



Chapter 11

The Holyrood Project - June to December 2000

Progress to Stage D

- 11.1 An effect of the April 2000 debate was to impose enormous political pressure on those responsible for the Project to achieve formal Stage D sign off as soon as possible. The Stage D report, dated 8 June 2000, was the subject of a minute of 15 June 2000⁵⁹⁶ from the interim Project Director, Dr Gibbons, in which he confirmed that the Project Team had submitted the report to careful analysis and invited the SPCB to give approval to it. Dr Gibbons' minute had some caveats. In particular he pointed out that the designs for the Debating Chamber, Committee Towers and Canongate building were not to the necessary level of detail and required development. He also highlighted that the cost estimate from DLE⁵⁹⁷ gave a construction cost within the £108 million component of the £195 million budget and that this would require conversion into a Cost Plan as a matter of urgency.
- 11.2 At the ensuing SPCB meeting on 20 June 2000, which was attended by the prospective MSP members of the HPG as well as Messrs Stewart and Duncan from EMBT/RMJM Ltd and Mr Fisher of DLE, formal approval was given to the Stage D report and for the design to proceed to Stage E. Messrs Wright and Manson had not been formally appointed to the HPG at that

⁵⁹⁶ CB/2/290-295 – Paper from Dr John Gibbons to the SPCB/HPG, 15 June 2000

⁵⁹⁷ DL/1/181-184 – Letter from Mr McAndie to Dr Gibbons, Feasibility Estimate (Cost Check Issue 13) at 8 June 2000

point and were not present. It was perhaps a pity the meeting did not have the benefit particularly of their independent advice at that stage. Mr Wright gave evidence to the Inquiry that he had some subsequent reservations about the Stage D.⁵⁹⁸ In the minute of the meeting of 20 June it is recorded that “the Design Team as a whole regarded both the time and cost targets as tight but achievable”.⁵⁹⁹

- 11.3 Two necessary elements of a robust Stage D are to be found in the agreement by all parties of a Cost Plan and in the existence of at least a preliminary structural design by the structural engineers. Neither had been achieved by June 2000.

Stage D – The Cost Plan

- 11.4 Mr Fisher had reported to the SPCB on 21 March 2000⁶⁰⁰ that cost reduction measures discussed at a meeting in Barcelona had brought the construction cost of £125 million down to £108 million. Mr Grice is minuted as having advised the SPCB at that meeting that “based on the construction cost estimate of £108 million, the SPCB could be assured that the entire project could now be delivered at a total cost of under £200 million”.⁶⁰¹

- 11.5 In relation to the cost estimates being developed at that time, Mr Fisher explained the position in evidence:

“What is important to understand is that at this stage in the project, the early design work for the west side of the site — the MSP building and Queensberry House — was reasonably advanced; the design work for the east side of the site was embryonic. I should say that that is not unusual, given the way in which the project was being procured, but it did put pressure on the team’s capacity to properly assess cost. That being the case — the design being at that stage — the meeting in Barcelona was intended to set cost allowances for a whole range of parts of the building to the east of the site.”⁶⁰²

- 11.6 Mr Fisher explained that the object of this costing exercise carried out in Barcelona was to set “acceptable allowances, say for walls, finishes, services, roof — all elements of the building. The team had to agree that it could be built within these allowances and therefore the allowances could then safely be included in the estimates”. The meeting in Barcelona had been lengthy and had involved all of the main participants in the Project. To the extent that it resulted in a construction cost estimate within the target of £108 million, the exercise could be regarded as a success. That success was, however, ultimately predicated entirely on the

⁵⁹⁸ Evidence of Mr Andrew Wright on 4 March 2004, Para 93

⁵⁹⁹ CB/2/297 - Minutes of SPCB Meeting of 20 June 2000

⁶⁰⁰ CB/2/219-224 – Minutes of SPCB Meeting of 21 March 2000, Para 13

⁶⁰¹ *ibid*, Para 13

⁶⁰² Evidence of Mr Hugh Fisher on 18 February 2004, Para 214 *et seq*

ability of the Design Team to complete the design within the relevant cost allowances. As Mr Fisher put it in his evidence:

