



## Chapter 12

### The Project from Late 2000

#### The Appointment of Mr Alan Ezzi

12.1 The SPCB had first expressed the view that there was a need for an “efficient professional project manager to take the scheme forward” at its private meeting on 23 February 2000.<sup>651</sup> Although Mr Spencely’s Report had not recommended any changes in this area, a review of the Project Sponsor role coinciding with the setting up of the HPG had concluded that the post should be split between a Project Director and a Financial Controller. At its meeting on 18 May the SPCB approved Mr Grice’s proposal that an industry professional should be appointed as Project Director.<sup>652</sup> An advertisement<sup>653</sup> for a Project Director was drawn up together with an information pack<sup>654</sup> which proposed a salary of up to £65,000 for “a dynamic individual” with a proven track record of delivering major building projects.

12.2 Both the advertisement and the information pack stated that the appointee was to be the SPCB’s representative, acting as the single focal point for day to day management of the Project, “with responsibility for securing the delivery of the new building complex to programme, within budget and to the specified quality.” Mr Grice explained in evidence that he

<sup>651</sup> CB/2/204A-B - Letter from Mr Huw Williams to Mr Paul Grice, 24 February 2000

<sup>652</sup> CB/2/743-744 - Minutes of SPCB Meeting of 18 May 2000, Item 1

<sup>653</sup> CB/2/259 - Draft Advertisement for the Holyrood Project Director, 24 May 2000

<sup>654</sup> CB/2/260-265 - Holyrood Project Director post details, 24 May 2000

was looking for someone to perform “a leadership role, using project management, not actually doing the Project managing”.<sup>655</sup> Most significantly the minute of the SPCB Meeting of 24 May records Mr Grice having explained “that the Project Director’s main responsibility would be the control of the costs of construction which related directly to the £108 million figure.”<sup>656</sup>

- 12.3 There was a good response to the advertisement and following a competitive interview by a panel comprising Mr Grice, Lewis Macdonald and Mr Manson, Mr Ezzi was offered the position. Mr Ezzi was an experienced project manager who had for the previous six years been employed on the project for the construction of the new Royal Infirmary of Edinburgh, latterly as Capital Projects Director. His appointment for a three year fixed term commencing on 13 November 2000 at an undisclosed salary was confirmed in a letter of 5 September 2000.<sup>657</sup> Mr Ezzi was to be entitled to a lump-sum payment equivalent to 10% of his final salary on the successful completion of his contract. It was not until 17 January 2001, over three months after being offered the appointment and some two months after he had actually commenced work, that Mr Ezzi received from Mr Grice a formal letter<sup>658</sup> setting out the terms of the delegation to him and providing him with a detailed job description.<sup>659</sup>
- 12.4 After accepting the terms of the job description, Mr Ezzi received a paper reviewing the existing management structure from the Parliament’s Audit Adviser, Mr Ferguson, on 30 January 2001. This paper detailed the intended structures in place both before and immediately after his appointment<sup>660</sup> and outlined his intended role within the new structure.<sup>661</sup>
- 12.5 The new organisation chart showed the Project Director as central to the Project, a point which is underlined in the text of Mr Ferguson’s letter, where he described the Project Director as “*the key role in the structure.*”

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<sup>655</sup> Evidence of Mr Paul Grice on 1 April 2004, Para 159

<sup>656</sup> CB/2/276 - Minutes of SPCB Meeting of 24 May 2000

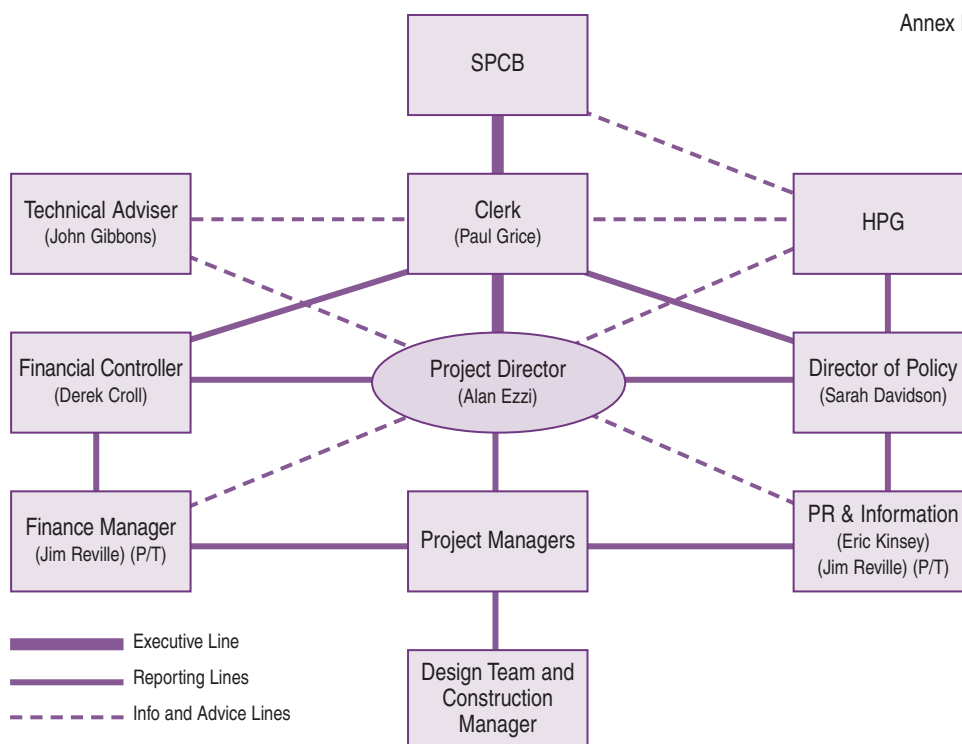
<sup>657</sup> MS/17/001-006 – Appointment Letter from Ms Mary Nicol to Mr Alan Ezzi, 5 September 2000

<sup>658</sup> CB/5/105–106 - Letter from Mr Paul Grice to Mr Alan Ezzi, 17 January 2001

<sup>659</sup> CB/5/107-108 – Holyrood Project Director Job Description, 17 January 2001

<sup>660</sup> CB/6/225-228 – Paper from Mr Dave Ferguson to the Project Team, 30 January 2001

<sup>661</sup> *ibid*, Annex B



12.6 Furthermore, his role in the decision making process was explained within the letter in the following terms:

“It is essential ... that all executive decisions are channelled through Mr Ezzi and that directions and instructions to the Construction Manager and the Design Team are given only by Mr Ezzi or those at Project Manager level delegated formally by him. The lines of communication should be clarified and understood not only by members of the Project Team but also all consultants and contractors involved in the Project.”

