instructed the design team to undertake a feasibility study on what it would take to accommodate new demands. That led the team to produce the design that is the one that we have before us.

Brian Adam: You are suggesting that the bulk of the extra 4,000 sq m is a consequence of decisions that were made after the handover. Did any of that space result from decisions, considerations, observations or whatever took place prior to the handover?

Paul Grice: I do not think so. I think that the extra space was the result of a decision taken by the Scottish Parliamentary Corporate Body in the autumn. It is pretty clear that decisions were taken around the autumn of last year that led to the extra space, and they were based on lessons that we had learned from running the Parliament.

Brian Adam: I refer you to paragraphs 3.56 and 3.57 of Mr Black's report. Just before the handover of the project in May 1999, the cost consultants had estimated the construction costs to be £89 million. Were you and the SPCB made aware of that information at the handover?

Paul Grice: No.

Brian Adam: If you had been made aware of it would your view about the robustness or otherwise of this project have been different?

Paul Grice: That is a hypothetical question. I do not know. An explanation has been offered, which is plausible in many respects.

Brian Adam: That is a matter of opinion.

Paul Grice: The whole thing is a matter of opinion. It is a hypothetical question. I do not know. We were not told at the time, and therefore—

Brian Adam: Do you feel that you should have been told?

Paul Grice: It is important to understand the nature of these projects. One gets a lot of cost information all the time. You employ a project team to handle that information, along with a lot of other information, and advise accordingly. As I said, we inherited the same project team as the Executive had, and on that basis I was happy to rely on the advice that the team gave. They had worked with the project all the way through.

Brian Adam: With hindsight, were you being offered good advice by the project team?

Paul Grice: It was clear in the advice that the project team gave that the budget excluded risk allowances, contingencies and so on. It never hid the fact that there were other factors to be counted up. It never quantified them, which is a fair comment to make, but the advice that went to the SPCB made it clear that the £62 million excluded risk allowances, contingencies, fit-out, VAT, fees and so on. It did not hide that from the SPCB—or me. A fair point is that they were not quantified, but they were not hidden.

Brian Adam: Should it have been spelled out in more detail? The project team had a contingency of £6 million, which was clearly a gross underestimate of the position.

Paul Grice: The SPCB insisted that we discussed and reported costs in gross terms. That

is where the £109 million came from, which relates to the £62 million. That separately identified items such as contingency and fit-out. The contingency is generally a percentage of the base construction estimate, so when the construction estimate was £62 million, the contingency was £6 million. The contingency is now at £11 million, which relates to a base construction estimate of £108 million. The contingency is in line with Treasury guidance and has moved up accordingly.

Brian Adam: Many other elements were excluded. The reasons for exclusion were provided by Mr Russell and his colleagues in the appendix to the report. Do you accept that those reasons are valid?

Paul Grice: I have discussed that with the project team. Its advice to me is that, for the most part, those risks did not materialise. Other risks have materialised since.

Brian Adam: Given that the total figure of £109 million ended up above £200 million and was reduced to £195 million, do you not think that somebody did not get this right? Part and parcel of this exercise is to find out what went wrong, how it went wrong and how we can now go about it. I am finding it difficult to get concrete answers to questions about what went amiss, how it was quantified, when it happened and who did it—not for the sake of nailing someone to a wall, but to find out what went wrong.

We have heard that the £62 million was robust and was based on reliable information. The information was not reliable because it did not add up. The figure was given as £50 million, £62 million, £89 million and so on. We ended up with a cost of £195 million. That cannot all be accounted for by an increase in space.

Paul Grice: I can only explain what happened under my stewardship of the project. You will come to a view as to the £62 million handover figure. I do not think that I have ever used the term robust.

Brian Adam: Looking back, do you agree with the Auditor General for Scotland's suggestion that there should have been an independent audit of the state of the project for the SPCB at the point of handover?

Paul Grice: That is a reasonable suggestion to make with the benefit of hindsight. I am trying to think back to how it was in June 1999, when Parliament had just voted to continue with the project. There has always been a huge amount of politics around this project, which has not always made it the easiest place for officials. That aside, the Parliament had instructed the SPCB to get on with it. I am not sure that it would have been feasible for the SPCB to say, "Notwithstanding what you have told us, we will stop and undertake

an independent review of the project." The SPCB felt that it was incumbent on it to get on with this to deliver what the Parliament had asked it to do.

Brian Adam: Was it within the powers of the SPCB to do that?

Paul Grice: Absolutely. It was, and remains, the client.

Brian Adam: Did it consider doing that?

Paul Grice: Yes, it considered that in the summer.

Brian Adam: Is that minuted?

The Deputy Convener: Are you asking whether the corporate body considered having a completely independent audit?

Brian Adam: I am asking whether at the time of handover the corporate body considered having an independent audit.

Paul Grice: It considered whether it should have independent advisers either on the corporate body or advising it separately.

Brian Adam: Could you provide us with written evidence of that?

Paul Grice: I can write to confirm that.

Brian Adam: So there is no minute.

Paul Grice: There might be something in the minutes. I am telling the committee that on more than one occasion the corporate body considered whether it should have independent advice—not an independent audit, but something equivalent to what the Holyrood progress group now has.

15:00

Brian Adam: So you will write to us to confirm what you have said and to indicate that the corporate body considered this in June 1999.

Paul Grice: It was more likely in July or August. I will write to the committee to confirm what I have said if you would like.

Brian Adam: Yes, please.

There seem to have been three major areas of change or additional work. We are still having some difficulty establishing the authorship of those changes, which were instructed last year on behalf of the client and have added about a year to the design period. What other options did you have that might have avoided the long delays?

Paul Grice: I am sorry, but I am not quite sure of the question.

Brian Adam: I am thinking about the redesign of the chamber last summer which, as you explained, took three months. Three months is not a year. I am also thinking of the value and cost review,

which took place in the autumn, and the additional feasibility work that was done to find more space and was instructed last November. What other options did you consider? The problem was not just with the overall cost, but with a very significant delay. What options did you consider to regain time that might have been lost as a result of major changes and additional work?

Paul Grice: One cannot do anything without a design that people agree meets the needs of the client. We did not have it. We did not get it until well into this year.

Brian Adam: Given that 10 per cent more space was added in November last year—

Paul Grice: That is not right. In November last year the corporate body instructed the design team to institute a design feasibility study to accommodate the extra space. It came back in January or February this year with proposals. As the Auditor General's report makes clear, that study required 75 or 80 per cent of the entire project to be re-examined. This project is not like a supermarket or Victoria Quay, where one simply adds another bit on to the end or another floor. It required a fundamental redesign of the building. That is what took the time.

Brian Adam: In paragraph 2.33 of his report, Mr Black covers the points that you are making. The report suggests that by November 1999 10 per cent more space was required. Did the team consider leaving the existing design untouched and finding the additional space somewhere else, rather than trying to rejig the whole thing? Did you consider moving some of the activity to another site?

Paul Grice: If you are building a new Parliament building and you have a site that can accommodate the extra space, setting out to accommodate some staff on a remote site does not seem to me to be a feasible option. That is fine if a site has been filled up and, 10 years down the track, more space is needed, but all we had was a set of designs.

