



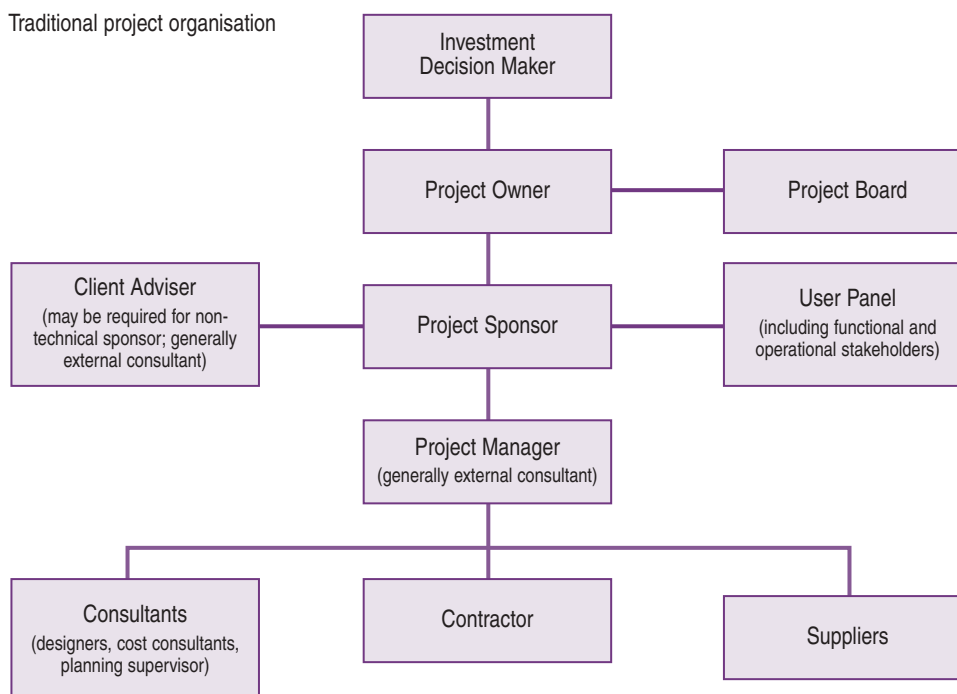
Chapter 8

Project Management - 1998 to 1 June 1999

The Project Management Structure

- 8.1 After the 9 January 1998 announcement that Holyrood was the preferred site, the second reading of the Scotland Bill became the focus of attention. Securing its passage and preparing the subordinate orders required to bring the new devolution settlement into effect in the spring of 1999 was a major and highly pressured task for Ministers and officials throughout 1998. In parallel a substantial exercise to develop the Parliament's procedures, and ultimately offer it draft standing orders, was established under a Consultative Steering Group chaired by Henry McLeish. In addition the Inquiry learned of the strong Ministerial will and operational need to keep up momentum on the physical preparations for the Parliament including temporary accommodation, services and staffing.
- 8.2 At the same time as the running of the competition to appoint a designer, the project management arrangements were formalised in early 1998. Mr Armstrong continued as Project Manager and, following a promotion board chaired by Mr Russell, Mrs Doig was appointed Parliament Buildings Project Sponsor in March 1998. Reporting to Mr Gordon, Head of Constitution Group, Mrs Doig did not however assume active Project Sponsor responsibilities for Holyrood until the time of the announcement of the successful Design Team on 6 July 1998.

- 8.3 Procurement guidance produced by HM Treasury³³⁴ and in force at that time set out a model of good project team organisation and the necessary management and technical abilities of those with responsibility for leading and managing large public sector construction projects.



Source: *Essential Requirements for Construction Procurement*, HM Treasury, 1997

- 8.4 Central figures within this structure are the Project Owner, the Project Manager and the Project Sponsor. The Project Owner for the Holyrood Project effectively sat within a Steering Group of senior civil servants who took strategic decisions on behalf of the client. Mr Brown was the named individual filling the role of Project Owner until December 1998 after which it became Mr Gordon until handover to the SPCB on 1 June 1999. Mr Armstrong was the professional Project Manager responsible for the day to day management of the Project and reported directly to the Project Sponsor. His role was to act as the interface between the Project Sponsor on the ‘client’ side and the consultants on the ‘supply’ side. The Project Sponsor was responsible to the Project Owner for the client’s interest in the Project. In evidence Mrs Doig described the role rather well:

“The role of the project sponsor was to act as the client’s representative to deliver the Holyrood Building to agreed time, budget and quality.”

“Much of the job involved contractual and reporting relationship management and one analogy is to describe the relationship network as being like a bow-tie with the project sponsor and project manager at the centre, each with their own large networks

³³⁴ SE/5/368–398 - HM Treasury Guidance No.1: ‘Essential Requirements for Construction Procurement’, 1997

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respectively of, on the one side clients, and on the other professional appointments and contractors.”³³⁵

- 8.5 The Project Management structure established by the Scottish Office complied with the Treasury model and, in evidence, the management and technical abilities of the key postholders was explored. In particular, Mrs Doig was questioned in some detail about her career experience and her personal competencies. She accepted that she was not an expert in any of the building or design disciplines but explained that this was not a requirement for a project sponsor. As she saw it:

“The main role is to understand the client’s requirements and to be able to understand sufficient of the technical aspects and all the other external pressures which impact on getting any building through to completion.”³³⁶

- 8.6 Mrs Doig put great store on the access she had to the technical advice of Dr Gibbons and Mr Wyllie as well as to the experience of her Project Manager, Mr Armstrong. Although Mrs Doig’s previous responsibilities in relation to the procurement of Victoria Quay and the refurbishment of St Andrew’s House were of a very different nature and complexity to the Holyrood Project, her appointment to the post of Project Sponsor might be justified on the basis of her managerial experience and the technical support her colleagues would be able to offer her. The complexities of this particular project, however, were such that even without the benefit of hindsight it should have been seen that any sponsor appointed should have had greater familiarity with either construction or the sponsorship of major construction projects. I do not underestimate the advantage of having someone who could work within an intricate political environment. Whether an individual with such a full range of skills existed within the Scottish Office at that time I cannot say. However, as Ministers were showing themselves more than willing to become involved, having the pragmatic advice of someone with construction experience to draw upon was more valuable than that of someone with political acumen.