12.7 It would be fair to surmise that on receipt of this letter, Mr Ezzi could have realistically expected to be party to all key decisions taken with regard to management of the Project and that all information would flow through him.

### Cost Cutting Exercises

12.8 In late 2000 it had emerged that there were problems developing with the trade package for the East Frame, with DLE’s pre-tender estimate suggesting that this package alone would exceed the cost plan allowance for this item by £7 million cost. It was recognised that an overrun of this magnitude would put the £108 million construction budget under significant threat and arrangements were made to conduct an exercise to identify site-wide savings.

12.9 At its meeting on 17 January 2001, the HPG endorsed the need for a cost saving exercise to identify savings of up to £2 million, to which it attached 'considerable importance'. Their strength of purpose was diluted by what Mr Ezzi considered to be the 'somewhat ambivalent message'<sup>662</sup> contained in the minutes of that meeting and in the HPG Secretary's report to Mr Grice:

'The Design Team should not be encouraged to investigate the possibilities for savings which clearly impact on the brief or on other widely held expectations for the functionality and appearance of the finished building.'<sup>663</sup>

12.10 The HPG Convener, Lewis Macdonald, did not see this as asking the Project Director to pull in different directions. In evidence he explained that the HPG:

"were asking him to find savings in respect of parts of the Project which would not significantly undermine either the functionality or the appearance or indeed the design quality of the building. ... What we were saying to him was that if there were any respects in which less fundamental parts of the Project could be reduced in scope or reduced in cost, he should report those to us. We had, in other words, set in train a process where we were asking the Project Director to find savings, but we were doing it within the context of the Stage D design and of the overall quality of the final product."<sup>664</sup>

12.11 Mr Ezzi, however, was concerned at the introduction of an essentially subjective factor into project management and the particular hazards that presented themselves when that subjectivity was determined by a diverse committee.

12.12 The meeting of the HPG on 14 February 2001 saw evidence that there was less than ideal collaboration among consultants and between consultants and the Project Team. After a disjointed presentation, the Secretary was forced to write in a letter to Mr Grice:

'Members of the Progress Group were unanimous in their view that the meeting .. illustrated the extent to which the Design Team is failing to function in a way that meets the client's needs. Members regard it as unacceptable that the Architect should present a paper to the client including figures to which the cost consultant does not subscribe and equally unacceptable that the cost consultant failed to make his reservations plain to the Project Team at preparatory briefing meetings. The Group recommends that the Project Director should act with their full authority (my emphasis) and support to convey these views to the Design Team in the strongest possible terms.'<sup>665</sup>

12.13 Mr Ezzi's cost-saving proposals were pulled together in the form of a paper for the HPG and were costed by DLE. The proposals covered a range of measures including installing a

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<sup>662</sup> WS/41/001-015 - Mr Alan Ezzi's Witness Statement, 10 March 2004

<sup>663</sup> CB/4/671-677 - Minutes of HPG Meeting of 17 January 2001 and CB/4/678C-679 - Letter from Ms Davidson to Mr Grice, 19 January 2001

<sup>664</sup> Evidence of Lewis Macdonald on 3 March 2004, Paras 245 to 246

<sup>665</sup> CB/4/732-733 - Letter from Ms Sarah Davidson to Mr Paul Grice, 14 February 2001

supporting pillar under the cantilevered Canongate Building and using alternative materials for the vaulted ceiling of the Public Foyer. It is evident that the Architect was not involved in the preparation of these proposals and the reaction could have been anticipated. Even before the paper could be presented to the Progress Group it evoked a forceful reaction from the Architect who was concerned that the proposals would seriously jeopardise the quality of the building. Writing in support of a critical letter to Lewis Macdonald from Mr Duncan, Sra Tagliabue stated:

‘Even if it is proved that architecture is not the reason for a particular price increase, the only manner envisaged for cost reduction now is by reducing architectural quality, causing a risk of reaching a paradox of having a cheap building costing a huge amount of money’.<sup>666</sup>

- 12.14 The majority of the cost-saving proposals did not find favour with the HPG who appear to have been influenced by the lobbying of the Architect and, on this occasion, placed quality ahead of other considerations. Dr Gibbons explained the rationale:

“Well, the Progress Group thought that was not good at all. On the one hand we are saying, “This building has to stand for a hundred years”; and on the other hand we have a piece of this structure that one member of the Progress Group put his fist through in the room that (it) was being presented to us. In terms of quality of material; yes, there was a reduction in cost, but there was a considerable reduction in the quality of the product as well.”<sup>667</sup>

- 12.15 Interestingly, the SPCB were re-engaged over this matter as it involved a decision to forego potentially significant savings. They gave a strong steer that quality mattered and endorsed the HPG decision to accept some proposals and reject others.

- 12.16 Mr Ezzi’s difficulties continued and the HPG minutes over this period record a growing sense of frustration over the performance of the team as a whole and Mr Ezzi’s individual performance in particular. It is evident that relationships between the HPG and others were also strained.<sup>668</sup> In the minutes of the meeting on 25 April it is noted that ‘It was suggested that the Project Director was failing to fulfil his declared and expected role in pulling the team together’.<sup>669</sup> The minutes continued:

‘The Group was conscious of an emerging lack of confidence in the performance of the various members of the Project and Design Teams and in the quality of information presented to them in particular.’<sup>670</sup>

<sup>666</sup> CB/4/1090-1091 - Letter from Sra Benedetta Tagliabue to Lewis Macdonald, 5 March 2001

<sup>667</sup> Evidence of Dr John Gibbons on 6 May 2004, Para 242

<sup>668</sup> Evidence of Paul Grice on 1 April 2004, Para 273

<sup>669</sup> MS/17/001-006 – Appointment letter from Ms Mary Nicol to Mr Alan Ezzi, 5 September 2000. The letter required Mr Ezzi to ‘co-ordinate and foster teamwork’

<sup>670</sup> CB/4/808-813 - Minutes of HPG Meeting of 25 April 2001

12.17 Mr Grice responded to these concerns by calling a meeting of all the lead consultants. In advance of the meeting Mr Stewart issued what was described in evidence as a trenchant letter to Mr Grice highlighting some of the relationship difficulties that had developed. It is worth considering the terms of that letter carefully:

'It is news to no-one that we have struggled to engage DLE sufficiently in the design process and that the dialogue between the cost consultant and Architect, the cost consultant and Construction Manager has tended to be less than close. Nonetheless, however imperfect these relationships may have been in the past, they have in my view reached a perilous state as a result of the approach taken by Mr Ezzi in his role as Project Director. As far as we can tell, his technique appears to be concentrated on separating the members of the team just at the time when we should be pulling closer together; alienating the Project QS from the Design Team when he is most needed in the detailed design process; taking over the business of cost reporting without any reference to the Architect and failing to communicate with speed or accuracy the wishes of the client; a divide and rule approach.'<sup>671</sup>

12.18 The meeting convened by Mr Grice on 1 May 2001 saw an attempt to iron out the difficulties and achieve a more collaborative approach to the Project. It seems evident that key relationships had deteriorated beyond recovery. The Inquiry also learned that around this time Mr Curran, an important member of the Project Management team, had also indicated his intention to resign given the diminution of his role under Mr Ezzi.