The purpose of a new Parliament building is to provide a complex in which members, their staff and the Parliament's staff can work together. As long as the option of providing that exists, it would seem right to pursue it. It is not a long-term solution to say, "Well, we'll leave it as it is and have some other people up the road." It would be different if we had built it, or even begun to build it, but, as was proven to be the case, the design team was able to come up with a solution that could accommodate the extra space on the site.

Brian Adam: Surely there must be a value-for-money exercise. I accept your point that, ideally, you would want to have everything on one site, but considerable concerns had been raised by that

time about the significant effect on the time scale and cost. Surely other options, including the possibility of using another site for part of the facilities, should have been considered and put to the Scottish Parliamentary Corporate Body for a decision. Was it an absolute part of the brief that you could not provide some of the services from somewhere else?

Paul Grice: The corporate body was clear that it wanted to have the parliamentary complex on that site as far as possible. If the design team had come back to us and said that it could not be done on the site, that would have been the point at which the corporate body would actively have explored other sites.

Brian Adam: I understand that that might have been your motivation, but surely the time problem and the cost problem were also factors. At that point, those who were making the decisions ought to have been informed of the consequences of going ahead. Was there any discussion between the project team, or you as the accountable officer, and the corporate body about the options, consequences and knock-on effect on time and costs of that 10 per cent increase in space?

Paul Grice: There was certainly discussion about the time it would take to redesign, but what we could not quantify for the corporate body was exactly how much longer it would take. It may be stating the obvious, but if one sets about redesigning the project in quite a fundamental way, that will take time.

Brian Adam: Did any members of the corporate body raise the possibility of an alternative to having it all on one site?

Paul Grice: I cannot honestly remember, although I am happy to come back to you on that point. We were aware that there are a lot of developments on the north Holyrood site. We also realised that the interim accommodation is not big enough. As you may be aware, we have recently taken accommodation at St Andrew Square for some staff. We considered north Holyrood as a possibility for extra interim accommodation, but St Andrew Square has provided a better option. We therefore had cost data at official level on the costs that might be involved.

Brian Adam: But that information was not passed to members of the corporate body to help them form a judgment.

Paul Grice: That information was sought in a different context—the context of providing additional interim accommodation. I cannot honestly say off the top of my head whether the corporate body ever discussed that as a long-term solution. My strong instinct is that, even if it did, it would certainly have stuck to the view that the whole point of building a new parliamentary

building must be to try to get all the accommodation on the site. To set out at the outset to build a new Parliament building that one knows is not big enough, on the ground that one could rent some accommodation elsewhere, calls into question, in my judgment, the whole point of building a new parliamentary complex. That is not the game that we were in.

The Deputy Convener: I would like to move on, as time is pressing.

Brian Adam: I am coming to my final question. The report is critical of the control procedures. What control mechanisms were in place to manage and report cost changes arising from requests to alter the design of the buildings?

Paul Grice: We had an informal change control process in place. What we did not have was a settled design. Until there is a settled design it is not possible to have a cost plan, and until there is a cost plan it is difficult to quantify the effect of additional changes in design. The way we approached it, therefore, was to get the design to a position in which the corporate body felt that it met the requirements of the Parliament. As soon as we had such a design, we costed it and brought in Spencely to verify those costs. At that point we took it to the Parliament. We now have a cost plan. We are now in a position to evaluate how changes in design will affect cost, but we were not in that position last autumn.

Brian Adam: Do you regard that as satisfactory?

Paul Grice: It is an inevitable consequence of the state the project was in at the time.

The Deputy Convener: Is that in terms of not having a fully agreed design and cost plan in place at the time of the handover?

Paul Grice: You are right, we did not have that. We did not manage to reach that point until this spring. Is that satisfactory? I would have liked it to have taken less time. I am not saying that that period was desirable and so, to that extent, it is not satisfactory. However, it is important to understand that the project has moved into a new phase in the past few months, in which we can undertake such analysis. That was not possible last autumn. Without a fixed design and a cost plan associated with it, it is very difficult to undertake the incremental reporting to which you refer.

Brian Adam: In practice, what arrangements were put in place to ensure that the corporate body was told of the consequences of the changes that it was seeking?

Paul Grice: I have described those arrangements. The corporate body was left in no doubt that making the building bigger would make

it more expensive.

Brian Adam: When the corporate body made the decision, was it told how much more expensive it would be?

Paul Grice: No, for the reasons that I have outlined. The corporate body did not institute the construction of a bigger building; the SPCB instituted a redesign—on paper. The SPCB did not commit to building that until after the proposal had been taken back to the Parliament in April. If the SPCB had set about building a bigger building, you would be making a fair criticism, but the corporate body did not do that. Rather it asked the design team to come up with a new design to meet the requirements. That design was then costed, subjected to the Spencely review and put to the Parliament. Only then did the corporate body go ahead. Those were the arrangements.

It is a difficult matter, particularly with such a complex building. If someone is building a supermarket and they are asked what an extra 1,000 sq m would cost, they could answer pretty accurately. The new Parliament building is not like that—it has lots of modular shapes. It is very difficult for anyone to say how much it would cost to provide space for another dozen clerks and so on.

It was clear that, in November, we crossed a threshold and required quite a fundamental rethink to achieve the extra space. The corporate body did not begin building; the corporate body asked for a redesign and when it got that back, along with indicative costs, it requested an independent review. John Spencely came in and carried out an independent review. The SPCB then went to the Parliament to get its view on whether to proceed.

Brian Adam: Can you do the same exercise for us as Mr Muir Russell promised? Can you provide a breakdown of the costs that you feel were the responsibility of your team and the corporate body after June and those costs that where the responsibility of the team operating before June?

Paul Grice: I cannot answer for the team before June 1999. I can write to the committee and set out how the figure of £62 million increased to £108 million; in terms of the full project costs those figures are £109 million and £195 million. That is my responsibility and I am happy to write to the committee about that.

The Deputy Convener: That would be very helpful. I am going to pull this section of questions to a close. I want to move on to the project management phase because I expect many issues to flow into that from the handover phase.

I intend to spend half an hour on the project management questions before we have a brief adjournment.

15:15

Euan Robson: I want to ask about the skills base of the project team that you inherited. Last week, Mr Russell gave evidence on the people involved in the project team. The committee raised questions about the apparent absence of a really senior construction professional. What is your view of the skills of the project management team that you inherited? Did you notice any gaps? Furthermore, did you at any stage identify the problems that the Auditor General has highlighted?

Paul Grice: No. I do not entirely subscribe to the Auditor General's view, although it is perfectly valid. There were no obvious gaps. We had a project sponsor and even the Treasury guidance makes it clear that the project sponsor does not necessarily have to be a construction professional. Nevertheless, our project sponsor was an experienced administrator with some construction experience. Our project manager, Martin Mustard, had a great deal of construction experience; his two assistants were construction professionals; the client adviser, John Gibbons, was an experienced architect; and there was a range of other people in the team. The team certainly seemed well balanced and well qualified.

Euan Robson: Did you come to that conclusion over a period of time, or did you assess the project management team on the day that you inherited it and decide that you were covered?

Paul Grice: I did not do that on 1 June, because I was doing a lot of other things. Indeed, I should put my hand up and say that I was doing a lot of other things over that period, and a fair criticism might be that I did not pay enough attention to the situation. However, I certainly took a bit of time over the summer to assess the team with the project sponsor and, even with that more mature consideration, I did not find any obvious gaps.