The £50 million Budget – Early Days

- 8.7 The press release announcing the selection of Holyrood³³⁷ noted that the final costs would depend on the design, the fees negotiated with the successful architect following a competition and the outcome of a competition to select a ‘developer’. Parliamentary questions were answered reflecting an estimated construction cost of around £50 million.³³⁸ It is notable that, throughout this period, public announcements invariably focused only on the estimated cost of construction at March 1998 prices without any consistent attempt to quantify the other

³³⁵ WS/25/001–021 – Mrs Barbara Doig’s First Witness Statement, 4 December 2003

³³⁶ Evidence of Mrs Barbara Doig on 4 December 2003, Para 59

³³⁷ SE/3/011–012 – ‘Dewar Opts for New Building in Historic Heart of Edinburgh’, 9 January 1998

³³⁸ SE/4/010 - House of Lords Hansard, 4 February 1998

elements of the total cost to the public purse. At that stage no contracts had been entered into with any of the private sector consultants and it would have been inappropriate to disclose publicly an estimate for these costs. Nevertheless, to my mind this early presentational practice had a significant impact subsequently upon the public perception of the escalating cost of the Project.

- 8.8 The Inquiry heard conflicting evidence as to whether the successful Design Team gave a commitment during their interview that the design concept they were presenting could be constructed within a £50 million budget.³³⁹ The official note of the first meeting of the Design Team on 21 July 1998 suggests that such a commitment was indeed offered (as one would expect during a competitive interview), but of more significance is the fact that the £50 million figure was incorporated into the contract between the Secretary of State and EMBT/RMJM Ltd.³⁴⁰ The figure was also included in the contracts with RMJM (Scotland) Ltd and Ove Arup.
- 8.9 Mr Gordon's evidence identified the challenge that working to this budget would pose on both the Design Team and the Project Team:

“DLE's costings of the indicative offerings of the shortlisted designers suggested that all (or most) would imply buildings that would exceed the budget figure. This was not a major stumbling block at the point of selection since the process was to choose the design team (not the specific design) who would work with the project team, cost consultants (and later the construction managers) to come up with a design which would meet the brief within the budget. It did, however, demonstrate that an early task for the Project Team would be to reinforce to the Design Team the need to stay within budget.”³⁴¹

- 8.10 The note of the first meeting of the Design and Project Teams on 21 July 1998 records that Donald Dewar was aware that the indicative proposals put forward by EMBT/RMJM to the selection panel had been estimated by the cost consultants to be likely to exceed the £50 million construction budget but, at interview, EMBT/RMJM had confirmed that the Project could be delivered within the £50 million budget. The note records that it was clear that the client would not alter the budget and that the scheme must therefore be adapted to the budget.³⁴²
- 8.11 Some effort does appear to have been invested by the Project Team in working to bring the early conceptual designs back within budget and, in a letter of 1 September 1998 to Mr

³³⁹ Evidence of Sra Benedetta Tagliabue on 29 March 2004, Para 289, Miss Joan O'Connor on 25 November 2003, Para 1002 and Mr Robert Gordon on 16 December, Paras 65-67

³⁴⁰ RM/1/054-076 – Memorandum of Agreement between the Secretary of State and EMBT/RMJM Ltd, Clause 2.12, 4 November 1998

³⁴¹ WS/27/001-008 – Mr Robert Gordon's Second Witness Statement

³⁴² SE/4/237-239 - Minutes of Design Team Meeting of 21 July 1998

Armstrong, Mr Stewart gave the assurance that 'meeting the budget is at the front of our minds and is a matter that will be addressed as we progress'.³⁴³

8.12 In his written evidence to the Inquiry Mr Gordon stated:

"I thought at the time that if it eventually became genuinely impossible to meet the Parliament's space requirements with the budget available, it might be necessary to either revisit the budget or the brief but it was not in my view prudent to concede the possibility of increasing the budget well before developed design proposals were available. This would have removed a key control over the cost of the project that the Scottish Office had at the time. I also understood that different approaches to meeting the brief were being produced yielding different cost outcomes in an iterative process involving EMBT and RMJM, DLE and the project team."³⁴⁴

8.13 The evidence suggests that at no time before handover did the Project Team succeed in securing a design from the Design Team that could be delivered within budget.³⁴⁵ The client's increased requirements for space were a significant factor in this situation but I have to question whether £50 million was ever a realistic budget figure and how effective the Project Team were in operating a genuine cost control process.

8.14 In his October report to Mrs Doig, Mr Armstrong stated:

'The Quantity Surveyor has produced a first cost estimate based on draft Stage C... Although the information is inadequate to produce a valid cost plan, all the indications are that the budget of £50m will be exceeded by a significant amount.'³⁴⁶

8.15 Although publicly the reported budget remained unchanged, there appeared to be a growing recognition within the Project Team that it was unsustainable. As the design developed over this period DLE reported to Project Management its estimates of construction costs prices as follows:³⁴⁷

³⁴³ MS/6/009 - Letter from Mr Brian Stewart to Mr William Armstrong, 1 September 1998

³⁴⁴ WS/27/001-008 - Mr Robert Gordon's Second Witness Statement

³⁴⁵ DL/1/008-012 - DLE Time Line: Development of Costs, October 1998 to August 2000

³⁴⁶ SE/4/201-209 - October 1998 Report from Mr William Armstrong to Mrs Barbara Doig

³⁴⁷ DL/1/008-012 - DLE Time Line: Development of Costs, October 1998 to August 2000

Date	Total (£)	Gross internal area	Comment
23/10/98	58,918,300	21,299m ²	At August 1998 prices. All others at March 1998 prices.
02/11/98	74,281,008	22,476m ²	Based on EMBT/RMJM Stage C drawings.
16/11/98	68,944,487	21,397m ²	This and previous reports include Construction Manager's fees and charges of £5.5 million.
11/02/99	63,397,605	22,905m ²	Working document only. This and subsequent reports exclude the Construction Manager's fees and charges.
02/03/99	87,158,356	22,905m ²	
12/03/99	88,350,019	23,098m ²	Based on EMBT/RMJM Stage C drawings.
26/03/99	88,350,019	23,214m ²	
25/05/99	89,200,019	23,214m ²	