12.19 The HPG expressed further concerns over Mr Ezzi's performance in relation to liaison with the Design Team on the Foyer roof. It was reported that Mr Stewart had not returned Mr Ezzi's phonecalls for 2 weeks and was proposing to reduce his personal role with the Project in future. The situation came to a head on 13 June when the Convener, by now John Home Robertson, wrote to Mr Grice in stark terms:

'It is our view that very little apparent progress has been made during Mr Ezzi's stewardship of the Project. ... We are not satisfied that he has acquired an adequate understanding of the complexity and sophistication of this Project, defined as it is by its unique history, structure and political context. In particular, we have been increasingly worried by the functional operation of the Design Team which has deteriorated demonstrably in recent months. Given the nature of the problems, we see no possible way in which they can be resolved while the current incumbent remains in post. We do not have confidence in the ability of Mr Ezzi to fulfil the requirements of the job.'<sup>672</sup>

12.20 In such circumstances it was impossible for Mr Ezzi to continue and after a discussion with Mr Grice he tendered his resignation with immediate effect. An undisclosed financial settlement was reached and both parties agreed not to comment upon the circumstances of the

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<sup>671</sup> RM/7/211-212 - Letter from Mr Brian Stewart to Mr Paul Grice, 30 April 2001

<sup>672</sup> CB/4/1023-1024 - Letter from John Home Robertson to Paul Grice, 13 June 2001

departure. For the purposes of this Inquiry that agreement was waived and I was able to receive candid evidence on the events outlined above.

### Loss of Confidence in Mr Ezzi

12.21 Mr Ezzi demonstrably found it difficult to develop a constructive relationship with the Architect, and particularly with Mr Stewart. In evidence he wrote:

'I found my own relationships with the architects particularly difficult. I was concerned that the architects in particular were in direct communication with the HPG members and tended to bypass me. John Gibbons maintained an office on site which made it easy for him to be approached directly. This significantly undermined my own authority. My relations with the architects became particularly strained during the period when we were looking at site wide savings and the decision of the HPG not to back up my recommendations further undermined my position. I felt that I had no real personal authority and that the situation was open to exploitation by direct access by the design team to the HPG members.'<sup>673</sup>

12.22 I detect strong echoes here of the difficulties encountered by Mr Armstrong two years earlier, although on the earlier occasion Mr Armstrong's difficulties seem to have concerned the Barcelona end of the joint venture company. Similarly, Mr Ezzi appears to have wrestled with the challenge of imposing a discipline on the Design Team to deliver design information to the agreed programme and to design to a budget rather than simply to a concept.<sup>674</sup> In evidence, Mr Stewart seemed to suggest that his relationship with Mr Ezzi had been largely effective. This was challenged by Mr Grice and, from the evidence I have heard, I have to agree that this was not a particularly harmonious period of the Project's life. Mr Ezzi had been appointed to be a "bruiser" over rising costs but whenever he attempted to fulfil that role he was left without support or had his proposals countermanded.

12.23 Mr Ezzi also grappled largely unsuccessfully with the complexities of working for a political client in the shape of the HPG. There does however seem to have been a failure on the part of the HPG to appreciate the difficulties which their actions placed upon the ability of their Project Director to perform his role. One such instance was the decision to exclude Mr Ezzi from substantive parts of HPG meetings from January 2001 and so make him dependent upon delayed and second hand instructions. As well as the practical difficulties which this imposed, it undoubtedly signalled to the consultants the status in which Mr Ezzi was held and devalued the sense he had of his personal contribution. Mr Stewart identified accurately the position that this peculiar decision generated:

"It only highlights the point that clearly I am having difficulty getting over, which is the difficulty of Mr Ezzi being on the Holyrood Project Team but not being allowed to

<sup>673</sup> WS/41/001-015 - Mr Alan Ezzi's Witness Statement, 10 March 2004

<sup>674</sup> CB/4/873-879 - Minutes HPG Meeting of 23 May 2000, comments attributed to Mr Robert Gordon

attend Holyrood Progress Group meetings. How is he going to function? He is not carrying the confidence of his client. He is not centre stage; he expected to come in and be the man in control of everything and information would flow through him in the way that the first chart highlights, but he was not faced with that, he was faced with this. He was in an impossible position.”<sup>675</sup>

12.24 The decision to exclude the Project Director from parts of HPG meetings was explained curiously as being “to ensure that those carrying executive authority for the Project were not party to the decision-making process of the advisory body, the HPG”!<sup>676</sup> It would appear that it was thought that this would lend greater clarity to the process. In fact it achieved exactly the reverse. The line of authority, far from being clarified, was further confused with Mr Ezzi aware that the HPG were taking decisions (described as ‘formal recommendations’) in private when he was excluded. Mr Ezzi could be excused for being confused.

12.25 Quite apart from the inherent contradiction of a decision-making process of an advisory body, the subsequent Project Director was not excluded from meetings in the same manner as her predecessor. The audit advice to the HPG could evidently be disregarded when convenient.