Euan Robson: Would it have helped to have had some kind of assessment of the project team at the point of handover? As you explained, the handover procedure seems to have been fairly informal. Although that seems to have been a key element of the project management team, there was still no status report, audit of skills or anything like that for you to consider on 1 June.

Paul Grice: That certainly would not have done any harm. I never thought to seek that at the time.

Euan Robson: So there was no written assistance about the skills mix in the project management team. You seemed to say earlier that, at that point, you were not particularly aware of the nature of the construction management contract and so perhaps were not fully aware of all the risks that might have arisen during the project. A lot of the problems seem to stem from what

happened at the handover. Is it fair to conclude that, at handover, you had no status report to work from?

Paul Grice: With the benefit of hindsight, perhaps I should have asked for such reports, as they might have made me more aware.

Euan Robson: Is it also fair to say that those reports might have crystallised some of the potential problems and reduced the delays that were inevitable as you went on a voyage of discovery of some of the risks that you had been left with?

Paul Grice: I agree with you up to the point where you take me on a voyage of discovery. I know that you do not mean that maliciously, but it is not a very fair representation of the situation. It is important to bear in mind the fact that the project team was striving hard both to keep the project moving forward and to respond to the client's needs. If you want to represent that as a voyage of discovery, that is fine; however, it was clear to me before we embarked too much on such a voyage that the type of contract that we had allowed us to do so. If we had had a fixed design that was to be built for a lump sum, we would have been in far deeper trouble.

Euan Robson: Are you quite happy with the present project management team's mix of skills? Are there any problems with personnel or the general skills mix that you might need to address?

Paul Grice: The project team is an excellent team, and has done a very good job in difficult circumstances. I have restructured the team. You could read that back to me and say that perhaps I should have thought about that earlier—I would accept that as a fair point.

I have reduced the project sponsor role a little—to define it more narrowly, down to a more traditional project director role—and I have added two more people to the mix. One is the person who acts as secretary to the Holyrood progress group. That person has taken on the communication role, and has handled much of the inevitable raft of parliamentary questions and other matters, which are important but, none the less, a huge distraction for the people who are trying to manage the project.

I have also put in place a financial controller, who is also our principal finance officer. He supports me in my role as accountable officer. He worries not so much about whether the project is finished, but about ensuring that the money is there and that the systems are in place.

Those fair points were alluded to by the Auditor General and, with the benefit of hindsight, I might have instituted the changes earlier. That is where I have got the team to now and, as members know,

we have just recruited a new project director, who starts in November. Altogether, I have never been unhappy with the project team; I am happy that we have a good balance of skills and experience and a rather better division of responsibilities than we had previously.

Euan Robson: Would you characterise what you have described as fairly major or significant change?

Paul Grice: I would describe it as significant; it is more than just marginal change, yet I would not describe it as major.

Euan Robson: You had to make all the changes in the light of the experience that you gained. You had no crib sheet to work from at the start. You had to gain the experience of knowing where additional skills were needed before you were able to institute the changes.

Paul Grice: Yes. I have certainly gained a lot of experience on this project—that is for sure. I am not sure whether a crib sheet would have highlighted the need for additional skills in this case. It would have been a help to have thought of that sooner, and something might have stimulated me to think about it sooner—a crib sheet might have set me thinking.

Euan Robson: As you said, you had a lot of other things to think about in June and July last year. At that stage, everything was new for us all, and we might all be forgiven for forgetting to do one or two things at that time. In any case, it is interesting that you had to make those changes.

I think we can now be fully assured that the skills that are there will be enough to see us through to 2002.

Paul Grice: Yes, and if the Holyrood progress group is added to the mix, we have the political control, the independent advice and the project team. There are no guarantees with this project; only a fool would sit here and give guarantees, but a good management set-up is in place.

Cathie Craigie (Cumbernauld and Kilsyth) (Lab): The Auditor General recognised the wide range of responsibilities that you have as the clerk to the Parliament. Euan Robson has also just acknowledged that. With hindsight, do you think that the responsibility for the client role and for the Holyrood project should have rested with you? Should an officer have been handed the responsibility, with a duty to report to you?

Paul Grice: The Auditor General's comment was very fair, but I have thought about that question a lot and the answer is no. We tried to bring together the needs of the Parliament as an organisation, for which, it is correct to say, I am responsible, and to deliver a building to house it.

I accept the Auditor General's points, and perhaps it has been a matter of sticking with the least worst option. However, the danger of going down the other route, as suggested by Cathie Craigie, would have been that someone was responsible—was in complete official authority, so to speak—for the building and someone else was responsible for the organisation of services in the Parliament. In my view, there would have been a bigger risk in that case of ending up with a building that was neither adequate nor proper.

Especially in the autumn, we learned a huge amount about what the Parliament required to make it run. Getting that information into the project brief in a controlled manner was a huge challenge. This comes back to some of the questions that Brian Adam asked. It was very difficult, but as the person responsible for both sides, I tried to bring them together. Whether I did that effectively, or as effectively as I should have, is for others to assess.

The Auditor General makes a fair comment, but on reflection I still think that, had another officer been made responsible for the Holyrood project, there would have been greater danger of the Parliament building and the parliamentary service running on parallel tracks. Perhaps it took us too long to get there, but at least at the end of the day we got the two things to converge.

I was able to play a role in bringing that about, particularly by the beginning of this year. I felt that I was able to pull together the key people in the parliamentary organisation—the clerks, the reporters and the information centre—and the Holyrood project team. Sometimes that required the authority of the chief officer—not that I had to bang heads together very often. If responsibility had been shared by two people, they could have ended up arguing and blaming each other. There would also have been a greater risk of their passing the buck.

Cathie Craigie: Are you saying that it has been advantageous to have one person overseeing the whole service and being able to draw together all the competing interests?

Paul Grice: The Auditor General made a fair comment, but I believe that the balance of advantage was with the set-up that we had.

Cathie Craigie: What arrangements did you make for reviewing and monitoring the management of the programme?

Paul Grice: The Holyrood project sponsor was a member of my senior management team, which meets every week. The project featured on some agendas, but not on others. Every week, I meet each of the directors individually to review progress in the directorate of clerking and reporting, the communications directorate and so

on. I had weekly meetings with the Holyrood project sponsor to review progress on the project. At a general level, I kept in pretty close touch with what was happening.

Cathie Craigie: How much detail were you given at those weekly meetings?

Paul Grice: Not a huge amount. As a result of this process, I have delved into the detail of the project more than I would normally. A balance must be struck between allowing someone at director level, who is a pretty senior person, to get on with their job without undue interference, and satisfying oneself that one knows enough. The meetings were at a fairly high level.

Cathie Craigie: How often did you meet, and report to, the corporate body?

Paul Grice: Somewhere between once a fortnight and once a month; it varied. The SPCB aimed to set aside a meeting every fortnight just to discuss Holyrood. Usually that proved not to be feasible, because the corporate body had a huge number of things on its agenda. However, the corporate body would normally consider Holyrood issues once a fortnight. It certainly never went more than a month without discussing the project, apart from during recess periods. I would say that, on average, Holyrood was discussed once a fortnight.

Cathie Craigie: With hindsight, do you think that the corporate body, with all the other interests and work that it had, was the right group to have responsibility for the project?