In his November report to Mrs Doig, Mr Armstrong noted that DLE's estimates were significantly above the official (public) budget figure of £50 million.³⁴⁸ Asked in evidence whether Snr Miralles had "an awareness of the need to contain his designs within the costs indicated by the client", Mr Fisher replied with his view that "he was less troubled by cost than would have been the case had RMJM been acting in isolation".³⁴⁹ Pressed as to whether Snr Miralles paid any attention to cost at all, Mr Fisher's succinct response was: "scant".³⁵⁰

8.16 There seems to have been growing unease about the direction in which the costings of the indicative design proposals were heading. There does, however, appear to me to have been a reluctance to accept that costs could not be contained by 'cost reducing measures' or to report the deteriorating forecasts to Ministers. In a minute to Mrs Doig, Mr Brown explained the thinking at that time:

"We could not allow a situation to develop where estimated construction costs ran ahead of budget without our having looked carefully at options for cost reducing measures and discussing these with Finance Group colleagues and with Ministers. In particular, we will have to ensure that there is sufficient time allowed in the programme for accurate cost estimates to be developed and considered fully before we are required to sign up to detailed designs. If necessary, the project timetable will have to slip to make way for this. The Project will build up considerable momentum of its own but we must avoid giving approvals without fully understanding the financial consequences, especially when these are likely to be unpalatable."³⁵¹

³⁴⁸ SE/4/213-221 – November 1998 Report from Mr William Armstrong to Mrs Barbara Doig

³⁴⁹ Evidence of Mr Hugh Fisher on 15 December, Paras 557 and 558

³⁵⁰ *ibid*, Paras 559 and 560

³⁵¹ SE/4/212 - Letter from Mr Alistair Brown to Mrs Barbara Doig, 19 November 1998

- 8.17 Mr Brown's minute was written in response to an indication from Mrs Doig that the construction cost budget would be exceeded by a 'significant amount' and it is evident that Mr Brown anticipated discussions over this with Ministers. Less than a week later Mr Armstrong, reflecting on the Architect's proposed changes, brings out a budget estimate between £69 million and £74 million.³⁵² In other words, although grave reservations over the budget were being expressed within the Scottish Office as early as November 1998, neither Donald Dewar nor any of his Ministers were being given any warning of impending major cost rises. This makes it all the more surprising that in March 1999 when he was eventually first asked to approve a budget increase he was told it would be "prudent"³⁵³ to lift it from £50 million to £60 million!
- 8.18 In her evidence to the Inquiry, Mrs Doig felt that it would have been inappropriate to seek a budget increase from Ministers until such time as the design had crystallised and there was greater certainty in the associated cost estimates. As she put it:
- "I certainly would not have felt comfortable going to Ministers one day and saying, "Well, I think I need an extra budget of such-and-such", and then going back the next day and saying, "Oh, no, the design's changed a bit; it's down again, it's up again." That would not be a good use of Ministers' time, and we had to wait and see."³⁵⁴
- 8.19 Mr Thomson spoke in his evidence of the approach generally taken by civil servants in their dealings with Ministers over issues of this kind:
- "If all you can do by going to Ministers is to share your anxiety with them, there is not much point in going to Ministers. You just need to get on with it. When there is a decision point, that is when you go to Ministers."³⁵⁵
- 8.20 Nevertheless, it seems extraordinary that Ministers do not appear to have had any formal indication of the apparent threat to the agreed budget of £50 million during those months of 1998 and early 1999 when officials were evidently well aware of the evolving situation, although Donald Dewar appeared to appreciate that £50 million would only secure Sam Galbraith's 'bog standard building' on a greenfield site. I assume that there were informal contacts with senior officials such as Mr Gordon during which progress with the Project would have been discussed. Mr Thomson suggested that when an approach for an addition to the budget did eventually come forward, Donald Dewar would not have been taken completely by surprise as he would have understood the general direction of the Project from his informal exchanges. Pointedly, however, he also observed that 'like most Ministers on most subjects, he would not have regarded any cost increases as being good news'. However there was no

³⁵² SE/7/578 - Minute from Mr William Armstrong to Mrs Barbara Doig, 25 November 1998

³⁵³ SE/4/057-067 – Paper from Mrs Barbara Doig to PS/Secretary of State, 25 November 1998

³⁵⁴ Evidence of Mrs Barbara Doig on 4 December 2003, Para 276

³⁵⁵ Evidence of Mr Kenneth Thomson on 3 February 2004, Para 323

direct evidence of such knowledge. Ministers were briefed in January 1999 that the budget remained at £50 million but, as Lord Elder pointed out in evidence, he was surprised by the extent to which the Project Manager had taken a pretty adverse view as to what was going on in terms of delays and problems with costs but Ministers and special advisers had been unaware of this.³⁵⁶

Delivery of Design Information

- 8.21 A timeline for the Project prepared in March 1998 by Mr Armstrong illustrated that the target for completion of the Holyrood building remained autumn 2001 with a date for the start of construction on site in July 1999. To meet this overall timetable, the programme required the Design Team to deliver outline proposals by September 1998 and the scheme design for approval by March 1999. Although this timetable was developed by Mr Armstrong using his considerable experience of project management, it undoubtedly was driven by the political objective of early completion and occupancy of the Parliament building. It is ironic that throughout his involvement with the Project, Mr Armstrong drove forward a programme that he had devised but which he felt did not incorporate sufficient time for the planning and design phases of the Project.³⁵⁷
- 8.22 The Project Manager made monthly reports to the Project Sponsor during the latter half of 1998 and the Inquiry found this a valuable record both of the events at this time and of the Project Manager's view of the health of the Project. In his August 1998 report, Mr Armstrong notes that the Architect appeared to have made little progress in the time since their appointment in early July and that the Project was currently four weeks behind the programme that he had developed.³⁵⁸ It was felt that this slippage needed to be recovered if there was not to be disruption to the work of other consultants. This was to be a recurrent theme in his subsequent reports.
- 8.23 The level of concern even at that early stage was such that Mr Stewart was called to a meeting with Dr Gibbons on 28 August 1998 to agree a 'recovery strategy'.³⁵⁹ At that meeting RMJM explained the difficulties they had been having communicating with the Barcelona office during the holiday period, the different 'operational characteristics' of the Barcelona and Edinburgh offices and the amount of abortive work that RMJM had undertaken. This does not sound like a joint venture company that had gelled particularly well at that point. Although Mr Michael (Mick) Duncan, Director, EMBT/RMJM Ltd spent some time in Barcelona in an effort to improve communications and the difficulties surrounding a key presentation to Donald Dewar