“The objective was achieved in that (the) team bought into the provision of a figure of £108 million in line with the client’s instruction. The exercise was not successful insofar as the design associated with that exercise was not actually delivered. In other words, the risks that were removed from the estimate to get to £108 million never went away. That was why ... the overall figure shot back up almost immediately after the date that the £195 million was produced.”⁶⁰³

- 11.7 The HPG identified at its meeting on 9 August 2000⁶⁰⁴ that a Cost Plan should be agreed as a matter of urgency. It may be indicative of the paralysis that affected much of this Project that Dr Gibbons had been saying the same thing two months earlier. At that meeting it decided that the Design Team, the Construction Manager and the Quantity Surveyor should be instructed to agree a cost plan by 31 August to the best of their ability “ring fencing any areas where insufficient information was available to allow full quantification to be made.”
- 11.8 On 28 August DLE delivered the Proof Cost Plan No 14⁶⁰⁵ bringing out a construction cost of £108 million at 1998 prices. Mr Manson, to satisfy himself and HPG members of its adequacy, met Mr McAndie of DLE on 7 September 2000. After comment from Mr Manson,⁶⁰⁶ Dr Gibbons noted that DLE were lacking design information, for example structural designs for the east basement and superstructure which appeared to be particularly complicated. He emphasised that DLE would require to be proactive to ensure that the £108 million was not exceeded. He identified that due to design delays significant trade packages were being let on a two stage basis in an attempt to keep to programme and that costs would escalate due to inevitable changes at the detailed design stage.

Agreement of the Cost Plan

- 11.9 There is uncertainty firstly as to the extent to which the Design Team and Bovis can in fact be regarded be regarded as having “bought into” the Cost Plan and secondly as to whether there was sufficient architectural information to form the basis for a valid Cost Plan.
- 11.10 After production of the Proof Cost Plan 14 on 28 August 2000 there was extensive correspondence between Bovis, DLE and the Project Team with regard to it. Mr Brian McQuade, Director, Bovis Lend Lease (Scotland) Limited wrote to Mr Mustard on 10 October 2000 enclosing a commentary on the Cost Plan together with an annotated copy of the Proof

⁶⁰³ Evidence of Mr Hugh Fisher on 18 February 2004, Para 253

⁶⁰⁴ CB/4/020-022 – Minutes of HPG Meeting of 9 August 2000

⁶⁰⁵ DL/1/193-195 – Cost Plan from DLE at 28 August 2000

⁶⁰⁶ CB/4/1153-1155 – Fax from Mr Manson to Dr Gibbons and Ms Davidson, 11 September 2000

Cost Plan.⁶⁰⁷ In the letter, and perhaps displaying a lack of confidence in EMBT/RMJM's ability to design to target rates, Mr McQuade said:

'We understand that EMBT/RMJM have confirmed they will where necessary carry out any redesign required to achieve the target rates and budgets set for the Trade Packages and we would ask that you obtain their written confirmation on this issue'.

No such written confirmation was ever obtained.

11.11 Mr McQuade asked it to be noted that in particular the East Substructure, Frame and Cladding were of concern to Bovis and that any major Value Engineering exercise on that or any other Trade Package would have an adverse effect on programme. In the commentary headed "Clarifications on DLE Proof Cost Plan 14 Review" it was pointed out that the Cost Plan was based on 1st Quarter 1998 prices with no allowance for inflation and that "Edinburgh is currently the centre of a construction boom" leading to higher tender prices. Attention was also drawn to the fact that the adequacy of the £10.8 million contingency should be reviewed in light of the outcome of the recent Risk Review Meeting. The paper concluded as follows:

'The overall cost/m² appears to be adequate. However this is a bespoke building and design has a way of outstripping even the most solid feasibility estimate leaving the client financially exposed.

Because of the varying stages of design development, specifications and lack of detailed build up to the rates the Cost Plan must be viewed as a gross design limit

.....

At each design stage, and prior to package tenders being invited, DL&E need to carry out cost checks and estimates to establish whether the package is within the target cost plan. If the forecast is that the scope will exceed the budget then the package will require redesign to keep within budget and maintain programme.'

11.12 This advice was, in my opinion, sound and well-intentioned but there remained the essential incompatibility that if the drive was to early completion, cost was not and could not be containable.