Paul Grice: The corporate body is a very able group of people. However, we have learned from the Holyrood progress group that if people can devote a day every fortnight—which is a huge amount of time for an elected member to set aside—to Holyrood and nothing else, that makes it much easier to deal with. The members of the progress group have certainly found that, and it has been tremendously helpful from our point of view.

The project is not easy, and it is no easier now than it ever was. To be able to spend two or three hours asking and trying to answer questions, rather than to have to knock things on the head in an hour, has been a great benefit. In no sense is that meant to cast aspersions on the corporate body, which had a huge number of other responsibilities. The progress group is able to worry just about Holyrood, to brief itself better and to spend more time on the issue. Spending a whole day down on the site allows the group really to get to grips with the project and to keep asking questions until it is satisfied. That means that the project is able to develop better. The progress group has been a big help, as the corporate body had to wrestle with a range of issues of which

Holyrood was only one.

15:30

Cathie Craigie: Before the progress group was set up and before the Spencely report was published, was the corporate body starting to think that it did not have enough time to devote to the project and that it needed to consider other forms of accountability?

Paul Grice: As I said in response to a question from Brian Adam, as early as the summer of 1999 the corporate body considered whether it should have independent advice. It also considered whether it should set up a sub-group to manage the project, even though the Scotland Act 1998 did not provide for that. The members of the corporate body rejected that suggestion on the grounds that the project was such a big responsibility that they should all share it. They felt that it would be unfair to delegate it to one, two or three of their number. When John Spencely came up with his proposal, the members of the SPCB signed up to it pretty readily, seeing it as a sensible move forward. It is human nature for people who have been given a responsibility to want to take it on and make a success of it, rather than to try to offload on to someone else. The SPCB had thought about different structures, but it was keen to take on the responsibility and to deliver what the Parliament had requested of it.

Ms MacDonald: You said that a large part of the difficulty that you encountered in managing the project resulted from the fact that there was not a settled design. Last week, Dr Gibbons told us that the architects

“had a responsibility for the development of the brief.”—*[Official Report, Audit Committee, 26 September 2000; c 341.]*

In retrospect, given the time that they were taking to finalise briefs and so on, would it have been a sanction on the architects if, as part of the construction management contract, they had shared some of the risk? I know that their fees were agreed beforehand. That meant that there was no incentive for them to ensure that they did not take so much time developing the brief and changing the design.

The Deputy Convener: Before you answer the question, Mr Grice, could you say what responsibility or ability the corporate body had to renegotiate the architects' fees?

Paul Grice: We inherited a contract. As members know, one can renegotiate only bilaterally. The fee was calculated on a percentage basis. Obviously, the corporate body took an interest in that. In defence of the design team, I should point out that the extra design work that it did was real extra design work. It was not

like adding an extra 1,000 ft to an office block or a supermarket. The Auditor General has confirmed that 75 to 80 per cent of the design had to be re-evaluated. That is a huge amount of work. The design team also made a huge number of presentations to the corporate body, members and others, which is not regarded as part of a design team's normal work. We were getting value from the architects outwith their work on the design.

I have no reason to believe that the design team deliberately spun out the process to increase its fees. Nothing that I have seen during the time that I have been involved with the project suggested that the team acted in anything other than the best interests of the project. It is not credible to suggest that Enric Miralles or Brian Stewart would spin out the process for their benefit. They were completely committed to producing a good design for the project. That is a personal view, but I have formed it after seeing those people in action for more than a year.

Ms MacDonald: I did not accuse either the late Señor Miralles or RMJM of spinning out the process to enhance their percentage fees. I was suggesting that, perhaps at the outset, as part of the management organisation of the project, it would have been better for the design team to share the risk, because it was responsible for the development of the brief. The brief kept developing, and the architects were part of that.

Paul Grice: I see what you mean.

Ms MacDonald: I want to make quite clear what I am saying. Basic mistakes were made and, like everyone else around this table, I am trying to work out why the mistakes were made, who made them and whether they are likely to be repeated.

The Deputy Convener: That is a good point on which to bring this part of the meeting to a close. We will resume at a quarter to four.

15:35

Meeting adjourned.

15:46

On resuming—

The Deputy Convener: We will move on to aspects of cost reporting. Mr Grice has, to a greater or lesser extent, answered some of the questions that arose over cost reporting, so I ask members to keep their questions fairly brief. Mr Grice, if you feel that you have already answered a question, please feel free to say so. We will try to gallop along. I would like to bring the meeting to a close at half-past 4, as several members have indicated that they have other commitments.

Paul Martin (Glasgow Springburn) (Lab): Mr Black has described this project as being uniquely challenging and important, so we would expect that the cost reporting would be of a very high standard. Exactly what arrangements were in place for cost reporting to the corporate body? In practice, what cost reporting took place?

Paul Grice: Forgive me if I am repeating myself, but this project has been in two phases. Since achieving a settled design, at stage D, with a budget and cost plan to match, we have been able to report—as we are doing now, via the progress group—whether tenders coming in are above or below what was expected, and to say what remedial action we will take. The process is detailed and, I like to think, quite sophisticated.

Before that stage, we were in a rather more difficult position. All that we had were occasional estimates from the cost consultants—I think that there had been two or three. The cost reporting to the corporate body in that period was very different: it was more by way of a debate as to what might push a cost up and what might be done to bring it back down. We got a more detailed report on costs when we commissioned a value engineering exercise.

The cost reporting was more intermittent in the earlier phase, compared to the regular and frequent cost reporting that we now have, but which we are able to do only because we have a design and a cost plan to report against.

Paul Martin: Do you therefore agree with the statement in Mr Black's document that the cost reporting was not systematic? Do you feel that the corporate body was left in some difficulty because of that?

Paul Grice: It was not systematic because it was not possible to be systematic. I do not think that the corporate body was left in difficulty. It would have been essential for the body responsible to have accurate, regular and frequent cost reports if we had been—as we are now—constructing the project at a rapid rate. However, that was not the case last autumn: we were instituting a redesign. When you are redesigning, there is little to report cost against.

I accept what Mr Black is saying—as a statement of fact it is hard to dispute. However, the context at the time was very different, and I do not think that the cost reporting left the corporate body disadvantaged. Had we been working on a more routine sort of project, we might have been able to produce better guesstimates of the effects of incremental changes. That would have been nice, but we were never able to do it. With hindsight, I like to think that we could have done it; but the clear advice that I had from the project team was that we could not. The team was not

saying that because it wanted to leave the project team in the dark—you have to be responsible when you produce cost estimates.

Paul Martin: So you believe that it was not necessary to have systematic cost reporting.

Paul Grice: I believe that, at that time, it was not possible. It is possible now, and it is being done.

Paul Martin: You are saying that it was not possible?

Paul Grice: It was not possible, because we did not have a settled design and we did not have a settled cost plan. There was no basis on which to do the cost reporting, as there now is.

Paul Martin: I would like to take you forward to the second half of 1999, when various estimates from the cost consultants prompted an immediate review of the health of the project. Why did you not advise the corporate body of the figure at that time?

Paul Grice: I will explain that decision, which was my personal decision. When the project team came to me with that figure, my first reaction—and I still think this—was that it was completely unacceptable. My second reaction was to ask where the figure had come from.