³⁵⁶ Evidence of Lord Elder on 29 October 2003, Para 132 *et seq*

³⁵⁷ Evidence of Mr William Armstrong on 2 December 2003, Para 142 *et seq*

³⁵⁸ SE/4/012-021 - August 1998 Report from Mr William Armstrong to Mrs Barbara Doig

³⁵⁹ SE/4/195-197 - Letter from Mrs Barbara Doig to Mr Alistair Brown, 15 September 1998

on 16 September 1998 were ironed out, the underlying questions over the ability of the Architect to deliver remained.

8.24 In his October 1998 report,³⁶⁰ Mr Armstrong recorded that the Architect had presented RIBA Stage C proposals which were overdue, exceeded the briefed area by 3,500m² and did not conform to the Brief in other respects. He also reported that the work of other consultants was being delayed by the Architect's 'lack of progress'. In this apparent fixation with programme, Mr Armstrong appears to be reflecting the clearly-expressed view that the timetable for the Project was tight from the outset and any delay would therefore jeopardise the ability to meet the wishes of Ministers to deliver the Project as early as possible. This urgency does not seem to me to have been echoed by the Project Sponsor who recognised that Snr Miralles "did not work in straight lines" but, instead, would have surges of creative input. She also spoke of the many other ways in which the lead architect was helping the client. I am unconvinced that the value of Snr Miralles' contribution to Edinburgh Festival events and public presentations was as critical as his personal input to the key design work at this crucial stage in the Project.

8.25 Mr Fisher offered a view on the cultural difficulties posed by working with Snr Miralles:

"It is hard to quantify; a fair degree of irritation and frustration at what one could, at best, describe as Barcelona's lack of understanding as to the importance of time and cost in the UK construction industry."

"It is merely that there is an entirely different cultural approach to the delivery of buildings between Spain and the United Kingdom. Enric himself had a particular way of designing that was less structured than one might find in a major practice in the United Kingdom, and those cultural differences create operational tensions."³⁶¹

Enric Miralles' Presence in Edinburgh

8.26 At his first interview with the designer selection panel, Enric Miralles proposed to bring a team of architects to Edinburgh and work in Edinburgh himself. However, Dr Gibbons recollected that this commitment had been adjusted at the time of the second interview:

"At the second interview he qualified that by putting forward the joint venture with an Edinburgh-based firm as an alternative."³⁶²

8.27 Miss O'Connor's recollection was different:

"Enric Miralles and Benedetta Tagliabue, either or both committed to being in Edinburgh for the duration of the design phase."³⁶³

³⁶⁰ SE/4/201-209 – October 1998 Report from Mr William Armstrong to Mrs Barbara Doig

³⁶¹ Evidence of Mr Hugh Fisher on 15 December 2003, Paras 207 and 211

³⁶² Evidence of Dr John Gibbons on 3 February 2003, Paras 130 and 132

³⁶³ Evidence of Miss Joan O'Connor on 29 November 2003, Para 927 and JO/1/099 - Note of Meeting of 6 May 1998

It looks almost certain that such an undertaking was given as it appeared in the Scottish Office news release announcing the result of the competition.³⁶⁴

- 8.28 In evidence we learned that Snr Miralles and Sra Tagliabue visited Edinburgh during August 1998 with their family to gauge how practicable they would find working in the RMJM Edinburgh office. They concluded that they could work more effectively from their own studio in Barcelona:

“We stayed 12 days that August in Edinburgh ... we realised that it was absolutely impossible because we did not have our office with model atelier, with our people.”³⁶⁵

Snr Joan Callis, Director for the Scottish Parliament Project within EMBT, worked in both the Barcelona and Edinburgh offices throughout the Project and Mr Karl Unglaub moved to the Edinburgh office full-time after Snr Miralles' death in July 2000.

- 8.29 Mr Armstrong minuted Mrs Doig on 4 December 1998 voicing his concern that the lead architect continued to be based in Barcelona.³⁶⁶ He warned that the consultants would find it logistically difficult to have two separate bases, that the construction management contract had been tendered on the basis of EMBT/RMJM Ltd working in Edinburgh and that difficulty had already been experienced in getting Enric Miralles to attend meetings in Edinburgh. This final point is borne out in the Auditor General's Report of September 2000:

‘Between July 1998 and November 1999 the lead architect attended only six of the fifteen meetings (between project management and the Design Team).’³⁶⁷

- 8.30 The two practices had very different cultures and ways of working and found it difficult to adopt a cohesive approach to design issues or resolving problems whilst working in separate locations and communicating mainly via fax. With Enric Miralles insisting on being personally involved in all design issues during these formative stages, there was inevitable delay and disruption caused by his geographical detachment. Although RMJM took steps to better integrate the practices, this was only partially successful. Communication issues have been evident throughout the life of the joint venture company.

