

# **AUDIT COMMITTEE**

Tuesday 29 June 2004

Session 2

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## **AUDIT COMMITTEE**

### **14<sup>th</sup> Meeting 2004, Session 2**

#### **CONVENER**

\*Mr Brian Monteith (Mid Scotland and Fife) (Con)

#### **DEPUTY CONVENER**

\*Mr Kenny MacAskill (Lothians) (SNP)

#### **COMMITTEE MEMBERS**

\*Rhona Brankin (Midlothian) (Lab)

\*Susan Deacon (Edinburgh East and Musselburgh) (Lab)

\*Robin Harper (Lothians) (Green)

\*Margaret Jamieson (Kilmarnock and Loudoun) (Lab)

\*George Lyon (Argyll and Bute) (LD)

#### **COMMITTEE SUBSTITUTES**

Chris Ballance (South of Scotland) (Green)

Mr Ted Brocklebank (Mid Scotland and Fife) (Con)

Marlyn Glen (North East Scotland) (Lab)

Mr Andrew Welsh (Angus) (SNP)

\*attended

#### **THE FOLLOWING ALSO ATTENDED:**

Mr Robert Black (Auditor General for Scotland)

Fergus Ewing (Inverness East, Nairn and Lochaber) (SNP)

Dick Gill (Audit Scotland)

Margo MacDonald (Lothians) (Ind)

Arwel Roberts (Audit Scotland)

#### **THE FOLLOWING GAVE EVIDENCE:**

Paul Curran (Scottish Parliament Holyrood Progress Team)

Dave Ferguson (Scottish Parliament Chief Executive's Group)

Paul Grice (Scottish Parliament Clerk and Chief Executive)

#### **CLERK TO THE COMMITTEE**

Shelagh McKinlay

#### **SENIOR ASSISTANT CLERK**

Joanna Hardy

#### **ASSISTANT CLERK**

Christine Lambourne

#### **LOCATION**

The Chamber



## Scottish Parliament

### Audit Committee

*Tuesday 29 June 2004*

[THE CONVENER *opened the meeting at 09:15*]

### Items in Private

**The Convener (Mr Brian Monteith):** Good morning and welcome to the 14<sup>th</sup> meeting in 2004 of the Scottish Parliament's Audit Committee. As usual, I ask members to turn off mobile phones and pagers so as not to disturb business or the public address system. We have received an apology for lateness from Susan Deacon—she is on her way.

The first agenda item is to decide whether to take agenda items 2, 4 and 5 in private. Agenda item 2 is to enable the committee to receive and consider the Auditor General for Scotland's report entitled "Management of the Holyrood building project". Item 4 is to enable the committee to consider its approach to that report. If members choose to do so, we can defer the decision on whether to take item 4 in private. Item 5 is to enable the committee to consider a draft report on its inquiry into the Auditor General's report entitled "Overview of the National Health Service in Scotland 2002/03". I see that no members wish to defer the decision on agenda item 4. Do members agree to take agenda items 2, 4 and 5 in private?

**Members indicated agreement.**

**The Convener:** We now move into private for agenda item 2, which is consideration of the report entitled "Management of the Holyrood building project".

09:17

*Meeting continued in private until 10:20 and thereafter suspended.*

10:34

*On resuming—*

### "Management of the Holyrood building project"

**The Convener:** I welcome everyone back to the 14<sup>th</sup> meeting of the Scottish Parliament's Audit Committee this year. Agenda item 3 is a briefing from the Auditor General for Scotland on his report "Management of the Holyrood building project". I welcome members of the Audit Scotland team, the press and the public and I remind everyone to turn off their mobile phones and pagers.

Members of the committee are familiar with the Audit Scotland team. However, given the degree of interest in today's meeting, I ask the Auditor General to introduce himself and his team, to make people aware of their areas of responsibility. I will then invite the Auditor General to make his opening statement.

**Mr Robert Black (Auditor General for Scotland):** Thank you. On my left is Arwel Roberts, the director of performance audit, who led the team that did the work on the Holyrood building project. On his left is Caroline Gardner, who is the deputy auditor general. Behind me is Jim Martin, who is a member of the project team, and next to him is the project leader, Dick Gill. Next to Dick Gill is Colin Coates, who has been our adviser from Gardiner & Theobald LLP, and next to him is Barbara Hurst, who is the director of performance audit.

**The Convener:** Thank you. I invite you to address the committee. After you have done so I will explain the procedure for questions.

**Mr Black:** Members should have a copy of my briefing statement and it might help them to follow the text, but I welcome the opportunity to introduce what is quite a long and detailed report and I hope that my briefing will help members to come to terms with some of the report's key conclusions and findings.

I will start by outlining the background to the report in the context of my previous reports and I will explain the scope of the new report and my understanding of how it relates to the inquiry by Lord Fraser of Carmyllie. I will then describe the main events of the past four years and I will offer general comments about the project as a whole. I will go on to outline my views on the reasons for the late delivery of the project and for the increase in costs. I will also comment on some of the key features of project management and control and I will conclude by mentioning some of the lessons

that I think can be learned from the Holyrood project.

I start with the context of my report. My first report to the Parliament on the matter was made in September 2000, partly in response to a request from Andrew Welsh MSP, who was the convener of the Audit Committee at the time, and partly in response to the general concern in the Parliament and among the wider public about the state of the project in spring 2000. The report was unusual for two reasons. First, it was unusual for an auditor to examine a project that had not been completed—in summer 2000, the bulk of the spending on the project had yet to be committed. Secondly, my statutory remit ran back only to the day on which the Scottish Parliament came into being. I was grateful for the co-operation of the Scottish Executive in allowing me to inform myself about certain issues and events that occurred before devolution, but I did that only to the extent that was necessary for a proper understanding of the situation in spring 2000. Therefore, my 2000 report was not a full audit examination of the pre-devolution management of the project.

After my report in 2000 was published, the Audit Committee expected me to keep the project under review and to make further reports, should the need arise. I reported for a second time in December 2002. That report concentrated on various contract management issues following the termination of a major contract with Flour City Architectural Metals (UK) Ltd and made recommendations for urgent action by the project management team to tighten control of the contracts.

In June last year, I advised the Audit Committee that I intended to examine and report again on the project and I subsequently indicated that I would make my report in summer 2004. Also in June last year, the First Minister, after discussions with the Presiding Officer and me, announced that there would be an independent inquiry by Lord Fraser of Carmyllie. It was agreed that Lord Fraser would build on my existing findings and take account of my intention to examine the economy, efficiency and effectiveness with which resources have been used in the project.

The report that has been laid before the Parliament today takes the story forward from my report of September 2000. I have not revisited the matters that I covered in 2000, nor have I altered my view on the conclusions and recommendations that I made in 2000.

The most recent audit examination relates to how the project has been managed and controlled over the past four years. It describes the delays and escalating costs and it contains my key findings on the reasons for the delays and cost increases. In other words, my report concerns the

management and control processes applied to the Holyrood project. I concentrate on the performance of what has been termed collectively the “project management”.

The project management consists of the clerk and chief executive of the Parliament, who is the principal accountable officer, and the project team, which is led by the project director. The legal client for the Holyrood project is the Scottish Parliamentary Corporate Body, which has powers under the Scotland Act 1998 to provide the new Parliament building. The corporate body formally delegated the function of completing the Holyrood building project to the clerk.

Project management is responsible for managing and delivering the project. Project management is advised and guided by the Holyrood progress group, which was set up by the corporate body to look after its interests as the client on behalf of the Scottish Parliament. The corporate body stated in 2000 that it expected the clerk to act on the advice of the progress group and he has done so.

I emphasise that, through the clerk, project management is accountable for the delivery of the project. The Holyrood progress group includes MSPs and independent experts. The progress group provides advice to project management and monitors progress on behalf of the corporate body. It has responsibilities for advice and monitoring, but it is not accountable for the delivery of the project. For that reason, I have not looked in detail at how the progress group worked. I imagine that Lord Fraser, with his wider remit, is likely to comment on how the progress group functioned on the basis of the extensive evidence that he has taken from members of the group.

There is one final and important contextual point to make. Despite the slippage and extra costs that have affected the project, a great deal has been achieved in the course of the building operations. Several architectural observers have already reviewed the building favourably. Arguably, it satisfies the requirement for a high-quality, landmark building that reflects the aspirations of Scotland as a nation. We should bear that in mind when we assess the slippage and cost increases that have affected the project.

I turn now to a brief summary of what has happened to the project over the past four years. Part 2 of my report includes a detailed analysis. I will draw out a few of the key events because that might assist members' understanding of the main findings.

At the time of my September 2000 report, construction was at a very early stage. The frame of the MSP building was going up, but the site of the main assembly building was literally a hole in

the ground. However, I concluded that there was a sound basis for advancing the project provided that my recommendations were followed through. In particular, an important milestone had passed when the approval of the stage D design occurred in June 2000. My report highlighted previous major changes in the requirements for the area and layout of parts of the building, with the client unable to freeze either its requirements or the design. Approval of the stage D design in June 2000 seemed to end that uncertainty and promised a firm anchorage for the project. The key findings and recommendations of my 2000 report are summarised in exhibit 1 on page 12 and in exhibit 37 on page 63 of my current report.

In November 2000, three important things happened: a new project director started work; a cost plan was prepared; and a risk assessment was completed. In the early months of 2001, the cost pressures were building up and initiatives were taken to find cost savings. Progress on construction continued—for example, construction work started on Queensberry House and the major contract for the assembly building frame was approved.

However, by June 2001, significant difficulties had come to the surface again. The corporate body concluded that the previous target of £195 million was not achievable. The Parliament approved a motion that removed the overall budget constraint of £195 million. Also in June 2001, the progress group was concerned about poor co-ordination, a misunderstanding of responsibilities for cost control and other aspects of the project. At that point, there was also a change of project director.

10:45

During the rest of 2001 leading into 2002, the difficulties of project monitoring and co-ordination continued and extra project management capacity was brought in. The target completion date of December 2002 looked increasingly unrealistic and, in March 2002, the completion date was targeted for April 2003. Also in March 2002, the Finance Committee was advised that the project costs might reach £265 million. By September 2002, the figure reported to the Finance Committee was £295 million, which is equivalent to £309 million when one includes the landscaping costs that were excluded from the reports to the Finance Committee.

In the autumn of 2002, a new programme was issued that moved the completion date to June 2003, although that programme was heavily qualified. In December 2002, the corporate body discussed options that included stopping the project, instructing a further independent review and putting a cap on the costs. The corporate

body reported to the Finance Committee that the estimated cost excluding landscaping was now £311 million.

Problems continued during 2003, with various measures suggested or introduced to improve project management and the effectiveness of the design team. In June 2003, the corporate body reported to the Finance Committee project costs, excluding landscaping, of £359 million. In August 2003, another programme was issued. It gave a target date for completion of the debating chamber by April 2004.

There was intense construction activity during those months. In April 2003, there were 1,100 people working on the site. During the rest of the year, there continued to be problems in resolving design issues, managing congestion on the site and managing the interdependencies between contracts. By December 2003, construction activity reached a peak with 1,500 people on site every day. Also by December 2003, the MSP building and Queensberry House were substantially completed.

In February 2004, the final version of the programme was issued and it included a target for completion of the debating chamber by August this year. Also in February, the corporate body reported to the Finance Committee a cost estimate of £431 million, and that estimate still applies today.

I turn now to the reasons for the late delivery of the project. As I mentioned earlier, I intend to concentrate on what has happened since the events reported in my first report of September 2000. In December 2000, the completion date was set for two years later—December 2002. That was based on what seemed then to be a settled design and a firm budget. As I have described, there were successive delays until the current completion target of August this year.

I want to make one very important point about the role of the corporate body as client. Media reporting over the past two or three years might have left people with the impression that the corporate body was changing its requirements, but that is not true. The client did not alter significantly its user requirements after it approved the stage D design in June 2000. Therefore, changes by the client in its specification did not contribute to the delays and neither did they contribute significantly to the costs. The construction costs of changes initiated by the client amounted to £600,000. That is just 0.2 per cent of the current construction cost estimate.

My report has a chapter about the reasons for the late delivery. I have concluded that the main causes of the 20-month delay to the project since September 2000 were the production of detailed

design variations and the late supply of information during the construction process. I will return to that shortly.

Other factors also contributed to the slippage. One factor was the choice of construction management as the method of procuring the project. I described the features of construction management in my 2000 report and I summarise those features again in the current report.

I suggest that, in general, construction management is unsuited to most building projects in the public sector; however, it was not necessarily the wrong choice for Holyrood. Different forms of contracting are intended to transfer risk to those who are best able to manage it. Under construction management, the design is incomplete and uncertain when construction starts, so the risk stays with the client. The client must manage design development and have a project team that involves professionals who are experienced in that construction method.

Unfortunately, in the Holyrood case, project management did not implement construction management fully in accordance with usual practice. Experience and expertise in construction management were not present in the Holyrood project's early stages, so the client and project management did not fully appreciate the risks and challenges.

Another major factor to be recognised was simply the challenge of construction. Major difficulties were associated with constructing a very complex and unusual building on a densely developed site against very tight deadlines. Anyone who has visited the site—as I have—and observed the extraordinary architecture can appreciate that. My report contains several images that show the design's complexity. For example, the chamber roof, which is shown on page 14, was an extremely challenging assignment in engineering design and construction terms. A third factor that explains the slippage was that absolutely no room for slippage was provided in the original timetable, which was very compressed and challenging to deliver.

As a reflection of all those factors, the architects and some trade contractors found it difficult to deliver some critical elements of the work on time.

As I have mentioned, I consider that the main causes of the 20-month delay to the project were detailed design variations and the late supply of information. Therefore, if the client did not change its requirement in any significant way, what happened?

The corporate body estimates that some 10,000 change orders have been issued over the course of the project. It would have been completely impractical to examine all those changes as part of

the audit. However, in exhibit 20 on page 41 of my report, members will see the cost consequences of changes in each of the 58 contracts that comprise the main construction works. When tenders were approved for those contracts, the estimated cost was £129 million. The current estimate of the final cost of those contracts is more than £220 million. That is an increase of 71 per cent.

The stage D design, which was approved in June 2000, was the design team's firm proposal in response to what the corporate body as the client had specified, but it was by no means a fully developed design. The shape and area of all the main building elements were fixed but, in June 2000, much of the necessary detail was not present. The design changed as the architect translated the stage D design into the more detailed design that was necessary for procurement and construction. The client's needs stayed the same, but many changes were introduced to improve the design's buildability, performance and aesthetics.

The foyer roof provides a good example of what happened subsequent to June 2000. In exhibit 21 on page 42, members will see computer-generated images from 2000 and 2001 and a photograph of the roof when it was under construction in 2004. Not only has the design changed radically, but the estimated cost has risen from £1.8 million to £7.3 million.

In short, the project involved a very high level of design development. In my view, the design's complexity was not fully appreciated early enough in the project. Thereafter, I am not confident that project management controlled the design development process effectively.

I emphasise that I did not seek to form any opinion on whether any individual contractor has been at fault. My emphasis has been entirely on the performance of the project management—the officials who have been responsible for the project. Project management is responsible for managing its consultants and contractors and for assessing their performance.

Under the construction management approach for the Holyrood project, much of the design development happened at the same time as—not before—construction. Combined with the time pressures and the emphasis on quality, that made the design development process much more difficult to control than normal.

At the root of the project slippage was the production and release of design information later than at the time agreed in the construction manager's programme, which the construction manager prepared in consultation with the design team and contractors. There was tacit agreement



by those parties to the assumptions in the programme, but it was revisited and revised several times.

The construction manager conducted eight programme reviews between December 2000 and February 2004. The client consistently maintained a drive for completion by the earliest possible date. However, programmes were heavily qualified. New target dates for completion that were agreed with the design team and the contractors were subsequently not achieved.

Exhibit 23 on page 44 gives examples of programme qualifications. Exhibit 7 on page 19 summarises the six main programmes that were issued between 2000 and 2004 and the repeated slippage in construction in all areas of the site. The Holyrood progress group challenged the construction manager and the architects about the slippage, but no decisive improvement was achieved. New targets were set, but the fundamental problems of non-performance were not overcome.

The audit examination considered progress on 20 of the largest contracts. The average delay in awarding those contracts was 37 weeks. On page 47, members will see an exhibit that describes the delays on eight large works contracts and they will also find another exhibit that shows the number of design variations after contract award for five critical works contracts. As an example, the assembly building's concrete frame was originally programmed for November 2000 to December 2001. However, the period of variations to that contract ran from January 2001 right through to March 2003, and some 1,800 draft change orders were issued.

Some further delays resulted because the design team had to approve design elements that were provided by trade contractors. Another factor was the very tight completion date that the client required. As a consequence, some work was out of sequence and unproductive, which added to the delays.

The challenges of delivering the programme were clearly enormous, but I am not clear that project management did enough to address the underlying causes of the problems. With each revision to the programme, all parties agreed that the new targets were achievable. However, the repeated programme slippage must raise questions about all parties' performance, which no one seems to have addressed effectively.

I note in my report that although project management raised significant questions about some aspects of some of its consultants' work, it has not systematically assessed their performance. In the face of repeated slippage, project management should have managed

performance by measuring what was being achieved against contractual obligations and enforcing those obligations strictly.

11:00

I turn to the reasons for the increased costs of the Holyrood building project and start by repeating a point that I made earlier: the corporate body, as the client, did not significantly alter its requirements after the middle of 2000, but although the size and layout of the building did not change, the cost of realising the design escalated enormously. If estimated landscape costs are included, the actual total, with the £195 million target that the Parliament set in 2000, was £209 million. Since that time, project costs have more than doubled to £431 million.

There was a cost plan prepared in November 2000, and that plan underpinned the £195 million target. However, the question arises whether the basis of the £195 million target was adequate. The construction manager stated that there was insufficient design information to provide reliable cost estimates. In my view, much of the information in the November 2000 cost plan can be regarded only as an indication of a cost target—it was not a reliable prediction of the cost.

A further weakness that contributes to my view is that, even before the cost plan was agreed, it was apparent that the impact of inflation would consume the entire £11 million contingency that lay within the £195 million budget. As a consequence, and although all parties accepted that risks were very likely to occur, no allowance at all was made for other risks. A risk workshop, which was held in November 2000, quantified additional costs for all risks including inflation at some £61 million. Although all those risks had to be eliminated to sustain the £195 million budget, it was not made clear how that was to be done.

In the event, the estimated final cost of most of the trade contracts now greatly exceeds the original cost-plan allowance. Of the 58 trade contracts that I mentioned previously, 41 have an estimated final cost that is 21 per cent or more above the original cost-plan allowance. Five contracts—at a cost of £28 million—increased to between three and eight times their original tender value. In other words, all the project risks that were identified in November 2000 crystallised subsequently and the cost of those risks proved to be significantly higher than was first expected.

Some of the increased costs have been due to the extended construction period; in any project, time slippage can mean that additional costs arise from prolongation, delay and disruption. Prolongation costs are the additional costs of doing the same work over a longer period. On

page 54, two examples—the assembly windows package and the specialist glazing—show how time delay can result in extra costs.

Much of the risk that was identified in November 2000 came from design decisions that were yet to be made. I have explained the high level of design development that affected the project. Because of the large amount of novel and complex features, realisation of the design of many packages pushed costs well above what had been estimated in the stage D design and the November 2000 cost plan. I return to an example that I mentioned earlier. Members will find set out on page 55 of my report a description of the impact on the cost of the foyer roof and the glazing contract. The stage D cost plan included £1.5 million for that part of the building work, whereas the current estimated cost is about £7.4 million.

Another example that I touch on in the report is the impact of blast-protection measures. My report recognises that an important feature of the Holyrood project was the need to develop the design to satisfy security and blast considerations.