Two issues arose. The first concerned the almost mystical 4,000 sq m. The team informed me that 4,000 sq m in the cost report were unaccounted for. That is a huge amount of space, and potentially a huge amount of money. I immediately sent the team away to find out where it had come from. The second issue was the value engineering exercise that we instituted, the conclusion of which was that the cost figure was unacceptable and unreliable.

It all comes back to the judgment that you have to make, and I do not claim always to make the right judgments. In a sense, the easier thing to do is to dump the problem in the lap of the clients—to report to the corporate body and say, “This is your problem.” The course that I chose to take, on the advice of the project team, was to go to the corporate body with solutions as well as problems. In other words, I wanted to be able to say how reliable the figure was, where it had come from, what it comprised and what we had in hand to reconcile it with, or bring it closer to, the budget figure.

We told the corporate body that we had had cost reports and that they were unacceptable. We did not hide from the corporate body the fact that there were cost reports. It is true that we did not reveal the figure, but I felt that that would have been, in a sense, almost irresponsible: it might have prompted the corporate body into action that was inappropriate. That is why I made that judgment at that time.

Paul Martin: I want to be clear about this. You decided that it was not necessary to advise the corporate body—the body of politicians that is, in effect, responsible to the Scottish Parliament for the issues around the Scottish Parliament building—that costs were escalating?

Paul Grice: No. We told the corporate body that we had had unacceptable cost estimates. The corporate body was in no doubt that we had significant cost pressures. I set about clarifying the basis of those costs and taking action to deal with them, so that I could report to the corporate body at a future date with information about where the figure had come from and whether it was reliable. On the basis of the advice that I had, I had no confidence in the figure. It was only proper to have some action in hand. That was overtaken by the feasibility redesign, which took place in November. The judgment that I made was made in September.

Paul Martin: Did you say that you had no confidence in that figure?

Paul Grice: That is correct. I did not.

Paul Martin: So we paid specialist cost consultants £2 million to research the costs, but you were not confident about that figure?

Paul Grice: There is a difference between lacking confidence in one cost report and lacking confidence in the firm of cost consultants. I have great confidence in Davis, Langdon & Everest, which is a good firm of cost consultants, but I did not have confidence in that figure. The firm can cost only what it has been given, which returns to the point about the state of the design. The design was not settled, and the cost consultants can quantify only what they have. In particular, there was an additional 4,000 sq m in the drawings, which the firm costed, but for which nobody could account. That was a huge disparity.

I do not mean to say that I was not confident. I was confident that the firm had identified the figure, but I was not confident that it accurately reflected the cost of building the project as it then was. We told the corporate body that we had had unacceptable cost estimates and we told it that we were taking action, but I did not reveal the number, for the reasons that I gave. That is a judgment call, and I accept that, with the benefit of hindsight, people might look back and say that that was not the right judgment. For what it is worth, even reflecting on the decision now—it would have been nice to come here today and tell the committee that I passed the information on to the corporate body—I still think that the judgment was probably right. It was a judgment call, but I think that I took it for good reasons at the time.

Ms MacDonald: Did they ask you?

The Deputy Convener: Excuse me. Mr Martin is still asking questions.

Paul Grice: No.

Ms MacDonald: Sorry.

Paul Martin: We now move on to August 1999, when the costs were predicted to be as much as £115 million. That prediction prompted an immediate review of the health of the project. Why did you not advise the Parliament then, when you had specific information?

Paul Grice: What would we have advised the Parliament? We would have had to advise it that the design had become less fixed—John Spencely picked up that point. At that time, we were just reaching the end of the chamber redesign. Clear pressures were coming through that the building would not be big enough, and we had a cost report that had a problem and reflected some uncertainty. I do not think that returning to the Parliament with a lot of questions and maybes would have been responsible.

We owe it in the first place to the corporate body, which owes it to the Parliament, to go to the Parliament with some certainty. You may say that it took a long time to achieve that certainty, but that is what the corporate body came to the Parliament with in April this year. Then, the corporate body was able to say: "Here is a design that we think is good enough. Here is a budget that we think is appropriate. Here is a set of structures that we think will deal with the project." In August, the design was extremely fluid and was becoming, if anything, less certain. I honestly think that we were not in a position then to know what to advise the Parliament. Part of our responsibility is to have some answers and some confidence in the figures that we are punting around; otherwise, we would just have been offloading the problem.

Paul Martin: I am sorry for staying on the same point, but it is important. Did the corporate body know at that time? Did it raise any concerns about the fact that you had not advised it and not conveyed the information to it?

Paul Grice: The corporate body did not ask specifically what the number was.

Paul Martin: That raises another question, into which I will not stray. Did the corporate body raise concerns with you later about the fact that you had not reported that information to it? Are there any minutes to which you can refer us?

Paul Grice: No.

Paul Martin: Are there any conversations to which you can point?

Paul Grice: No. I told them what I told them at the time. The corporate body and I have not returned to that. Obviously, in the context of the

Auditor General's report, I have discussed matters with the corporate body, as you would expect me to. I explained again to it why I took the action that I did, and it accepted my explanation. I am not saying that the corporate body agrees 100 per cent with my explanation, but I gave my reasons again, more recently, and I think, or at least hope, that it understands why we took the action that we did.

The Deputy Convener: Paragraph 3.50 on page 41 of the report says:

"Later, during the second half of 1999, project management did not report various estimates from the cost consultant to the Corporate Body as the client."

It appears that you were aware of the anomalies in the costing. What hat were you wearing at the time?

16:00

Paul Grice: All the hats that I wear. I suppose that the primary motivation at the time was to try to get the project into some kind of settled state, where we could report with a degree of confidence on the design, cost and programme. We could not do that at the time. One comes across a huge amount of information on any given day on any subject, but especially on a major building project such as this, and it is always a question of judgment. One certainly does not offload everything. Even with the close order that the progress group maintains with the project, we must still agree with members of the group what we will pass on and what we will not pass on, and the basis on which they want it. There is a judgment to be made.

In response to Paul Martin's point, there is only one major cost report, published at the end of August. A version of it was later produced, but it was effectively the same cost report—that was in August and September. As I understand it, the next cost report was not until February, and that report was revealed to the corporate body because it related to the redesign. I therefore had more confidence that it related to a design that the corporate body was prepared to sign up to. There was only one such report; you should not get the impression that there was a whole series of reports.

The Deputy Convener: I take that point. Paragraph 3.50 seems to criticise the project management for not reporting the cost overruns. Did project management think that, by making you aware of those cost estimates, they were making the corporate body aware of them?

Paul Grice: No. They thought that they were making the chief officer of the Parliament aware, and they sought my approval to take certain actions, which are the ones that I have just

explained. They wanted my advice on the judgment call that I have explained to you. I think that they felt, and rightly, that it was a judgment that I should make, as opposed to them.

Brian Adam: There seems to be some doubt about the reporting mechanisms. Who set those mechanisms in place and how did they come about? Were there suggestions from the project team about how you might go about it, or was there Government guidance from elsewhere, following standard practice? Did you discuss the reporting mechanisms with the project team when you took it over, or did things just roll along as they had been doing prior to the handover?