Growing Tensions

- 8.31 The relationship between the Project Manager and the Architect is central to an understanding of this period. Of equal importance is the Project Manager's relationship with his employer. Mr Armstrong was an experienced professional project manager who understood better than

³⁶⁴ SE/3/141-142 - News Release: ‘Architect Chosen to Design Scottish Parliament’, 6 July 1998

³⁶⁵ Evidence of Sra Benedetta Tagliabue on 29 March 2004, Para 221

³⁶⁶ MS/6/041-042 - Minute from Mr William Armstrong to Mrs Barbara Doig, 4 December 1998

³⁶⁷ Auditor General for Scotland's Report of September 2000, Para 2.28

almost everyone around him how to bring a complex construction project to fruition. He had a structured approach to his work and sought to impose that discipline on the consultants with whom he worked. It is clear from Mr Armstrong's reports that from the outset he was not succeeding in developing a constructive dialogue with (both arms) of the Architect. An exchange under questioning exemplified the communication problem that clearly existed:

Mr Campbell QC: I am trying to find out, Mr Armstrong, how much dialogue there was between the appointed designer, who succeeded in a competition in July 1998, and you, the Project Manager, charged with evolving the brief for the building, which that designer was going to design.

Mr Armstrong: Very little.

Mr Campbell QC: Looking back on it, do you think that was the right way to go about it?

Mr Armstrong: It was not my choice.

Mr Campbell QC: That was not what I asked you.

Mr Armstrong: I think that is my answer.

8.32 Within the Scottish Office, Mr Armstrong spoke of being "bypassed" and cited an occasion at which he was not present when Snr Miralles met Donald Dewar, Dr Gibbons and others and presented proposals which had not been subjected to technical scrutiny, did not meet the Brief, and extended outwith the site. Mr Armstrong felt that by enabling Snr Miralles to have direct access to Donald Dewar and obtaining agreement at the highest level to proposals not approved by him, he was left having to pick up the pieces.³⁶⁸ The Inquiry did, however, establish that Mr Armstrong had not been excluded but had been on leave at the time of the presentation.

8.33 Mr Gordon spoke of some concerns he held over Mr Armstrong's approach to resolving his difficulties with the Architect:

"He was taking a pretty firm line with EMBT/RMJM and was sending them increasingly strong letters. Now I think that has a significant part to play in robust project management, but I was a bit concerned that he did not seem to have a back-up strategy and that the proposition he was making was that we would have to go for the nuclear option of sacking the Design Team, or at least sacking the EMBT part of it if we did not get responses."³⁶⁹

8.34 Mr Armstrong's discomfort with the progress being made by the Architect continued into November. The Design Team submitted formally their RIBA Stage C proposal on 2 November 1998 but it was clear that this submission exceeded the area in the Brief while omitting some of the requirements of that Brief. The poor level of communication at this time is exemplified by

³⁶⁸ Evidence of Mr William Armstrong on 2 December 2003, Para 181

³⁶⁹ Evidence of Mr Robert Gordon on 16 December 2003, Para 262

the fact that RMJM and EMBT both submitted separate solutions to the Stage C difficulties to the Project Team; a course of events that exposed tensions between the two arms of the joint venture company. The Inquiry heard how Mr Stewart tried to defuse those tensions through correspondence with Snr Miralles. He explained the rationale of his approach:

“All that I am trying to say here is “Please can you understand that there are enormous pressures on this Project in terms of delivery of design, development of design, and we have acknowledged the programme and we need to try and work to that programme.” I think I told him that there are other members of this team — there will be a Construction Manager coming along who will have a contract to deliver certain things and he will. We cannot ignore all of these things. All of these other people have to be considered in the process.”³⁷⁰

- 8.35 Whether Snr Miralles fully understood at this time the political environment in which he was expected to work is questionable. He was clearly coming under pressure from the Project Manager and from his business partners in RMJM to work to a schedule in a way that he was unaccustomed to doing. It seems however that he felt strongly that the “gestation” of a project of this type needed time.³⁷¹
- 8.36 On 6 October 1998, EMBT/RMJM Ltd submitted a claim for payment of a 10% proportion of its total fee which was contractually payable upon completion of RIBA Stage C. The full claim was rejected by Mr Armstrong who authorised only a partial payment in recognition of the work undertaken to that point even though Stage C had not been completed. The payment of fees in instalments was provided for in the contract with the Architect.³⁷² The full amount was paid on 27 November. Fees were used in this instance by the client as a lever to encourage delivery by the architectural consultants. However, the way in which the issue was handled seems to illustrate the growing tensions in the relationship between Mr Armstrong and the Architect.
- 8.37 In early December 1998, despite having received further drawings from the architect in response to comments on their RIBA Stage C proposal, Mr Armstrong remained of the view that Stage C had not been achieved. In a damning minute written on 7 December 1998 after he had tendered his resignation he notes that the programme had been delayed by 8 weeks in the 22 weeks since the appointment of the Architect. He saw this as ‘quite an accomplishment’. He also noted that ‘as long as Miralles insists on making every decision on the design of the building, the joint venture problems will not be resolved and the Project will fall further behind programme’. Finally he commented:

³⁷⁰ Evidence of Mr Brian Stewart on 11 March 2004 (am), Para 298

³⁷¹ *ibid*, Para 321

³⁷² RM/1/076 - Memorandum of Agreement between the Secretary of State and EMBT/RMJM Ltd, Schedule C, Part 5,

'There is no indication that Miralles, with a workload of which Holyrood is only a part, can with his limited resources in Barcelona and his desire to take all design decisions, remedy the deficiencies in time, cost and design to meet the programme.'³⁷³

Resignation of Mr Armstrong

8.38 Mr Armstrong resigned from his position as Project Manager in terms of a letter to Dr Gibbons of 1 December 1998.³⁷⁴ He had indicated at the time of the appointment of the Architect in July 1998 that, although he had serious misgivings about the appointment, he was prepared to try to make it work. The expectation had been that he would continue until autumn 1999 but Mr Armstrong's experience in those first six months persuaded him that he was not receiving the support necessary to enable him to carry out the job of Project Manager and that his advice was not being listened to.³⁷⁵

8.39 In evidence it was heard that Mr Armstrong's resignation was not entirely unexpected and some thought had apparently been given to his effectiveness towards the end of November. Mr Gordon commented on Mr Armstrong's departure in his written evidence:

'I was disappointed, but not surprised, when Bill Armstrong resigned in December 1998. Disappointed because I had worked successfully with Bill previously on Victoria Quay and had greatly admired his commitment, organisation, single mindedness and attention to systems and detail which had served us well in that project; not surprised because as the Holyrood Project developed it became clear that those qualities which carried with them a certain rigidity and inflexibility would not in themselves be enough to develop and sustain a productive relationship with the EMBT/RMJM design team.'³⁷⁶

8.40 When asked about the apparent clash of styles, Mrs Doig put things more bluntly:

"Mrs Doig: Well, project managers are replaceable.