Overall, I have concluded that the main reasons for cost increases since 2000 are design development and delay in the construction process. My reasoning for that conclusion is set out on pages 56 and 57 of the report and summarised in exhibit 32. In summary, construction cost increases fall into three main areas: inflation at £19 million; prolongation, disruption and delay at £73 million; and design development at £68 million. Another £4 million represents the project management's estimate of the extra costs that were incurred as a result of the demise of Flour City in 2001.

My work included a review of 20 of the main construction contracts, which represent more than half the estimated construction costs. I show that works packages were often let at times when there was uncertainty about what work would be involved, which affected the project in several important ways. First, it was often difficult to achieve good competition and to deliver value for money. Secondly, where contracts were awarded with uncertain scope and design, project management was not well placed to resist extra time-related costs from contractors. Thirdly, and importantly, there was the ripple effect as a result of which uncertainty in one contract created difficulties in other contracts.

The project has about 58 separate main construction contracts. For construction to work efficiently, the common boundaries between such trade contracts and how they integrate with each other must be carefully defined. However, a drive for early completion often resulted in contracts being placed before all the design work was completed. With the benefit of hindsight, I believe

that that did not provide value for money. If work had been fully designed before the contracts were placed, the boundaries between contracts would have been much easier to define and integrate.

Another consequence of letting contracts before the design was fully developed was the risk that true competitiveness would not be achieved. If the scope and design of the work had remained unchanged, it would have been easier to ensure that contractors complied with the programme obligations, but the changes meant that contractors were reluctant to accept responsibility for delay.

All building projects are subject to change and design development. The Holyrood project is a large, demanding and complex project and the degree of uncertainty in many of its contracts was very high. On page 60 of my report, I identify 11 contracts—from a sample of 20 that were reviewed—in which evidence suggests that the design was insufficiently detailed at the tender stage. I also give examples of the uncertainty that was involved in each case.

I turn now to part 5 of my report, which examines issues relating to project management and control. Any construction project must achieve a balance between time, quality and cost. For example, a tighter deadline for a project can be achieved if quality standards are lowered or if more money is made available. In 1998, the client required that the building be completed by summer 2001. Although time was clearly a priority, quality was equally important throughout the project. Construction management was seen as being the only method of delivering high quality within very tight deadlines.

The client also set a budget at the outset. However, having carried out my examination, the importance of cost is not clear when it is assessed alongside time and quality. Although construction management is not a method that works well on projects that have fixed cost constraints, it was nevertheless the method that was chosen for the project. In 2000, Parliament set a fixed budget of £195 million, but by 2001 that budget was considered unachievable. Thereafter, although the client reported successive cost increases to Parliament, a new budget limit was never established.

Any project should have an approved budget limit—if it looks likely that a budget will be exceeded, project management must take action to reduce costs or obtain extra funding. A decision on which course of action to take should be based on a reassessment of value for money at the new project cost level.

A very important point was reached in June 2001. Parliament approved a lengthy motion,

which—in my interpretation—removed the previous cost constraint of £195 million. The motion has been included on page 25 of my report as exhibit 11. During the debate, it was said that, although a firm figure for the final outturn cost could not be set at that time, there was no question of giving out a blank cheque. However, I question the wisdom of project management not seeking to establish a new budget or approved cost ceiling after the June 2001 debate. In my opinion, the absence of an approved budget contributed to weaknesses in cost reporting and financial control. I have described those weaknesses on pages 71 and 72 of my report.

Although I recommended in my 2000 report that project management should report project costs on a monthly basis, it was not until July 2003 that regular reporting started to the Finance Committee of the total estimated costs of the project. Until July 2003, the reports were provided only quarterly or less often. None of the reports before July 2003 provided information about landscaping costs, and only four of the eight reports that were provided between June 2001 and June 2003 reported all the other main cost items. There was no other regular reporting of total project costs until in July 2003 the corporate body started routine monthly reporting to the Finance Committee on total project costs.

I make an important distinction between budgets and forecasts in my report. A budget is an approved sum that is allocated for a project, which can be viewed as a cash limit—only the authority that approves a budget can vary it once it is set. A budget is not the same as a forecast. A forecast may vary throughout the life of a project as circumstances unfold.

Every fortnight for four years, the cost consultant reported estimated construction costs to the client, but those projections were not a budget. However, project management seemed to regard the costs reports as setting a construction budget. Contractors' invoices were not checked against an approved budget; they were checked against the total estimated costs for the package that were reported by the cost consultant. The danger of confusing forecasts with budget limits is that forecasts will become self-fulfilling if effective action is not taken to contain costs within an approved budget. Exhibit 47 on page 73 shows how cost estimates by the cost consultant marched in step with the rising cost figures that were reported to the Finance Committee between 2001 and 2004.

I will deal briefly with consultants' fees. The corporate body limited its exposure to increases in consultants' fees in 2003, but in my opinion project management could have taken more action at an earlier stage. For example, there was from 2000

an opportunity under the construction manager's contract for project management to convert part of its fee to a fixed lump sum, but project management did not secure that until August 2003. Therefore, it is possible that the client may have paid more on fees than was necessary over the life of the project. The absence of financial incentives to help to bring the project in on time and within budget has, in my opinion, been even more significant.

My final main point relates to the overall leadership and control of the client organisation. In my view, the organisation of the Holyrood project did not provide the necessary clear direction and leadership. The responsibility for management and leadership was divided among several parties and there was no single point of leadership and control. Normally, leadership and control should reside with the project director and the client should give the project director responsibility for making the project happen within specified boundaries and performance targets. In the Holyrood project, leadership and control of the project was not clearly established in such a way.

11:15

I invite members to examine the two diagrams on pages 66 and 67. On page 67, exhibit 41 shows the Holyrood project organisation from June 2000 onwards. That diagram also appeared in my earlier report and was agreed with project management at the time. The Holyrood progress group was established then; in 2000, I concluded that that organisation was appropriate. That is still my view. Members will see that the organisation has all the key features of the Treasury's recommended model, which is shown in exhibit 40. However, the diagrams do not show where the major risks lie. In a conventional contract that is run on the Treasury model, construction risk should be placed with the main contractor, in the central box on the bottom line. The main contractor would contract with, and pass some risk to, the suppliers of goods and services. Neither the project manager nor anyone in the higher boxes, which represent the client interests, carries any significant construction risk in the Treasury model.

In the Holyrood project, things were quite different because the construction management method was used. Construction risk moved right to the top of the tree and has rested with the client, advised and supported by project management, the construction manager and the cost consultant. In my view, that is fundamental to understanding the problems that occurred in ensuring clear leadership and control on the part of the client organisation. The client could not, if you like, stand back from the contractor who was carrying the

main risk and let the contractor sort out the delivery problems. There was no main contractor in Holyrood. Therefore, the client carried most of the risk and the project's management, who were advised by the Holyrood progress group on behalf of the client, had to manage that risk.

A few moments ago, I said that the single point of accountability for, and control of, a project should normally reside with the project director. The need for absolute clarity about who was taking decisions, and the need for that person to have a clear budget limit to work with, was even more important for Holyrood than for a normal construction project because the client was carrying the construction risk. That was one of the main reasons why I emphasised in my 2000 report the importance of having a senior and very experienced construction professional in at least one of the three senior posts of project owner, project director or project manager.

The project owner, who is the clerk and chief executive of the Parliament, is not a construction professional, and neither is the current project director, who was appointed in June 2001, before the main intense period of construction activity started. The senior project manager/project manager is a construction professional, but is less senior in the hierarchy and is not a single authoritative point of command. In my latest report, I have said that the project director has in practice acted as the senior project administrator who co-ordinates the interests of the various parties and the high-level communication and reporting. That is not a pejorative comment or a criticism of her; she did what she was qualified to do and, by all accounts, did it very well.

The Holyrood progress group is an advisory and monitoring group, which was created by the corporate body and has no executive power. Therefore, it is not accountable for delivery of the project. That accountability lies with the clerk and chief executive, the project director and the project team. The Holyrood progress group was not accountable for delivery but, in practice, it quickly evolved into an executive decision-making body. I have given examples of its decision-making role in exhibit 42 on page 68. I do not criticise the group for that. There were professionally qualified and experienced people on the group as advisers and it is right that their expertise was used to the full. It is also perfectly understandable that, because the big financial risks were being carried by the corporate body—as the client—rather than by a contractor, the Holyrood progress group did everything that it could to support the project team in managing the risks. However, my conclusion is that there was not a clear single point of leadership and control in this very complex and challenging project. That has been a weakness in the system; it is not a criticism of the many

individuals who were doing their best to manage the project.

On page 8 of my report, I have listed the lessons from the Holyrood project that I believe are relevant for managing big public sector projects. Briefly, I say that the form of contracting must be chosen with care, with a sound understanding of where the risks lie and how they will be managed; that the construction management method is unsuited for most public sector building projects; that the gateway review process that allows scrutiny of a project at different stages should be followed; that there should be performance payment incentives for contractors; that there should be a single point of leadership and control; that performance should be measured as the project unrolls; and that there should be adequate time for planning before the project starts.

I will summarise my conclusions on the management of the Holyrood project. I remind the committee that I did not seek to form opinions about the performance of the organisations that are involved in the project; it is for the client and project management to consider and address the performance of their contractors.

Despite the slippage and extra cost that have affected the project, a great deal has been achieved. The building is now almost ready and in my opinion it is likely to satisfy the requirement for a high-quality landmark building that reflects the aspirations of Scotland as a nation. We are reaching the point at which everyone in Scotland will be able to make the aesthetic judgment that must be part of the final assessment of the project.

A number of factors have caused slippages in the project, but the main causes of delay since September 2000 have been the production of very large numbers of design variations, and late supply of information during the construction process. Delays to the project have been a major reason for the increases in costs that I quantify in my report. The other main cause of cost increases has been that the cost of realising the design that was approved by the corporate body in 2000 increased enormously. I also quantify that in my report.

There were enormous challenges in the project, but I am not clear that project management did enough to address the underlying causes of the problems of slippage and increased costs. In my opinion, the absence of an approved budget contributed to weaknesses in cost reporting and financial control. The construction management procurement method left most of the construction risks with the client. It was, therefore, essential to have clear direction and leadership to manage the performance of contractors. However, responsibility for direction and leadership was divided between several parties and there was no

single point of leadership and control. That is a weakness in the system and not a criticism of the many individuals who were doing their best to manage this challenging and complex project.

That brings me to the end of my comments on the context of my report and the opinions that I have formed as a result of the audit examination. Before I conclude, I wish to inform the committee about the status of my report with regard to clearance of matters of fact that it contains. Normally, I give accountable officers three weeks to comment on the facts in my draft reports. In the case of the Holyrood report, that period expired on 14 June. The arrangement is a convention that I adopt—there is no statutory or other requirement for me to do so. Prior to 14 June, there were discussions and exchanges of information between officials of the corporate body and the Audit Scotland team. All the concerns and representations that were made to us were considered and, where appropriate, amendments were made to the draft report.

On 16 June, the principal accountable officer wrote to me indicating that he was not able to agree my report in the time that was available and that that would not happen until 16 July at the earliest, which would have delayed publication of my report until some time in August. As the committee is aware, I agreed to make my report available in time for Lord Fraser to use it in his report. However, if I had moved my publication date back to August, it would have been impossible for Lord Fraser to report in September.

The principal accountable officer has indicated his disagreement with my interpretation of and conclusions on the management of the project. He is entitled to do so, because the interpretation and conclusions are my own, but it is not my practice to offer only conclusions that have the agreement of an accountable officer. The essence of my role as Auditor General is to offer an independent opinion based on my audit examination.

However, it is unusual for me to present a report in respect of which the accountable officer has not indicated which matters of fact are of continuing concern. That was the position in which I found myself until late yesterday. In the hours since I finalised this briefing paper, the accountable officer has indicated the matters that are of concern to him; I will be happy to continue to work with him and his team to narrow any areas of difference and I will provide the committee with a note of the outcome of those discussions. However, in the short time that has passed since first I saw the accountable officer's submission, I have not found anything that causes me to change the principal conclusions of my report.

In the meantime, I am personally satisfied that the audit examination has been rigorous and that

my conclusions are based soundly on that analysis. It would be surprising if there were not, in a project that has been as challenging and complex as this, some differences of emphasis and interpretation. However, the audit examination has been thorough and I have, therefore, fulfilled the commitment that I gave to the First Minister and the Presiding Officer to assist Lord Fraser's inquiry to the best of my ability. I have done that by making my report to Parliament today.

**The Convener:** Thank you. Before I invite members to put questions to the Auditor General, I have a number of simple housekeeping duties to perform. I welcome to the committee the MSPs Margo MacDonald and Fergus Ewing, who have attended to hear the Auditor General's briefing. I confirm that they will be given time to put questions first to the Auditor General and later to Paul Grice, if they are still here.

The purpose of our questions is to consider the report entitled "Management of the Holyrood building project", on which we have just received a briefing. We will not be able to put any questions on the Fraser inquiry, as no report has been laid before Parliament that would allow us to do that. The remit of the committee is to consider reports from the Auditor General that are laid before it.

We will examine "Management of the Holyrood building project" specifically, rather than previous reports that Audit Scotland has produced on the Holyrood project. However, I accept that members may wish to make comparisons between the conclusions of those reports and the conclusions of today's report. Members should bear it in mind that the Auditor General has said that he has not, in his latest report, changed his conclusions from earlier reports.

I will seek to catch the eyes of members of the committee to invite them to put questions. Once those questions have been exhausted, I will invite Margo MacDonald and Fergus Ewing to ask theirs.

Members appear to be urging me to begin questions on behalf of the committee. In the first instance, I will speak to the Auditor General's briefing, as most members will have followed that rather than have read the report in detail.

On page 10 of your briefing, you state:

"There was a cost plan prepared in November 2000, and that plan underpinned the £195 million target."

In the following paragraph, you say that a risk workshop that was held in the same month

"quantified additional costs for all risks including inflation at some £61 million."

However, the contingency within the £195 million cost was only £11 million. Was the risk workshop held before the cost plan was prepared?

11:30

**Mr Black:** The cost plan was in preparation for a number of months and was eventually concluded in November 2002. As I understand it, the risk management workshops proceeded in parallel with that, so the two came together at the same time. You will appreciate that, as the project is so complex, I will have to rely on my team to keep me right. I am sure that I will be alerted if I mislead you at any point, but if I do so inadvertently we will correct the error later. My understanding is that the risk assessment and the cost plan proceeded as separate exercises. The cost plan was concluded in November 2002 and the risk assessment was concluded at about the same time.

**The Convener:** From your comments, it appears that the word “separate” is not a mistake—the exercises were entirely separate, in that one plan was prepared without the other being taken into account.

**Dick Gill (Audit Scotland):** To be clear about the timing, I point out that the risk workshop took place in October 2002 and the cost of the risk was quantified in November 2002, which is also when the progress group was informed that the cost plan had been agreed. The exercises clearly took place at the same time; the evidence about the cost of the risk was available when the cost plan was reported to have been agreed.

**The Convener:** So the information was available, but it was not incorporated.

**Dick Gill:** Precisely.

**The Convener:** Page 14 of the Auditor General’s briefing states:

“Although I recommended in my 2000 report that project management should report project costs on a monthly basis it was not until July 2003 that regular reporting started to the Finance Committee”.

The second paragraph on page 15 states:

“The Corporate Body limited its exposure to increases in consultants’ fees in 2003, but in my opinion project management could have taken more action at an earlier stage.”

Indeed, I think that one consultant’s fee was capped a number of years earlier. You state that project management did not secure any capping until August 2003. Given the two comments that I quoted, what interests me is that although project management was more or less the same throughout that period, the nature of the client changed—there had been an election and there was a new corporate body and a new Presiding Officer. In a sense, the client underwent a change and was not consistent. That leads me to ask whether it was the client’s instructions rather than project management that led to your recommendations being introduced. After all,

project management had been in existence in much the same form for a year or two.

**Mr Black:** On a matter of fact, the client did not change but remained the corporate body throughout. The personalities changed—most notably, there was a new Presiding Officer.

I am not in a position to comment on the basis on which cost reporting changed in June 2003. As I said in my statement, I confined my considerations to project management and did not examine the way in which the corporate body discharged its duty and interacted with project management. I therefore find it difficult to give you a helpful answer to your question.

**The Convener:** I might come back later with other questions.

**George Lyon (Argyll and Bute) (LD):** I will go back to the 2000 report “The new Scottish Parliament building”. Paragraph 27 on page 9 lists a number of recommendations that you suggested should be implemented to take control of the project. Will you go through them and tell us which recommendations were not implemented and the reasons why, in your view?

**Mr Black:** At the time of the 2000 report, it seemed that all those elements were put in place. The issue is whether the follow-through on some of them was as comprehensive and rigorous as it should have been. I hesitate to give you a detailed response to the question at the moment, but if you want more information I would be delighted to provide it.

**George Lyon:** Paragraph 20 on page 7 of the report that you published today states:

“The Accountable Officer advised the Audit Committee in October 2000 that he had implemented this recommendation”—

that is, that there should be better cost reporting and financial control. It continues:

“But subsequent financial reporting of the project was not always comprehensive or systematic. For example, regular reporting to the Parliament’s Finance Committee of the total estimated costs of the project (including, for example, the landscaping costs) did not start until July 2003.”

Was the Audit Committee misled at that time?

**Mr Black:** I do not think that the committee was misled. In my opinion, it was reasonable to expect the Finance Committee to have been given full and consistent information on a more frequent basis. The Parliament agreed to the motion that is quoted in exhibit 11, which

“requires the SPCB, on a quarterly basis, to provide information to the Parliament’s Finance Committee on the progress of the project in respect of inflation and materialisation of risk in order to inform the committee’s consideration of the annual Budget Bill.”

On a strict interpretation, reporting was required only quarterly. My concern is that that reporting was not full and consistent on every occasion, as certain elements were omitted. The decision of the Parliament did not match absolutely my recommendation in 2000 for more frequent reporting, but that is a matter of judgment for the Parliament and the client. I could see a justification for saying that quarterly reporting was frequent enough, but personally I welcomed the move to monthly reporting from summer 2003.

**George Lyon:** The point that I am driving at is that you recommended to the client monthly reporting on a comprehensive and systematic basis and the Audit Committee was advised in October 2000 that that had been implemented, but the reporting did not satisfy your recommendation at all.

**Mr Black:** Strictly speaking, that recommendation was not satisfied at that time—it was not fulfilled until 2003.

**George Lyon:** Paragraph 9 on page 6 of your current report states:

“The construction manager repeatedly prepared construction programmes, which included assumptions and commitments by the design team and contractors that were subsequently not achieved.”

Given your statement that one of the main causes of the rise in the project's costs was slippage, can you explain, or did you find out why, action was not taken to address that particular issue? Who was responsible for tackling the problem of repeated construction programmes that were not delivered on time?

**Mr Black:** I refer you to the rest of the text that I prepared for that paragraph. As you said, repeated construction programmes were prepared that proved unrealistic, so more programmes had to be prepared. A large number of programmes were prepared over the course of the project. Project management tested each revision of the programme and sought to ensure that the design team, the various contractors and construction management had the resources to deliver the programme on time. However, it is clear, just from performance, that that process did not prove very effective. Therefore, on a number of occasions, all parties seemed to sign up to the achievability of a particular programme only to find, often within a few months, that that programme was no longer achievable. In common parlance, it seems to me that they had great difficulty in getting to grips with that issue and that no one actually managed to get to grips with it.

**George Lyon:** What were the underlying reasons for the parties' failure to achieve the programmes? Was it because the programmes were unrealistic in the first place or were other

factors involved? Is there any explanation other than that the parties were so over-optimistic at all times?

**Mr Black:** The project is such a complex one that I felt obliged to give you quite a long report and to make quite a lengthy statement. Therefore, in answering those questions, I would not wish to oversimplify the complexity of what was going on.