Paul Grice: I am trying to cast my mind back. I think that the project sponsor put forward specific proposals to the corporate body about how it would get information on the project. That covered a range of things, of course: not just notional costs, but all the issues surrounding the project. My recollection is that there was some discussion and that a standard set of reporting was proposed and agreed to. That is the basis on which we moved forward.

Brian Adam: Could we have a note of any records that were kept of an agreement on the reporting mechanism?

Paul Grice: I am not sure that I could dig any out, but I shall read back through the minutes and see if there is anything illuminating in them. My recollection is that there was some agreement very early on about the basis of reports that the corporate body would get, and it seemed reasonably happy with that. The fundamental plank of those reports was a report from the project sponsor to the corporate body.

Scott Barrie (Dunfermline West) (Lab): This afternoon, you have referred on a number of occasions to the fact that there has been a substantial increase in the area of the building. You have given explanations for that and said how difficult it has been. However, the reality is that there has been almost a 50 per cent increase in the unit cost. How did the management exercise control over the underlying design changes that occurred?

Paul Grice: The sequence of events is important. Value engineering is a technique that has been used at specific points in the project to deal with problems. In the new phase of the project, we are now trying to make it more integral and more of a day-to-day thing. That device can be used to drive down costs and re-examine them and we have certainly used it in the past. Beyond that, however, you need to start with a design that you are happy with, consider the cost, and ask yourself whether you are prepared to live with that cost for that design. If the answer is yes, you move

into the scheme.

You make a judgment; it is something of a one-off judgment. You have to ask whether it represents value for money. I think that the Auditor General has confirmed that this budget for that design represents reasonable value for money. That judgment was made by the corporate body as well, and endorsed by the Parliament back in April. Now, we have the responsibility and the capacity to manage that in quite a sophisticated way, with fortnightly cost reports and programme reports to the progress group, building risk management and value engineering into the process. It becomes part of the continuing project. You are constantly asking yourself questions about where costs can be stripped out, and looking ahead to see where risks can be managed out of the process. It is a project in two different phases.

Scott Barrie: We are aware from the report and the evidence that we have heard that one of the major contributing factors to the increased cost is the higher standard of materials that are to be used. What specific evidence can you give us that the increases in the cost really do represent value for money?

Paul Grice: It is difficult with a unique building such as this. One assurance that I can give is that we have a major firm of cost consultants with a high reputation. They have advised us that nothing has been wasted or missed.

It is always dangerous to look at comparators, especially with a unique building. John Spencely had a bit of a go at that, and Portcullis House is a helpful comparator, because it is a lot more expensive, although it is fundamentally a simpler building, as it is not a complete parliamentary complex. Normally, we would try to benchmark such things. The original benchmark was with a high court, a public building with a high spec. On the cost per square metre, which is probably the best comparison that we can draw, it compares reasonably well.

In terms of space standards, another area that might be considered in terms of value for money, the space standards for members are not hugely generous, although they are adequate. I think that we can defend that on value-for-money grounds. The space standards for staff are based around pretty normal space standards for public sector staff. We have sought and can give a number of reassurances that the project, in general terms, represents decent value for money.

Scott Barrie: I am interested that Portcullis House has come up. It is probably the best example of a public building that has gone way over budget, but perhaps we can leave that.

I appreciate that I may be straying into

commercially confidential areas and may be asking questions that are difficult to answer, but I would like to ask about fees. We are aware that fees for various consultants are in the process of being negotiated between the corporate body and the consultants themselves. Are you in a position to give us a general indication of how fees being set as a proportion of construction costs might affect the subsequent or continuing negotiations?

Paul Grice: We have taken the opportunity at any formal break point in the project to renegotiate fees. I do not think that I can hold out any prospect that the fees will be substantially lower than they are now. The design team has undertaken significant and proportionate work. The Bovis fees relate very much to time on site. They are called fees, but they are mostly reimbursed costs, and we cannot really argue with that. You look perplexed, Mr Barrie.

Scott Barrie: I am perplexed by the phrase “bogus fees”, which would suggest—

Paul Grice: I said Bovis. I meant Bovis Lend Lease (Scotland).

Scott Barrie: Sorry. That is why I was perplexed.

Paul Grice: We have tried to renegotiate fees, but I would be misleading you if I gave you to understand that there was a real prospect of negotiating those fees down significantly.

Ms MacDonald: Were you able to reduce the fees to the lead architects after Señor Miralles died? I presume that his fees reflected the fact that he was taken on as a signature architect. As far as I know, his wife is not counted among the signature architects. She is now named along with RMJM as a lead architect. Was there a renegotiation of fees to reflect the changed status of the lead architects?

Paul Grice: No, I am afraid that it does not work that way. Yes, Señor Miralles was the lead architect. I did not set up the original contracts, so I am making a supposition. I think that fees were negotiated with EMBT/RMJM, which is the company created by Enric Miralles, Benedetta Tagliabue, Brian Stewart and Mick Duncan from the two firms. I do not think that the reason Miralles was named as lead architect was anything to do with fees; it was to ensure that what we got was a Miralles building and not a Mick Duncan building, which is not meant as an insult to him. When Miralles died, we had the concept—and even at stage D, which was more than a concept—of what a Miralles building was.

I checked this fact yesterday. The design team, which includes the structural engineers, had 123 people working on the project.

The Deputy Convener: I think that you have

answered the question to the full extent of your abilities.

We will move on to accounting for risk. Bearing in mind that I want to draw this meeting to a close at 4.30 pm, I ask members to be brief in their manner of questioning.

Karen Whitefield: The Auditor General’s report was critical of the project’s insufficient accounting for risk. When you took over the project in June last year, there must have been a number of risk elements that could have delayed the delivery of the project and increased its cost. What did you do to assess those risks, and how you would deal with them if they arose?

Paul Grice: One of Martin Mustard’s jobs has been risk management. Would it be all right if I asked him to answer?

The Deputy Convener: Please do.

Martin Mustard: Risk assessment has been an continuing part of the project. Two risk assessment workshops were held last year, which identified risks at a strategic level. That is one part of the risk analysis. The other part was through DLE, the cost consultants, which looked specifically at design risks.

Since we formed the cost plan we have moved to a more robust form of risk analysis. We can assess risk per contract and draw down contingency to meet those risks on every occasion, so if a risk arises, it will be covered. There has been a continuum of risk assessment through the project, which can only become effective at this point with the cost plan and a settled design.

Karen Whitefield: So you have made the mechanisms more robust. Why did you believe that there was a need to do that?

Martin Mustard: This is almost circular—we come round to the same things—but not to bore you, the settled design and cost plan now provide the basis for proper risk assessment.

Karen Whitefield: Last week, we heard from the permanent secretary at the Scottish Executive about his interpretation of the Treasury guidance on risk assessment. What is your interpretation of the importance of that guidance, and how did it relate to the project when you took over in June last year?

Martin Mustard: The Treasury systems for risk assessment are extremely good. Over the years I have found that most Treasury guidance is extremely good, but I would also agree that it is guidance, and there are many ways of developing risk analysis. For example, in the Treasury guidance there is a particular type of risk assessment, but there are lots of effective

variations across this industry, and other industries, that are equally as good. I share the view of the permanent secretary that Treasury guidance often is good, but it is still guidance. It is not a standard or a rule.