Mr Campbell QC: But architects are not?

Mrs Doig: The architect in this case was not."³⁷⁷

8.41 In a parting salvo to Mrs Doig, Mr Armstrong offered this cautionary advice:

'I have bowed out of the Project Manager's job and shouldn't be offering comment or criticism but, for your own sake and the others involved, a stand must be taken to either bring Miralles to heel, or to accept his inadequacies. He does not believe he

³⁷³ SE/4/044 - Minute from Mr William Armstrong to Mrs Barbara Doig, 7 December 1998

³⁷⁴ MS/6/043 - Letter from Mr William Armstrong to Dr John Gibbons, 1 December 1998

³⁷⁵ MS/6/046-071 - Mr William Armstrong's Witness Statement, December 2003

³⁷⁶ WS/27/001-008 - Mr Robert Gordon's Second Witness Statement

³⁷⁷ Evidence of Mrs Barbara Doig on 4 December 2003, Paras 311 to 313

has any. The programme will drift, the cost will increase, the design team will make claims, the contractors will make claims, and the project will become a disaster.³⁷⁸

- 8.42 Surprisingly, Ministers were not informed of the resignation of the Project Manager until his departure was picked up by the media in January 1999. Given Donald Dewar's evident interest in all aspects of the Project, this seems inexplicable.

Budget Increase – Spring 1999

- 8.43 In January 1999 Mr Martin Mustard, who had been working as a member of the Project Team, was appointed to replace Mr Armstrong as Project Manager; a role which would change substantially with the appointment of a construction manager in that month and with the impending handover to the SPCB.
- 8.44 In response to an article in the *Architects Journal* about the departure of Mr Armstrong, officials advised Ministers that the Project remained on course for completion in autumn 2001 and that the budget remained at £50 million excluding VAT and fees. This advice was reflected in subsequent answers to Parliamentary Questions. However, with the design continuing to evolve during this period, there was recognition that a detailed cost estimate was required to give the Project Team the tools to impose discipline on costs and programme. DLE submitted their cost estimate on 2 March 1999 and proposed a basic construction cost of £63.4 million, a 10% allowance for contingencies and a further £17 million for risk allowances.³⁷⁹ This was the first formal DLE cost estimate for nearly 4 months and clearly caused some alarm within the Scottish Office. The absence of estimates seems to illustrate the dearth of design information coming forward over this period and also the lack of adequate joint working between the Architect and the cost consultants. Whether this made any difference to the client is another question. When DLE did submit estimates they were either withheld from Ministers or altered.
- 8.45 Following a meeting of officials to draw together information on costs, a submission was pulled together and put forward to Ministers by Mrs Doig on 23 March 1999.³⁸⁰ This set out progress on the Project and informed Ministers of 'the latest cost estimates from our independent cost consultants'. It recommended that it would be 'prudent' to increase the budget from £50 million to £60 million excluding site acquisition, archaeology, demolition, fit-out, VAT, fees and contingency. A figure of £107 million was identified as the total financial provision required (although this figure excluded certain landscaping and road works which would come from other budgets).

³⁷⁸ SE/4/045 – Letter from Mr William Armstrong to Mrs Barbara Doig, 18 December 1998

³⁷⁹ DL/1/110-112 - DLE Feasibility Estimate, Issue 5, 2 March 1999,

³⁸⁰ SE/4/057-067 – Progress Report by Mrs Barbara Doig to the Secretary of State, 23 March 1999

8.46 The minute of 23 March 1999 contained the following table:

Cost Estimates – Key Elements	Original 1998 – 03 £ million	Latest Estimate 1998 -03 £ million
Site acquisition, demolition, archaeology	5	5
Construction	50	60
Contingencies (1)	5	6
Fees	10.5	14
VAT	12	14
TOTAL SITE & CONSTRUCTION COST	82.5	99
Fit-out, loose furniture, IT etc	7.5	7.5
FINANCIAL PROVISION REQUIRED	90	107 (2)
Landscaping, Roads etc		5 – 10 112 – 117(3)

(1) Construction contingencies included on advice from cost consultants as per normal practice. This is regarded as commercially confidential.

(2) No allowance for landscaping works. Total rounded to nearest million.

(3) Indicative estimated cost range only. See Para 17.

8.47 The reasons given to Ministers for the increase in the cost estimates were threefold. Firstly, the briefed gross area on which the £50 million budget had originally been based had increased from the initial 17,500 to 23,000m² in the latest design proposals. This increase was to accommodate larger numbers of staff in the light of better knowledge of the way the Parliament would operate. Secondly, the design proposals had been unable to match the over optimistic gross/net area proportions in the Brief. Thirdly, the need to incorporate an additional formal entrance to the building had been recognised and imposed additional space demands and therefore cost. Although the submission suggested that savings could reduce the DLE cost estimate from £61.2 million to ‘£59 or £60 million’, it did not at any point indicate to Ministers that DLE had advised that an additional £17 million should be incorporated as a risk allowance.

8.48 The Inquiry heard detailed evidence on the view reached by the Project Team that the risks identified by DLE could be ‘managed out’ and the decision not to alert Ministers to this aspect of the cost estimates. In his evidence Mr Gordon said:

“We also had to decide with Ministers what the contingency should be to take account of risks. But at that stage I was not prepared to recommend to Ministers that this additional risk allowance, which included items like the possibility that there would be some delay; the possibility that the basic specification of the building would be higher than the client was asking for; that there would be balustrades; that there would be this, that and the other that was more than we wanted, since it was within the client’s control to say, “We do not want these things; we are not going to have that”. I am afraid it was pretty much a no-brainer to conclude that these were things that could not be included in the budget as if they were hard items that were going to come to pass, because that would be a totally imprudent use of public money.