12.26 Mr Grice spoke of the shared frustrations felt by Mr Ezzi and the HPG:

“Probably the frustration on their part was that they felt the Project Director was not giving them good enough and clear enough advice. He in turn ... felt that they were perhaps not giving him the latitude to do his job. I think at the heart of it all was a lack of a shared understanding of their role and his role. I do not think that Mr Ezzi ever fully accepted the role given to the HPG by the Parliament. In turn, as the relationship broke down, they lost their trust in the Project Director. And when you lose your trust in somebody you are much less inclined to let them get on and do it; you are more likely to be on top of them. That is the process I observed.”<sup>677</sup>

12.27 There does appear to have been a misunderstanding of Mr Ezzi’s role and it is evident that this was something that was not adequately communicated to the HPG. In written evidence to the Inquiry Linda Fabiani stated:

‘I did not see it as Alan’s role to bring home the Project on budget and on time at the expense of all else and this may have led to a measure of misunderstanding between Alan and the HPG. The job description provided to him in January 2001 states that his main role ‘is to be the SPCB’s representative, acting as the single focal point for day to day management of the Parliament’s interest in the Project with responsibility for securing the delivery of the new building complex to programme, within budget and to the specified quality’. I now also know, but was unaware at the time, that his contract stipulated an end of contract lump sum of 10% of his final year’s salary on

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<sup>675</sup> Evidence of Mr Brian Stewart on 22 March 2004 (am), Para 526

<sup>676</sup> CB/4/671-677 - Minutes of HPG Meeting of 17 January 2001

<sup>677</sup> Evidence of Mr Paul Grice on 1 April 2004, Paras 301 to 302

the successful conclusion of the terms of his contract. These details which I now have explain to some extent the attitudes struck by Alan during his appointment.’<sup>678</sup>

- 12.28 Linda Fabiani expressed her annoyance that her view of Mr Ezzi at the time had been coloured by her lack of awareness of the actual terms of his appointment and the approach that those terms required him to take. She also speculated whether Mr Ezzi had been under any similar misconceptions about the role of the HPG and whether relationships could have been altogether different had these misunderstandings been avoided at the time.<sup>679</sup>

### Performance of Mr Ezzi

- 12.29 Ultimately, Mr Ezzi was unsuccessful because of two factors. Firstly, he was appointed with a strong background as a project manager but did not appear to appreciate the significant behavioural changes that were expected of him in the more strategic role of Project Director. The client did not, however, make the role it envisaged for the incoming Project Director sufficiently clear. In both the public advertisement for the post and in Mr Ezzi’s formal letter of appointment the main role of the post-holder was described as ‘to be the client’s representative, acting as the single focal point for day to day management of the SPCB’s interest in the Project, with responsibility for securing the delivery of the new building complex to programme, within budget and to the specified quality’. Against that background it is perhaps understandable that Mr Ezzi felt his most significant responsibility was to manage those around him rather than to relate to the political client.
- 12.30 Secondly, having failed to win the confidence of the political client, Mr Ezzi was hampered in his ability to perform his role by the lack of clear lines of accountability and the receptiveness of the HPG to alternative advice, guidance and information from other sources. Lewis Macdonald largely confirmed this predicament in evidence:

“He had come to us and was appointed with a very strong track record as a project manager. I think as a Project Director we were perhaps looking for a development of that role in a more strategic direction. If I was to try and give a summary impression of the period in question it would be that he was clearly very engaged with the Project Management, but with some of the issues around relationships, particularly with consultants but also with ourselves, he perhaps struggled a bit to come to terms with the expectations that we had of the role that he would perform in that respect.”<sup>680</sup>

### The Appointment of Ms Sarah Davidson

- 12.31 With the departure of Mr Ezzi, Mr Grice took the view that the health of the Project could be jeopardised if there was a lengthy hiatus before the appointment of a successor. In the face of the growing cost and programme pressures, the SPCB had decided to go back to Parliament

<sup>678</sup> MS/22/001-024A - Linda Fabiani’s Witness Statement, 8 March 2004

<sup>679</sup> Evidence of Linda Fabiani on 8 March 2004, Para 450

<sup>680</sup> Evidence of Lewis Macdonald on 3 March 2004, Para 226

for approval of a new approach and a debate had been scheduled for 21 June. Mr Grice was concerned to resolve the issue of the key Project Director post before that debate and, after taking soundings of Dr Gibbons and members of the HPG, he decided to invite the Secretary to the HPG, Ms Davidson, to accept the role. This appointment represented another change in direction in that Ms Davidson was a highly able administrative civil servant but not someone with the construction background of her predecessor. There was some criticism of the appointment at the time and Ms Davidson spoke of her regret that the announcement of her appointment had not made clear the different role she was expected to take from that of Mr Ezzi. Mr Grice explained to the Inquiry why he had sought a strategic Project Director who could manage the political dimension of the Project as well as earn the confidence of the professional consultants:

“I would argue — and there is plenty of evidence for this — that the level of political and media scrutiny of this Project has been — I cannot find any example of it anywhere in the world. (The type of Project Director I had in mind was) a person who can both ensure that construction takes place and operate in that environment, in other words, that that sort of intensity of pressure does not cause them to collapse or, as I think was the case with previous people, to put that to one side effectively and say, “Right, I am just going to focus on the building of the building.” I had Project Managers who could do that; I needed someone who could talk the language of the Project Managers, who could earn their respect and the respect of the key consultants, but who could also be sensitive to, and work with, this political element. That is what I am trying to describe to you. I think that is what makes it unique.”<sup>681</sup>

12.32 In terms of her ability to relate to the political client (in the form of the HPG), Ms Davidson’s appointment was undoubtedly successful. In evidence members of the HPG praised Ms Davidson’s abilities and endorsed her appointment. Mr Wright made the following observation:

“I think one of Sarah Davidson’s real skills was (understanding) the political dimension of the relationships between the Group and the various Committees that existed within the Parliament. There is a very complex web; it is really hard to imagine how someone from outside the system, who is a construction manager — and I use that term advisedly in that sense — or a project manager really could have fulfilled all those roles in writing the necessary papers, say to Finance Committee and the Corporate Body. I think those were done generally — always, in my view — to a very high standard, and had a real grasp of the issues, sometimes much better than even appeared in our own minutes.”<sup>682</sup>

12.33 Ms Davidson does not appear to have worked quite so closely with the consultants, drawing upon the team of project managers in the Project Team to manage the operational aspects of the Project. In this respect she represented a return to an organisational structure where the Director/Sponsor acted as the client’s representative and the Project Manager oversaw the day