11.13 Although it was also reported at the 15 November meeting of the HPG⁶⁰⁸ that Bovis had agreed the cost package plan, other evidence before the Inquiry suggests that any such agreement may have been equivocal to put it no higher. For example in the Bovis written

⁶⁰⁷ BV/1/626-737 – Proof Cost Plan 14 from Mr Brian McQuade to Mr Mustard, 10 October 2000

⁶⁰⁸ CB/4/081-083a Minutes of HPG Meeting of 15 November 2000

submission to the Inquiry on “Stage D: Scheme design”⁶⁰⁹ it was said that a weakness was that the information which it contained “did not allow a fully detailed Cost Plan to be developed. Key items were required to be allocated “target sums” for the Design Team to design within, rather than a detailed breakdown with quantities and unit rates.”

- 11.14 On the question as to whether there was agreement to the Cost Plan, I note that the Auditor General in his report of June 2004 considered that there was at best only “qualified agreement”.⁶¹⁰ On the evidence before me I am in agreement with that analysis.

Stage D - Adequacy of Design

- 11.15 With regard to the adequacy of design, Mr Kinsley wrote to DLE on 10 August 2000 expressing his opinion that there had “been sufficient architectural information in place for some time now to allow a good Cost Plan to be prepared.”⁶¹¹ In my view that has to be a questionable assumption particularly with regard to the state of the design at the east end of the site.

- 11.16 Irrespective of the architectural design an appropriate structural design is a requirement of a valid Stage D. Bovis, in evidence before the Inquiry, and not without cause, suggested that the Stage D report was not a co-ordinated Stage D in that the engineering design information was not a Stage D.⁶¹² Mr David Lewis, Partner at Ove Arup & Partners, when giving evidence said:

“The second scheme design report did not contain structural or services drawings as the architectural layouts could not be finished in time to use them as templates. We had produced many sketches and designs working with Enric at regular meetings in Barcelona, but much of this advice was not incorporated in the architectural drawings at this stage, and in this respect it was not a coordinated scheme design. This was a concern, as the programme required us to produce tender documents in August, and piling information before that, even though the scheme design had not been fixed.”⁶¹³

- 11.17 Mr Lewis assented to the proposition that the Stage D document was imperfect saying that was “because we did not have time to produce drawings for it” and that the production of drawings might have taken a month. This had been confirmed in a letter from Ms Patricia Johnstone, Associate, Ove Arup & Partners, to Mr Kinsley dated 17 May 2000.⁶¹⁴

Robustness of Stage D

- 11.18 Mr Fisher’s view was that “it was not a robust Stage D in totality”.⁶¹⁵ He said in evidence:

⁶⁰⁹ BV/1/477-482 – Written Submission from Mr Alan Mack to the Holyrood Inquiry, 10 October 2003

⁶¹⁰ Auditor General for Scotland’s Report of June 2004, Paras 2.22 *et seq*

⁶¹¹ RM/7/080-081 – Letter from Mr John Kinsley to Mr Ian McAndie, 10 August 2000

⁶¹² BV/1/477-482 – Written Submission from Mr Alan Mack to the Holyrood Inquiry, 10 October 2003

⁶¹³ Evidence of Mr David Lewis on 7 May 2004, Para 385 *et seq*

⁶¹⁴ OA/1/070 – Letter from Ms Patricia Johnstone to Mr John Kinsley, 17 May 2000

⁶¹⁵ Evidence of Mr Hugh Fisher on 29 March 2004, Para 536

“... the state of the design was very different across the site. So when we produced the cost estimate at that time we were looking at fairly well-developed designs in relation to the MSPs’ building and Queensberry House and much more embryonic designs in relation to the east side of the site.”⁶¹⁶

11.19 On the evidence before me I conclude that the Stage D report and the Cost Plan later developed on the basis of it did not provide a robust foundation for the future of the Project. I note that as early as November 2000 DLE were reporting from a risk workshop a nominal design and construction risk exposure, exclusive of inflation, of some £28.7 million,⁶¹⁷ putting the total construction cost significantly well over the Cost Plan ‘budget’.

11.20 I noted that Mr Fisher in his written statement⁶¹⁸ put forward a non exhaustive list of the key changes which, with the benefit of 20-20 hindsight, he thought might have most benefited the Project. It struck me as of particular significance that among them he listed:

‘Adherence to a logical plan of work (and in particular the opportunity to produce a Cost Plan that reflected a completed Stage D).’