... Now it would have been possible to take these figures and put them into notes to Ministers in March and May, but they would only have gone in there with a firm recommendation that no allowance should be made in the budget for the materialisation of these risks because they were not potential costs that were on all fours with those that were included in the core construction costs".³⁸¹

- 8.49 Similarly, Mrs Doig took the view that it would have been 'irresponsible' to seek an additional budget for risk allowances when to do so would have automatically resulted in fee increases and could have encouraged the Design Team and contractors to overrun. Mr Fisher however expressed his view that had DLE thought that there was a realistic possibility that the identified risks could be managed out by client action, they would not have included those risks in the first place.³⁸²
- 8.50 I do not challenge the principle that the Project Team could take a view on whether the risks identified by DLE could be avoided by client action. What I find more difficult to comprehend is why Ministers were not notified within the confidentiality of their exchanges with officials of the reported financial position and the management action taken to address the position. By omitting to inform Ministers of this highly relevant development, a risk was introduced that Ministers would take decisions on the basis of partial or incomplete information and might inadvertently make misleading statements in public or in Parliament. It is evident that DLE were not consulted over the accuracy of the 23 March submission³⁸³ but more surprisingly it does not appear that the Project Team undertook any exploration with them at this time as to the validity of the risks DLE were identifying. Professional advice appears to have been rejected without a proper consideration of that advice or challenge to it.
- 8.51 By way of illustrating the apparent absence of a thorough understanding within the Scottish Office of the DLE advice, the Inquiry heard evidence that the Scottish Office believed DLE had identified a risk allowance of £5 million for delay caused by the handover of the Project to the Scottish Parliamentary Corporate Body.³⁸⁴ This issue was also covered in some detail in a letter written by the Permanent Secretary to Donald Dewar in April 2000 to explain the actions of officials at this time.³⁸⁵ Yet, in examining the precise advice offered by DLE, it was seen that the £5 million allowance referred to 'costs in connection with disruption during construction and delayed construction completion'.³⁸⁶ DLE dispute that this risk was specifically attached to potential delays at the point of handover of the Project but was of a more general nature.³⁸⁷ In

³⁸¹ Evidence of Mr Robert Gordon on 16 December 2003, Paras 423 to 424

³⁸² Evidence of Mr Hugh Fisher on 15 December 2003, Para 342

³⁸³ Evidence of Mrs Barbara Doig on 17 December 2003, Para 492 and Mr Hugh Fisher on 15 December 2003, Para 314

³⁸⁴ WS/25/001- 21 – Mrs Barbara Doig's First Witness Statement, 4 December 2003

³⁸⁵ Auditor General for Scotland's Report of September 2000, Annex B

³⁸⁶ DL/1/119-122C – Feasibility Estimate from Mr Ian McAndie to Mrs Barbara Doig, 25 May 1999

³⁸⁷ Evidence of Mr Hugh Fisher on 18 February 2004, Paras 84 *et seq*

correspondence³⁸⁸ the Scottish Executive have maintained that this issue was discussed with DLE in April 2000 at which time it was clearly understood that the figure related to risk at the time of transfer. The correspondence also indicated that 'the £5 million had been the subject of considerable discussion between the Project Sponsor, the Project Manager and DLE in April and May 1999'. This is not accepted by Mr Fisher of DLE, nor is there documentary evidence to indicate that DLE's position was other than that contained in their cost estimate at the time. The whole episode suggests to me that senior officials did not have a complete understanding of the advice that their professional consultants were offering them.

- 8.52 Mr Fisher gave evidence that he took some exception to the fact that DLE's estimates of risk had apparently been rejected. He made it clear that if DLE were asked to report it could only do so on the basis of the all inclusive construction cost figure of £89 million at that time and that neither DLE nor Bovis would be party to a Cost Plan based on £62 million. Sir Muir Russell took comfort from the observation in the Auditor General's Report that 'the particular risk items in question did not subsequently materialise'. However, it is not clear to me whether the risks concerning Mr Fisher were the same as the particular risks commented on by the Auditor General. As I read the Auditor General's observations in context, he is referring to those risks identified in Sir Muir Russell's letter of 4 April 2000 to Donald Dewar and not the broader range of risks that concerned Mr Fisher.
- 8.53 Donald Dewar noted the contents of Mrs Doig's 23 March 1999 submission with some concern and discussed the matter with Mr Gordon and others on 29 March. On the same day EMBT/RMJM Ltd gave a presentation to Donald Dewar of their final design scheme proposals. He was prepared to accept the proposals subject to a review by the client side to ensure that the project brief was being met. He asked for arrangements to be put in hand immediately to assess and if necessary amend budget provision, accepting that the costs of the latest design proposals were being reviewed by DLE and would not be available until May 1999.³⁸⁹ It was not considered appropriate to make public statements on costs going beyond the Government's existing position until that whole process had been completed. I am sure that this decision was wholly unrelated to the fact that the election campaign for the first Scottish Parliamentary elections on 6 May was getting underway at that time.
- 8.54 During April and May the review work was undertaken and on 21 May 1999 DLE provided a further cost estimate reflecting the most recent design changes.³⁹⁰ This estimated a basic building cost of £62.1 million, a contingency/design reserve of £5.2 million and a risk allowance

³⁸⁸ SE/4/568-569 - Letter from Ms Thea Teale to the Holyrood Inquiry, 2 March 2004

³⁸⁹ SE/4/072-073 - Minute from Mr Kenneth Thomson to Mrs Barbara Doig, 14 April 1998

³⁹⁰ DL/1/119-122C - Feasibility Estimate from Mr Ian McAndie to Mrs Barbara Doig, 25 May 1999

of £15.8 million within a total construction cost of £89.2 million. In a submission to the newly appointed Finance Minister, Mr Jack McConnell, that was remarkably similar to her earlier submission to Ministers, Mrs Doig recommended an increase in budget from £50 million to £60 million (excluding VAT, fees etc). The submission noted that DLE's latest cost estimate was 'comparable with the feasibility design stage cost estimate of £50 million is £62.2 million (excluding VAT, fees, contingencies, risk allowances, fit-out, loose furniture and artworks, site acquisition etc)'. The table contained within the submission did not identify any sum for risk allowances and suggested that overall financial provision of £107 million would be required (excluding landscaping). Savings of between £1.5 million and £2.5 million were identified to justify bringing the cost estimate down from £62.2 million to a budget proposal of £60 million.³⁹¹

