AU/01/5/A

The Scottish Parliament

AUDIT COMMITTEE

AGENDA

5th Meeting, 2001 (Session 1)

Tuesday 20th March 2001

The Committee will meet at 2.00 pm in Committee Room 3 to consider the following agenda items:

1. **Committee Business:** The Committee will decide whether to take agenda items 4, 5, 6 and 7 in private.

2. **Scottish Further Education Colleges:** The Committee will consider a response from the Scottish Executive to its report entitled 'Scottish Further Education Colleges: Managing Costs' (SP Paper 70).

3. **The New Scottish Parliament Building:** The Committee will consider responses from the Scottish Executive and the Scottish Parliament Corporate Body to its report entitled 'The New Scottish Parliament Building' (SP Paper 227).

4. **Overview of the National Health Service in Scotland 1999/2000:** The Committee will consider a draft report.

5. **National Health Service Medical Equipment:** The Committee will receive a briefing from the Auditor General for Scotland on his report entitled 'Equipped to Care: Managing Medical Equipment in the NHS in Scotland' (ASG/2001/2).

6. **National Health Service Bodies in Tayside:** The Committee will receive a briefing from the Auditor General for Scotland on his report entitled 'National Health Service Bodies in Tayside' (AGS/2001/3).

7. **Committee Work Programme:** The Committee will consider its work programme for the period April to June 2001.

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The papers for this meeting are:

Agenda Item 2

Letter from Mr Edward Frizzell, Head of Department, Scottish Executive Enterprise & Lifelong Learning Dept.	AU/01/5/1
Letter from Prof. John Sizer, Chief Executive, Scottish Further Education Funding Council.	AU/01/5/2
Memorandum from Prof. John Sizer, Chief Executive, Scottish Further Education Funding Council.	AU/01/5/3
The Way Ahead – Management Review of Scottish Further Education Colleges – September 2000. http://www.sfefc.ac.uk/content/library/other/manreview/manreview.pdf	AU/01/5/4
Summary of Scottish Further Education Funding Council response	AU/01/5/5

Agenda Item 3

Response from the Scottish Executive on the report entitled 'The New Scottish Parliament Building' (SE/2001/63).	AU/01/5/6
Response from the Scottish Parliament Corporate Body on the report entitled 'The New Scottish Parliament Building'.	AU/01/5/7
Letter from Clerk and Chief Executive, Scottish Parliament.	AU/01/5/8
Summary of Scottish Executive and Scottish Parliament Corporate Body responses.	AU/01/5/9

Agenda Item 4

Draft report on the Overview of the NHS in Scotland 1999/2000	PRIVATE PAPER

Agenda Item 5

Report by the Auditor General for Scotland entitled 'Equipped to Care: Managing Medical Equipment in the NHS in Scotland'.	AGS/2001/2

Agenda Item 6

Report by the Auditor General for Scotland entitled 'National Health Service Bodies in Tayside'.	AGS/2001/3
Briefing paper on report.	PRIVATE PAPER

Agenda Item 7

Provisional Committee Work Programme	PRIVATE PAPER

SCOTTISH EXECUTIVE

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Date: April 2000

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AUDIT COMMITTEE REPORT ON MANAGING COSTS IN SCOTTISH FURTHER EDUCATION (FE) COLLEGES

1. I am writing in response to the Audit Committee's report of 9 February entitled "Scottish Further Education Colleges: Managing Costs". I note the Committee's analysis and the conclusions at paragraphs 49-57 in respect of the FE sector's financial health, and on improving college performance.

2. The recommendations made by the Committee are for the Scottish Further Education Funding Council, which took over responsibility for the Scottish FE colleges in July 1999. The Council has in response formulated the attached Action Plan. The Plan sets out action taken since the Committee took evidence and what the Council intends to achieve by December 2000, when it will report again to the Committee.

3. I consider that the Action Plan demonstrates that positive action is being taken and that the Council is deploying resources effectively to assist college management to address and remedy financial deficits. The Funding Council's Plan for the period up to December 2000 is to my mind prudent and attainable. However, the Department will monitor progress with implementation.