11.21 The practical consequence of the incompleteness, particularly of the engineering design at this stage was explained by Bovis⁶¹⁹ who explained that it resulted in further delay to the design processes for critical trade packages on the east of the site. I am in agreement that this must have been a consequence.

Guaranteed Maximum Price

11.22 Mr Spencely’s Report had recommended against any change in the contractual arrangements.⁶²⁰ His view was that any such change would have had the consequence of considerable delay. He also pointed out that the Project could, in the event of a change of contract, have lost the benefit of Bovis’ accumulated expertise.

11.23 Notwithstanding that view, at its second meeting on 4 July 2000 ⁶²¹ the HPG looked at the possibility of moving to a guaranteed maximum price contract for the remainder of the Project. They were advised by Mr Fisher that the transfer of risk inherent in such a change, with the design of the east end of the site still at a relatively early stage, was likely to add several tens of millions of pounds to the overall cost. The HPG accepted the implications of this advice and decided against pursuing the matter any further.

⁶¹⁶ *ibid*, Para 534

⁶¹⁷ DL/2/074-084 - Report from Mr Ian McAndie to Dr John Gibbons, 2 November 2000

⁶¹⁸ MS/15/001-009 – Mr Hugh Fisher’s First Witness Statement, 18 February 2004

⁶¹⁹ BV/1/477-482 – Written Submission from Mr Alan Mack to the Holyrood Inquiry, 10 October 2003

⁶²⁰ Mr Spencely’s Report, Section 7 ‘Review and comparison of the advantages of alternative contractual methods’

⁶²¹ CB/4/009-016 - Minutes of HPG Meeting of 4 July 2000

11.24 The HPG's decision on this point and at this time was, in my view, entirely appropriate. Whatever may have been the wisdom of the initial decision to adopt construction management as the procurement vehicle for the Project (and I have already questioned whether it was properly explained), the contractual position in that respect was inherited by both the SPCB and the HPG. The contract with Bovis made no provision for the change of their consultancy role as the Construction Manager to any other role such as that of management contractor or works contractor. While a change in the nature of a contractual relationship, even a fundamental change such as this, might always be a matter for negotiation between the parties there would, quite apart from the cost implications pointed out by Mr Fisher, have been formidable European procurement law difficulties in entering into what would effectively be a new contract without a proper procurement process. Any Guaranteed Maximum Price which might have been secured at that time, either with Bovis or following a fresh and no doubt lengthy procurement process, would inevitably have been very much greater than the £195 million budget set by the Parliament.

The Death of Snr Miralles

- 11.25 On 17 March 2000 Snr Miralles confided in his wife for the first time⁶²² that he had been feeling unwell and had arranged to visit a doctor in Barcelona. A scan revealed that he had a large tumour in his brain which was deemed by the Spanish specialist to be inoperable. Almost immediately, he and his family flew to Houston, Texas where on 29 March he underwent surgery to remove the tumour. Initial signs were encouraging and it was believed the operation had been successful although Snr Miralles remained in Houston for some weeks to undergo radiotherapy treatment.
- 11.26 Mr Stewart had been notified of Snr Miralles's illness on 17 March but, although concerned for him and for the implications for the Project, it is clear that no-one appreciated the full severity of the illness at that stage. Mr Stewart kept in touch with Snr and Sra Miralles in the USA, sharing faxes on his progress and on aspects of the Holyrood Project. On 4 April Mr Stewart and Dr Gibbons personally conveyed the news of Snr Miralles' illness to Donald Dewar. The Inquiry learned that this information was communicated to the Sir David Steel the same day.
- 11.27 During the debate on 5 April, Sir David Steel reported that Snr Miralles had "lately been quite ill". I am satisfied from the evidence of Sra Tagliabue and Mr Stewart that this was an honourable statement by Sir David Steel based upon everyone's understanding of the nature of Snr Miralles' health at that time, and not an attempt to withhold information from MSPs in advance of a crucial vote. From tapes I have seen, Donald Dewar was clearly uncomfortable

⁶²² Evidence of Sra Benedetta Tagliabue on 29 March 2004, Para 440

about discussing publicly someone else's health but that stemmed from a reticence, of which I can only approve, not from a desire to be evasive.