8.55 That recommendation to increase the budget was approved at a meeting attended by Donald Dewar, Jack McConnell and senior officials (including Sir Muir Russell) on 2 June 1999. The note of that meeting records that Ministers considered whether the contingency within the budget was adequate and concluded that to increase it would simply increase the likelihood of spending more.³⁹² The documentation clearly records that the budget increase both sought and approved was to a construction cost of £60 million. For reasons which were not fully explained to the Inquiry, all concerned seem to have treated the increased budget as £62 million. Mrs Doig explained in evidence that "eventually it came out through the system as £62 million".³⁹³ In the Parliamentary Debate on 17 June 1999, only 15 days later, Donald Dewar confirmed his understanding that the construction cost budget was £62 million and the total budget £109 million.

8.56 It has been suggested that the issue of risk allowances as opposed to contingencies must have been examined at the meeting on 2 June 1999 and it has been speculated that the content of the full DLE cost estimates may have been conveyed to Ministers at this time. I do not however find this supported either in the official record of that meeting or in the written evidence to the Inquiry submitted by Jack McConnell who stated:

'... neither in the course of the decision being made to increase the budget for the Parliament project from £50 million to £60 million, nor in any subsequent or other discussions, was I shown a report from the cost consultants DLE. The issue of contingencies was discussed in general at the meeting on 2 June, but I was not

³⁹¹ SE/4/100-116 – Minute from Mrs Barbara Doig to Jack McConnell, 26 May 1999

³⁹² SE/4/118-119 - Minute from Mr Kenneth Thomson to Mrs Barbara Doig, 15 June 1999

³⁹³ Evidence of Mrs Barbara Doig on 17 December 2003, Para 477

presented then or later with the information that DLE had identified separate potential risks of a further £27 million in their cost report.³⁹⁴

- 8.57 No evidence has been put before the Inquiry to suggest that Ministers had any knowledge of the true position in relation to the risk allowance identified by DLE. To the contrary it was clear from the evidence of Mrs Doig,³⁹⁵ Mr Gordon³⁹⁶ and Sir Muir Russell³⁹⁷ that a conscious decision had been taken by civil servants that the majority of the risk items identified by DLE could be “managed out” and that it was not in the circumstances necessary or appropriate for Ministers to be informed. When it came to light in March 2000 in Mr John Spencely’s report³⁹⁸ that DLE’s estimated costs as at 25 May 1999 had been £89.2 million rather than the £62 million (plus £6 million contingency) reported to Ministers, an explanation was requested by Donald Dewar. That explanation was provided in terms of a letter of 4 April 2000 from Sir Muir Russell, of which a copy forms Annex B to the September 2000 report of the Auditor General for Scotland. The terms of that letter confirm that the Project Team had made the professional judgment not to report DLE’s figure. It was put to me by Counsel to the Inquiry in his closing submission that Donald Dewar’s “response to the Spencely Report of demanding an explanation from civil servants at the highest level, which subsequently came into the public domain, is inconsistent with any deliberate concealment by him of information provided by those civil servants.” I accept that view. Had civil servants in fact drawn the true position in relation to DLE’s risk estimates to Ministers’ attention I am sure that Sir Muir Russell’s letter would have said so. Equally I am sure that a politician as astute as Donald Dewar, had he been aware of the true position, would not have run the political risk of having that awareness pointed out to him in the explanation which he had demanded.
- 8.58 I should also add that it appears to me that the decision to increase the budget taken on 2 June 1999 had no legal basis. In terms of the Transfer of Property etc. (Scottish Parliamentary Corporate Body) Order 1999³⁹⁹ all rights and interests in relation to the Parliament had passed to the SPCB on 1 June 1999. From that date the budget was a matter only for the SPCB and the approval of this increase in budget should have been sought from Sir David Steel and his SPCB colleagues, particularly as the increase resulted from significant changes to the brief including an increase in Parliamentary staff numbers, increases in the balance area and a new entrance. I can see that officials might wish to brief Ministers on the increases so that they were content with what was being proposed and as they were cost increases that had arisen

³⁹⁴ MS/25/001-002 - Letter from the First Minister to the Holyrood Inquiry, 23 March 2004

³⁹⁵ Evidence of Mrs Barbara Doig on 17 December 2003, Para 515 *et seq*; and 12 February 2004, Para 245 *et seq*

³⁹⁶ Evidence of Mr Robert Gordon on 16 December 2003, Paras 539 and 572

³⁹⁷ Evidence of Sir Muir Russell on 5 February 2004, Para 217 *et seq*

³⁹⁸ Mr Spencely’s Report, Section 4.2.3 ‘The basic construction cost’ and related table

³⁹⁹ Transfer of Property etc. (Scottish Parliamentary Corporate Body) Order 1999 (S.I. 1999 No. 1106)

while the Project was still under their stewardship but that does not deflect my concern that Ministers were purporting to take significant decisions in relation to a Project no longer within their remit.

- 8.59 When Mr Fisher discovered in early July the basis of the £62 million, namely the DLE calculation with risk managed out, he immediately insisted that there should be no tampering with his figures and it was also pointed out that Bovis would have difficulty preparing and publishing a cost plan for other than the true estimated Project value i.e. £89 million and not £62 million. Mrs Doig was present when this was discussed and confirmed that for political reasons a cost plan based on £89 million was inappropriate at that time.⁴⁰⁰
- 8.60 What is astonishing is that less than a month after Donald Dewar's speech to the Parliament officials knew the independent cost consultants were insisting that their figure was correct but at no time prior to Mr Spencely's Report was this drawn to Donald Dewar's attention. Nor indeed was it raised with Sir David Steel or the SPCB, although Mr Fisher stressed what the risks would be if he were to be questioned by the SPCB.⁴⁰¹

⁴⁰⁰ DL/1/196 - DLE File Note of Meeting of 7 July 1999

⁴⁰¹ DL/1/197 - DLE File Note of Meeting of 28 July 1999