**George Lyon:** I understand that.

**Mr Black:** Essentially, the client, quite properly, was requiring the earliest possible completion of the project; the construction manager, quite properly, was doing its best to deliver a programme that would achieve that project; and the consultants were also doing their best to deliver. However, as I said in my opening remarks, the main reason for slippage was design variations. Further, as I think that I also made clear, I do not believe that anyone fully appreciated at the outset of the project how complex and challenging the unusual Holyrood building was going to be on its very tight site. As the programmes were being developed and subsequently reviewed, design development was taking place but was also slipping. Therefore, programmes were having to be revisited and the overall programme was starting to slip.

As design development was being revisited, the sequencing of the contracts was being seriously disrupted, which clearly had pretty profound implications for managing the delivery of the overall programme on time. Some pretty complex systems issues were involved, which accounts for what happened. Therefore, it is not appropriate to say that a particular individual or organisation was at fault. People were operating in an environment of a very complex system and were faced with a very unusual challenge because of the complexity of the building and the fact that so much of the design still needed to be realised as the programmes were being developed and construction was being undertaken.

**George Lyon:** Okay. I want to touch on another issue just before I let others have a shot. Paragraph 15 on page 7 of the current report states:

“The uncompetitive procurement of works packages has allowed contractors' claims for prolongation (ie, the extra costs of doing work over a longer period), disruption and delay, which have added £86 million ... to the construction costs.”

Can you explain why it was such an uncompetitive procurement process? Was it because of the time factor and the need to get the project completed quickly? Did that mean that contractors basically had a field day when it came to charging the client?

11:45

**Mr Black:** The answer to that question relates to my answer to the previous question. Design development was taking place at the same time as contracts were being let, and quite a number of the big contracts were for very large fixed sums that could not crystallise until the design development had taken place. That is related to the slippage issue: not only were the projects not fully specified, but they were slipping. As a result, two risks arose. One was that competition was not fully achieved because the contracts were not tendered in any meaningful way; and the other was that, because of the slippage, and because the interrelationship between the different contracts was not working, people found—for reasons sometimes beyond their control—that the delivery of their individual contract was taking much longer than expected. People were therefore incurring costs that were—they would claim—outwith their control. That, in essence, is what was happening.

To help to explain how the £68 million design development figure comes about, I ask members to look at exhibit 32 on page 57 of the report. The exhibit attempts to lay out the information as clearly as we can. The top line shows the approved construction budget—not the cost of the whole project—in 2000. The figure given is £108 million, which is the figure from the November 2000 cost plan. To that, we can add a figure for inflation. The figure shown has been calculated from construction inflation indices, which is a perfectly appropriate thing to do. The next figure of £1 million has been rounded up from the £600,000 that I mentioned and relates to the changes that the client made at the margins of its brief. An estimate of £73 million for prolongation, disruption and delay is shown; that has been calculated from the cost consultant's records. A figure of £4 million is shown for the demise of Flour City.

The current estimated construction cost, including risk, is shown as £273 million. That is a recognised figure. We asked ourselves where design development fitted into the calculations and we have treated it as a balancing item, because nothing else is left to explain it. I hope that exhibit 32 gives members an idea of what was going on. Design development includes the whole issue of blast protection. I do not say a huge amount about that in the report because it has not been possible to quantify separately the effects of designing in blast protection—certainly not in time for this report. However, it is a significant element of the design development.

**George Lyon:** How many of the works packages that you looked into were negotiated rather than agreed by competitive tender?

**Dick Gill:** Exhibit 34 on page 58 shows the 20 works contracts that the team reviewed. Towards the bottom of the table, members will see that three of the contracts were placed following a single tender. In each case, that happened after an unsuccessful attempt had been made to achieve competition—and specialist glazing is a good example of that. In those three cases, because of the difficulties in achieving market competition for the complex work, the project management found itself having to accept a single tender.

**Susan Deacon (Edinburgh East and Musselburgh) (Lab):** Auditor General, in your report and in your comments this morning, you have made it clear that you regard as fundamental the selection of construction management as the procurement method. In paragraph 3, under the heading “Key findings” you say:

“The difficulties of delivering the Holyrood building using the ‘construction management’ method of procurement lie at the heart of the problems that arose.”

Today, you said that, in general, construction management is unsuited for most building projects in the public sector but that it was not necessarily the wrong choice in the case of Holyrood. Would you care to elaborate on your comments? In particular, could you tell us whether, in the course of your investigations and examinations, you have considered the question of why construction management was selected in this instance and by whom?

**Mr Black:** On page 32 of my 2000 report, there was a description of the various forms of construction procurement that can be followed. You might find that information useful as part of an extended response to your question.

The Scottish Office chose construction management in 1998, when the client was the Secretary of State for Scotland. Under that method of procuring building projects, most of the risk stays with the client rather than transferring to the contractors. It was employed in this case essentially because the Scottish Office wanted the building to be completed as quickly as possible. Therefore, it was considered that there should be an architectural competition to ensure that we got a unique building for Scotland and that we should, at the same time, develop as quickly as possible a programme that would allow early delivery. The construction management method offers the unique advantage, in theory, of shortening the time taken to deliver a project.

I said that construction management is not entirely suited to use in the public sector because I do not think that the public sector should normally attempt to achieve projects against timetables that are too demanding. Capital programmes should be planned properly. Therefore, the intrinsic



advantage of construction management should, in most cases, be less appealing in the public sector.

As I described earlier, construction management is not particularly good at ensuring that one controls costs to a budget. Under a private finance initiative, there is a tender and people provide a building as a service, in effect, for a fixed price, which means that the risk is transferred to them. Similarly, under a conventional contract, one would go to tender and appoint a construction contractor to whom the risk would transfer. It is not good practice in the public sector, generally speaking, to leave the risk to be met by the public purse if things start to go wrong.

Construction management can work in some projects, however. For example, a large insurance company that wanted a new office block to be built relatively quickly would know exactly what it wanted: a large building built to a certain standard with certain facilities, space for management, modern information technology ducting and so on. That is relatively straightforward. A budget will be set for it and the company would generally be able to lay its hands on extra money if it needed to. All of that means that the company could use the construction management method to get the building built quickly. The design and the works packages for fitting out an office block could be specified fairly readily. The new Scottish Parliament building, however, is a much more complex building designed by a signature architect. It is quite unique. The heart of the problem relates to the bringing together of the idea of developing a unique building fairly quickly and the use of the construction management method, which lets the risk lie with the public sector.

**Susan Deacon:** Notwithstanding what you have said about the selection of the procurement method, I would like to ask you how you think that that procurement method has been handled. One of the themes that runs through both of your reports and your comments today is the need to have in place the right skills in the right places to do the job.

Paragraph 27 on page 8 of the report that was published today makes it clear that

"Under construction management, where design is incomplete and uncertain when construction starts, the risks stay with the client. It is essential therefore that the client manages design development and has a project team that gives a key role to professionals who are experienced in this construction method."

In your first report on the project, you made similar observations about the need for certain skills to be present in the project management team. To what extent was the issue of skills mix addressed between the publication of your first report and the report that we are considering today?

**Mr Black:** In my first report I presented that matter as a question. I asked whether project management had present at all stages sufficiently experienced and qualified people to run a complex construction management project. I did not suggest that people were not sufficiently experienced; I simply posed the question. I am still in the position of putting the matter more in the form of a question than of a conclusion.

Many very experienced construction professionals were certainly around and advising in the latter stages of the project. However, those people were advising in quite a complex system: the client was a Parliament; the Holyrood progress group was a client representative; the project management team consisted of a number of different people, as I outlined in the exhibit that I talked members through; and there were a number of contractors. There were a number of different people in there who I am sure were well qualified and knew pretty well exactly what the score was with construction management. I guess that my question is: given that many parties were involved in decision making, was there a person at the heart of the project who had a clear grasp of everything that was happening, all the risks that were around and how those risks could be managed? Was there a person who would say things like, "Look, we are thinking too much about time and quality here. How can we manage this project given that our ultimate client hasn't given us a budget?" That is purely my personal perception of what was going on.

**Susan Deacon:** My final question leads on quite neatly from your remarks and relates to the leadership of the project. I was struck by your comment about there being a mix of skills around but no clarity about how the project was being managed and led to ensure that those skills were brought to bear on the situation and that decisions were taken with the necessary clarity. Was it the structure or was it the placing of individuals within that structure that was deficient? Is it possible to make that distinction? You talked us through exhibit 41 and gave an interesting and enormously helpful exposition of some of the structural weaknesses in the management of the project, but I think that you have also been at pains to stress to us that many individuals within that structure were performing well, or to the best of their ability. In simple terms, are you suggesting that there was an issue about square pegs and round holes in the management of the project? Should the holes have been square in the first place, given people's relevant skills?

**Mr Black:** You correctly conclude that one of the key conclusions that I have reached is that the responsibility for management and leadership was divided between several parties and that, in my opinion, there was no sufficiently strong single

point of leadership and control that resided with someone who had very strong understanding and experience of construction management. Normally, leadership and control reside with the project director—the key person in the middle of the diagram at exhibit 41—to whom the client would give the responsibility for making the project happen within specified boundaries. I include a budget in those specified boundaries, so the client would normally say, “Here is your budget of £X hundred million and here is the client brief at stage D. Make that happen; you carry the responsibility for that.” In the Holyrood project, that leadership and control were not clearly established. Several different parties were involved in making decisions, and that diluted leadership. Responsibility and accountability for managing the individual aspects of time, cost and quality were not clearly allocated to any individual or even among the different parties.

As I have said on a couple of occasions—I wish to emphasise this—I am not criticising the individuals involved in this project. They were in a very difficult place at the time. However, the system that they were trying to operate was very complex indeed, and they were operating it to deliver a building that was uniquely challenging.

12:00

**Robin Harper (Lothians) (Green):** You have already referred to exhibit 32 and the balancing item that you call “design development”. Which subheadings would fall under that item?

**Mr Black:** I mentioned the single issue of blast protection, which is certainly a significant element. However, as I said earlier, we had some difficulty in quantifying blast protection, which was a balancing item. We had the project management estimate that the construction costs would be £273 million. For the items that are listed higher up in the table, we could make a reasonable stab at an accurate figure. We were left with £68 million and said that it was for design development because there is nowhere else for that money to have gone.

I have mentioned exhibit 21, which probably provides as good an example of what I mean as anything else. Photographs often speak more than 1,000 words. Exhibit 21 has three pictures and, to repeat what I said earlier, the first image is a computer-generated image of how the architect presented the concept for the foyer roof to the client in June 2000. The second image is also a computer-generated image that was presented to the client in 2001—you can see that it is significantly different from the first image. The third image is a photograph that shows that the design has changed radically. As part of that, the estimated cost of the foyer roof increased from

£1.8 million to £7.3 million. That is but an example, and we could treat lots of individual contracts in the same way, but that would be too challenging.

**Robin Harper:** That sum would include fees for the design work on the three different concepts, plus the knock-on effects of changing the design. I am trying to find out whether it would be possible to break down those figures in any way.

**Mr Black:** The stage D design, which was approved by the client in June 2000, was the client’s specification for the building and set the footprint and the broad layout. Throughout the project, the client’s needs stayed the same but many changes were introduced to make the thing buildable and to address the performance of the building. For aesthetic reasons, judgments were made about materials, finishes and spaces. All those elements were design developments. I suggest that it would be pretty much impossible to quantify all those elements because not all the records would be available to perform such an exercise and it would be far too difficult a task to undertake in any practical sense.

**Robin Harper:** My final question for the moment is about key finding 13, in which you indicate that 13 of the 20 major contracts had three or fewer tenderers. How many tenderers would you expect to get for such contracts in order to be competitive?

**Mr Black:** As a rough estimate, at least five, if not more. It would be preferable to have between seven and 10.

**Rhona Brankin (Midlothian) (Lab):** I want to ask about cost increases. Costs doubled between 1998 and September 2000, and then doubled again following your first report. How reliable were the initial costs? With hindsight, do you think that the doublings of costs were partly a result of the unreliability of the initial costs? How important were the difficulties, associated with construction management, in keeping a grip on the project? Was there a failure to follow up on your recommendations in 2000?

**Mr Black:** It would be difficult to say that there were any reliable costs until the design was fixed in June 2000, because one would need to know what one was costing for. That is why I said that the fixing of the design was a significant milestone. At that point, project management knew what it was being expected to cost. I then went on to say that—

**Rhona Brankin:** I am sorry to interrupt. You say that the design was “fixed”, but we have heard that, as the project developed, many changes were made. There was the main design but, at lower levels, there were many design changes.

**Mr Black:** The client's specification did not alter after June 2000. That specification was realised in the stage D design, which was accepted and adopted by the client as an expression of what the client wished to see. The stage D design did not represent a full set of detailed drawings and instructions that would allow the building to go up. In subsequent years, as project management proceeded to deliver the project, more and more work had to be undertaken to develop the design into a set of drawings and instructions that could allow the building to go up.

Timescales were very tight. Project management and the client tried to keep the construction period as short as possible. Therefore, some contracts were let with fixed sums, to allow for the costs of delivering designs that had not yet been completed. In addition, once the cap of £195 million had been removed, no fixed budget existed for the project. The project was therefore being driven by design development that continued weekly and monthly. Developments were being costed and project management was checking that those costs were reasonable and then authorising them.

The project management control of expenditure and of individual contracts was appropriate, but no big picture was being presented as to how everything was building up and as to how costs related to the overall budget. Cost reporting to the Finance Committee showed the build up of cost projections for individual contracts. I do not think that I am being unfair in saying that I am not sure that everyone appreciated the difference between, on the one hand, the cost consultant estimating the cost of realising all the designs, and, on the other hand, a budget of a fixed amount.

The alternative was for a clear indication of the budget limit within which the project was operating to have been given and for project management to have been focused on coming within that budget limit. If necessary, project management could have gone to the client and said that a compromise on quality was necessary, and that a compromise on time might be necessary, to prevent the cost from continuing to increase.

**Rhona Brankin:** I will move to another area—quality. You have been examining the project from the point of view of efficiency, economy and effectiveness. I am particularly interested in the effectiveness of the project. In your report, you have said that it seems that the building is of very high quality. The quantity surveyor told me that, in all the years that he has been working, he has never seen a building of such quality. In your report, how do you assess quality? In my view, if there are overall lessons to be learned, we must focus on the quality of the building that is being delivered. For my part, I believe that we have an

extremely high-quality building. I would like to know how you assess quality issues, because I think that that is very important to the nature of the audit process.

**Mr Black:** I will give a two-part answer to that, if I may. In the first part, I will remind you of a comment that I made towards the end of my opening remarks. I said that we are only now reaching a point at which an aesthetic judgment can be made on the building. I guess that every person in this room and every citizen of Scotland will have their own views, but there is no doubt that the building is unique and that very high-quality materials have been used throughout. Somewhere in the report, there is a simple exhibit that gives a tick against quality, a cross against time and a cross against budget. We must acknowledge that quality is the one aspect that has been delivered on.

The understandable desire for early completion led to the problem whereby many contracts were placed before all the design work had been completed. I am not sure that that delivered value for money. If the work had been fully designed before the contracts were placed, it would have been possible to achieve better competition and to get the boundaries between the different contracts clearly specified, without compromising on quality. I would not in any sense want to give you the impression that the entire budget of the project, which has an estimated cost of £431 million, has been necessary to deliver a building of such quality. There have been areas in which the building could have been built to achieve better value for money, for all the reasons that I have outlined.

**Rhona Brankin:** You mentioned the issue of time. Obviously, there were huge time constraints, given the uniquely challenging nature of the building and the uniqueness of the design. To what extent did the time constraints that the politicians imposed because of the concerns about getting the building ready for the Parliament to inhabit impact on what is a unique building and a unique system of procuring it?

**Mr Black:** It is entirely reasonable for the Scottish Parliamentary Corporate Body, as the client, to say that it would like the building to be completed and ready for use by such-and-such a date. The role of project management is to advise the corporate body on whether that early delivery is achievable and what the cost and other consequences would be. One of my concerns is to do with the number of revisions to the programme, often within the same ultimate deadline. All parties signed up to those revisions saying, "Yes, we can do this," only for it to turn out in a matter of months that they could not deliver on them. Although I am not blaming individuals, I think that the system for

running the project did not serve the client well. It did not send out full enough and clear enough signals about the implications of the deadlines that were being set for delivery.

12:15

**Margaret Jamieson (Kilmarnock and Loudoun) (Lab):** You commented on the uniqueness of the building and the uniquely challenging nature of its construction. Were the difficulties in putting the design into practice fully understood from the outset?

**Mr Black:** It is not easy for an auditor to read into the minds of individuals what they were thinking a number of years ago. However, I find it difficult to believe that the Parliament and project management would have proceeded exactly as they have done so far had the problems been foreseen at the outset. The natural conclusion that can be drawn from my audit examination is that, when the project started, the problems were not wholly foreseen.

**Margaret Jamieson:** You said earlier that the cost of realising the design escalated enormously. You went on to question whether the basis of the £195 million target was adequate. In appendix 2D, you indicate the impact of blast testing and give more detail on the design issues in respect of the glass roof supports and so forth and the fact that different materials had to be used. Did all those factors have a significant impact on the realisation of the Holyrood dream?

**Mr Black:** Yes, that is absolutely the case.

**Margaret Jamieson:** Again, you also indicate that you incorporated the cost of blast testing and the resulting construction changes into the design development costs. Why did you do that? Were you unable to extract that specific heading or is there another reason?

**Mr Black:** There were two reasons for doing so. The first was the difficulty of extracting the exact figures. I will ask Dick Gill to comment on the analysis that we undertook in that area. The second reason is that the standards of blast protection that have to be applied to a public building such as the Holyrood building predate 11 September 2001 and were around ever since the project started, so adequate blast protection to the required standards should have been built into the design from the outset. Fundamentally, not a great deal changed in that regard as a result of 11 September. I am not sure that that opinion is shared by the project managers, however.

As the design was being realised and developed—as the windows and so forth were being designed—project management had to turn to the necessary standards of building protection.

It then found difficulties in realising them and therefore extra costs came into the individual works packages. We have found it difficult to get information that is specific enough to put a number on the costs involved.

**Dick Gill:** It was challenging to obtain the information that we present in exhibit 32 on page 57 of the report. We started our work at the beginning of this year knowing that the project was expected to cost around £400 million—I do not think that it had reached £430 million at that point—compared with a figure of around £200 million when we last looked at it. We obviously asked why that was, as auditors do.

I remind the committee of something that Bob Black said in his opening statement—it is the responsibility of project management to manage consultants and contractors. We expected to find some analysis of why the costs increased as they did, but it was very difficult to obtain such analysis.

The approach that we adopted to disentangle the effects is as set out and explained in exhibit 32, and that was to account for what we knew of the increases. We could estimate inflation—that is a matter of mathematical calculation. We knew that the client-initiated changes had been logged and recorded and we could quantify them at £1 million. We also found, with assistance from Gardiner & Theobald, a route into costs due to prolongation, disruption and delay, because the cost consultant's records gave us an auditable trail, which enabled us to cost the impact of those factors. As a result of the Auditor General's work in 2002, we were able to put some figures on the impact of the demise of Flour City. The balancing figure—it is described as such in exhibit 32—was design development.

We knew from examining the 20 contracts and the project that the design was evolving, in the way that Bob Black described. We also knew that that was a complex process. As he said, there were something like 10,000 changes. Those changes are auditable in the sense that one can go to any change and find out—if one digs deep enough—what drove that change. However, there was not the summarisation of the information within project management—within the cost consultant, it has to be said—to allow us to analyse what lay behind changes. Even now, there are different views—I am sure that you heard them at the Fraser inquiry—about, for example, the impact on cost of design development relating to blast.

We stand by the figures in exhibit 32. We are confident that they include the main cost items. However, we have not gone behind those figures, because to do so would have taken us a lot longer, and we did not have the time to do that and complete the report in the timescale that Bob Black indicated. I hope that that is helpful.