- 11.28 Snr Miralles continued to work on the detail of many of his contracts from his Houston base and it was not until the end of May that a further scan revealed that the tumour had not been eradicated. As his health deteriorated, the family returned to Barcelona on 18 June where he continued to undertake treatment. He died on 3 July 2000.
- 11.29 While the Project had lost its creative and charismatic principal architect the design to his concept should have by this time reached a sufficiently advanced stage for the Project to continue in his absence. His death, however, gave rise to a substantial period of disharmony within the architectural Joint Venture and the only conclusion can be, sadly, that it caused further delay.
- 11.30 An immediate difficulty that arose was in relation to the replacement of Snr Miralles as principal person to "direct and control ...overall performance by the architect" in terms of Clause 2.2 of the Architect's contract.⁶²³ Within a month of Snr Miralles' death this became the subject of some strongly worded correspondence between Sra Tagliabue and Mr Stewart.⁶²⁴ On 16 August Lewis Macdonald required to write on behalf of the HPG to the three surviving Directors of EMBT/RMJM Ltd inviting their attendance at its meeting on 23 August to present agreed proposals as to how they intended to co-operate in taking the project forward.⁶²⁵ Agreement could not be reached before the meeting on a proposal in terms of which all three Directors would assume joint responsibility for the obligations under Clause 2.2. With some difficulty, involving the good offices of Dr Gibbons and after the involvement of lawyers and some further acrimonious correspondence a deal was thrashed out in time for the HPG's meeting on 13 September⁶²⁶ to which all three Directors put forward an acceptable joint letter⁶²⁷ in terms of which there was to be no replacement of Snr Miralles as 'principal person'. As Mr Gordon reported: "peace has broken out in the Design Team".⁶²⁸ This led to the anomaly of a conscious decision to leave a deceased person as the 'principal person' for the purposes of the architectural appointment. On one view this was an expedient fudge by the HPG which left the Design Team as something of a rudderless ship. On the other hand Snr Miralles had not been doing much to 'direct and control .. overall performance by the Architect'. He was always a concept designer rather than a manager and it may have made little difference to the practical

⁶²³ RM/1/027-052 – Memorandum of Agreement between the Secretary of State and EMBT with RMJM (Scotland) Limited, 24 June 1998

⁶²⁴ RM/7/066-070 – Letters of 1, 4 and 7 August 2000 and RM/7/074- 076 – Letter of 8 and 11 August 2000

⁶²⁵ RM/7/083-Letter from Lewis Macdonald to Sra Tagliabue, Mr Stewart and Mr Duncan, 16 August 2000

⁶²⁶ CB/4/048 – Minutes of HPG Meeting of 13 September 2000, including a chronology of the EMBT/ RMJM correspondence

⁶²⁷ CB/4/1083-1084 – Letter from Sra Tagliabue, Mr Stewart and Mr Duncan to Lewis Macdonald, 13 September 2000

⁶²⁸ SE//9/235 – Note from Mr Robert Gordon to the Minister for Parliament, 19 September 2000

arrangements. However, I have a sense that the subsequent problems might have been avoided if a more robust stance had been taken by the HPG at the time.

Cost Reporting to the HPG

11.31 At meetings on 20 September⁶²⁹ and 15 November 2000⁶³⁰ it was reported that the Project was on programme and budget. At the first meeting the question was raised with Mr Fisher, apparently for the first time, as to whether the £195 million budget included inflation. He reported his understanding that the £108 million construction cost component of that budget was based on March 1998 prices, in accordance with Government practice. While Mr Fisher hoped the impact of inflation could be absorbed, he sounded warnings that “it would not be easy” and that “it would be giving a hostage to fortune to imply that the Project could be delivered for £98 million at 1998 prices”. He clarified that the £10.8 million contingency sum was not designed to cover inflationary pressures. Apart from this possible cloud on the horizon, the news reaching the HPG at this time was basically good news.

The Death of Donald Dewar

11.32 Following an accident, Donald Dewar died suddenly on 11 October 2000. As Mr Stewart put it in evidence his death and that of Snr Miralles earlier in the year left the Holyrood Project bereft of its begetters and prime advocates.⁶³¹ Although responsibility for the Project had passed to the SPCB in June 1999 his continuing influence on the Project should not be ignored. As the prime instigator of the Project and having spoken powerfully in its favour at the Parliamentary debates in June 1999 and April 2000 Donald Dewar had a very substantial and continuing personal political investment in the fortunes of the Project.