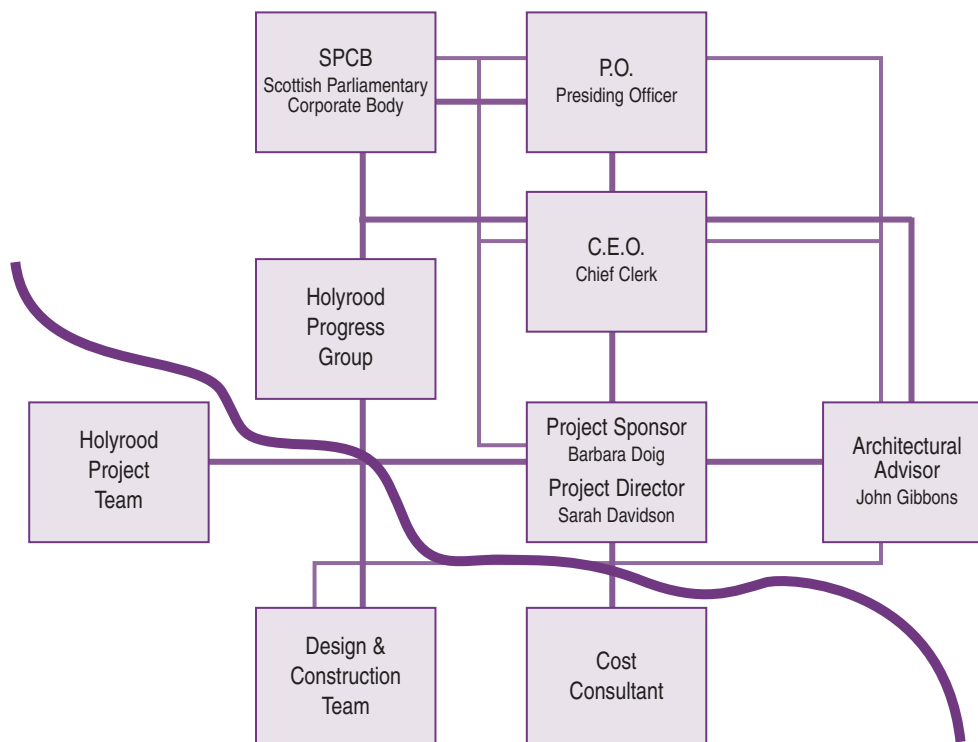
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<sup>681</sup> Evidence of Mr Paul Grice on 1 April 2004, Para 357

<sup>682</sup> Evidence of Mr Andrew Wright on 4 March 2004, Para 56

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to day management of the Project. Using a helpful graphic to illustrate his point, Mr Stewart spoke of a “multi-headed client” in response to whom Ms Davidson spent most of her time looking “upwards”.



12.34 Mr Stewart spoke of the political interest in the minutiae of the Project which demanded both Ms Davidson’s input and required the involvement of the Design Team. Mr Stewart cited as examples the “horrendous” experience of the SPCB selecting the chairs for the Parliament and the distraction of producing a report for an MSP on the specification of oak lamination on what he saw as a “total spurious issue”.<sup>683</sup> While recognising this was part of the democratic process, Mr Stewart made the point that it was not possible to respond to these political needs and engage fully with the task of designing and constructing the Parliament building.

12.35 The appointment of Ms Davidson also saw the return of Dr Gibbons to a more prominent position within the Project. Mr Grice recognised that the new Project Director might require access to additional professional advice and so Dr Gibbons was identified as the Client Adviser on design matters. His main role was to act as the interface between the Design Team and the Project Director on technical matters. At that time there was also a strengthening of the role of the Project Managers, with Mr Curran coming to the fore as the Senior Project Manager. In evidence Mr Curran spoke of his ‘empowerment’ under Ms Davidson and there seems little

<sup>683</sup> Evidence of Mr Brian Stewart on 22 March 2004 (am), Paras 277 and 285

doubt that from this point the Project Managers were given more scope to deal with the day-to-day issues with only the occasional reference of decisions to the Project Director for resolution.

### The Parliamentary Debate of 21 June 2001

12.36 The parliamentary debate on 21 June 2001 represented another pivotal point in the Holyrood Project's history. The motion passed on that occasion represented recognition by the Parliament for the first time that there were factors exerting an influence on the budget for the Project which meant that it could not be contained within the cap of £195 million agreed in April 2000. As well as requiring the SPCB to report quarterly to the Parliament's Finance Committee, the motion directed the SPCB, through the HPG, to work with the Design and Project Teams to complete the Project without compromising quality. The SPCB and, latterly the HPG, had always been consistent in stating that quality was important but this was the first time that the Parliament resolved explicitly that it must not be compromised.

12.37 Ms Davidson insisted strongly that by removing the cap, *carte blanche* for costs to rise had not been given to the Project. She spoke to the Inquiry of the motion's implications:

"So, what was happening in June was a recognition of the fact that the budget that had been compiled at the time of the £195 million had been done on the basis of cost estimates in particular, cost package plan and other known factors. It was simply not going to be possible, however much one might have wished to, to absorb within that total inflation and risk. The fact is that, from then on, we were even more closely focused on the risk register. That meant, .. if anything, the focus on cost control was sharper after this period because we were thinking very hard about the numbers and about how they would turn from risk, as it were, into reality."<sup>684</sup>

12.38 Tellingly, Ms Davidson observed that "under construction management the notion of a cap is somewhat misleading anyway".<sup>685</sup> I have to question whether in approving the £195 million ceiling on costs in April 2000 Parliament fully understood the nature of the Project it was considering or the procurement route that had been selected for it before its inception. Although the HPG gradually developed an understanding of this key facet of construction management as it grappled with the complexities of managing risk and design development, this does not appear to have been shared by other MSPs until a surprisingly late stage. I have to question whether, without that necessary level of understanding, MSPs were well placed to take sound decisions about the direction and financial foundations for the Project. Although briefings and information were available to MSPs routinely and they had the opportunity to question members of the HPG, there is little evidence to suggest that the majority of MSPs had a sound grasp of what was involved. That is not a criticism. I have no evidence that they were encouraged to understand what construction management involved.

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<sup>684</sup> Evidence of Ms Sarah Davidson on 31 March 2004, Para 332

<sup>685</sup> *ibid*, Para 336

### Cost Escalation - The Foyer Roof

12.39 Although cost escalation has been a feature of the Project throughout its life, an examination of the particular circumstances of the Foyer roof (which surfaced as an issue at this time) will serve to illustrate many of the problems and frustrations that bedevilled the Project.<sup>686</sup>

12.40 The foyer had emerged from the decision of Snr Miralles to redesign the 'circulation' route between the MSP building and the Chamber through the courtyard of Queensberry House rather than through Queensberry House itself. It was envisaged that an open covered space would serve as a meeting space for Members and invited guests while also acting as a direct thoroughfare between Members' offices and the public areas of the Parliamentary complex. Difficulties first emerged (as far as the HPG was concerned) in April 2001 when the minutes recorded that:

'There was particular concern about the emergence of a problem with the costs of the Foyer roof design which at £3,300/m<sup>2</sup> compared with an initial cost plan figure of £500/m<sup>2</sup>.'<sup>687</sup>

12.41 The HPG minutes also note:

'There was some discussion about how the design could develop so radically from the Stage D design without keeping in line with the allowed cost. ... The Group expressed frustration at the expenditure of design time on proposals which were doomed to fail in terms of cost... Mr Mustard responded by saying that the Architect did not display a clear understanding of the relationship between cost and design control or of what the key design stages meant.'

