FINANCE COMMITTEE

AGENDA

2nd Meeting, 2003 (Session 2)

Wednesday 18 June 2003

The Committee will meet at 10.30 a.m. in Committee Room 1 to consider the following agenda items:

1. **Scottish Parliamentary Corporate Body –Scottish Parliament Building Project**: The Committee will consider the progress of the Holyrood Project and take evidence from—

   - Paul Grice, Clerk and Chief Executive, Scottish Parliament;
   - Robert Brown MSP, Member, Scottish Parliamentary Corporate Body;
   - John Home Robertson MSP, Convener, Holyrood Progress Group;
   - Sarah Davidson, Project Director, Holyrood Project Group.

2. **Subordinate legislation**: Tavish Scott MSP to move (S2M-142) - That the Finance Committee recommends that the draft Budget (Scotland) Act 2003 Amendment Order 2003 be approved.

3. **Work programme**: Members will suggest items for the Committee’s work programme.

David McGill
Clerk to the Committee
The papers for this meeting are:

**Agenda item 1**

Letter from the PO to Convener, dated 10 June 2003  
Fl/S2/03/2/1

**Agenda item 2**

Paper by the Clerk  
Fl/S2/03/2/2

The Budget (Scotland) Act 2003 Amendment Order 2003  
(Fl/S2/03/2/3)

(SSI 2003/draft)

Scotland’s Budget Documents: The 2003-04 Summer Budget  
Revision
As you know, the Corporate Body met this morning to consider the Cost Consultant’s latest report on the Holyrood project. We examined the issues carefully and sought detailed answers from the Construction Manager, Architect, and, of course, the Cost Consultant. I am therefore now in a position to make an initial report to the Finance Committee.

The last report to the Committee, (made in February), reflected the Construction Manager’s confidence about the team’s ability to achieve a target completion date of November 2003. The Committee should be aware that the programme has continued to target this date ever since, up to and including the most recent report received by the Holyrood Progress Group last Wednesday. What is clear, however, is that this target relies on considerable adjustments made to the original programme sequence in order to maintain the pace of delivery. To date we have only been able to discuss these changes at a strategic level with the Construction Manager, but I anticipate that we will be able to provide the Committee with more detailed information very shortly.

We did determine from our discussions this morning that the additional estimated costs result from the ongoing complexity of the building work now underway on site, principally the need to compress and re-sequence tasks to respond to difficulties which arise.

In detailed terms, in the light of today’s discussions led by the Corporate Body, I am able to report the following. The £37.7m increase in the overall target figure reported last week comprises £18.75m of predicted construction cost; £6.1m of fees; £8.25m for site running and construction management costs; and £4.6m of VAT on the above.

The £18.75m construction cost element includes £600,000 which is an anticipated increase to the separately funded landscaping works, again due to delays. Of the remaining amount, £9.95m has been allocated to specific trade packages to cover the costs of compressed working, disruption on site and prolongation of contracts associated with re-programming works. A further £5m has been identified as an additional contingency that may be required to resolve issues associated with the complexity of the design during the final stages of construction and £1.7m is reported to be required to cover the longer presence of tower cranes and scaffolding on site as a result of resequencing as well as additional general builders’ work. Prolonged working in Queensberry House and MSP accommodation accounts for the final £1.5m.
Given the link between the projected increase in cost and programme, the Corporate Body sought advice, (as it has previously), on whether delaying completion would help reduce costs. The unequivocal advice from the construction professionals is that further delay would in fact exacerbate the problem. The Corporate Body has therefore instructed the Project Team to proceed in line with the latest Bovis programme. However, the complexity of the task in hand and experience to date indicate the need for ongoing caution in relation to the programme. We will be continuing to monitor the situation closely in conjunction with the Progress Group.

Members will share my anger, not only at the scale of the increase but the manner in which it has emerged: in a period of less than five months since we heard such confident assurances from our key consultants on both cost and programme. As the Committee is aware, the method of construction chosen at the outset by the Scottish Office requires the programme and cost risks to be borne by the client, namely the Scottish Parliamentary Corporate Body.

The Holyrood Project Team, members of the Holyrood Progress Group and Corporate Body continue to work extremely hard within the terms of the contract arrangement to keep costs to a minimum, bearing in mind the need to preserve quality and the fact that they do so against the backdrop of a highly complex building design.

The Committee will note that a significant part of this additional reported cost is fees. We have today secured the agreement of all the consultants to cap their fees to the end of the project, in the public interest. That cap will include a reduction in fees in respect of the latest projected increase in cost. We will report to you in more detail on the progress of these negotiations at the earliest opportunity.