11.33 I knew Donald Dewar well, having been on the Select Committee on Scottish Affairs early in the 1979 Parliament when he was Chairman of it. I was well aware from at least that time of his commitment to the establishment of a Scottish Parliament. He enjoyed very considerable political influence at Westminster and Scotland which should not be under-estimated. All the comment to me has emphasised that it was his drive and determination that caused the new Parliament Building Project to go forward. That was undoubtedly the case.

11.34 It is more difficult to assess whether he could have or should have asked more searching questions on costs prior to the handover in June 1999. His Special Adviser Lord Elder talked of his unease over the figures being supplied to him⁶³² but there was no evidence before me that he sought any appraisal of the costs from, for example, the independent cost consultant

⁶²⁹ CB/4/064-066 - Minutes of HPG Meeting of 20 September 2000

⁶³⁰ CB/4/081-083A - Minutes of HPG Meeting of 15 November 2000

⁶³¹ Evidence of Mr Brian Stewart on 22 March 2004 (pm), Para 311

⁶³² Evidence of Lord Elder on 29 October 2003, Para 132

Mr Fisher of DLE. If he had, it is difficult to believe that there would not have been a searching re-appraisal of the whole Project before handover in June 1999.

- 11.35 It comes as no surprise that after the revelation by Mr Spencely in 2000 of Mr Fisher's assessment of costs in early 1999 that he contemplated resignation on the basis that he had misled the Scottish Parliament. Donald Dewar was steeped in the Westminster tradition that there is no greater democratic misdemeanour than misleading Parliament and he clearly carried that with him when he became First Minister in the Scottish Parliament. However, there was no evidence whatsoever to suggest that he deliberately or knowingly misled MSPs. He relied on cost figures given to him by senior civil servants. As it turned out, he should not have done so but he did not conceal figures that he knew were a better assessment. In the event he did not resign and in my view was correct not to have done so.

September 2000 Report of the Auditor General for Scotland

- 11.36 In the summer of 2000 the Auditor General for Scotland undertook an examination of the Project under the Public Finance and Accountability (Scotland) Act 2000, s.23 under which he was empowered to examine the economy, efficiency and effectiveness with which resources have been used. The involvement of the Auditor General was at the request of Andrew Welsh, then convener of the Parliament's Audit Committee. The Report was presented to the Audit Committee on 19 September 2000.⁶³³
- 11.37 It would not be appropriate for me to comment in any detail on the conclusions of the Auditor General at that time, but an appreciation of his key findings and recommendations is vital to any proper understanding, not just of the history of the Project to that time, but also of its subsequent history.
- 11.38 The Auditor General's main findings in his 2000 report were:

- The rise in construction cost estimates from £50 million to £108 million was attributable to two main factors. About half resulted from the 47% increase in the total area of the building. The other main factor was the much greater complexity of design in comparison with the notional concept at the time of the 1997 feasibility studies upon which the original budget was based.⁶³⁴
- The programme delay could be attributed largely to difficulties in approving a fixed design due in part to difficulties encountered by the architects in complying with the brief and in part to design change requested by the client.⁶³⁵
- The organisation of the project management team reflected good practice with a clear chain of command.⁶³⁶

⁶³³ September 2000 Report: <http://www.audit-scotland.gov.uk/publications/pdf/2000/00g01ag.pdf>