**Margaret Jamieson:** It is helpful, but it leads on to other questions on blast standards. Paragraph 5 of appendix 2D, under "Design issues", states:

"The original design did not address blast loading requirements ... These demanded a structure which was much more substantial than that which was presented at Stage D."

Taking all that together, I find it difficult to understand why you were unable to say, for that particular part, that X amount related to blast protection.

**Robert Black:** I refer you to my favourite page of the report—exhibit 21 on page 42—because it has pictures.

**Margaret Jamieson:** Are you suggesting that I can only read pictures?

**Robert Black:** Not for a moment.

Exhibit 21 captures what has been happening with the project. A comparison between the photograph of what has been built with the original design that was presented in June 2000 shows how the design has changed and helps us to see what appendix 2D means when it indicates that blast-protection standards had to be fully addressed. However, the realisation of the design was not just about blast protection but about many other things. We cannot say that £2 million of the £7.3 million was for blast protection. What was happening was that the people involved were trying to realise a design and take into account blast standards at the same time. Therefore, it is not possible to give you an exact figure for the cost of blast protection. That is why I go back to my original point, which is that much exciting development was taking place and there was also a growing realisation that protection against blast required increasing attention. That meant that the design's realisation had to be to a higher standard. I am sure that members have seen examples of that when going round the building.

**Mr Kenny MacAskill (Lothians) (SNP):** You have said that it was essential to have clear leadership and direction and that there appeared to be no single point for that; instead, there seems to have been a variety of players. In hindsight, given the number of parties that were involved, do you think that there were any systems or unifying methods that would have allowed the project to operate better? Or, having adopted the methods of design and construction that we did, were we always going to be left with what we have? Was there a possibility for greater harmonisation and a greater, single source of direction, or, given the eclectic mix, was that always impossible?

**Mr Black:** I would hesitate to bring perfect hindsight to bear on the matter. As I have said on many occasions this morning, we must recognise that the people involved were struggling to deal, to

the best of their ability, with a very complex and difficult set of circumstances. I will try to answer your question to the best of my ability. I think that it that would have helped if project management had operated with a budget in mind. It would also have helped if there had been a project director who was clearly personally accountable for delivery within the budget. Such a project director would have been required to go back to the ultimate client—the funder—and say, "Look, I can't do this for the money. What do we do? Do you want to compromise on the design?" In effect, the client would have to be asked whether they wanted a single garage rather than a double garage.

Undoubtedly, difficult issues were involved. The system that was set up was a complex one with many parties, each with an interest in time and quality and some with an interest in cost. However, there was never a clear, systemic, recurrent focus on all those things at one point.

**The Convener:** George Lyon wants to follow up with a supplementary question. Once I have exhausted such questions, I will go to Margo MacDonald. I intend to run on until a point at which, with members' agreement, we will suspend for lunch. I cannot say yet whether we will have finished with questions to Audit Scotland by the lunch break, but I would hope so. Then we might move on to take evidence from Paul Grice in the afternoon.

**George Lyon:** I want to come back to Kenny MacAskill's point because it seems clear from the Auditor General's evidence that there was no clear leadership in the project and that the buck appeared to stop nowhere. The 2000 report strongly recommended having a senior and experienced construction professional in at least one of the three senior posts of project owner, project director and project manager. Clearly, that did not happen. Did that lead to the problems that the project encountered over the following years? Did the fact that that strong recommendation in your first report was not carried through lead to the problems with slippage and the huge growth in cost?

12:30

**Mr Black:** I think that that was a contributory factor and that is why I mentioned it earlier. If we step apart from this unique, challenging and complex project—I apologise for repeating myself—we would normally expect a project to have a project director who was mandated to deliver it, so that it would be very clear where leadership and control resided. In this project, it has been difficult to identify that, which is an issue for me.

Secondly, because so much of the risk rested with the client, it seemed to me to be reasonable

to ask whether there was a strong construction professional at the key point to look after the client interest. Again, I am repeating myself to some extent. The chief executive of the Parliament is not a construction professional and has a very busy day job, but the project required there to be construction skill at a senior level. The fact that that was not the case was a contributory factor. There were experts around, but they were not sitting in the hot seat of project director, with a full understanding of the complexities of running a contract of this sort. I leave that point with the committee.

At senior project manager and project manager level—the next level down—there were people who had skills and qualifications in the construction professions, but they were at a much more junior level. That is not a criticism of those people—they were positioned where they were. I wonder whether there was an issue with the seniority of the person who was really driving the project and had the right set of skills and an understanding of what was happening.

**George Lyon:** Who was responsible for appointing the project director? Ultimately, who appointed the team that would run the project?

**Mr Black:** The accountable officer is responsible for appointing the project director.

**George Lyon:** The second issue that you flagged up strongly in your report was the lack of a budget figure for the project after the figure of £195 million was removed. Who would you have expected to set such a figure? Who is ultimately responsible for financial expenditure on the project?

**Mr Black:** I suggest that the Parliament is entitled to receive advice from its officials on such matters. Had someone appreciated earlier and more profoundly the important fact that having a set budget is a very good discipline to enable a project director to deliver, greater encouragement might have been given to the Parliament in the motion that was lodged in June 2001 to agree a budget limit—if not then, on a subsequent occasion. I imagine that the Parliament was given the impression that the project was in a very fluid developmental state—those are my words, rather than the words addressed to the Parliament—so at the time it was pretty much impossible to agree a figure that would be absolutely robust. Nevertheless, at some point project management should have asked, “What are we going to build this thing for?” It should have considered what affordability criteria it would apply, alongside the criteria for time and quality, who it would hold accountable for delivering those and who would be responsible if the cash limit were breached. That would have helped.

I do not take anything away from the professionalism and commitment of everyone involved in the project, but from my limited experience of the construction industry—which was at chief executive level in public bodies—it is clear to me that the firms that are employed have a commercial interest in ensuring that they are profitable. For that reason, it is necessary for them to be squeezed from time to time. They need to be told that the affordability constraint is £X million and asked what they can do to bring in the work at that price.

**George Lyon:** You are saying that in the absence of a budget and a robust central decision maker, the firms that were bidding to do the work were in a very strong negotiating position.

**Mr Black:** I think that there were points in the construction project at which, as a result of poor competition, the very large lump sums in individual contracts and the imperative to get contracts delivered quickly, bidders must have been in a comparatively strong position.

**George Lyon:** I have a final question. It is quite clear from the so-called cost plan of November 1999—

**Mr Black:** My report mentions the November 2000 plan.

**George Lyon:** I apologise. Given the suppositions that were underneath that plan, it is quite clear that it was built on sand. What should have happened then in order for a grip to be taken on the project? What actions should have been taken to get a grip on costs, times, slippage and all the areas that you have highlighted in which there have been problems?

**Mr Black:** Again, I do not wish to mislead you in any way and will therefore turn to Dick Gill to develop what I will say, as he has been closely associated with the matter. However, I can give a general response to your question.

A lot of work was undertaken on that cost plan once the stage D design was agreed. The stage D design was not sufficiently detailed to develop good, clerk-of-works-type quantities for the realisation of the design because, in most cases, the detailed drawings did not exist. Again, I take you back to my photographs.

**George Lyon:** That is the point that I am driving at.

**Mr Black:** The detailed drawings and the instructions for building did not exist, but people did their best to get a cost plan, which came through in November 2000. That plan was approved, but with qualifications. The construction manager drew attention to the fact that the design on which the cost plan was based was not fully realised and that much more work needed to be

undertaken. I suggest that the risk management, with the £60 million or so risk assessment that was made at the same time, could perhaps have been added in with the cost plan at an earlier stage and that a greater realisation could have been brought about that the £195 million budget was proving extremely difficult—if not impossible—to deliver. Another factor is that the experts said at the time that many—if not most—of the significant cost risks that were identified in the risk plan had a high probability of realisation. I think that more could have been done then to integrate all that information. Again, we may be back to the issue of there being a number of different parties, each with an interest and perception, but no one person sitting there with the big picture firmly in front of them.

**George Lyon:** Would that approach have required the project to be halted to allow such work to be done properly?

**Mr Black:** I am not in a position to answer that question.

**George Lyon:** With the convener's permission, I have a final question—

**Mr Black:** I am sorry, Mr Lyon, but may I invite Dick Gill to amplify my answer?

**Dick Gill:** The question is, what should have happened in 2000 to ensure that the project came in on time, to cost and to the necessary quality? That is the big \$64,000 question.

I remind members of something that was in Bob Black's 2000 report. Paragraph 1.37 of that report included a statement that was agreed with all parties at the time. It said:

"Project management and all consultants consider that £119 million—

which was the estimated construction cost—

"is a cash limit within which the contract costs must be contained."

That was the view when the Auditor General published his previous report.

In the light of the cost pressures that were revealed by the risk workshop in autumn 2000, I think that it was necessary for all parties to ask themselves, "At what cost can we deliver this project?" I think that the Auditor General has reservations about the basis of the cost plan in November 2000 because it is not clear that it addressed that critical question, as it did not deal with the question of risk, which all parties knew was present.

**George Lyon:** I have just one final question—

**Susan Deacon:** This will be George Lyon's fourth final question.

**The Convener:** He has not yet been able to put his final question.

**George Lyon:** Given that project delivery depended on time, quality and costs, which of those three drivers took precedence?

**Mr Black:** With the greatest of respect, that is for the client to determine.

**Rhona Brankin:** You said clearly that construction management was not necessarily the wrong choice, but that a tight system for delivering the building should have followed on from that. Let me ask a direct question. Given that the failure to establish a budget has been an important factor, where does responsibility for that failure lie?

**Mr Black:** Again, that reflects the fact that many parties were involved. As I explained to Mr Lyon a short while ago, if project management had had a construction professional who was fully aware of all the risks that were associated with not having a budget, it is more likely that the Parliament would have been advised at a key point what the future financial implications were and how important the budget was in ensuring that control could be achieved. It would be unreasonable to expect members of the Parliament at their own hand to require such a budget to be set. Members are advised by their various officials.

I do not feel able to go beyond that general statement.

**The Convener:** Margo MacDonald's question will be followed by a question from Fergus Ewing. They have eight minutes each.

**Margo MacDonald (Lothians) (Ind):** I will rattle through my three questions, but let me first thank the Auditor General for pinning the myth about blast protection. The specifications for the quality and scope of the work that was to be carried out should have been set at the start of the project, so that the contractors tendered on the basis of what it would cost to meet those standards. Perhaps the Fraser inquiry will consider that issue further, especially now that it has been pointed out so eloquently and straightforwardly this morning.

You said that a basic flaw in the project was that no budget was set for it. I think that you were kind to the Parliament, but that, ultimately, it is our responsibility, as owners of the building, to determine in the public interest how much it should cost. However, we should have been advised via the chain of command, so I am interested in who topped that chain. Who advised that we could operate without a budget and who advised that we should operate with construction management? As I seem to recall, the architects advised the advisers at an early stage in the process that construction management might be a suitable way to proceed. If that issue is outwith the competence of the Auditor General, I will quite understand. However, the committee might want to inform Lord Fraser of that issue.

My second question is more pertinent to the future costs that we might incur. On page 8 of the report, paragraph 24 states:

"Although project management raised some significant questions about some aspects of some of its consultants' work, it should have systematically assessed their performance."

Does the lack of any systematic assessment of the consultants' performance mean that they could defend any claims that might be made against them after completion by saying that they were not advised during the project that their work was unsatisfactory? Will that make it difficult for the Parliament to recover any costs?

12:45

**Mr Black:** I find it difficult to respond on your first point, about who advises the Parliament, because the project is so complex and because I did not examine the deliberations of the Scottish Parliamentary Corporate Body, which is the ultimate client and has the responsibility of advising the Parliament. My report concentrates primarily on project management and control; it will be for Lord Fraser, if he is so minded, to comment more widely on matters relating to the performance of the SPCB and the Holyrood progress group in terms of how they related to each other and were advised so that they could advise the Parliament. That is not an area in relation to which I would feel confident about giving an answer. I apologise for that.

On the point about the systematic assessment of the performance of consultants, it is right to say that, in my report, I conclude that the assessment of the performance of consultants has not been well recorded and that unless good records are kept of the on-going performance of contractors in relation to an individual contract, it is that bit more difficult for a client who wishes to pursue an action against anyone with whom they might have made a contract to do so. However, I am not in a position to say anything about the consultants who were employed in this contract and it will be for project management and the client to pursue individual contractors if they feel that that is appropriate.

**Margo MacDonald:** Paragraph 9 on page 6 says:

"Project management should have done more to address the root causes of problems, which were adversely affecting the cost and programme ... As slippage became evident project management did test each new revision and sought to ensure that the design team, the construction manager and the trade package contractors had the resources and commitment to deliver on time. But it was unable to find the means to manage these risks effectively."

Presumably, that means that there was a clear management failure. That is not an abstract

concept; there are managers who were employed to manage. I take it that you are making a criticism of the managers of the programme.

**Mr Black:** It might be helpful if I indicate what I mean by that paragraph, particularly the sentence

"But it was unable to find the means to manage these risks effectively."

In that section, I am saying that a lot of activity was focused on that issue as slippage became evident. However, the ultimate test must be whether that slippage was taken out of the system and whether the programme was settled. That did not happen. Therefore, what I am saying is that, against that ultimate performance standard, programme managers were unable to find the means to manage the risks effectively, as the programme kept slipping and new programmes had to be produced.

With regard to responsibility for that, as I said some time ago, one of the distinctive features of this unique construction project is the complex system for running the project. I think that it is reasonable to say that the many different people who were involved were using their best endeavours to deliver the project, but that it was not possible for any individual to bring the project in on time and at cost because of system failures. I am not in a position to apportion blame between individuals. That is difficult to do because everyone was operating in a complex system.

**Margo MacDonald:** In other construction projects of which you have knowledge—I note that you said that you were not terribly experienced, but you have some experience—was it not the job of the construction manager, the project director or whoever was the person at the top to manage the system?

**Mr Black:** In a conventional contract, that is the case. That is why I included the two diagrams on page 67, which contrast a traditional project's organisation with the Holyrood project organisation.

I am sure you will recall that I mentioned in my opening remarks that the risk in relation to Holyrood resides with the corporate body. That situation is most unusual and the focus is on the project manager to deliver; in this project, it is not possible to pass on the risk to a contractor in the normal way. That led me to the view that there are systems issues in the project that are difficult for people to cope with, and for that reason I would not wish to single out an individual as the person who is responsible for what has happened.

**Margo MacDonald:** Were you able to identify whether the project director/sponsor is answerable to the principal accountable officer or vice versa?



**Mr Black:** There is absolutely no doubt that the project director/sponsor is answerable to the principal accountable officer.

**Fergus Ewing (Inverness East, Nairn and Lochaber) (SNP):** The current estimate for the Holyrood project is £431 million. I will ask three questions, the first of which is simple. Had it not been for the problems, errors and mistakes—principally in design—and delay and disruption, what should the project have cost?

**Mr Black:** It is almost impossible to give a direct answer to that question, although in exhibit 32 on page 57 we quantify some of the factors that contributed to the increase in cost. In such a complex project we would never have found ourselves in a perfect world, but it is fair to say that a large amount of the prolongation, disruption and delay should have been avoided in a well-managed project. To say that the entire £73 million could have been avoided would involve looking for the ideal, but perhaps a few tens of millions could have been avoided and it might also have been possible to reduce the figure for design development. Paragraph 15 on page 7 states:

“The uncompetitive procurement of works packages has allowed contractors’ claims for prolongation ... disruption and delay, which have added £86 million (including VAT) to the construction costs.”

That links to the figure in the table on page 57, which excludes VAT.

**Fergus Ewing:** I notice from paragraph 12 that design development is said to account for £80 million of the increase, and from paragraph 15 that delay and disruption account for £86 million. We then have Flour City—the issue to which I will turn—which accounts for £4 million. That would give us a net total of £150 million, which happens to be the figure that I said the extra cost would be in my column in the *Inverness Courier* two weeks ago.

As you know, Auditor General, I made recommendations to your office that certain additional inquiries should be pursued further to the December 2002 report, which focused largely on Flour City. For those who are not intimately acquainted with the facts, I point out that Flour City is a company that was awarded a £7 million contract but which had assets of £2, no UK directors and no track record. The Auditor General identified in his December 2002 report that the company gave false information when it completed the pre-qualification questionnaire. It indicated that the estimated turnover of its parent group was £40 million when it was in fact £30 million and it possibly never produced any—

**The Convener:** Will you get to the question, please? You are using up time.

**Fergus Ewing:** I have little time available.

**The Convener:** You have nearly as much as everyone else.

**Fergus Ewing:** I am setting the scene because these are complicated—

**George Lyon:** On a point of order, convener. Some of us have read the report and the papers that were issued to the committee. Would Mr Ewing care to get to the question? We do not need a lecture on what is in the report.

**The Convener:** That is not a point of order, but I hear what you are saying. Please, Fergus, move on.

**Fergus Ewing:** I am referring to pages 88 and 89 of today's report. I have two questions for the Auditor General. First, were the inquiries that I suggested should be made pursued, in particular to ascertain whether Scottish companies such as Blair Windows, which has said that it was used and abused for its expertise, were consulted in relation to this inquiry? Secondly, has the inquiry considered the reason for the distinction between two groups of trade contractors in general in the management of risk by the construction managers? The first group are those for which a performance bond was obtained; the second group are those for which no performance bond was obtained. A performance bond is obtained only through an up-front payment by the trade contractor to obtain what is essentially an insurance policy. Unlike a parent company guarantee, it involves a cash injection. I am interested to know whether the inquiry has taken to its logical conclusion the work of December 2002 in looking at that specific issue. It seems very strange to me that there are those two groups.

**Arwel Roberts (Audit Scotland):** As regards the additional work on Flour City, for the purposes of this report we rested entirely on the work that we had done for the report that was made in December 2002. The bonds that were or were not obtained by individual companies were not an issue for this report.

**Fergus Ewing:** Can you answer the second question?

**Arwel Roberts:** Your second question was whether we distinguished between the companies that provided performance bonds and those that did not. As I said, we did not regard that as an issue for this report.

**Fergus Ewing:** Okay.

My last question relates to the interrelation of the two main reports and the main recommendation in the original report. I will read briefly from that report. Paragraph 27 on page 9 of the September 2000 report, which has been the subject of questioning from Mr Lyon, states:

"It will be over two years before the project is completed and most of the expenditure has yet to be incurred. I have therefore listed below a number of recommendations which, if they are implemented, should help to ensure that future risks are properly managed and the Scottish Parliament building is delivered on time and within budget."

Your conclusion was that, if the eight recommendations that were set out in paragraph 27 of the September 2000 report were implemented, the costs should have been around half what they have proved to be.

Mr Lyon asked you to identify which of those eight recommendations have been implemented and which have not. The answer to that question is given in exhibits 8 and 37 of the current report. In short—because I have to be short—both exhibits 8 and 37 show that every one of the eight recommendations was accepted or implemented. The question, therefore, is this: in retrospect, was not your conclusion that the costs of the building could have been contained within the budget and that it could have been delivered on time hopelessly naive and optimistic? Was it not the case that the writing was on the wall, as Bill Armstrong, the sacked project manager—or the project manager who resigned—stated in his valedictory memo to Barbara Doig of 18 December 1998? He said:

"The programme will drift; the costs will increase; the Design Team will make claims; the contractors will make claims; and the project will become a disaster."

Surely, when you wrote that report in September 2000, your conclusion was a tad optimistic.

13:00

**Mr Black:** In response to a question from Mr Lyon, I have undertaken to give the clerk a note of the extent to which I think that the recommendations were implemented. I will be pleased to do that. I remain of the view that the conclusions and recommendations in my 2000 report were appropriate. My general response to Mr Ewing's question is that the recommendations have not been implemented as fully and effectively as they might have been.