12.42 The issue had been brought to the HPG's attention following a visit to Barcelona undertaken by Mr Ezzi and Mr McAndie (of DLE). During that visit it became obvious to the visitors that design proposals of such complexity could not have been prepared with a budget of £500/m<sup>2</sup> in mind. There was apparently no alternative cheaper design to fall back on and the Architect was instructed to prepare one for consideration prior to tender issue. It was Mr Ezzi's evidence that no such alternative proposal was ever received.

12.43 Mr Ezzi suggested that this scrutiny of preliminary design proposals was proof of the design process working. Having been alerted to an emerging problem at a very early stage in the design process, he suggested that DLE and the Project Team had acted quickly to bring it back on course. That may have been their intention but whatever actions were taken at those

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<sup>686</sup> See also Report of the Auditor General for Scotland 2004, Appendix 2D – Foyer Frame and Glazing

<sup>687</sup> CB/4/808-813 - Minutes of HPG Meeting of 25 April 2001

early stages, they clearly did not succeed in producing a design proposal that could be constructed for anything approaching the original anticipated figure.

12.44 The Foyer roof was the subject of a presentation to the HPG on 23 May 2001. There is a conflict in the evidence as to whether the model produced for this occasion by EMBT had been seen previously by RMJM. Members of the HPG certainly took away the impression that the model had come as a surprise to the Bells Brae members of the partnership. Mr Stewart suggested that it would be naïve to believe that RMJM were not fully aware of what their design partners were preparing. Either way, the HPG detected a dissonance between the two arms of the architectural company and, after the presentation, remained concerned at the anticipated costs of this part of the Project. More robust cost information was sought.

12.45 As an aside, the Inquiry noted that the HPG quizzed the Design Team on very detailed aspects of the Foyer roof design including, for instance, its snow-loading capacity. This does not seem to be the domain of a strategic monitoring body and illustrates the extent to which they had shifted from the principles of their genesis. Mr Ezzi voiced the frustration felt by the Design Team:

“We spend public money on engaging highly respected architects and probably the most pre-eminent engineers in the world under Ove Arup, and then HPG are questioning whether or not they have included a calculation for snowloading on the roof. Frankly the Design Team thought that it was insulting that they were getting asked these questions. And I have to agree. I think that this is well beyond the remit of a group who are supervising at strategic level.”<sup>688</sup>

12.46 The Foyer roof returned to the agenda of the HPG at their meeting on 5 December 2001 when it was reported that an interim contract had been awarded to Mero but they had tendered a figure of £6.1 million. The allowance for this contract had been £1.5 million and the reaction of the HPG was that such an increase was ‘intolerable’. Mr Wright spoke of the feelings at the time:

“It was obvious that there had been considerable design development since the compilation of the Stage D costings of this element and during the second stage of the tender process. The architects were of the view that the original cost allowance had been inadequate. They claimed that the design was unchanged. DLE offered no convincing explanations under examination by HPG as to why these and other costs had drifted upwards. Rather they gave the impression to the Group that there was a degree of inevitability in the outcome which the Group considered unacceptable. In the case of the Foyer roof the Group was aware that the tender must be accepted given that valuable time had been spent already in seeking to reduce the costs through re-design.”<sup>689</sup>

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<sup>688</sup> Evidence of Mr Alan Ezzi on 10 March 2004, Para 527

<sup>689</sup> Evidence of Mr Andrew Wright on 4 March 2004, Para 252

12.47 The HPG's view that the tender for the Foyer roof, which bore no relationship to the Cost Plan allowance, had nevertheless to be accepted to prevent programme slippage is a theme which recurred throughout the evidence. The HPG seemed to be placed in a position where they were required to take decisions at a stage in the process when it was too late to recommend or affect any meaningful change to the outcome. I also heard that the HPG frequently felt that they were "over a barrel" in these situations where cost and programme clashed. Asked why they felt unable to take an alternative course in relation to the Foyer roof, Mr Wright suggested:

"It was primarily to stick to programme. ... Not to have done so would have a dramatic effect on the rest of the Project. To have done otherwise would have caused significant delay to the Project and the overall completion date as the area occupied by the Foyer was known to be central to maintaining progress on the completion of the external finishes to Queensberry House and the adjoining towers. The situation suggested that the design had been developed in a vacuum; that the two offices of EMBT/RMJM may not have been working closely together; that DLE may not have been monitoring costs as closely as they should have done; and that the episode had not been observed by Project Management."<sup>690</sup>

12.48 I have to conclude that Mr Wright's speculation is an accurate one. The evidence does suggest that levels of communication among key players were extremely poor on occasions, of which the Foyer roof is a prime example. Although I heard evidence of a visit to Barcelona by a member of the DLE team, I am not convinced that there was an appropriate level of interface between the Design Team and the cost consultants on this issue. While my primary criticism is of the Architect, DLE might also have taken a more proactive role in identifying that designs were being developed outwith the Cost Plan and drawing that to the attention of the client. As it was, the HPG inevitably felt bounced into approving actions with significant cost implications in view of the implications on programme (and to an extent on quality) if they were to do otherwise.

12.49 Clearly communication channels were hampered by the fact that the principal work on the Foyer roof took place in Barcelona. Notwithstanding the presence of EMBT staff in Bells Brae, I am tempted to conclude that this design work was not undertaken in a co-ordinated fashion, as it is apparent that the production of the finalised design took almost everyone by surprise. This was wholly unsatisfactory, particularly in respect of such a significant part of the building. I cannot exclude from criticism the Project Team which, against the background of this Project, should by this stage have had an effective monitoring system in place to ensure that such surprises were avoided. Whether this could have been avoided by the strengthening of Project Management I am unclear, but I have found that this incident demonstrates a major failure of management and a loss of control over the process.