4. This response and the Action Plan have been seen and approved by Ministers, and are now submitted for the Committee's attention.

5. I am copying this letter to Professor Sizer at the Funding Council.

E W FRIZZELL

JGA41204.DOC

22 December 2000

Mr Callum Thomson
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PROGRESS REPORT TO THE SCOTTISH PARLIAMENT'S AUDIT COMMITTEE – OFFICIAL REPORT ON THE NAO REPORT: SCOTTISH FURTHER EDUCATION COLLEGES – MANAGING COSTS

I refer to your earlier discussions with Brian Baverstock and, as agreed, now enclose the Council's Progress Report on the above Official Report by the Audit Committee.

The Official Report of the Committee recommended that the Council complete its various reviews and report progress to the Committee by 31 December 2000. As with the initial response to the Audit Committee's Report, the attached Progress Report is in the form of an Action Plan. The first column shows the Committee's recommendations to the Council, the second column records the evidence given to the Committee on 28 October 1999 and the final column reports progress by the Council for the period up to December 2000.

Substantial progress has been made across the range of strategic reviews undertaken by the Council. I reported previously to the Committee that the Minister had agreed a deadline of 31 December 2000 for the submission from colleges of their Action Plans from the Management Review. In recognition of the scale of this task and of the need to allow sufficient time for Boards of Management to fully consider their responses, it has been necessary to extend the deadline to 31 March 2001. This change was agreed with colleagues in the Scottish Executive and Audit Scotland.

I would hope to be able to report the result of the Council’s review of colleges’ action plans and proposed action from this exercise to the Committee in the summer of next year. Attached at Annex A to the Progress Report is a copy of the Council's Action Plan from the Management Review along with a commentary of progress to date. A copy of the full Management Review is also attached.

If the Committee requires any further information, then please contact Brian Baverstock (telephone 0131-313-6516/email: bbaverstock@sfc.ac.uk).

Professor John Sizer
Chief Executive

OFFICIAL REPORT OF THE SCOTTISH PARLIAMENT'S AUDIT COMMITTEE ON THE NAO REPORT: SCOTTISH FURTHER EDUCATION COLLEGES: MANAGING COSTS - ACTION PLAN: PROGRESS REPORT AT DECEMBER 2000

Audit Committee's recommendations to the Council	SFEFC's comments on progress reported to the Committee on 28 October 1999	Update on progress to December 2000
"The Committee recommends that the Council complete its various reviews and report to the Committee by 31 December 2000 on the:		
• ***Root and branch review of the sector and on the action planned to tackle college deficits, improve college management, and to rationalise further education provision in Scotland;***	***"Root and branch review"*** The root and branch review referred to in the recommendation is defined in the Official Report (paragraph 50) as the various strategic review initiatives set in train by the Council. Namely: the review of strategy; of the funding formula; of management; of the financial monitoring framework, of standards and quality, of estates; and information and communications technology. Review of Strategy (Supply and Demand) The review of Supply and Demand in Scottish Further Education is currently underway. The Council will receive an initial report in May. The review findings will form the basis of a dialogue with key stakeholders and will contribute to the development of information bases against which the Council and colleges can make strategic judgements.	The Council considered the report on the review of supply and demand in July and September 2000. The report was distributed to all colleges and key stakeholders (in CD format) in December 2000. Although the report concluded that on a national basis, provision was broadly adequate at meeting