As I think I said in my opening remarks, the 2000 report was in no sense a full audit examination of a project that was barely started in terms of expenditure programming. It was a response to a wish that had been expressed by the convener of the Audit Committee and other members of the Parliament for me to undertake a quick exercise in the first three or four months of my office that might draw out some lessons and recommendations that could get the project back in line. I respectfully suggest that that does not mean that I am accountable for delivery of the Holyrood Parliament project.

**The Convener:** Thank you. Before I conclude the item, I have one question. Your report states:

"Because of uncertainty about the final costs and completion of the new Parliament building it is likely that I will report again on the management of the project and its consequences at a future date."

Are you able to say any more about what or when that might be?

**Mr Black:** I cannot give you any indication of when I might revisit this, as the project is still running—as we all recognise. The ultimate cost to the public purse will depend significantly on when final settlements are achieved with all the many contractors and consultants who have worked on the project. It will be a case of my continuing my watching brief until such time as I am in a position to make a further report to Parliament.

**Margo MacDonald:** Are you satisfied that you will have enough insight into the financial clearing-up and negotiation that may yet take place? I ask that with reference to the question that I asked about possible claims that might be made one way or the other.

**Mr Black:** I certainly expect to be able, at some future point, to look back and analyse the documentation relating to any claim settlements and actions that might take place in order to conclude whether the public interest has been safeguarded in the pursuit of those claims. However, that is unlikely to be an early exercise on my part.

**The Convener:** Thank you, Auditor General. That concludes this session. I suspend the meeting until this afternoon, when we will come back to hear evidence from Paul Grice.

13:03

*Meeting suspended.*

14:36

*On resuming—*

**The Convener:** Good afternoon, everyone. We suspended the meeting for a lunch break but we now recommence with the Scottish Parliament's chief executive and accountable officer, Paul Grice, and some of his advisers. In a moment, I will ask Paul Grice to introduce those advisers. Before doing so, I remind everyone to turn off their pagers and mobile telephones. I welcome members of the public and the press to the meeting.

**Paul Grice (Scottish Parliament Clerk and Chief Executive):** I will start by introducing Dave Ferguson, who has led in providing Parliament's input to the audit report, and Paul Curran, who is the senior project manager and head of the Holyrood project team. Sitting behind us, although not giving evidence today, is Ian Leitch, who is one of our legal advisers. I have an opening

statement, but I will keep it brief so that we can move on to questions.

I am grateful to the committee for giving me the opportunity to present evidence this afternoon. I hope that members have before them my letter of 28 June, which is intended to be read alongside the Auditor General's report. I am well aware that the committee's prime concern is to ensure that proper consideration is given to the examination of the Holyrood building project and I recognise the importance of that consideration being undertaken expeditiously. The purpose of my letter is to alert the committee to what I believe are relevant points of fact and omission. At this stage, I do not necessarily seek to respond to the findings of the report, although I will be happy to try to respond to any points that committee members raise. My aim is to bring as much information as I can to the committee in order to ensure that everyone involved in the process and the project has played as full and detailed a part as possible.

We are in uncharted territory. To the best of my knowledge, neither the committee nor I have ever been in the position of dealing with a report from the Auditor General in which the facts are not agreed. I understand better than most the pressures that Holyrood entails, but I believe that Mr Black and I would have been better to continue what have so far been constructive efforts towards agreeing those facts before a report was presented to the committee. To the best of my knowledge, nothing in Lord Fraser's remit or in the arrangements that established the inquiry required the Auditor General's report to be produced before Lord Fraser's. It is, of course, a matter for the Auditor General whether, and on what basis, he shares information gleaned from Audit Scotland's examination with the Fraser inquiry team. Nonetheless, we are where we are, and I intend to play a constructive role in taking matters forward from here.

I will focus on the major areas of concern, which break down into two categories: findings that I argue are not supported by the facts and areas in which I believe that insufficient analysis or evidence has been produced to support the findings. Broadly, I will follow my letter, but I will expand on the points that are made therein when I think that that would aid understanding.

My first comments are on the cost plan. I have little to add to what is in the text of the letter, other than to reiterate that the cost plan at that stage—in autumn 2000—met the purpose for which it was intended. In other words, it formed the basis on which the cost consultant and the construction manager produced a package-based cost plan. The consultants signed up to that plan, which was produced in November 2000.

The allegation in the report that the cost plan was in some way qualified must be challenged.

The evidence indicates that, throughout August to November 2000, the construction manager and the cost consultant made considerable efforts to resolve a number of problems. The qualification that the Auditor General identified derives from a letter from the construction manager to the project team of 10 October 2000, in which the client was asked to seek written confirmation that the architects should redesign to achieve the target rates and budgets that had been set for the trade packages. It seems fairly clear that, if the architect did not do that, he could have been in breach of his contract. However, the need for written confirmation was removed when the construction manager informed the architect on 24 October 2000 that he acknowledged that the architect had previously agreed to that proposal. All the evidence since confirms that, by November 2000, the construction manager and the cost consultant had resolved all the differences between them to finalise a cost plan that was acceptable to all parties.

Programming, which is picked up twice in my letter, is an area of fundamental disagreement. On a number of points, the report concludes that many of the difficulties, and some of the prolongation and disruption costs, resulted from the client insisting—against construction management advice—on unachievable completion dates. I believe that that is not supported by the facts; indeed, I contend that it is contradicted by the facts. At all times, the client sought the best achievable programme and the construction manager used his professional expertise—on which the client was entitled to rely—to provide that.

Although the client, in the shape of the corporate body, had a natural desire to get into its permanent accommodation at the earliest opportunity, it always sought the best achievable completion dates. In other words, it expressed its wish for the building to be completed as quickly as possible, but relied on the construction manager to produce the programme. On each occasion, the construction manager exercised his judgment on what was achievable. The construction manager has a contractual responsibility to programme the works on site. It is the construction manager's responsibility to use his judgment to say what is achievable and what is not achievable. The construction manager has exercised that responsibility throughout the project.

The evidence is that successive construction manager-produced programmes have proved unachievable even though, at the time, the construction manager considered that they were achievable. The client accepted that professional advice. However, contrary to the impression that is given in the Auditor General's report, the client—through the corporate body and the progress

group, as well as project management—was sceptical about the construction programme. The construction manager was challenged regularly, but provided assurances that the programmes were achievable.

I am mindful of the Auditor General's report of September 2000 and, in particular, of recommendation 27.d, in which he states:

"Now that the design of the building is firm project management should pass more responsibility to Bovis as the construction manager and avoid the danger of duplicating the services that Bovis are commissioned to provide."

That was clearly intended as a warning to project management not to do the work of those people who were paid to do it. I agree—the client is not expected to replicate the work of professionals who are paid to do it. With construction management, that point is fundamental. However, project management, in pursuit of their duties and on the recommendation of the progress group, employed a forensic programmer to check the programmes, because of concerns that they were over-optimistic. That action and follow-through by project management is consistent with the client testing but not duplicating the contractual obligations of Bovis. More important, it shows that the client's challenge was rigorous, as required.

I make no comment on the construction manager's performance in that regard, but it is important to understand that it was his professional and contractual responsibility to produce programmes, which is what he did. The client's natural desire for the building to be finished as quickly as possible cannot be misrepresented as the client itself setting unachievable and unrealistic programmes. Indeed, the decision that the Parliament took in 2001, on the recommendation of the progress group, to remove the December 2002 programme target is a confirmation that the client accepted that reality.

The report also fails to address in any detail a key fact in relation to cost and programme—from November 2002, the cost consultant was advising the client that the programme was cost neutral in the sense that the cost of accelerating the programme would balance the additional cost of remaining on site longer and that bringing the project to an end as soon as possible was the most economically effective route. That key information and its relationship to the programme advice produced by the construction manager is not, in my judgment, adequately analysed in the report.

14:45

I am well aware of the criticism of cost reporting in the 2000 report. That was addressed specifically at the reporting of project management

to the corporate body. At that time I accepted the criticism and have since sought to act on it. That has been addressed specifically by fortnightly reports to the progress group by project management and by monthly reporting to the corporate body. To suggest otherwise is incorrect. Annex 2 to my letter gives dates for all the reports since 2000.

The report also criticises the corporate body for beginning monthly reports to the Finance Committee only in July of last year. In fact, the quarterly reporting until then was exactly in line with the resolution of Parliament in June 2001. The monthly reports in the last year of the project were appropriate because of a significant increase in spend and in activity on site. That exceeded the frequency of reporting required of the corporate body. It is important not to confuse reporting by the corporate body to the Finance Committee—quarterly then monthly—with project management reporting to the corporate body and the progress group, which was very much the focus of the Auditor General's report in 2000.

On fee capping, the Auditor General is, of course, entitled to reach his own opinion that fees should have been capped earlier than 2003, but I do not believe that the key facts are properly explained. The first, and most important, is that none of the contracts with the consultants provides for fee capping. The client is not, therefore, able to cap fees without the agreement of the consultants. Negotiations on fees are extremely difficult, especially against a background in which the consultants are expected to continue to work flat out on the project. In fact, negotiations with the architect began in early 2002, but were not concluded until July 2003 precisely because of that difficulty.

By accepting a fee cap, the consultants are taking a significant risk; they will not do that unless the cap is sufficiently high or until they are reasonably certain of the amount of resource that they will have to dedicate to the job until it is complete. Timing is therefore highly relevant. The closer to the end of the project, the greater the certainty and the more likely it is that the consultants can be persuaded to accept a reasonable fixed sum. That is exactly what happened. The report does not accurately reflect the contractual position and it does not note the reality of negotiating fee caps in circumstances where there was much uncertainty.

I have so far addressed some key areas where I have concerns about the presentation of the facts. There are other areas where I believe that the analysis of evidence is not adequate or is not presented in sufficient detail to support the conclusions that are reached. The first relates to the increase in costs. The report provides a useful

insight into the way in which the detailed design developed. The fact that the design developed and cost increased is not in dispute, but the report fails to provide an analysis of the change control process that exists. I argue that that is fundamental to understanding and assessing project management's role and, more important, whether the cost increases were justified. It is not sufficient, in my judgment, simply to observe that design development led to increased cost.

The next issue that I would like to talk about briefly is blast. Blast has been one of the most visible, challenging and costly factors of the Holyrood building. The key issue for detailed consideration must surely be how blast was handled at stage D and subsequently. Blast protection gets only a fairly cursory mention in the report. In my judgment, a much more detailed analysis is required to understand the effect of that issue on costs and the programme.

Finally, one major omission in the report is, in my judgment, the absence of any systematic analysis of the role of the Holyrood progress group and how it related to the corporate body and project management. The Holyrood progress group was created by the corporate body on the direction of the Parliament. It has had a profound effect on the management of the project. The early part of the Auditor General's report frequently and appropriately refers to the progress group inputting and taking decisions, so clearly the Auditor General has recognised its importance. However, the report does not explain that, in managing the Holyrood project, I am required to act on the guidance of the Holyrood progress group and that, in turn, my formal delegation to the project director requires the director also to act under the guidance of the progress group. Those were the strongest terms that could be expressed within the terms of the Scotland Act 1998.

There is an enormous amount of material that describes in detail the central role that the Holyrood progress group has played over the past four years. Without an assessment of that role and how it has impacted on the management of the project, I cannot see how it is possible to draw reliable conclusions on the central issue. I acknowledge the Auditor General's points, but I cannot agree that the right course is to leave the matter to Lord Fraser. Given that the Auditor General's report is intended to examine the management of the Holyrood building, it must stand on its own and investigate and assess the key issues, including the role played by the body that was set up by the Parliament to oversee the management of the project.

I leave it to the committee to consider my comments. All along, Parliament staff and I have been guided by the Auditor General's goal of

examining the management of the Holyrood building project. I have covered the areas that I believe contribute to that goal and without which we are left with an unfinished picture.

I will close with two final points. The decision to publish an uncleared report left me with no option other than to put my concerns before the committee. However, there is much in the report of a factual nature with which I can agree. It certainly provides a helpful description of and insight into the history of the project. It will also prove valuable in the management of major construction projects in the public and private sectors. However, today I have had inevitably to focus on areas of disagreement.

I recognise that the committee's priority will be to take matters forward from here. I am ready, of course, to give such further assistance to the committee and, indeed, to the Auditor General, as may be required for that to happen.

**The Convener:** Thank you. We move to questions from members. Initially, questions should be focused on the issue of clearance. We should have time to take questions about substantive points of the report and Mr Grice's statement later.

Mr Grice, in the letter that you submitted to us, which is slightly different from the statement that you have made—in a sense, one is additional to the other—you say that you indicated that you felt

"that agreement on the text could be achieved by the middle of July".

Having read your letter and heard your statement, one might conclude that on some matters there are significant differences between you and the Auditor General. Do you think that agreement could be reached with the Auditor General on those issues?

**Paul Grice:** I certainly think that we should spend time on closing the differences. At the beginning of a negotiation, one cannot guarantee that one will reach the far end of it. However, my suggestion would have given us three or four weeks. The reason why I suggested in the middle of June what I accept is a long timescale was that I recognised that further analysis needed to be done. No doubt, further input from us was also needed. In my judgment, every 10 per cent by which the gap on facts between the Auditor General and us is closed must be helpful.

Even if we had not achieved agreement—and there was a reasonable prospect of our doing so—it would have been helpful for us to make the attempt. I accept that that is a judgment, but it was my position. I suggested that we take several more weeks because I recognised that there was quite a lot more work to be done. I put on record

the fact that both the Auditor General's team and my team had worked extremely hard up to that point. In my mind, there is no question of people not giving it their best shot. However, this was an extremely tight timescale for dealing with a huge report. The people on my side are also engaged in finishing the building, so there is a balance to be struck. I think that we would have got an awful lot further, but I am afraid that I cannot say whether we would have agreed all the facts.

**The Convener:** In your statement, you spoke about how the progress group required you to act on a number of matters. To whom are you accountable—the corporate body or the progress group? Has the introduction of the progress group changed the identity of the client or has it simply added a further tier at some level of management of the project?

**Paul Grice:** I am accountable to the corporate body, which effectively delegated this matter to me—in other words, gave me the job of finishing the building. However, in doing so it said that I must be guided by the progress group. My accountability to the corporate body and its delegation to me are subject to my taking guidance from the progress group. If, exceptionally, I do not accept that guidance, I must take the matter to the corporate body for resolution. That is the set-up.

If that sounds a little tortuous, it is because, under schedule 2 to the Scotland Act 1998, the corporate body can delegate functions only to me and to the Presiding Officer. There is no doubt in my mind that, had the corporate body been able to do so, it would have formally delegated functions to the progress group, thereby removing the need for the set-up that we came up with.

To all intents and purposes, we behaved, and I acted, as if the progress group was in control. That was the clear desire of the Parliament, not just of the corporate body. The Parliament instructed the corporate body to do as it did. It was the desire of the corporate body for us to behave in that way and that is what we sought to do in the three or four years since.

**George Lyon:** I return to the status of the Auditor General's report. For the first time for five years, the Audit Committee has before it a report that has not been agreed by the accountable officer. That is a very serious matter. Could you clarify for the committee whether you are disputing the facts in the report or the conclusions that the Auditor General has drawn from those facts? The two are of a different magnitude.

**Paul Grice:** I am afraid that my answer is probably both. If the facts on which findings have been drawn are not agreed, I suggest that the committee ought at least to call into question those

findings. I respect absolutely the Auditor General's right to form opinions and conclusions. I am well used to that and I uphold that right. I have tried to focus on the facts. It is difficult if a finding has been drawn directly from a fact that, in my judgment, is not an agreed one. I have tried to focus on the facts, but those and the findings are linked.

**George Lyon:** Are you asserting that facts are missing or that they have been used wrongly in drawing conclusions? Are you challenging some of the facts in the Auditor General's report? That is a serious matter, as it suggests that the Auditor General is misleading the committee and, therefore, the Parliament.

**Paul Grice:** Not at all. The Auditor General himself said that, as the project is so highly complex, one can inevitably reach different views, even on the facts. Some of the facts are simply not correct, in my judgment. That includes some of the information on programming, for example. I think that the way in which that information has been presented is not accurate. I am not suggesting that the Auditor General is looking to mislead anyone, but I argue strongly that that information is not an accurate representation of how the programming was done. For example, it does not accurately describe the contractual and professional role that Bovis played. In my judgment, it does not reflect what the corporate body did.

There are other areas where I think there are bits missing. The most obvious point is that there is no analysis in the Auditor General's report of how the progress group and project management worked together. I listened to a lot of the questioning this morning. Such an analysis would have been highly relevant, but it is not there. There is also no proper analysis of the change control system, which impacts on blast proofing. Those issues are missing from the report and I think that some further analysis or information in that area would be helpful. To reiterate the answer to George Lyon's question, it is some of both.

**George Lyon:** I have some questions about other areas.

**The Convener:** I ask members to stick to the issue of clearance.

**Rhona Brankin:** My understanding is that, when the announcement was made that there was to be an independent inquiry, following discussions between the First Minister, the Presiding Officer and the Auditor General, it was agreed that the Auditor General's report would feed into that inquiry. Are you suggesting otherwise?

**Paul Grice:** No. It is entirely a matter for the Auditor General how he feeds into that inquiry. That does not necessarily require the publication of a report, but that is a matter for the Auditor

General and Lord Fraser. I accept that it is a matter of judgment. I would much rather have continued with a process by which, behind the scenes, we tried to agree the terms of a report. I do not want to be in front of the Audit Committee having this conversation. That is why we have a process and I very much regret that the process was not followed. I honestly felt that the process could have been pursued further, with a formal report still being made to the Audit Committee a good time ahead of Lord Fraser's report. I do not know whether there are other ways in which the Auditor General's examination input could be fed into the Fraser inquiry. That is a matter for Lord Fraser and the Auditor General; it is not a matter for me. There was nothing in the original terms that said that the report must be made at this point in time.

15:00

**Rhona Brankin:** You are saying that it would have been impossible to get an agreement within the timescale in which Lord Fraser will be announcing the results of the inquiry. However, you accept that the intention of the Auditor General's report was to feed into the Fraser inquiry.

**Paul Grice:** Certainly the Auditor General's report was supposed to feed into that inquiry. In my judgment, it would have been better to have spent a few more weeks trying to sort these matters out. I still think that that would have allowed time for this report to feed into Lord Fraser's report. I do not know what links there are behind the scenes but, obviously, that is not a matter for me.

**The Convener:** Do you accept that, given that the Auditor General's report has to be laid before Parliament, the timescale that you outlined in relation to the middle of July would certainly have required the committee to reconvene during recess, presumably in August.

**Paul Grice:** Or July. I accept that and I should say that I have a great deal of sympathy with the difficulty in which the Auditor General found himself. It is not that I do not understand his position; I well understand it. It is difficult for everyone. It is a difficult time for him to do a report on a project that is not finished. For us to support a report on a project that is not finished puts us both in an extraordinarily difficult position. I absolutely understand where the Auditor General is coming from and I do not intend to be critical. It was his judgment that it was right to publish—I work with him closely and respect and understand where he is coming from. I am simply saying that my judgment—which I have to put before the committee—is that it would have been better to spend a few more weeks getting our positions

closer together. If we had agreed the facts, that would have been marvellous and we would now be before the committee having a different debate.

I accept that the Auditor General had to make difficult judgments; I have had to make some, too, before coming here today. That might be a consequence of both of us having to do this work before the project is finished. The Auditor General will be the first to tell you that he would usually do a review after a project is finished and that he has had to do three reports on the Holyrood project while it has been on-going. That has been difficult for him and for the people working on the project. However, that is just a reality that we both have to face.

**Susan Deacon:** Convener, I might be covering old ground here, but I am bound to ask this. Mr Grice, although you have told us that there has been considerable discussion and dialogue between you and the Auditor General and his staff during recent weeks, it is still difficult to deduce from what you have said that a few more weeks would have enabled a resolution to be reached on matters as substantive as the fundamental role of the Holyrood progress group. In your letter, you say:

"The report purports to be an examination into the Management of the Holyrood Building Project."