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<sup>690</sup> Evidence of Mr Andrew Wright on 4 March 2004, Paras 254 to 255

### Cost Escalation - Kemnay Granite

- 12.50 The decision was taken to use Kemnay granite on the Parliament building. In November 2000 the HPG recommended that Kemnay granite be procured as part of the cladding package for the complex. In Mr Ezzi's view the use of this material in preference to Portuguese granite would result in additional costs of £520,000 at a time when the bids for the cladding package were already over estimate by around £3 million. Furthermore, uncertainty over the ability of the Kemnay suppliers to provide the quantity and quality of granite to the required timetable would threaten the ability to adhere to the construction programme. It is clear to me that Mr Ezzi in his role as Project Director properly informed the HPG that to proceed with the procurement of Kemnay granite would not represent best value for money and would significantly increase the risk of failing to meet the December 2002 completion date.<sup>691</sup>
- 12.51 The HPG deferred a decision on the matter but, after establishing that the supply could be assured, opted to incorporate Kemnay granite into the palette of materials. I understand that this decision was taken primarily for aesthetic reasons and as I have indicated I do not wish to offer a view on such matters but it highlights the dilemma facing the Project Director. The HPG took the decision (or at least recommended it) which led directly to an increase in cost at a time when a particular package was already in serious financial difficulty and at a time when the Project Director had been asked to identify potential site-wide financial savings. It suggests to me that even at this stage the client, expressing its will through the HPG, was placing greater store on the issue of aesthetics/quality than on either cost or programme.

### Tensions within EMBT/RMJM Ltd

- 12.52 In the autumn of 2001, friction within the Architect again became an issue of concern to the client. There had been obvious signs of tension between the Directors for some time, such as their very public failure to agree the content of a presentation to the HPG on the Foyer roof.<sup>692</sup> Dr Gibbons attributed the problem to "disagreements over fee issues and the control of design responsibility for the Project".<sup>693</sup> In October the HPG were forced to take action in the interest of achieving 'a sea change in work practices concerning the flow of information to the Construction Manager'.<sup>694</sup> A decision was conveyed to the Architect that Mr Stewart would thereafter be the one point of control in all liaisons with the Project Director. This was not well received in Barcelona where Sra Tagliabue stood her ground as a Director of EMBT/RMJM Ltd. The correspondence between the Directors at this time was available to the Inquiry and is

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<sup>691</sup> CB/4/1103-1106 - Minute from Mr Alan Ezzi to Mr Paul Grice, 13 December 2000

<sup>692</sup> CB/4/870-872 - Minutes of HPG Meeting of 16 May 2001

<sup>693</sup> WS/53/001-031 - Dr John Gibbons' Third Witness Statement, 6 May 2004

<sup>694</sup> CB/4/923-930 - Minutes of HPG Meeting of 26 September 2001

noteworthy for its forcefulness. I was not convinced by the implication in Mr Stewart's evidence that his relationship with Sra Tagliabue at that time was anything other than tense.

12.53 The HPG met the Directors of EMBT/RMJM Ltd on 13 November 2001 in an effort to resolve the issue. It is clear that there was widespread dissatisfaction within the client team and amongst the consultants at the friction within the Architect, and that it was having an effect on the progress of the Project. The meeting agreed that EMBT/RMJM Ltd would deliver a written management structure for the architectural joint venture. Mr Gordon wrote of the frustrations at the time:

'The huge irritation is that there is very little between the design partners but their failure to clarify who is going to do what from here on is wasting a great deal of their and the Project Team's time.'<sup>695</sup>

12.54 To the extreme frustration of all on the client side, two separate versions of a management chart were produced by Mr Stewart and Sra Tagliabue for the meeting of the HPG on 21 November 2001, yet the meeting was unable to secure a resolution. Mr Stewart confessed to Ms Davidson that matters were "descending into chaos"<sup>696</sup> and that litigation was a distinct possibility. Eventually the HPG took decisive action and summoned the protagonists to a further meeting on 26 November 2001 at which the posturing ended and an organisational structure was agreed with Mr Stewart identified as the one point of control. Sra Tagliabue was quick to point out in evidence that notwithstanding the newly proposed organisation structure chart, the chart was qualified with an express declaration that its terms made no difference to the contractual arrangements.<sup>697</sup> She was correct. In my view the chart made no difference, but the evidence suggests that there was an improvement in relationships and working practices after this resolution.

12.55 Mr Stewart insisted to the Inquiry that any disagreement between Directors of the joint venture had no impact upon the delivery of design information and that junior members of the Design Team would probably hardly have known of it.<sup>698</sup> Additionally, Mr Kinsley wrote to the Inquiry insisting that any suggestion that commercial disagreements had affected the delivery of design information could only be 'borne out of ignorance' and that a Project of this complexity could not have been designed by a dysfunctional team.<sup>699</sup> That may be, but I do not find it credible that a disagreement of this significance among directors, going as it does to the very heart of creative responsibility for the Project, did not have any effect upon it.

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<sup>695</sup> SE/9/298-308 - Minute from Mr Robert Gordon to the Minister for Parliament, 23 November 2001

<sup>696</sup> RM/7/309 - Email from Mr Brian Stewart to Ms Sarah Davidson, 22 November 2001

<sup>697</sup> Evidence of Sra Benedetta Tagliabue on 29 March 2004, Paras 178 to 183

<sup>698</sup> Evidence of Mr Brian Stewart on 22 March 2004 (pm), Para 49

<sup>699</sup> RM/1/247 - Letter from Mr Kinsley to the Holyrood Inquiry, 29 March 2004

12.56 What is beyond dispute is that senior members of the Project Team and the HPG spent a considerable amount of time in an effort to resolve this disagreement. I do not imagine that this investment would have been made if the client did not feel its resolution was crucial to the well-being of the Project. It is evident that through this period the directors of EMBT/RMJM Ltd were unable to resolve their internal disagreements. As a consequence of the HPG's earlier inability to put this difficulty to rest, it had simmered for 15 months largely because the Principal Person issue had not been resolved. The HPG did however eventually take steps to find a solution to the problem. It may be thought that this effort came too late, but I cannot say that the disagreements within the architectural joint venture caused prolongation or material additional cost.

### Design Freeze

12.57 The HPG sought to impose a design freeze on the Project in April 2003 and if that had been successful, costs might have been better contained. However, as John Home Robertson and Mr Mack confirmed in evidence<sup>700</sup>, design continued to 'creep'. The discipline the HPG sought to impose on the process failed.