⁶³⁴ Auditor General for Scotland's Report of September 2000, Paras 2.3 to 2.9

⁶³⁵ *ibid*, Paras 2.20 to 2.34

⁶³⁶ *ibid*, Para 3.6

- In general terms the appointments of the consultants were properly undertaken although some aspects might have been more systematic and better recorded.
- The use of construction management was innovative in the public sector and, while offering advantages of control, left risk with the client rather than the contractor, raising a question as to whether project management had the appropriate construction management expertise to meet the demands of the Project.⁶³⁷
- While the decision to select construction management was taken after due professional consideration, a comprehensive procurement strategy should have been prepared beforehand.⁶³⁸
- There should have been a formal project execution plan.⁶³⁹
- Value Engineering should have been integrated into the process of design.⁶⁴⁰
- There should have been change control procedures based on a detailed cost plan agreed between all parties at an early stage. It was of concern that there was still no Cost Plan at the time of the Report.⁶⁴¹
- Cost reporting was deficient:
 - in the absence of an arrangement requiring project management to provide full cost information on a regular and systematic basis;
 - monitoring, particularly before handover, concentrated on construction cost without taking account of fees, VAT and fit out; and
 - although there was a general contingency allowance of 10% of construction costs, there was a departure from good practice in the failure to identify and quantify a separate allowance for the major risks potentially affecting the Project.⁶⁴²
- The SPCB should, on taking over the Project, have taken steps to satisfy itself about the status and health of the Project with a degree of independence from project management. An independent review at that time would have been particularly valuable as design was not firmly fixed and the cost consultants were reporting figures significantly higher than budget.⁶⁴³
- Mr Grice, as Clerk of the Parliament, was responsible for ensuring that the SPCB was properly informed and that, where needed, they received adequate independent advice. He was also the Project Owner and responsible for its successful delivery. It might have been advisable to allocate responsibility for Holyrood so as to safeguard the effective exercise of each role.⁶⁴⁴
- The establishment of the HPG, with the benefit of independent professional members, should be of assistance to the SPCB in its stewardship of the Project.⁶⁴⁵

11.39 The Auditor General made a number of key recommendations which included:

‘A risk analysis should be prepared as soon as practicable to identify all remaining risks to the Project and their potential impact on costs and deadlines and which should be the basis for an action plan to manage those risks.’

⁶³⁷ Auditor General for Scotland's Report of September 2000, Para 3.6 to 3.15

⁶³⁸ *ibid*, Para 3.20

⁶³⁹ *ibid*, Para 3.38

⁶⁴⁰ *ibid*, Para 3.44 to 3.45

⁶⁴¹ *ibid*, Para 3.40 to 3.43

⁶⁴² *ibid*, Para 3.46 to 3.53

⁶⁴³ *ibid*, Para 3.62 to 3.64

⁶⁴⁴ *ibid*, Para 3.66

⁶⁴⁵ *ibid*, Para 3.68 to 3.69

‘Project management should review the overall cost provision in the light of the risk analysis and ensure that, in accordance with good practice, there is separate allowance for risk in the estimate.’

‘Project management, the Design Team and the Construction Manager must agree a Cost Plan taking account of risks and uncertainty to provide an effective basis for managing the remaining stages of the Project.’

‘A single authoritative point of contact between the client and project management must be confirmed and through that point must pass all instructions to the Construction Manager and the Design Team.’

11.40 The Auditor General presented his 2000 report at a significant stage in the Holyrood Project; shortly after the establishment of the HPG but (as he recognised was unusual for an audit) before the completion of the Project. As such his report was timely and offered an informed roadmap that could take the Project forward to a successful conclusion which at that stage was envisaged to occur in December 2002. My own investigation has had the benefit of a further three years of activity and the evidence of a number of witnesses not available to the Auditor General from which to draw in reaching my own conclusions about the circumstances that lie behind this beleaguered project. From my own examination I am struck by the perceptiveness of the findings of the Auditor General in 2000 and find it difficult to disagree with his analysis which has proved remarkably durable.

11.41 In my view the recommendations in the Auditor General’s report were sound and could have had a significant influence upon the subsequent evolution of the Project. While limitations of time did not permit me to conduct as intensive an examination as I would have wished of the extent to which the report’s recommendations were implemented, I have been able to reach some conclusions based upon the evidence before me. I am content that progress was made against almost all of the recommendations but I have to conclude that in almost every case this was either incomplete or fell short of the action I suspect was intended by the Auditor General. What is incontestable is that the Project did not proceed smoothly to the conclusion that was anticipated and many of the shortcomings identified in 2000 have persisted until the present day. I will cover much of this in the remainder of this report.