I assume that you chose your words carefully, but "purports" is quite a pejorative word. Your letter goes on to take issue with the fundamental reasoning of the report precisely because it does not consider the role of the Holyrood progress group. How is such a gulf to be closed in a matter of a few weeks?

**Paul Grice:** On 16 June, and for reasons that I understand, the Auditor General said, "I think that I am going to have to stop this clearance process and publish a report." The use of the word "purports" is not meant to be pejorative, because that is where the report is coming from and I strongly contend that the progress group's role had to be considered. Others might disagree, but that is my strong contention. Forgive me if that view has come over too strongly.

On 16 June, I was faced with that decision and I had two options. One was to say, "Okay, fine," and walk away. The other was to offer to make another effort. It should be borne in mind that that would have taken the same period as the clearance process had already lasted—that is not an insignificant period of time and a lot can be done in it.

In a sense, the Auditor General is not saying that the progress group is not important; it is not that he has done no analysis, because he has done some. His judgment is that the issue is best left to Lord Fraser. I understand that and I expect

Lord Fraser to say something about it. However, if I could have persuaded the Auditor General to drop some of the analysis that has been done into his report, that would have been fine and I do not think that we would have been arguing over the facts. In my judgment, that piece of work could and should have been further developed.

I acknowledged in my letter to the Auditor General at the time that I could not promise him that we would have definitely reached a conclusion by the middle of July, which perhaps influenced his decision. I am not saying that that is because of considerations to do with the committee, but I am saying that we could have made significant further progress in that period, which was significant in clearance terms—it was the same time again. I did not suggest that we just give ourselves an extra few days over that weekend. In fact, I remember having the conversation, in which we were agreed that that would not resolve the matter, so I suggested that, if we were going to continue, the better option would be to try to agree the facts. That must always be the better option, because we have never been in this position before and I would much prefer not to be here now, even though I accept the reasons why we are here. I felt that it was a sensible proposal to give ourselves a decent amount of time to clear the report.

**Susan Deacon:** You acknowledge the exceptional set of circumstances that we are in by dint of the fact that the report has not been cleared, but it is worth teasing out further the potential consequences of going along with your proposal to allow those extra few weeks for the report to be considered. First, I would like you comment on the impact that that would have had on the ability of the Auditor General's report to feed into Lord Fraser's report. There seems to be a clear difference of opinion between you and the Auditor General on timescales. In his oral evidence today, the Auditor General said clearly that, were the report to have gone into the timeframe that you are suggesting, it could not have fed into the Fraser report, but you have said to us in writing and reinforced in your oral evidence today that it could have done. You will appreciate that the committee is faced with some difficulty in trying to reconcile those statements. Will you comment on that, please? I would like to ask you another question about the implications, so I would appreciate a relatively short response.

**Paul Grice:** As far as we know, Lord Fraser will report at the end of August or the beginning of September—that is what he has stated that he will do and there is no reason to think that he will not—so the question is how far in advance a report is required for it to feed into his inquiry. To have reported at the beginning of August would have left four weeks to feed in, to have reported in

the middle of July would have left six weeks and having reported now leaves two months. The question is one of degree—neither of us is right or wrong. If the report had come out towards the end of July, that would still have left four or five weeks before Lord Fraser was to publish, which it seems to me would have provided an opportunity for the report to feed into Lord Fraser's report.

I accept that, if the Auditor General publishes now, that gives him longer to feed into Lord Fraser's report and I think that that is where he is coming from. That is a fair point, which brings me back to my contention not that the Auditor General is wrong to do what he did, but that there is a difference of opinion. I would have preferred to have had longer to try to clear the report, but you would expect me to want to do that. As clerk of the Parliament—with a wider hat on—and as the accountable officer in this instance, I would always be inclined to try to agree the basis of fact and I felt that that was worth a further effort, but the Auditor General judged that it was not. I do not intend to be critical of that, because I accept that he was in a difficult position, too. He judged that the committee and, in particular, Lord Fraser needed as long a time as he could give them for his report to influence theirs. I accept that, but I am saying—and it is a matter of fact—that, if the report had come out four weeks from now, that still would have been several weeks in advance of Lord Fraser's report. I accept that that would not have given Lord Fraser long, but it still would have given him plenty of time to read and consider the Auditor General's report.

Of course, Lord Fraser has taken his own evidence and I imagine that the process will be more a question of Lord Fraser reviewing what the Auditor General has said against what he is going to say than of his beginning fresh analysis. The question is how long is necessary. Clearly, the more time that there is, the better, but we are all working on a very tight timescale through nobody's fault—certainly not the Auditor General's.

**Susan Deacon:** I am sure that you, as the chief executive of the Parliament, take seriously your obligations to the Parliament. You commented that if the alternative timescale that you suggested had been followed through to enable clearance to take place, a report could still have been made to the committee in good time for Lord Fraser's report. I think that that is almost a direct quote. Let us leave to one side the timing of Lord Fraser's report and simply think about the Parliament. By the time that a report was made to the committee, the Parliament would have been in the summer recess. The committee members could have come back from various corners of the country or the globe to meet and I am sure that we would have been willing to do so, such is our interest in and commitment to the issue. However, that is a



serious consequence and every possible effort should have been made to lay a full, cleared report before the summer recess.

**Paul Grice:** It was. Both the Auditor General's and my people worked hard on the report, including at weekends and nights. I accept that the committee members and other people would have come back during the recess and that that would have been difficult. However, the committee, not the Parliament as a whole, is taking receipt of the report. I would never advocate the report's being published, but not laid before the committee. I accept that a meeting during the recess would have created logistical difficulties, but it would have been entirely proper.

The wider issue is the drawing of a line under the Holyrood project. Difficult judgments have to be made. One is about how long we take to draw a line and how thoroughly we do it. We will successfully draw a line under the project only if collectively we—which means me, the Auditor General, the Audit Committee and others—have worked to the best of our ability. This is a difficult situation that I have never been in before. I am faced with a report, much of which I have no problem with, but with which I have a problem on some fundamental issues. What should I do? The situation is made more difficult because we are right up against the recess and against the publication of Lord Fraser's report. On 16 June, which was the day before the deadline, I took the view that it would have been worth trying to spend a few more weeks on the report. However, the judgment was made to publish the report today. I am absolutely clear in my mind that, given that decision, I will work constructively with the committee and, if necessary, the Auditor General to complete the process.

What really matters is that we get to the proper end point in the process, which, I presume, is a report from the committee that the committee feels is fair and representative of its opinion on the management of the Holyrood project and that draws on the Auditor General's report and any evidence that I put in. Clearly, we will have to proceed slightly differently than we would with a normal report. It would have been better to have had a normal report, but we do not have one. I am keen to work with the committee and, if necessary, the Auditor General to reach that point.

We are in a difficult position. Looking back, I cannot think what we might have done differently. I am satisfied that the staff on both sides, including the Auditor General's staff, worked extremely hard to try to clear the report, but they could not. There has been no failing on their part. The Auditor General and I met to talk about the issue and to try to move along the process, but we simply could not in the timeframe that we had.

**Margaret Jamieson:** I am not sure whether I am required to declare this interest, but I will do so just in case: I am the convener of the Scottish Commission for Public Audit. Dave Ferguson is sitting beside Paul Grice as an adviser. I declare my interest in case somebody wishes to make an issue of that.

I have a question about the disputed issues. When you worked through the report with the Auditor General's team was there anything that you felt it important to raise with them? I refer in particular to the progress group. If you did not think that sufficient detail on the group was to be included in the report, did you raise that matter with the team?

**Paul Grice:** We raised that matter.

**Margaret Jamieson:** When was it raised with the Auditor General's team?

15:15

**Dave Ferguson (Scottish Parliament Chief Executive's Group):** I was involved in the negotiations. We picked up the report on 1 June and I had a meeting on 9 June with one of Audit Scotland's staff, during which we went through the report paragraph by paragraph. The meeting ended at about half past 7 at night, but we still had not finished going through the report.

We had another meeting on the Thursday of that week—I think that that was 10 June, but I am getting my dates a bit mixed up—with the senior management of Audit Scotland. We discussed the report at a strategic level, which included discussing our problems with how the report had treated the Holyrood progress group. We then waited to see whether our comments would be reflected in the actual report, which is the normal process. I got a copy of what was supposed to be the final working draft on Saturday 12 June. I worked on it over the weekend and came back with the view that it did not meet our expectations. We got a final draft or final report—the version that we are discussing—on 16 June, which was two days after the closing date. We were supposed to clear that version by 14 June, but it was not possible to do so.

**Margaret Jamieson:** So when did the clock start ticking for the three weeks' clearance period?

**Dave Ferguson:** The talks could not start until 1 June because I was involved with servicing the Fraser inquiry up to 31 May. Its final presentations were on 25 and 26 May, but we had to put in submissions on outstanding evidence up to 31 May. I picked up the Auditor General's report on 1 June. I had told Audit Scotland that I could not pick its report up until I had finished with Fraser. Therefore, we had two weeks to clear an 85-page report.

**Margaret Jamieson:** We have heard that an extra few weeks would have made a difference to the outcome of the report. Would that have overcome the fundamental differences of view that we have heard expressed today?

**Dave Ferguson:** Yes, I think so. There are ways in which we clear audit reports. One way is to get the auditors to withdraw particular comments or facts and for us to withdraw some of ours. Another way is to negotiate an extreme position in which we get, "You say this; I say that." However, we tend to get an agreed version that, on balance, reflects part of the bit that we do not want and part of the bit that we do want. There are ways of agreeing a report in which both sides feel that their argument is represented. If we had been given a month from 16 June to deal with the report, I think that an agreed version could have been achieved, but I could not give any guarantees. There were fundamental differences between us.

**Margaret Jamieson:** During the examination of the report, were difficulties flagged up—for example, people thinking that the report did not ask many questions about something and wondering whether they should talk to a senior member of the Audit Scotland team? Did anything in the examination of the report flag up for you that there might be problems in agreeing the final draft?

**Dave Ferguson:** In normal circumstances, that kind of flagging up would have happened because I would have sat in on the audit team's meetings and would have got the vibes about where they were coming from. I would have discussed points with them as we went along. We did that for the Auditor General's previous report on Holyrood. Unfortunately, I was involved with the Fraser inquiry this time, so we had to tell the auditors that they had *carte blanche* to see whoever they wanted, speak to anybody and investigate our files. We did not even give them photocopying facilities because we were totally involved with the Fraser inquiry. Therefore, there was no flagging up of issues during the examination as there would normally be, which was unfortunate.

**Margaret Jamieson:** Were areas of concern flagged up to you, Paul?

**Paul Grice:** Not in terms of gaps. It is hard to get a feel for the areas that will be covered. Clearly, when people are questioned, you can see where the auditors or their expert advisers are coming from. They tend to have a hypothesis and will seek to test it. For example, they seemed to take a strong interest in the progress group and members of the group were interviewed—I think that it was the two professional members. I did not think, "Oh, they have not spotted the progress group." However, as Dave Ferguson said, we did not get much of a feel for the direction in which the auditors were going.

This has not been anyone's fault; resources have been very thinly stretched. On other occasions, I would have expected to have someone such as Dave Ferguson sitting in on meetings. That person would then have been able to feed back on how work was going with the auditors. I accept that the auditors did not have the advantage of having someone sitting in this time, because our priority was to finish off our input to the Fraser inquiry. Having someone sitting in would have assisted both sides, but we just did not have the staff. There would have been no point in having someone sitting in who did not know a lot about the project and about audit, because they would have been of no use to the auditors.

In conducting their audit, the auditors were extremely sensitive to the demands being placed on the people on the project. The auditors were careful to organise interviews around people's diaries. They certainly did their best in that regard.

**The Convener:** Fergus, did you have a question on clearance?

**Fergus Ewing:** No.

**The Convener:** All right. We have exhausted our questions on clearance—for the moment, anyway.

**George Lyon:** I want to move on to discuss the facts—that is, the points in the Auditor General's report that you do not contest. Exhibit 32 on page 57 lists where some of the increases in costs have come from. For prolongation, disruption and delay, the figure is £73 million; for design development, the figure is £68 million. Those are the two big contributors to the total increase in the cost of the project. Do you dispute those figures, or do you agree that those areas are where the increases came from?

**Dave Ferguson:** As we explained in our letter, we did not have time to examine the figures in the tables. The figures in the Auditor General's report differ from figures that we have presented to the Fraser inquiry. They also differ from the figures that the cost consultants—Davis Langdon & Everest—have produced. We based our submissions to Fraser on DLE's figures. Those figures do not tie in with the figures in this table. There is certainly one omission in the table. It is a small amount, but it is bigger than £4 million, which is one of the figures given. A figure of £6 million arose because of the difference between the cost plan value and the tender estimates. That difference is one of the reasons why costs went up. It is only £6 million out of something like £99 million, but it is not in the table.

We have not had time to check all the figures. All that I would say is that they do not agree with our figures. The two sets of figures are probably derived in a similar way. Figures can be affected

by whether inflation or VAT is considered. You really need to know what the figures are based on and we have not had the chance to examine them.

**George Lyon:** Inflation is shown as a separate item. The figure is £19 million.

**The Convener:** VAT is separate too.

**Dave Ferguson:** I see that the figure for inflation is £19 million, but I do not know how the figure of £68 million is arrived at.

We identified blast protection as a separate item of around £30 million. The report talks about "design development"; we talk about "design change" and we came to a figure of around £26 million. You have to know what the figures are based on. The figures in this report may have moved on from mine. My figures are from February; the figures in the report are probably from May.

When you are making calculations, risk materialises and comes into the construction costs. The figures in the overall total therefore vary. However, I honestly have not had the chance to check the figures in the report.

**George Lyon:** My second question is about paragraph 2.27 of the Audit Scotland report, which states:

"Despite the uncertainty initial contract tender values subsequently came in close to – on average some 5% above – the cost plan estimate after allowing for inflation. However the eventual final contract values were substantially – on average 92% – above the cost plan estimate."

Is that a fact with which you can agree?

**Dave Ferguson:** I am unable to check the overall figures that are referred to, but I think that the statement is not wrong. However, the cost plan estimate is not very relevant. The cost plan estimate is produced to provide a basis on which packages can go out to tender so that the figures that we receive can be compared with those in the cost plan estimate. Paragraph 2.27 says that, after allowing for inflation, the tender values were within about 5 per cent of the cost plan values. Once the packages have been tendered, we need to draw a line under the cost plan. At that point, we know where we are, but what happens from then on is change. Every pound that is incurred as an increased cost after the £108 million must be vetted by a reliable change control system to determine whether the increases are justified. That is what we did.

The two purposes of the cost plan are to provide a valuation against which each trade package can be measured and to monitor change as the project progresses so that an estimated final cost can be produced. Paul Curran will be able to say more about the cost plan than I can. The cost plan is not

a crystal ball that says that the project might cost three times as much in five years' time. Rather, the cost plan measures the impact of the tendering exercise and monitors the extent of change in each package.

**George Lyon:** So the cost plan tells us nothing about what the cost of the project will be.

**Dave Ferguson:** At stage D, the cost plan cannot say what the outturn will be, but it will say what the expected outturn is, based on the stage D design. The cost plan costed the stage D design. I do not know whether those figures should have been higher, but they are what the consultants told us.

**George Lyon:** The point that the Auditor General's report makes is that the figures turned out to be nowhere near the final outturn.

**Paul Grice:** As the question was about the facts, let me say that I think that we do not dispute those cost plan and outturn figures. However, my argument is that we need to consider the change control process to understand why that happened. I do not disagree that the Auditor General has provided a good insight into the design development and prolongation issues. We will look at exhibit 32, but I do not expect that the figures in the table will be wide of the mark, although Dave Ferguson has mentioned one number that is missing. However, we need to consider the change control process to understand why the increase happened, which is the key question. We know that the cost plan at stage D was exceeded, but we knew that already. The Auditor General's report provides a helpful general insight, but the change control process must be considered to understand why that happened.

**The Convener:** While we are on the subject, let me clarify an issue about the cost plan based on the stage D design. To what extent did that include blast requirements? If those were not included, why were they not included?

**Paul Grice:** That is a good question. The honest answer is that we would require to give the matter a bit more analysis. There is no doubt that insufficient allowance was made for blast requirements, or that much subsequent design development was required to meet the blast requirements. Again, we need to look at the change control process to understand why that happened. However, there is no doubt that there was insufficient allowance for blast at design stage D. That is a fair conclusion that I do not dispute.

**The Convener:** I draw your attention to the favourite exhibit, which is on page 42 of the report. Exhibit 21 shows the foyer at design stage D. Below that, it shows how the design seems to be turning out. Even just visually, the impression is that whether or not written or verbal assurances

were given that blast requirements were included, significant changes have had to be made to ensure that blast requirements are accommodated.

15:30

**Paul Grice:** Paul Curran, the senior project manager, could say more about how blast considerations were integrated into stage D and developed post stage D.

**Paul Curran (Scottish Parliament Holyrood Project Team):** The stage D proposal consisted of an outline design that could be developed. The tendering process was there to bring on board specialist advice on how to take that forward and come up with something that could be built. The concept that the architects set out was complex in terms of the shapes that required to be formed. It was something that had never before been carried out in any sort of blast environment. There are standard measures that can be taken for blast performance in relation to windows, doors and walls, but they are more likely to be found on a Ministry of Defence base than a Parliament building. We have had to develop a design and a manufacturing process that takes on board all the requirements of the blast advisers.

As the concept for the foyer roof developed, that advice was being fed in. The security services were advising us on what they would accept and what their interpretation of the general guidelines was. There are no hard and fast rules about what must be done in a certain situation; everything must be designed to suit the specific situation. As Paul Grice said earlier, the cost of that was underestimated. The allowance against the design development for blast considerations was simply insufficient.

**Rhona Brankin:** In your statement, Mr Grice, you say that, under the Scotland Act 1998, you were required to act under the guidance of the Holyrood progress group. However, under the Public Finance and Accountability (Scotland) Act 2000, you are clearly the principal accountable officer to the Scottish Parliament.

In his statement, the Auditor General said:

"The Progress Group provides advice to project management and monitors progress on behalf of the Corporate Body. It has responsibilities for advice and monitoring but it is not accountable for the delivery of the project."

Do you disagree with that?

**Paul Grice:** I have two streams of responsibility. I am the accountable officer under the Public Finance and Accountability (Scotland) Act 2000. There is absolutely no question about that. However, all my power to act in relation to the Holyrood project derives from my delegated

responsibilities from the SPCB. It is the legal client. I might be an accountable officer, but I have no power to act without delegated authority from the SPCB. It delegated responsibility for the completion of the Holyrood project to me, subject to certain conditions, one of which was that I must act under the guidance of the Holyrood progress group. That was the device that we came up with in order to give the Holyrood progress group the meaningful role that the Parliament clearly intended it to have. As I said, if schedule 2 to the Scotland Act 1998 had allowed the SPCB to delegate functions to people other than the Scottish Parliament clerk or the Presiding Officer, the SPCB would almost certainly have delegated formal responsibility to the progress group. As it could not do that, we came up with another route. However, there is no question that the accountability flows from the project team, through me, to the SPCB. I am in no way disputing the fact that, as an accountable officer, I am answerable to the Parliament. That is why I am here today.

However, when one is assessing how the project was managed, one has to recognise the impact of the progress group, which was profound. At one level, the report offers thorough and good analysis of project management. However, if the progress group is set to one side, an important part of the jigsaw will be missed. Throughout the four years of this project, there is no doubt that we have worked extremely closely with the progress group. It has been enormously important to the project and, in my judgment, that must be understood in order to get the complete picture. I am not saying that I disagree with the Auditor General about what the impact has been, but my contention is that to set the importance of the progress group to one side makes it difficult to draw reliable conclusions about project management, given that the progress group has been integral to it.