Karen Whitefield: I appreciate what you say, but it was evident from the Auditor General's report that he believed that there was a shortfall in the project's risk assessment. The Treasury guidance is clear about the importance of risk assessment in cost accounting and project management from the start of a project. Do you agree with that guidance, and is that one of the reasons that you have now implemented much better risk assessment? Was it that risk assessment was missing, which you have now remedied?

16:15

Martin Mustard: No. In the previous phase of the project, not having a settled design and cost plan prevented applying the most robust form of risk assessment. Now we have a settled design and cost plan, and from now on in the risk assessment will be extremely tight.

Brian Adam: If I remember, the risk that crystallised in November 1999 was that the area specified in the design brief was going to be 10 per cent less than experience showed was actually needed. That problem took six months to sort out. It was costly and disruptive. Surely it would have been better value for money to allow for a more generous area at the outset to reduce the impact of last-minute changes, which are always expensive to implement?

Paul Grice: If I understand the question, it is whether you should add space at the outset. That is a fair point, but it requires a judgment to be made. When you are undertaking anything, but especially a major building project, you do a brief. The Auditor General was reasonably happy with the way in which the brief was put together, but he was less happy with the lack of risk allowance in it.

Whenever you do anything like this project, there is always a question about the space contingency that you build in. It is tempting to build it big, then it will be easy, but equally you have a responsibility, especially in the public sector, to make it as small as you can, because that will lead to a building that is fit for purpose. There are judgments to be made. When we did the feasibility study this time round, we included a contingency element for space. In other words, we did not build it exactly to the right size; we assumed that there would be a continuing demand for extra space. But yes, if we had inherited a bigger building, it stands to reason that we would not have had to redesign it in the way that we did, although that is

not to say that the wrong decision was taken.

Brian Adam: Given that the contingency of 10 per cent clearly was inadequate, because we ended up with 47 per cent, does that show the value of a formal risk analysis as opposed to the technique that you used? You chose not to accept what you recognised as good Treasury guidance. With hindsight, would the more formal risk analysis approach to space have given us a much more robust project from the beginning?

Paul Grice: You used the word "formal", but that is not right. The risk assessment was formal, in the sense that it was part of the management process. The point that Martin Mustard made, and which I endorse, concerns what risk you are assessing at the time. You are trying to assess a design risk and come to a view on the appropriate design. That is not easy. Risk assessment is educated guesswork; it is not a science. It was part of the process, and it was undertaken last summer, so it was built in.

What materialised later in the year was a decision by the corporate body to take action as some of that risk crystallised. Assessing risk does not remove the need for action unless you take a view that notwithstanding risk you are not going to take any action. The SPCB took the view that it would take action, and it instructed a redesign to find the extra space, because the project design as it stood was not big enough.

That is the purpose of risk management, but I do not see how, given where we started in June of that year, we could have ended up at a different point. The SPCB identified demands and instructed a redesign so that the building was fit for its purpose. That was the only sensible course of action open to it. The redesign was costed, independently evaluated and put to the Parliament.

The Deputy Convener: We will move on to the current state of the project.

Miss Goldie: The deadline for completion is December 2002 and, we hope, within the target of £195 million. I refer you to paragraphs 1.36 to 1.38 of the Auditor General for Scotland's report. The report states that meeting the financial target of £195 million will be a challenge because of estimating uncertainty and inflation risks. You are to review this in the light of tendering major works packages. What are those major packages and what are the results of tendering so far?

Paul Grice: The major packages immediately in sight are the substructure at the east end of the site, the superstructure at the east end of the site and the cladding packages. Martin Mustard could probably give you a precise figure, but those account for tens of millions of pounds. The cladding package will be for the MSP block. It will

give us a great deal of intelligence as to what the market is likely to supply for the rest of the site because the cladding is essentially the same throughout it. Those are the major packages. As each comes in, it is evaluated. Now that we have a package-based cost plan we can look precisely at what the package should be and whether it is over or under.

Miss Goldie: Are there any tender results to comment on?

Paul Grice: None of the real biggies.

Miss Goldie: So we cannot answer the question.

Paul Grice: It is a bit early.

Martin Mustard is better placed to comment than me. As I understand it, the results have been relatively modest so far. They are above and below the line. The progress group, which is fully informed on this, is comfortable that we remain on course.

By Christmas, when we will have some of the big packages in, we will be in a much better position to answer that question. I accept the Auditor General for Scotland's proposal on this. It is right and it is the way that we are running it.

Miss Goldie: Would it be appropriate, convener, to ask if we, as a committee, can be given details of these major packages as they crystallise and as information about tender values becomes available in the next few months?

The Deputy Convener: It would be appropriate, if Mr Grice could arrange for that.

Paul Grice: Yes. It would have to be on the basis of commercial confidentiality, but I would be happy to do so.

At the least, I would be happy to tell you how they are falling with respect to the works package cost plan. If we have said that it should come in at X, I would be happy to tell you whether it has come in at X plus or minus. I would be happy to give you the number as well, but I would like to clear the release of that information with the progress group, if that is acceptable.

The Deputy Convener: For the purposes of the Audit Committee, pluses and minuses would be useful and not commercially confidential. If we needed other information lying behind that, we should probably discuss that with you and the lawyers to see what is acceptable in the light of commercial confidentiality.

Paul Grice: I will give you anything we can. I could tell you the value of those contracts because that is relevant. It is instructive to know if it is £30 million, as opposed to £1 million, plus or minus 2 or 3 per cent. Martin Mustard might be able to give

more detail.

Martin Mustard: Substructure east is the first biggish package; the cost plan allowance is about £5.8 million. We should have some information on that soon.

As Paul Grice said, the next one is superstructure east, which is the building frame for the east of the site. That is a big package; the cost plan allowance is in the region of £17 million. As Paul said, those should provide a good indication of any trend. It is right that we provide a report to you after the autumn, when we get through the tender period.

Miss Goldie: Mr Grice, does that mean that you will not have been able to get reliable advice from your cost consultants about the total estimated construction costs?

Martin Mustard: No. That is not true.

A fundamental point about the estimates in the cost plan is that the figures are based on the construction manager working in liaison with the cost consultant, which does an initial market test and provides a pre-tender estimate on each package. The figures that I have given you were the result of that pre-tender estimate exercise. They become the indicator figures for the tender exercise and a comparator when those tenders come in, to enable us to establish whether they represent value for money. We will compare it with the market mean and decide whether we need to take any measures such as value engineering on some of the packages to achieve value for money.

Miss Goldie: Is where you are at the moment, which seems a little imprecise to me, consistent with the £119 million that has been allocated for construction costs within the £195 million?

Paul Grice: Yes is the short answer to that.

Risk will decline as we let the major packages, both because we have major elements of expenditure out of the way and because we can use the intelligence that we get from that—cladding is the best example—to check it against the works package estimate for future cladding packages.

The short answer to your question is yes.

The Deputy Convener: Thank you, we like short answers.

Miss Goldie: We think that there is now an agreed cost plan.

Paul Grice: There is.

Miss Goldie: We were given that information last week. Is it in full form, or is it heavily conditional and heavily qualified?

Paul Grice: It is in full form.

Ms MacDonald: Did the client agree to it?

Paul Grice: It is a package-based cost plan. It has gone down a further level, as we have identified the works packages within it; it adds up to £108 million, not £119 million, because we keep the contingency aside from that.