### Fee Capping

12.58 The consultants' contracts, drawn up by the Scottish Office, had their fees based upon a percentage of the construction cost.<sup>701</sup> This meant that each time the construction cost increased, the consultants' fees increased. This caused the client concern as costs continued to increase and the matter was raised by the Project Sponsor, Mrs Doig, in her report to the SPCB in December 1999.<sup>702</sup> The agreements with each of the consultants were generally very similar and the paper outlined the key aspects of consultant fee arrangements, these included:

'Fees are based on a fixed percentage of the Construction Cost without limit; there is no mechanism within the contracts to limit the value of the fee payment or a reducing scale if the contact value increases; and the fees are not related to time and there is no reference to the construction period.'

12.59 The report concluded that there was a clear requirement to control the escalation of fees and provided three methods for consideration. The SPCB were left in little doubt that they had no contractual right to cap fees and nothing appears to have been done at this time.

12.60 During June 2000 discussions commenced between Ove Arup and the Project Team on the possibility of capping their fee based upon the £108 million construction cost estimate at that

<sup>700</sup> Evidence of Mr Alan Mack on 2 March 2004, Para 552

<sup>701</sup> Strictly speaking, the Architect's fee was staged to reflect each stage of the Programme of Works being achieved.

<sup>702</sup> CB/5/727-735 - Project Sponsor Report, Appendix 6 'Review of Consultant Fees', December 1999

time. Ove Arup agreed to cap their scale fee on this basis. However, this has not been the final payment made to Ove Arup as an agreement was reached where they continued to be paid for additional services on a “time-charge” basis. I doubt whether such an arrangement does in reality represent a “cap” in the true sense of the word. Furthermore, Arup Security Consulting had a separate fee agreement with the client which was not covered by the capping agreement.<sup>703</sup>

12.61 In his evidence to the Inquiry Mr Curran stated that, although Ove Arup had agreed to a cap, the other consultants were not requested to do so as “At that time there was little appetite within the client organisation to pursue the other consultants to cap their fees.”<sup>704</sup> The rationale given was that Ove Arup had undertaken the majority of their work for the client at that stage and were therefore more able to predict their final costs, whereas this was not the case with the other consultants.

12.62 The Project Team in early 2002 began discussions with the Architect on the principle of capping their fees. On 13 March 2002 Mr Stewart wrote to Mr Curran on behalf of EMBT/RMJM Ltd<sup>705</sup> stating that the joint venture company were willing to accept in principle a cap on the scale fee, and requested discussion on this. Although it is clear from the evidence that Mr Stewart seemed willing to move to a capped fee position in 2002, his joint venture partners were less keen and therefore the issue remained unresolved. In evidence to the Inquiry Mr Stewart stated that:

“RMJM stood ready to discuss sensible fee capping as early as 2002. This conciliatory approach was not one necessarily shared by EMBT.”<sup>706</sup>

12.63 The SPCB considered a paper on fees<sup>707</sup> at its meeting of 14 May 2002 which indicated that the Project Team were continuing to negotiate consultants’ fees based on the new construction cost of £150 million. There has been little evidence presented to enable me to determine how vigorously this issue was pursued by the Project Team with the various consultants. Mr Curran’s minute of 2 October 2003 informed Mr Grice that the Project Team’s efforts to cap fees during 2002 were unsuccessful “due to the uncertainty that has surrounded cost and programme.”<sup>708</sup> On the instigation of the new Presiding Officer, George Reid, the issue was resolved at a meeting of the SPCB on 10 June 2003 when the consultants “agreed to cap their

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<sup>703</sup> Evidence of Mr David Lewis on 7 May 2004, Paras 612 to 619

<sup>704</sup> Evidence of Mr Paul Curran on 23 March 2004, Para 607

<sup>705</sup> RM/7/338–339 – Letter from Mr Brian Stewart to Mr Paul Curran, 13 March 2002

<sup>706</sup> WS/42/001–032 - Mr Brian Stewart’s Second Witness Statement, 11 March 2004, Para 124

<sup>707</sup> CB/2/488-490 – SPCB Paper on Consultants’ Fees 14 May 2002

<sup>708</sup> CB/5/805–807 – Memo from Mr Paul Curran to Mr Paul Grice, 2 October 2003

fees until the end of the Project.”<sup>709</sup> At the meeting Mr Stewart had agreed on behalf of EMBT/RMJM Ltd, as Sra Tagliabue was not present.

12.64 DLE agreed to a fee cap in August 2003. DLE signed the minute of variation<sup>710</sup> on 26 November 2003 agreeing to a capped fee of £3.885 million excluding VAT.

12.65 Bovis Lend Lease agreed a cap on their staff costs and a construction management fee in August 2003. There is a criticism of Project Management in the Auditor General’s June 2004 Report, Section 5.47, that there was the opportunity within the Construction Manager’s contract to change to a fixed lump sum and that this should have been done sooner. With that I agree.<sup>711</sup> Bovis agreed to a capped fee of £19.96 million excluding VAT and signed the formal minute of variation on 26 February 2004.<sup>712</sup>

12.66 The capping of the consultants’ fees after an announcement of a cost increase of £37.7 million in May 2003 had several repercussions for the Project. It was felt in some quarters that the timing of the announcement implied some relationship between the rise in costs and the consultants’ fees. Mr Stewart felt let down by the client as there had been no acknowledgement of his previous willingness to cap fees. In Mr Wright’s view the public nature of the announcement damaged the already fragile relationship between the consultants and the client and led to further antagonism between the directors of EMBT/RMJM Ltd, which it appeared to him almost led to the disintegration of the partnership.

12.67 It is difficult to assess whether the early reliance on a wholly unrealistic budget led first the Scottish Office and then the SPCB to regard consultants’ fees as relatively minor or whether there was an unwillingness to raise the issue of fees when it was becoming obvious that costs were escalating as that would highlight the array of problems still unresolved. In any event, as I have narrated, there was a protracted period during which the issue of consultants’ fees remained unresolved although overall construction costs clearly had increased. It was only when the present Presiding Officer personally intervened that fee caps were finally established.

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<sup>709</sup> CB/5/554–555 - Minutes of SPCB Meeting of 10 June 2003

<sup>710</sup> CB/5/818–819 - DLE Minute of Variation from Mr Paul Curran to Mr Paul Grice, 12 January 2004

<sup>711</sup> Auditor General for Scotland’s Report of September 2000, Para 3.35

<sup>712</sup> CB/5/809–810 – Bovis Lend Lease Minute of Variation from Mr Ed Parry to Mr Paul Curran, 26 February 2004