**Rhona Brankin:** But the progress group does not have responsibility under the Public Finance and Accountability (Scotland) Act 2000.

**Paul Grice:** I absolutely accept that it cannot be given any responsibility.

**Rhona Brankin:** So you have the responsibility.

**Paul Grice:** Again, I understand the Auditor General's rationale and logic, as I often do, and I am not saying that he is wrong. However, the reality is that the progress group has played an enormously important role and I must act under its guidance in discharging my delegated functions. I am talking about a very direct "in" to how the project has been managed, as I cascaded the same requirement to the project director in my delegated authority and she and her predecessors were required to act in exactly the same way. In other words, they had to be guided by the

Holyrood progress group in discharging their responsibilities for delivering the project.

The issue partly goes back to this morning's interesting questioning about a single person being in charge of and running the project, which is a reasonable proposition. However, if that person must be guided by someone else, that someone else must be considered. That was the reality that we were faced with, although I make no complaint about it. The system was set up to meet the Parliament's requirements and it was a good one.

**Rhona Brankin:** I want to ask about the fact that a budget was not set. You said that doing so would be contrary to the expressed intention of the Parliament. Who advised the Parliament when it took its decision in June 2001?

**Paul Grice:** The progress group, via the corporate body, advised it.

**Margaret Jamieson:** I assume that you are talking about the resolution that the Parliament passed on 21 June 2001.

**Paul Grice:** That is right.

**Margaret Jamieson:** Can you identify where that resolution states that there is no requirement to keep to a budget, or that the corporate body has all the powers to pursue the contract?

**Paul Grice:** We must start from the previous resolution.

**Margaret Jamieson:** Do you mean the resolution of 5 April 2000?

**Paul Grice:** Yes. I think that the 5 April 2000 resolution mentioned a figure of £195 million and completing the project by the end of 2002. That resolution was superseded by the resolution of 21 June 2001, which deliberately did not have a cost cap. It also specifically proposed that the corporate body should report quarterly to the Finance Committee so that the costs could be taken into account in the normal budgeting of the Parliament. We took that to mean explicitly that the corporate body would report quarterly to the Finance Committee, which would take account of that report and would consider affordability in the broad context of the Budget (Scotland) Bill. That is the basis of—and that is exactly—what has happened.

As the Parliament took that decision following advice from the progress group and the corporate body, I am not sure how project management could subsequently say, "Regardless of what the Parliament has just done, we're going to set a different budget." The progress group discussed the matter in detail and thought long and hard about it. Its worry was what budget could be set. We had been criticised for setting budgets that

were regarded as unrealistic. There was real concern that if a budget were set too high it would become a target for the architects and others to work to.

Perhaps Paul Curran can say more about the approach that was taken than I can. It involved looking to control costs at every stage of the process, which goes back to the change control process, back to bearing down and back to the progress group vigorously challenging. I would not want any impression to be given that nobody cared about costs. I think that it was recognised that it was simply not possible to set a meaningful budget with construction management. A different approach was therefore adopted—in line with a parliamentary resolution—that involved detailed scrutiny of costs. I do not accept that a budget is needed for that. The proof of that lies in how the change control process has worked and how the progress group has carried out its job of vigorously challenging. The fact that there was not a budget did not mean that people did not care about costs—quite the opposite. That is what I meant by my comment.

**Margaret Jamieson:** The motion that was agreed to on 21 June 2001 gives direction to the corporate body and the progress group to report to the Finance Committee if

"there are additional and not fully quantifiable risks to which the project may be exposed between now and completion".

**Paul Grice:** That is what they did.

**Margaret Jamieson:** Yes, but the motion says that they should do so

"in respect of inflation and materialisation of risk".

**Paul Grice:** That is right.

**Margaret Jamieson:** Was sufficient emphasis placed on inflation and risk in the reports that were provided to the Finance Committee? I understand that the emphasis was mainly on the current cost of the project, rather than on how that was made up.

**Paul Grice:** I am not adequately briefed on that issue for today's meeting, but I would be more than happy to provide you with a detailed answer. My strong recollection is that at some point—perhaps not immediately—we started to report the detail of the risk register to the Finance Committee. There is a fine judgment to be made. Effectively, we were telling everyone what our risk register was and what we were prepared to spend. However, I understood that there was a great need for transparency, because of the history of the project.

The judgment was made that we would report the risk sum in global terms, but not the detailed package-by-package risk assessment. Some of

the commercial people involved with the project would have said that to report to the wide world what was in the risk register was the last thing that we should do and that we should keep that information to ourselves. However, we made the judgment that as the Parliament is a public organisation the information should be handled accordingly. The future risk sums were reported to the Finance Committee. I cannot tell the committee whether we began to do that immediately. My recollection is that we started to do it somewhere down the path, in response to an understandable demand from the Finance Committee to know about not just where things stood but where we thought things were going. That carried a commercial risk, but we judged that it was right to take that risk in the circumstances of the Holyrood building.

**Margaret Jamieson:** I would like to clarify another point about the motion agreed to on 21 June 2001, which appears as exhibit 11 on page 25 of the Auditor General's report. The motion refers to

"a further £57 million (at 1998 prices)".

I do not recall being advised at any point exactly what that figure would be at 2001 prices.

**Paul Grice:** I will have to come back to you on that detailed issue. I am happy to do so.

**Margaret Jamieson:** Okay. Thank you.

**The Convener:** Members have indicated that they have further questions on this area.

**George Lyon:** I am trying to get a picture of how the decision-making process worked. Are you saying that the Holyrood progress group had the ability to make final decisions on matters? You seemed to be indicating that that was the case.

I will give you an example. In paragraph 9 on page 6 of the report, the Auditor General highlights the fact that

"The construction manager repeatedly prepared construction programmes, which included assumptions and commitments by the design team and contractors that were subsequently not achieved."

Who was responsible for getting a grip on that? Was it the Holyrood progress group, the project director or you as the accountable officer?

**Paul Grice:** A fundamental aspect of construction management is that the construction manager has a professional and contractual responsibility to provide construction programmes and to give us the best professional advice. In other words, that bit of the process is contracted out. The wise advice that the Auditor General and others have given is that we must not duplicate that work—which is done by people whom we hire and pay—for two reasons. First, it is a waste of

money. Secondly, if we have someone do the same job we confuse matters and create difficulties afterwards.

It is important to understand the role that project management collectively—including the progress group—plays in the process. The project director and the progress group challenged the programmes. At one point, the progress group was sufficiently concerned by the constant over-optimism to which you have referred that it brought in a forensic programmer, who carried out an assessment, lessons from which were learned and implemented. That is an example of the progress group acting with project management to try to get a grip on something that has been a problem throughout the project and to get programmes on which we could deliver.

15:45

**George Lyon:** Did that make a difference?

**Paul Grice:** I believe that it did. Changes were made, and Bovis took on board some of the points that were raised. I cannot give you all the details off the top of my head but we can supply them if you think that that would be helpful.

**George Lyon:** Another matter that arises in the area of cost is the fact that few firms were willing to bid for the contracts. Indeed, on some contracts there was a straightforward negotiation with one firm; the Auditor General's report details three contracts that were negotiated rather than awarded following a competition. Do you accept that that drove a coach and horses through your ability to control costs? It is clear that the ball was firmly at the foot of the contractors when it came to bidding for contracts, especially when there were no other bidders, or just one.

**Paul Grice:** First, I certainly do not take issue with the Auditor General's description of the matter. Secondly, there is no question but that there has been a disappointing level of competition throughout the project in specialist areas such as cladding. That has been evident for some time. I would not venture to guess why that is the case; I do not know whether even the Auditor General would do so. One aspect of the issue is certainly the project's complexity. Throughout the construction of the building, there has been a buoyant construction market in Europe. If one can make money cladding a bog-standard office block in Berlin, why take a chance on a building as complex as Holyrood? Also, the deep controversy that has followed the project might have deterred some bidders.

The reality, as the Auditor General records, is that there has been a weak level of competition, at least on the complex packages. When we go out to competition, we are to some extent in the hands

of the market. From my knowledge—Paul Curran could say more—there were often lots of expressions of interest but then interest would rapidly decline. Often, we got only two or three bidders and sometimes there was only one compliant bidder. In such circumstances, we have a difficult decision to make. Bovis has overall responsibility to manage and we look to it, with input from the cost consultants, to state the best thing to do. There are just two choices: to retender and pay a penalty in time, or to negotiate with the contractor. I accept the Auditor General's point; I would always prefer to let contracts under full and vigorous competition, but when we do not get that competition we have to make a judgment and decide either to retender or to opt for a negotiated position. I accept that when we are in negotiation our position is not as strong as when we hold the whip hand of running a competition.

**George Lyon:** The Auditor General believes that it was a failure to bottom out the detailed design and the amount of work that was required that led to the lack of competition from companies wishing to do the work. Do you agree that that is a fundamental reason?

**Paul Grice:** It is a broad statement and one would have to look underneath it. Certainly, we could have taken a wholly different approach to the project and not begun building it until we had finished designing it. I think that the Auditor General would make that fundamental point and I would not disagree with it. I was often told, "This is the package allowance and this is the cost that we have got." My reaction would be, "Go away and redesign it, then retender it", but the reply would be, "No—that will take three months and will cost more time. You will end up with the same or a cheaper product but the overall cost will be the same." That is what we found time and time again.

It is also important to note that in relation to many issues, including blast, one needs to bring contractors on board to finish the design. In some areas there was a conscious decision—again with the advice of the architects and Bovis, but with the involvement of our project management—that we needed to have specialist contractors on board to finish the design. Although I think that the work could have been done in a different way—and I am not saying for a minute that in all cases we had all the design information that we could or should have had—there was a deliberate decision in some cases to bring a contractor on board to finish the design. Such contractors were recognised as having design expertise in specialised buildings—again, we can provide examples of that.

**Fergus Ewing:** I have some difficulty with the Auditor General's and the chief executive's positions on this matter. I will start with paragraph 9 on page 2 of the Auditor General's report, from

which George Lyon quoted, as it seems to illustrate the point that I wish to make. The report states:

"Project management should have done more to address the root causes of problems, which were adversely affecting the cost and programme."

It continues:

"The construction manager repeatedly prepared construction programmes ... that were subsequently not achieved"

because designs were not available. Surely, the problem was that designs were not being produced by the design team. If that is the case, was legal action not considered?

**Paul Grice:** There is quite a history of project management and the progress group, all the way up to the Presiding Officer and myself, looking to take action at various points to improve design team performance. Much of that came out in the evidence to the Fraser inquiry. I accept where the Auditor General is coming from, but I hope that we can demonstrate that project management as a whole took action to address that. It is enormously difficult to make someone do design work; it is not an easy thing to do. When one is stuck in the middle of it, the nuclear option is always to sack people. However, it is necessary to think long and hard about the consequences taking such action, and we always took careful professional advice if ever we thought about it. Where that has been done, it has not necessarily produced a better solution. It has the potential to leave one in a complete mess, with no design team, with legal action and with a project sitting half-finished on site.

The design team also produced consistently excellent work over the piece, the evidence of which is down the road. When we had difficulties, the view was taken—perhaps after our having looked into the abyss—that we should work hard with them to improve their performance. There is a history to be told of efforts being made at all levels of project management, up to and including the Presiding Officer, to achieve that, with some success. We attempted to address the root causes of the problems. As I have explained in regard to the programming, we brought in expert programmers from outside to analyse the Bovis approach, and that helped. I hope that we can demonstrate that we sought to address the root causes, but I do not deny that it was extremely difficult.

**Fergus Ewing:** Maybe you did, but we heard this morning that around £160 million or £170 million in extra costs was incurred, arising mostly from design problems, which, in turn, contributed to the delay and disruption. I do not think that any of us should be patting ourselves on the back.

**Paul Grice:** I am not patting myself or anyone else on the back.

**Fergus Ewing:** I am pleased to hear it.

**Paul Grice:** It comes down to understanding the change-control process, which is part of understanding all this.

**Fergus Ewing:** The point that I was making was one that I thought might be pleasing to you in some way. It did not matter who managed the project if the design was not available. As Spencely said, it would not matter even if an Eisenhower figure was managing the project; if he did not get the design, he might as well have gone on holiday. Is that not true?

**Paul Grice:** I accept that point.

**Fergus Ewing:** In that respect, I think that the Auditor General's criticism is off the mark. On the other hand, his criticism about the management of risk seems to be right on the button. Let us look at exhibits 40 and 41 on pages 66 and 67 of the report. Exhibit 40 describes the traditional project organisation and exhibit 41 describes the Holyrood project organisation. The central point that I have taken from the presentation that was made this morning—in particular, I refer to pages 14 to 16 of the Auditor General's statement—is that, in a traditional contract, the risk is at the bottom, with the contractor. The contractor carries all the risk. However, the Auditor General spelled out clearly the fact that, with us, the risk is right at the top, with the client. That means that in order to manage risk, a number of things have to happen. One of those—and this is the point that he made in his presentation—is that there needs to be a strong project director, that is, an Eisenhower figure.

In his statement this morning, the Auditor General stated:

"In my view the organisation of the ... project did not provide the necessary clear direction and leadership",

which were

"divided between several parties and there was no single point of leadership ... Normally leadership and control should reside with the project director."

He went on to state on page 16 that "The project owner"—in other words, you—

"is not a construction professional and neither is the current project director who was appointed in June 2001".

Therefore the key person, whom we need to take strong action with Bovis and the design team—based on construction experience—is somebody who lacks construction experience. The depute had that experience but did not have the position of authority. That was all in the presentation. It is a key point.

Do you accept that criticism from the Auditor General? If so, do we have any explanation, even

now, as to why Mr Ezzi went, because he had the requisite experience? How did it come to pass that he was replaced on the very next day after his departure by Sarah Davidson?

**Paul Grice:** I accept that risk under the construction management model rests with the client, although in another model it might be argued that you buy out that risk in letting the contract in the first place. We should not lose sight of that point. You never get that for free, although there are different ways of approaching it.

In his previous report, the Auditor General said that one of three people—that is, one of the project owner, the project director or the senior project manager—should be a construction professional, which is exactly what we had. You cannot say that one of three people should be a construction professional and then, when one of those people is picked, say that it is the wrong person. Today, I have with me Paul Curran, who is the senior project manager. He fills one of those three posts and is a construction professional, so I argue that I acted in accordance with the guidance given by the Auditor General in 2000.

There has been a single point of control and leadership, and that has been the project director. She has performed that function—she had to carry out that function in relation to the project, because the progress group was given a particular role by the Parliament and the corporate body. You mentioned an Eisenhower figure. If the whole legal basis on which we can act is based on the guidance of another body, you have to look at the two things together. Neither I nor Sarah Davidson can act outside our delegated authority. It is proper that we act in that way. I do not want to give the impression that there is some tension with the progress group, because the relationship has been constructive and positive.

On some of the issues that were talked about this morning, you have to look at how the project is led in two ways. One is the mechanics of issuing instructions. There was quite a lot in the Auditor General's 2000 report on the lack of clarity about where the instructions were coming from. We addressed that fundamentally. We listened to that criticism, which was fair, and we acted upon it. It is clear that the instructions come from the project director. We have dealt with that point.

There was an interesting debate this morning about difficult decisions around quality, cost and time. At that level, leadership was given more by the progress group in conjunction with the project director. That comes back to the special nature of the project as a Parliament and as a political project. The situation was difficult for an official. It is not a question of having somebody who has a bolshie personality. They have to take decisions that will stick and which meet what the Parliament



wants. One of the reasons why the progress group was set up with a blend of wise and experienced professionals and wise and experienced politicians was to try to get that balance right, because in its resolution of 2001 the Parliament also said that quality must not be compromised. Leading up to that resolution, I drew to the attention of the progress group and the corporate body a site-wide savings exercise that flushed out the issue of decisions around quality. Properly, in my judgment, decisions were taken that quality was paramount. Leadership at that level was exercised higher up the chain in this case by the progress group, the corporate body and, ultimately, the Parliament.

It is important to understand that the project is unique: it is a Parliament, and we have to take account of that. We cannot wish that away. Whoever sits in the middle has to operate in that context, which is what we sought to do. Leadership was given by the project director, who was properly supported by a senior professional. I would argue that that was consistent with the advice that was given back in 2000.

16:00

**Fergus Ewing:** In paragraph—

**The Convener:** I have to move on to Susan Deacon. I will come back to Fergus Ewing later. Otherwise, we will really fall behind.

**Susan Deacon:** I wish to leave to one side for a moment some of the big debates—vital though they are—about governance, accountability and where responsibility lies. Could we home in on some of the issues around management? We all recognise that there is something called management, which is about running things, organising things, managing budgets, managing people and managing projects.

I am sure that you are not suggesting that any group of elected members, however wise and experienced they might be, can perform that managerial function, which is what officials of the Parliament are employed to do. The Auditor General raised some important points about skills, practice and management capacity, which sit alongside, but in a sense go beyond, what has sometimes been an esoteric discussion about where responsibility lies on the flow chart. Could you comment on management practice? Where do you see your responsibilities in that respect beginning and ending?

**Paul Grice:** I agree with you absolutely. I do not want anything that I say to give the impression that we are somehow trying to duck responsibility. I have sat in front of the Finance Committee for years, month in, month out, answering for the project. There is no question of our turning up five

years on, saying that it is nothing to do with us. However, it is important to understand the architecture of the project.

You are absolutely right with respect to the point about management. It is a key responsibility of mine and of the project director to ensure that we get it right. I have addressed that in two ways. First, it was a matter of ensuring that the project director—particularly in Sarah Davidson's time—had a professional client adviser available to her. That is good practice, and that advice has been in place. Secondly, there was a qualified project manager. Outside expertise was also brought in to review our project management structure in the autumn of 2001, and the structure was strengthened as a result.

There are different areas of expertise, even within project management. There are specialists in cladding and specialists in other areas. Paul Curran might want to say a bit more about that. We have recognised that point by having a good, strong skill mix in the team. It is my responsibility to try to get that right, and we have tried to do so. It is a moving picture. The right mix of skills might change over a period of six months or a year, as different issues come into play. We are now looking ahead to the settlement period. We have looked again at the mix of skills, and we will be bringing in claims experts.

We had a careful look at the way in which the delegations were set up, and the more administrative side of the Holyrood project team took a considerable interest in that, even down to how efficiently they were able to respond to queries, parliamentary questions and letters. That was all part of the management of the project. That is a clear line of responsibility, and I would like to think that we got that right.

Paul Curran might wish to say something about how the professional side of the project team was organised, and about the skills mix there.

**Paul Curran:** Based on the complexity of the project, it is not possible to look to a single individual to understand every single part of the building. When we were putting the team together and restructuring it, we had to consider the expertise that we required. Everyone within my team is a qualified project manager from the private sector. We have expertise on the engineering side, on the building services side and on the commercial side. For each of those key elements of the building, we have managed to structure the team so that there is a specific focus on the people who have the skills to understand and work with the design team, the contractors or whomever, so as to allow decisions to be taken timeously and work to take place within the change control mechanism. The project team is relatively strong in each of those areas.

As Paul Grice said, the bias is now moving more towards the commercial side—to how we close out claims and final accounts and any legal issues that fall out of that. We are now building up more of a commercial team, so that we can review those matters. Various chartered surveyors are joining the team, as are arbiters, who give their opinions from an outside perspective on some matters. We are building that team; we have restructured it to adapt to each stage of the project.

**Susan Deacon:** I always welcome talk about teams, teamwork and team leadership. Equally, however, experience tells us all that in all sorts of walks of life, one identifiable contact point—let alone somebody who is the ultimate decision maker—is needed.

The description in the answer that you just gave was that professional and management skills were around the team, if not all wrapped up in one designated position. How did that work in practice? If I were an architect or involved in a construction project on the site, whom would I perceive as being in charge? Would that have depended on the issue? If so, how was I to know whom to approach about one issue and whom to approach about another issue? What were the mechanisms for dealing with such day-to-day situations?