Karen Whitefield: What is the latest advice from the construction manager about the possibility of the project being completed by the deadline of December 2002?

Martin Mustard: The construction manager is still reporting that December 2002 is the date of completion for the building.

Karen Whitefield: Will we be able to move into the building then? Will the fittings have been completed as well?

Martin Mustard: The fit-out period will follow that. One of the diagrams in the Auditor General for Scotland's report indicates that.

Karen Whitefield: When will the building be ready to accommodate MSPs and parliamentary staff?

Martin Mustard: I expect around about April 2003.

Paul Grice: The progress group is examining that. Elements of the building, such as Queensberry House and the MSP block, will be finished much earlier than that, so it might make sense—although we will have to evaluate the cost—to commission some of those parts of the building earlier. Some of the fit-out commissioning could happen on parts of the site when other parts of the building are still being finished. That would compress that period. The progress group is examining that, but has not come to a view. I dare say that it will do so over the next few months.

Karen Whitefield: I hope that it does not happen, but if you were to experience building delays what contingency plans do you have? Have you built in flexibility to allow you to absorb delays?

Paul Grice: Martin Mustard could talk in more detail about how the programme is put together.

Issues around quality, cost and programme are interrelated. One option that you often have is to accelerate the programme at the price of cost. You might use a contingency to do that. It can work the other way: if you slip your programme a bit you can get a lower price. You might take another fortnight to do more work on a tender package before you put it out because the better defined the tender is, the greater is the likelihood that you will get value for money. There is a constant tension between those. The cash contingency allows you to buy back some time.

As this is a complex project across a range of buildings, we pay Bovis to find ways of gaining in other places if we slip in a certain area. We rely very heavily on the company's estimate of completion time, as it manages all the packages in a parallel way to allow the critical path to end in December 2002.

Karen Whitefield: Is the type of contract that you have more useful in managing the project better, especially if delays occur?

Paul Grice: Although the potential downsides of the project have already been highlighted, one of the main advantages of the contract is that it gives you tremendous flexibility in that respect. That could be quite a considerable advantage at this phase of the project.

16:30

Karen Whitefield: The Auditor General's report made a number of recommendations. Do you agree with them, particularly recommendations a and b about risk assessment and management; and have you implemented them?

Paul Grice: Yes.

Karen Whitefield: Have they all been fully implemented?

Paul Grice: They have either been done or are in train. However, although the recommendations have been extremely helpful, I will say in defence of the project team that I would like to think that we would have been doing most of them anyway. That said, the recommendations provide a helpful checklist for the progress group. I am happy to submit as evidence my own copy of the report's recommendations, which I have annotated with "Done" or "In train".

The Deputy Convener: It would probably be helpful if you could drop us a note of where you are with recommendations a to h.

Scott Barrie: Perhaps in conclusion, what lessons for future major projects have you learned from this experience?

Paul Grice: That is always a difficult question, especially when it is asked halfway through a project. However, there are clearly lessons to learn. The way we restructured the team has provided a more dedicated client control. Furthermore, we have learned lessons about reporting and risk management that I hope we are now putting into practice.

I have learned a lesson about the amount of time one must dedicate to such a project to provide support and input to a team without interfering overly much. We have certainly learned lessons about structures and reporting. Recently, the Spencely report and the Auditor General's

report have been extremely useful in crystallising ideas that we were perhaps moving towards and in providing some helpful checklists. We know that we need to implement those lessons if we are to bring the project in on time and on budget.

Ms MacDonald: I have a question about the cost packages. Is the superstructure on the east end of the site the Parliament building itself?

Paul Grice: Yes.

Ms MacDonald: You said that that would cost seventeen point something million pounds. Does that figure come from recent market testing?

Martin Mustard: Yes.

Ms MacDonald: How does that figure relate to the original estimate?

Martin Mustard: I would have to go back to previous cost reports to work that out, as the previous estimates were elemental rather than package based. That £17 million is package based and purely for the frame of the building.

Ms MacDonald: I take the point about the pluses and minuses as read, because that concerns the management of the project. However, with current inflation, particularly in the building industry in Edinburgh, can you be absolutely confident about that figure?

Martin Mustard: That is part of our risk assessment and part of what we allocate to that particular package as a contingency to allow for such elements.

Ms MacDonald: Do you allocate a percentage for contingencies?

The Deputy Convener: I am sorry; we are not going to wander along that path any further. Mr Adam can have one very brief final question.

Brian Adam: My question is in a similar vein. We have a final figure of £195 million for the total package for which the Parliament is responsible. To what extent has allowance been made for aspects such as construction costs and inflation in Edinburgh, which are currently unique? Can the contingencies contain those costs?

Paul Grice: Allowance has been made as part of risk. We recognise with the Auditor General that there are a number of risks, one of which is inflation, and we have to manage that. However, it is worth putting on record the fact that, although Government procurement policy is to deal with constant prices—in this case, with March 1998 prices—the Holyrood progress group is clear that £195 million is a cash target. Furthermore, the group is clear that, if the project is brought in at that price, that will be less in real terms than £195 million. However, the group feels that it provides the right approach and discipline to manage

inflation. As the Auditor General pointed out, the contingency is there if necessary, although it must cover other eventualities.

I assure the committee that we are monitoring the situation very carefully with the progress group as we go along. If there is a need for additional cover to provide for inflation along the track, the progress group will report on that to the SPCB and ultimately the Parliament. However, from our current position, the market intelligence is quite good. Although we are certainly well aware of Margo MacDonald's point about price inflation, we are procuring on a global basis.

Ms MacDonald: Do not open that can of worms.

Paul Grice: Well, the SPCB made an important decision to procure on a global basis. One reason for doing so is the recognition that the Edinburgh construction market is pretty tight at the moment. Using a massive company such as Bovis and procuring on a worldwide basis gives some guard against that situation—without getting into issues of sandstone and granite.

The Deputy Convener: Mr Grice, Mr Mustard, thank you for your evidence to the committee.

It might be helpful to run through the written notes that we have agreed you will provide to the committee. First, you will provide a breakdown of the rising costs from £62 million to £109 million and specifically details of what proportion of the increase is attributable to the fact that we are dealing with a bigger complex, to problems with Queensberry House and to the higher specification, particularly the security aspects.

Furthermore, you will confirm when you were made aware that you had a construction management contract; that the SPCB considered taking an independent audit of the project at the time of the handover; and that the SPCB had at least considered the option of housing the new Parliament on a split-site basis. You will also provide information on the establishment and operation of the reporting mechanisms; and on the values of contracts and how those figures relate to pre-tender estimates and budgets. Finally, you will provide a response to the recommendations on page 8 of the Auditor General's report.

Paul Grice: I should make one point. The SPCB considered seeking independent advice, not an independent audit. I think that I was quite careful to make that distinction.

The Deputy Convener: I will change the clerk's note, although I hesitate to do so.

Brian Adam: We also asked Mr Grice to provide as much information as he can on how much of the additional costs happened before and after the handover.

The Deputy Convener: I think that is correct. We asked Muir Russell the same question.

Paul Grice: As I said, I entirely accept the question and can—and will—do my best to answer for what happened after the handover. However, it is somewhat harder to speculate on what happened before, although I will certainly have a look at the matter.

The Deputy Convener: Thank you.

16:38

Meeting continued in private until 17:07.

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