These recent developments add further weight to the First Minister’s call for an inquiry. I certainly support the need to examine and learn lessons from the Holyrood project. We must also ensure that the building is completed as quickly as possible and to move in as soon as practicable thereafter. That is the best way to contain continuing uncertainty over costs. The final push to completion will require all the resources available to the project team, construction manager and design team to be focused completely on the job. The challenge is therefore to meet the proper demand for transparency and scrutiny without jeopardising the completion of the project.

This letter provides Committee members with the first update on negotiations on fees that are now underway following today’s SPCB meeting. The Corporate Body will meet again within the next two days to analyse further the information received today from the consultants. Following this, I will write again to the Finance Committee.

The Corporate Body fully recognises the great importance of this issue and the right of the Finance Committee to take evidence on recent developments and we would like to arrange this at the earliest opportunity, at a time to suit your Committee.

My overall aim is to have a clear and robust position on cost, fees and programme before the start of the Summer recess. Only once that is established will we have a clear way ahead to the completion of the project.

I am copying this letter to the Finance Minister.
Given the considerable interest in this matter, I am sure you will understand why I feel that it would be appropriate to release the text of this letter to the media.

GEORGE REID
Dear Des

I wrote to you on Tuesday following the Corporate Body’s meeting with key Holyrood Project Consultants and officials. In that letter, I undertook to let you have further information as and when that became available to us. I am now in a position to update you further and I hope that it will assist the Committee ahead of this week’s meeting.

I recognise the damage which the controversy over the building has done. The inquiry announced last week by the First Minister is therefore very welcome. All of us connected with the Parliament building project have a responsibility to ensure that the inquiry succeeds in determining why the project has proved so difficult as well as identifying lessons for the future. But our immediate priority must be to provide the Parliament with a building of quality at the earliest opportunity. In practice, that means supporting the Holyrood Progress Group and the project team in their continuing efforts as well as looking for any improvements in the way the project is managed and reported on.

The Corporate Body wishes to be as transparent as possible in reporting developments with the building. We have therefore concentrated since I last wrote on seeking explanations for what happened over the past 4 months. The responses we received highlighted complexity of both design and construction issues, leading to delays which in turn resulted in significant extension of some contracts, compression of others and the “stacking” of work on site. In order to understand how these issues directly impacted on cost, we instructed a breakdown of the additional £18m of construction costs identified in my previous letter to be prepared for us and this is reproduced in the Annex to this letter. Robert Brown and colleagues are ready to discuss this with you on Wednesday.

The information in the Annex represents the cost consultant’s advice as to the likely level of claims from contractors for delay and disruption to the periods of work for which they originally tendered. I can assure the Committee that no claim will be paid either in part or in full without full justification being made. A robust process is in place to assess and negotiate claims. As each contract comes forward for the settlement of final account, there will be a careful examination of the circumstances surrounding every claim. All opportunities for counter-claim and set-off will continue to be pursued.

Cont’d....
The central question before both the Corporate Body and the Finance Committee must be whether the latest estimate represents the funding required to complete the job. We are not, as you know, dealing with a fixed price contract. In that respect, the die was cast when the construction management route was chosen. The imposition of an overall cost cap, whilst attractive in theory, is simply not possible contractually. But I can assure the Finance Committee that the Corporate Body, in partnership with the Progress Group, will make every effort possible to complete the building within the latest estimate.

We cannot do that with the full commitment of all involved. Today's Progress Group meeting, involving the principals from Bovis, the Design Team and cost consultants, will concentrate on the key issues of cost and programme and how to move forward from here. It is essential that all concerned remain clearly focussed on the successful completion of the project. No one doubts the need to scrutinise or to learn lessons. But we must be mindful of the enormous burden which the intense scrutiny to which this project has long been subject places upon those actually engaged in producing the building. I am concerned, in particular, at the amount of project management time which has been taken up responding to questions and queries. A balance must be struck if we are to hit the latest targets of programme and cost.

The review will, I am sure, uncover the fundamental issues. The Audit Committee may well play a role as it has in the past on this project. The Finance Committee has rightly taken a keen and constructive interest in the future financial implications of progress with the building. To assist that process, we propose to report monthly to the Committee from now until the end of the project on the overall position and specifically against the issues identified in the Annex. I would be very happy to agree a precise format with you after the Committee has met.