Scottish Parliament Audit Committee’s 6th Report

11.42 The Standing Orders of the Scottish Parliament⁶⁴⁶ require the Audit Committee to consider and report on any report laid before the Parliament by the Auditor General for Scotland. The Committee met on seven occasions between September and November 2000 and heard

⁶⁴⁶ The Scottish Parliament Standing Orders, Rule 6.7

evidence from Sir Muir Russell and Mr Grice as the two accountable officers over the course of the Project. The full text of the Committee's report is available at the Scottish Parliament's website.⁶⁴⁷

11.43 The Committee's main conclusions can be summarised as follows:

- The Committee believed the building to be the most significant in modern Scottish history, posing the challenges to create a building of which to be proud against an imperative that the highest standards of financial management were to be achieved.
- It was unhelpful that a misunderstanding in the public mind had been created about the full costs of this Project. It was unnecessary and wrong not to disclose the estimated full costs once they were available.
- Cost reporting systems were unsystematic and did not adequately reflect the political dimension of this Project leading to important cost information not being provided to the client and, on at least one occasion, to Sir Muir Russell as accountable officer.
- Risk assessment policies which were in operation prior to the agreement of a cost plan were insufficient and at odds with HM Treasury guidance.
- The Committee could not identify conclusively the underlying causes of the increase in construction costs from £62 million to £108 million. It considered that the redesign of the Chamber did not alter the forecast construction costs greatly although it did have a significant impact on programme.
- The Committee did not share Sir Muir Russell's view that the Project, when transferred in June 1999, was clearly sustainable within the budget set.
- There should have been an independent review of the Project in June 1999 which would have provided more positive assurance about the prospects for completion on time and on budget and would have usefully highlighted the remaining risks and uncertainties.
- The Committee disagreed with the judgment taken by Mr Grice not to inform the SPCB of DLE's estimate in August 1999 that construction costs could reach £115 million. It was unacceptable that this information was withheld from the SPCB.
- The Spencely report was a turning point for the Project and there were indicators of improved management now in place. The HPG had added an element of independent scrutiny and political control that was not previously evident.
- Concerns remained about the impact of construction inflation.

11.44 Based on those findings the Committee made a number of recommendations including:

- For future high profile projects it was recommended that accountable officers within the Scottish Administration and other public bodies consider carefully their responsibilities to answer to Ministers and the Parliament for the exercise of their functions. In the interests of good stewardship and public accountability they should, for any major project for which they are accountable, ensure that they are informed and can consider the consequences of the risk of increased costs. Where the consequences may be so great as to undermine confidence in the

⁶⁴⁷ <http://www.scottish.parliament.uk/business/committees/historic/audit/reports-00/aur00-06-01.htm>

viability or value for money of the project, the accountable officer should consider informing Ministers, who may then inform the Parliament.

- It was recommended that the Scottish Executive should conduct a review of its policy on fee incentivisation with a view not only to maximising value for money but also achieving best value.
- The Scottish Executive should act to clarify the application of Treasury guidance on risk assessment and tackle the problematic yet critical issue of how risk assessment can be achieved in a robust manner. As part of this review, it was suggested that Ministers might wish to consider guidelines under which accountable officers present monitoring reports to them and recommended that the Scottish Executive consider the issues pertaining to public reporting and overall public expenditure planning. It was considered that the type of questions which needed to be addressed included defining the circumstances where risk assessment figures should - as a matter of course - be reported to the Parliament, and hence made public.
- For future major capital projects it was recommended that the Executive, and other public bodies in Scotland, consider the appointment of independent scrutineers to reinforce project monitoring at critical stages.

All the evidence before me would lead me to conclude that these recommendations were well-founded and I respectfully adopt them.

Health of the Project – December 2000

11.45 On 7 December 2000, shortly after Mr Ezzi took up his position as Project Director, Mr Mustard prepared for his benefit a paper setting out his views on the project culture and dynamics.⁶⁴⁸ His main observations were that (1) the main challenge in the Bovis Programme⁶⁴⁹ which although “probably achievable”, was tight; (2) the relatively poor performance of the Design Team in terms of tender and construction information flow was impacting on budget and (3) the budget and the contingency were under pressure due to design development beyond the Cost Plan agreement. In evidence Mr Ezzi confirmed that he felt Mr Mustard’s analysis and observations to be mainly sound.⁶⁵⁰ I find myself in agreement with that view. It is not difficult to conclude that by the end of 2000 the Project was in serious trouble despite the best efforts of the HPG and Project Management. As it progressed into 2001 and beyond those difficulties would increase.

⁶⁴⁸ CB/5/103A-104 – Paper from Mr Martin Mustard to Mr Alan Ezzi, 7 December 2000

⁶⁴⁹ *ibid*, Bovis Programme Revision 3 Series – target completion date December 2002

⁶⁵⁰ Evidence of Mr Alan Ezzi on 10 March 2004, Para 151