**Paul Curran:** It must be recognised that the client team and HPT were not alone in structuring themselves in the way that has been described; that was also done by Bovis, the design team and Ove Arup. They all structured their teams to focus on the individual elements. For example, on the external envelopes packages, which involved about six trade-package contractors, the client had a single point of contact, who was my project manager. That project manager would deal with all the architects, engineers and construction managers. One level up, I sat with an overview of all those packages. Bovis and the design team had a similar system whereby a project manager would sit above that level. We all communicated.

The single point of what was in effect client responsibility was the project director. If I were working on a private sector project, that person would be my client. That person would not necessarily be Paul Grice; it would be whomever the project sponsor was. That is how the design team, the project management team and the construction management team operated. That was relatively clear.

**Susan Deacon:** I hear what you say and I am grateful for the answer.

I return to Paul Grice with questions about how decisions were taken on the management team's structure, the specification of jobs and the appointments that were made to those jobs. A

moment ago, you said that it was absolutely your responsibility to get all that right. Does that imply that all those decisions rested solely with you, or were others—notably, I presume, the Holyrood project team or the corporate body in some form—involved in any of those decisions?

**Paul Grice:** That depends on the level. Before I appointed Alan Ezzi and subsequently Sarah Davidson to the project director position, I took advice from people such as Dr Gibbons. When the progress group was up and running, I took its input—I did that when Sarah Davidson was appointed. Of course, I cleared that appointment with the corporate body before I made it. That would happen with any director at that level. I accept that the task is my responsibility but, obviously, I took advice.

Paul Curran was already on the team. As for the project managers that he described, we brought in outside expertise to give us advice, which we went along with. I am not qualified to structure a professional project management team, so we brought in people who are. They gave us advice, which we accepted. We restructured the team accordingly, and we have restructured it again. It is important to emphasise that we look ahead and try to anticipate the nature of the project at a certain stage. As not many people are involved, I looked to take advice. Although I took expert advice on the project management decisions, even they had to be my call ultimately. In this case, the outside advice that we received was good, so, as I said, I accepted it.

**Susan Deacon:** I am sorry, but I want to be clear on this. In the areas that are mentioned—the structure of the team, the specification of individual jobs and the individuals who fill them—the authority to decide lies with you, even though you take advice from other sources or advise others in the system and draw them into the process in some way.

**Paul Grice:** Let me be precise. In terms of the project management team, I agreed with the project director that we would do the review. I discussed the outcome of that review with her and then I authorised her to make the appointments. Obviously appointing someone at director level is a different matter; it is a more senior position and you would expect me to take higher-level advice, which is what I did.

**The Convener:** Robin Harper has a point to make. After that, I will ask everyone to indicate whether they have remaining questions, so that we can estimate how much time is left to pursue further questioning.

**Robin Harper:** I would like to come almost full circle and go back to the beginning with this and subsequent questions. If we exclude categories 2

and 3 in your response to the Auditor General's report, there are 25 outstanding matters of fact. I presume that work on reconciling those is ongoing and that that is what will be most useful to Lord Fraser.

**Paul Grice:** Yes. Obviously, we all put our pens down so that we could get to this point. The Auditor General made an offer this morning and I will be more than happy to pick that up and see how far we can take it.

**Robin Harper:** If I could take things on a little bit—

**The Convener:** Robin, are the remainder of your questions on clearance issues?

**Robin Harper:** Yes.

**The Convener:** I said that we would move on from that.

**Robin Harper:** I had my hand up but you did not call me.

**The Convener:** Carry on.

**Robin Harper:** Paul Grice's complaint about exhibit 42 is that the progress group is not a decision-making body. However, exhibit 42 states that

"the Progress Group is not formally a decision-making body"

and the Auditor General restates that elsewhere. His point is that, de facto, the progress group has made decisions. Does Paul Grice disagree with the six bullet points in exhibit 42?

**Paul Grice:** I do not think that I dispute that the group has taken decisions—indeed, I do not think that there is much between us. I am almost asking the Auditor General to go further; I am not necessarily arguing with what he has done but there is a case for going further.

**Robin Harper:** I am trying to establish that there is room for movement in some cases.

Annex 3 of your response, which you would like to replace exhibit 41, does not seem to me to contain substantive differences between the two descriptors, except that there is a separate box for the project manager. I accept what you have explained to us today about the way in which things are working and I think that that should be there. I also accept that you have an architectural client adviser feeding in from the left side of the page. Otherwise, is there any important difference between exhibit 41 and annex 3 of your response to the report?

I have a final point. You have stated that you accept that the major difference between exhibits 40 and 41 is that exhibit 40 shows that the contractor has the risk, whereas exhibit 41 shows that the client has the risk.

**Paul Grice:** I accept both those points.

**Rhona Brankin:** I go back to the issue of accountability. You and the Auditor General have said that it is not a question of pinning the blame on individual people because the process and project was so complex. Do you agree that the Holyrood progress group is not accountable for the management and delivery of the project and that accountability clearly lies with the project management team?

**Paul Grice:** The responsibility and accountability flow through the executive arm, through me, to the corporate body. The progress group has been given an important role, but it is does not sit in that chain. The group has had a profound influence—which is my point—but I am not trying to say for a minute that it is accountable. The group has a particular task to perform and it has performed it extremely well—it has certainly been a great help to me. It is important to understand that matter. For example, it has always been me, as the chief executive, my project director and a member of the corporate body who have reported to the Finance Committee. Recently, a member of the progress group joined us to help to provide information. What we have done in the past four years in appearing before the Finance Committee to report on the budget shows where the accountability and responsibility lie.

16:15

**Rhona Brankin:** You say that the advice that was given to the Parliament in 2001 came from the corporate body and the Holyrood progress group, but I presume that the advice was given on the basis of advice from you.

**Paul Grice:** There is a bit of history to that, which it might be helpful to relate. We have heard about the cost plan and the risk allowance in the late autumn of 2000 and about the foyer roof. Because the progress group had all the information about that and was rightly concerned about pressures on budgets, it instructed a site-wide exercise to determine what savings could be made, which the then project director carried out. The progress group and the corporate body considered that the proposed savings would have compromised quality. At that point, the progress group and the corporate body concluded that the budget of £195 million was simply not adequate, which is when they went back to Parliament.

When Parliament took the decision in June 2001, it clearly had the benefit of input from the progress group and the corporate body. In other words, the Parliament was not asked to take a decision cold; it was given advice from the two principal bodies. Underlying that advice was input from officials, but officials did not make the

judgments on quality issues. That perhaps takes us back to Susan Deacon's point about judgments that are hard for officials to make. It is difficult for officials to judge what the appropriate level of quality is. Ultimately, the corporate body, as the client, judged that it was right to go back to the Parliament to seek a new resolution to govern the completion of the project, which it then did.

**Rhona Brankin:** Was it your advice that if we wanted to secure quality, it was not desirable to set a budget?

**Paul Grice:** My advice was that it is not possible to have cost savings and quality. I made that point clearly in my advice to the progress group and to the corporate body. In other words, we could have delivered site-wide savings, but they would have had an impact on quality. We further recognised that the decision on those issues had to be taken at a more senior level because they were fundamental judgments that affected the country's Parliament building. It is difficult for an official to take such decisions. We quantified what might have been achieved and described what the impact would have been, aesthetically and functionally. The progress group and the corporate body took a view on that and tested its view in the Parliament, which led to the resolution in June 2001. That was an important watershed in the overall management of the building.

I have already tried to explain about the budget. I understand the Auditor General's point on that issue but, given the construction management approach and our approach to assessing risk, I cannot see where that budget would have come from and who would have set it. As the progress group and I were reluctant to set up an arbitrary budget, we took the different approach of looking to manage and control costs at all levels in the project. The change-control system is elemental to that and we took that approach. I accept that, with the benefit of hindsight, one can judge whether that was right. However, it should be borne in mind that budgets were set previously and that the history of that was less than happy.

**George Lyon:** I have two quick questions, the first of which goes back to the first debate on the project and the passing of the motion that had in mind the £195 million figure. The evidence that we now have is that barely any of the design work had been carried out at that time and that no proper measurement of the size of the building area had been made. Do you agree that, at best, the £195 million figure, which certainly all the politicians believed would be the cost when we passed the motion, was just guesswork and that, at worst, it was probably just equivalent to sticking your finger in the air and hoping?

**Paul Grice:** I, too, believed that figure at the time, which was based on advice from the quantity

surveyor and the cost consultant and was supported by the principal consultants.

**George Lyon:** But the reality is that a large part of the project had not even been designed in any kind of detail, so how on earth could you come to a view on the price?

**Paul Grice:** I accept that the further through a project one goes, the more certainty one will have. However, at the time of the first vote on the project, members understandably wanted to know what it would cost. I accept that we were able to cost it only on the design at that stage, which was just prior to stage D. The professionals on the team gave a cost estimate. Members should remember that John Spencely assessed that. He was brought in to give Parliament the benefit of his opinion, which was presented to Parliament. I accept that the elected members took a judgment on the basis of the advice that was presented to them. For what it is worth, I accepted that advice as well. I also accept that, as things have turned out, the estimated figure did not prove to be an adequate amount.

**George Lyon:** My second question is on the second vote on the project in June 2001. It seems clear from your evidence and the Auditor General's report that a conscious decision was taken that time and quality were to be the two key drivers in the decision making from then on and that cost was put to one side in some ways, although there was perhaps a hope that, if you completed the project quickly, you could minimise the cost rises. Is that a true reflection of what happened? It seems to me that the graphs show that, after the passing of the motion to take off the budget cap, costs just rocketed.

**Paul Grice:** I would not quite put it that way. There is no doubt that the motion—

**George Lyon:** So how would you put it?

**Paul Grice:** I am going to try to tell you. Where I will pick you up, if I may, but not quite disagree with you, is on whether the motion referred specifically to time and quality. The motion said that quality must not be compromised; that is a clear steer, so I agree with you on that point. However, the motion did not mention time, so I do not think that you can say that time was a key driver. The motion did not say, for example, that quality and time must not be compromised. Cost was not given the same precedence as quality, but it was not set to one side. Parliament said clearly that, in the context of the overall budgeting, we had to present our assessments of cost and risk to the Finance Committee. Parliament did not set cost to one side; it brought the Finance Committee into the overall budgetary control, which was a reasonable thing for it to do. However, I agree that the one aspect on which a clear steer was given at that point was quality.

As the Auditor General rightly said this morning, we had to weigh the aspects of quality, cost and time against one another. There is no doubt that, from the June 2001 vote onwards, there was a clear view, not just in our minds but in the minds of architects and others, that quality was not to be compromised. Indeed, we proceeded on that basis. However, we have striven hard to control costs. We certainly have not given up on them and neither has the Finance Committee. The fact that costs rocketed after June 2001 was partly to do with the state that the project got to. We suddenly began building the project rapidly at that point. Much of the design development came through and many packages came through and were built. Therefore, I would not say that you can necessarily equate time with quality. There may be something in that argument, but I am not sure that the situation was quite as straightforward as that.

**The Convener:** Fergus Ewing?

**George Lyon:** He is away.

**The Convener:** I will resist the temptation.

**Mr MacAskill:** To some extent, my point is the same one that I put to the Auditor General on the systemic argument. Points have been raised about a lack of clear leadership and direction. I know that the progress group was set up but, with hindsight, do you think that steps should have been taken to ensure that the direction of operations was clearer and more focused?

**Paul Grice:** I would argue that there was clear leadership and direction—both at the level that Susan Deacon was asking about and at the higher level.

It is simple to suggest that one person should take decisions—and on other projects that might be all right—but, in this case, unless that person carried the authority of Parliament and its members, I do not think that that one person could take those decisions. The progress group was a genuine attempt to give leadership input. I accept that it might have looked a little more complex than it should have, but that is for the reasons that I have already given.

Even had we had one person performing that role, they would not have been able to carry decisions forward. We could not just say, “You have a budget and you must take those decisions.” The site-wide savings exercise illustrated many of the difficulties. It just did not work; it was not acceptable. The progress group helped us to get the decisions right and I think that it showed leadership in balancing time, cost and quality. It did that in conjunction with the project director. I accept that that does not equate to one person, but I strongly contend that it was the best and most appropriate system for the unique circumstances of the Parliament building.

**The Convener:** Fergus, I called you earlier to ask a question but you had absented yourself. I will give you another chance now.

**Fergus Ewing:** Thank you, convener.

In paragraphs 12 to 15 of the key findings in the Auditor General’s report, it emerges that, in essence, the Holyrood project is a group of buildings that have been designed as they have been built. As well as architects doing design, trade contractors have been doing design.

We know that many of the trade packages involved a substantial design component. We also know that that meant that tendering sometimes involved two stages and sometimes involved letters of intent, performance bonds and so on. I want to ask one specific question. In the case of Flour City, all the payments that were made—or 99.9 per cent of them—were for design only. The company was paid around £700,000 plus VAT. Actually, it was a bit more than that—around £1 million including VAT. None of that money was for building work. It has been put to me by someone in the construction industry that that is highly irregular. It does not make much sense to pay such a large amount of money, up front, solely for design work. Normally, money for design work would be a small proportion and construction work would be done when design work had been paid for. Was Flour City a one-off in that it was the only trade contractor to be paid such a huge amount for design and only for design, or was the practice of making such payments inherent in the project?

**Paul Grice:** As the Auditor General has said—and I certainly do not take issue with this—a range of practices was used across different packages. In a number of cases, trade-package contractors came on board to help to complete the design. In such circumstances, I imagine that the first thing to be done is to complete the design, before construction starts. Paul Curran might be able to add to this, because the signing off of staged payments is one of his responsibilities. On big contracts, staged payments are made as one goes along. That is only reasonable to allow the contractor to meet his costs.

16:30

**Paul Curran:** It would be wrong to say that the money paid to Flour City was just for design. That package dealt with a raft of other issues, including set organisation costs, staffing costs and procurement.

The other packages included elements of specialist design related to how the components could best be manufactured. Normally, architects would not have to do that; if they were specifying off-the-shelf components, it would not be necessary. The specialist contractor design is concerned with the manufacturing process.

**Fergus Ewing:** Today we have heard much about the use and choice of construction management as a procurement form. Obviously, its key unfortunate feature is that the client is left with the risk. I refer to the Auditor General's previous and current reports. Exhibit 13 of the September 2000 report sets out the procurement routes, such as lump sum, construction management, management fee, the private finance initiative and prime contracting. Is it not the case that because the design was so unsettled—some people might say that in the early days it consisted only of sketches—no builder in his right mind would have taken on responsibility for putting a cost on a building for which there was no design, and consequently construction management chose itself?

**Paul Grice:** I am not an expert and would be guided very much by the Auditor General and others on these matters. However, I have observed and discussed with experts the fact that the greater the uncertainty, the more that has to be paid to manage the risk. If we were to go to a contractor with a few sketches and ask them to provide a fixed price for building the design, they would be likely to charge us a lot, because they would be taking a big risk. If we went to them with five folders full of detailed drawings, they would be likely to provide a more precise cost. One always pays for risk. The issue is when one pays for it and what the most sensible time to do that is. I accept entirely that there has been design as we have proceeded and that that is inherent in construction management.

**Fergus Ewing:** Mr Curran, who has construction experience, may be able to answer my final question. Were there any alternative methods that could conceivably have been used? Like Mr Grice, I am not an expert, but it has been put to me that the reason why construction management was chosen was that there were no other choices. No one would take the risk of building a building for which there were no designs—they would be stark raving mad to do that. Can you identify any other options for procurement that could conceivably have been chosen back in 1998?

**Paul Curran:** The Auditor General's report summarises the key procurement routes that one can take in nearly all construction projects. Others took the decision that the project had to progress within a certain timeframe. However, all the procurement routes involve risk and time constraints. The lowest risk to the client is posed by the design-and-construct method, which pushes all the risk on to the contractor. If that method had been chosen, we could have spent three or four years designing the building. Instead of moving desks in next week, we would still be talking about a design. That is the sort of balance

that a client must strike. Clients must decide whether the key element for them is time, quality or cost. None of the procurement routes provides 100 per cent cost certainty.

**Fergus Ewing:** I do not think that my question, which is not difficult, was answered.

**The Convener:** I will draw the session to a close with a final, rolled-up question. Mr Grice, we have heard from you and the Auditor General about the provision of financial reports. You explained how you initiated monthly reports to the corporate body and fortnightly reports to the progress group. Eventually, in July 2003, financial reports started to be made to the Finance Committee, although I am not clear about whether they contained exactly the same information as the other reports. Will you tell us why that happened in July 2003? In other words, why had it not happened before?

We heard this morning about the bringing together of the cost plan in November 2000 and the fact that risk workshops had also taken place in October or November 2000. Will you explain whether the information from the risk workshops was incorporated into the cost plan and if it was not, why not?

**Paul Grice:** On the first question, as I have explained, project management reported fortnightly up to the Holyrood progress group and monthly up to the corporate body, which covers the point that the Auditor General made in his 2000 report. The corporate body decided to go for monthly reports to the Finance Committee as opposed to quarterly ones for two reasons. One is the simple reason that a new Presiding Officer came into office, he and I discussed the issue and we felt that it would be a good opportunity to increase the frequency of reports. The reason why we are able to do that sensibly—there is no point in reporting monthly if there is nothing to say—was that the amount of activity on the site dramatically increased and the amount of spend was very high. Therefore, there was a case for monthly reporting after the election, whereas a year or so earlier we would have ended up reporting very little progress to the Finance Committee. As you know, convener, when a new person comes in, they tend to ask questions and that is often a stimulus for change. The time was right.

I might have to ask Paul Curran to comment on the cost plan point, because the question is more detailed. It is certainly the case that a risk workshop was going on at about the time that you mention. The outcome of that was most certainly reported to the Holyrood progress group, which considered it at that time, and I think that there was also parallel advice from the consultant that most of the risks appeared to be manageable to varying degrees. That debate took place and the Holyrood progress group decided that it wanted to

keep a close eye on the matter and that there should be further, regular workshops. It was proactive in that.

Paul Curran might be able to give a more precise answer on this, but the judgment taken was that the information from the risk workshops should not go into the cost plan. The cost plan was made up of a lot of different packages adding up to the construction cost of £108 million. There is always a reluctance—especially on the part of the cost consultant—to put risk money straight into the cost plan for fear of signalling to all concerned that they can spend to a higher limit. We tend to be aware of risk but to treat it separately. That is the rationale, but perhaps Paul Curran might want to add something.

**Paul Curran:** Rather than use the risk register as the method of materialising actual cost, we go through the change-control mechanism, because it is the only way that we can physically spend money on the project and vary anyone's contract. Allocations were made within the risk register, were set aside and were managed. Once packages were let, they were managed daily.

**The Convener:** That ends our evidence taking. I thank you for your time and for answering the points that we have put to you.

We now move on to the next agenda item, which is to discuss the briefing and the evidence that we have heard. We have agreed that that will be in private, although we will come back into public for a short time at the end of the item so that we can announce the outcome of our deliberations. It would also be appropriate to have a comfort break before we start agenda item 4. I ask members to return at quarter to 5.

16:38

*Meeting suspended until 16:48 and thereafter continued in private.*

18:08

*Meeting continued in public.*

**The Convener:** We move back into public session to announce the committee's decision before closing the meeting.

The Audit Committee has decided that it will resume its consideration of the Auditor General's report "Management of the Holyrood building project" in September, following the publication of Lord Fraser's report. At the conclusion of today's evidence, the committee decided that it would be more appropriate to consider how to approach the Auditor General's report once Lord Fraser has concluded and published his findings.

This has been the final meeting of the first year for the Audit Committee in the second session of

the Parliament. I thank members of the committee and the staff of Audit Scotland for their great hard work. This has been the committee's busiest year to date; we have published six inquiry reports in the past six months and no doubt we will go on to do far more. I look forward to seeing you all in September.

*Meeting closed at 18:10.*





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