Yours sincerely

GEORGE REID
## ANNEX

<table>
<thead>
<tr>
<th>Works</th>
<th>Estimate</th>
<th>Comments</th>
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<tbody>
<tr>
<td>Extension of contracts for logistics and temporary works issues</td>
<td>£2.898,000</td>
<td>Cranes and scaffold were under contract for specific periods of time; the changes to programming meant they are now required for longer. Compression of works also requires more adjustments to scaffold since different contractors working on the same area at once require different layouts of scaffold. Resequencing impacts on builders' work since more temporary works are required in order to carry out works safely, e.g. walkways, tunnels etc.</td>
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<tr>
<td>Extension of time where works cannot proceed due to delays on adjacent works (including services, flooring, carpentry and joinery; foyer roof and glazing and finishes packages etc.)</td>
<td>£5.869,000</td>
<td>These are anticipated claims purely related to extension of time. They relate to works which are not themselves problematic but where the agreed contract periods have not been met due to site congestion or delay. An example is flooring which cannot proceed until all other finishes in the area are complete.</td>
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<tr>
<td>Extension of time where works have been delayed by the resolution of design or construction issues (including windows; cladding; boundary walls and glazing packages etc.)</td>
<td>£3.680,000</td>
<td>These are anticipated claims where work has been delayed by the need to resolve design or construction issues. For example, the portion of boundary wall on the Canongate is made of huge pre-cast concrete panels which pose logistical challenges to erect on site. Until these problems are resolved, the programme for this form is at risk.</td>
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<tr>
<td>Contingency</td>
<td>£5,692,000</td>
<td>Our cost consultants have advised us to include this sum to cover for the possibility of additional design, construction and logistical issues which may arise but are not at present the subject of claims.</td>
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<tr>
<td>Landscape</td>
<td>£600,000</td>
<td>Again, we have been advised to include this sum to cover for the possibility of further delays to the landscaping scheme.</td>
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Introduction
1. In the first session of the Parliament, the Finance Committee considered subordinate legislation seeking to amend Budget Acts (referred to as ‘budget revisions’) on several occasions. For these items, the Minister or Deputy Minister responsible for the instrument gives evidence to the Committee, normally accompanied by officials from the Scottish Executive’s Finance and Central Services Department. Members may find this briefing note on the procedure for the consideration of subordinate legislation helpful.

Background
1. When passing legislation, the Parliament accepts the principles of a bill but often leaves much of the detail to be filled in by subordinate (or secondary) legislation via Scottish Statutory Instruments (SSIs) at a later date. The nature and extent of the powers which are delegated to Ministers are set out in the parent Act.

2. After a SSI has been laid before the Parliament, the Parliament has 40 days to report on it. The SSI is referred to the Subordinate Legislation Committee first, for consideration of its technical and legal aspects, and then to a nominated lead committee (this is the committee within whose remit the subject matter falls) to consider the policy issues.

3. SSIs are usually considered under either affirmative or negative procedures. The draft order before the Committee is an affirmative instrument and thus requires the approval of the Parliament by motion before it can come into force. Negative instruments, on the other hand, automatically become law unless a member proposes a motion for annulment.

Procedure
4. It is the role of the lead committee to scrutinise the draft order and decide whether to recommend its approval to the Parliament. The Minister or Deputy Minister responsible for the instrument will speak to and move the motion calling on the Committee to recommend that the order be approved. The motion recommending approval of this motion is attached at Annex A. The Committee may then question the Minister and the debate on whether to recommend approval of the instrument must last no longer than 90 minutes (Rule 10.6.3). At the conclusion of the debate, the question will be put to committee members that they recommend to the Parliament that the SSI be approved.

5. The Committee will then report its decision to the Parliament. If it recommends the approval of the instrument, the Parliamentary Bureau shall, by motion, propose that the instrument be approved by the Parliament.

Emma Berry
June 2003

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1 For further information on the procedure for examining subordinate legislation, Members are advised to consult Chapter 10 of Standing Orders.
Date of Lodging: 13 June 2003

Short Title: The Draft Budget (Scotland) Act 2003 Amendment Order 2003

S2M-142 Mr Andy Kerr (East Kilbride) (Lab): That the Finance Committee recommends that the draft Budget (Scotland) Act 2003 Amendment Order 2003 be approved.
Dear Members,

2ND MEETING OF THE FINANCE COMMITTEE, SESSION 2:
WEDNESDAY 18 JUNE, 2003

The 2nd meeting of the Finance Committee will be held on Wednesday 18 June at 10.30 a.m. in Committee Room 1. The agenda and papers are enclosed.

For the first item on the agenda, Members will take evidence relating to the Holyrood building project. The Convener may wish to have an informal discussion of the Committee’s approach to this session before the meeting begins.

The second item on the agenda is a motion seeking the Committee’s approval of the Draft Budget (Scotland) Act 2003 Amendment Order 2003. For this item, Members will take evidence from the Deputy Minister for Finance and Public Services, Tavish Scott MSP. In addition to the order, I also enclose a copy of the accompanying budget documents. As the Chamber is likely to consider the order on Thursday, the Committee will require to publish its report overnight. A draft report based on the Committee’s deliberations shall be issued on Wednesday afternoon for agreement by e-mail correspondence.

The last item on the agenda allows Members to suggest items for the Committee’s work programme.

Yours sincerely

David McGill
Clerk to the Committee