Audit Committee's recommendations to the Council	SFEFC's comments on progress reported to the Committee on 28 October 1999	Update on progress to December 2000
		demand, the key use of the report is to assess the relative adequacy of each area and of the provision of major subjects. This is being taken forward by a major area and national mapping exercise.
	The Executive reviewed the 1999 Development Plans of all colleges and made follow-up visits to provide feedback on this process. This process informed the development of guidance on strategic plans for 2000-03. The Council is currently consulting on planning processes for 2001-04 and beyond. Guidance on operational plans for 2000-01 will be issued in April 2000 with plans to be submitted at the end of July. In addition, the Council is to commission the development and delivery of a programme of activity which will assist college senior managers and enhance the effectiveness of planning in the sector.	After consultation with the sector and making relevant amendments, guidance on operational plans was issued in May 2000 for plans to be submitted by 31 August 2000. The Council has analysed all the current years plans and given feedback to colleges, including face to face visits, on their strategic and operational plans. The programme of activity for college managers to enhance the effectiveness of planning will be undertaken once the management review action plans identify the scale and scope necessary.
	The Council has committed at least £3M per annum to its Strategic Development Fund, the purpose of which is to provide financial support to promote the strategic development of the FE sector to better meet Scotland's local and national educational needs, and to help make significant step changes in the nature of provision, its delivery, and management.	The Council has established and is chairing a joint steering group with the Glasgow Colleges Group to examine and analyse available data on need and provision in Glasgow, and to commission an analysis of the strategic options for the provision of FE in Glasgow.

Audit Committee's recommendations to the Council	SFEFC's comments on progress reported to the Committee on 28 October 1999	Update on progress to December 2000
		The Council is funding consultancy to assist this process.
	Review of Funding Funding year has been aligned with academic year. A forward looking methodology has been devised based on a funding agreement whereby colleges will be offered grant-in-aid in return for delivery of a specified volume of activity acceptable to the Council. The methodology includes a fee waiver grant and special elements for entry cost, achievement and unavoidable cost factors. The allocations for academic year 2000-01 will be announced on 26 April. The new methodology should enable colleges to plan forward with greater confidence in future. Some other elements of the methodology will be considered in phase 2 of the review such as the standard funding values and the weights for different subject groups.	The academic year 2000-01 allocations were announced on 26 April 2000. The Council's new forward-looking approach to funding was welcomed by the colleges as being more transparent and more predictable. The Council has also started to review details such as subject weightings and other aspects of the funding method. The Council will set out the implementation options and implications of this work by the end of March 2001 and engage in a full consultation with college immediately after that. The Scottish Executive has recently announced the likely level of resources that will be available to colleges over the next three years. While there is a substantial increase (concentrated in the first year), the sector has also been challenged to contribute significantly to key policy objectives (i.e. increase student numbers, social inclusion, literacy and

Audit Committee's recommendations to the Council	SFEFC's comments on progress reported to the Committee on 28 October 1999	Update on progress to December 2000
		numeracy). In addition to targeting these issues, the Council will focus elements of its funding on quality improvement in terms of the development of college staff, management and Boards of Management members as well as investment in estates and information technology.
	Review of Management The consultants report on the review along with the Management Review Steering Group's draft report on the review findings, conclusions and recommendations were endorsed by the Council on 30 March 2000. In line with the agreed timetable, the final report from the Council will be submitted to Ministers in May 2000. Following consideration by Ministers of the Council's report, the Council will prepare a detailed action plan for implementation of the review recommendations. This will set out how and when the recommendations directed at the Council, Boards of Management and Principals will be implemented.	The Management Review was endorsed by Ministers in June 2000. Since then the Council has prepared an action plan on how it is to take this work forward and issued the report and challenge questions to college Boards of Management and Principals. Recognising the scale of this task the Scottish Executive agreed to extend the deadline for the return of college Action Plans to 31 March 2001. Attached at Annex A to this progress report is a copy of the Council's Action Plan with a commentary of progress to date. A copy of the full Management Review report is also attached.

Audit Committee's recommendations to the Council	SFEFC's comments on progress reported to the Committee on 28 October 1999	Update on progress to December 2000
	<u>Review of Financial Monitoring Framework</u>	
	A robust financial health monitoring framework was approved by the Council's Audit Committee in September 1999. The adequacy and effectiveness of this will be monitored by the Council's Audit Committee through the financial health monitoring reports it considers and may be refined and developed as a result. In addition a formal review of the monitoring framework will be carried out in August 2001, which will consider, in particular, the effectiveness of the Council's action in relation to the College Recovery Plans. (See also later text on Recovery Plans and deficits).	The Council's Audit Committee has met five times since October 1999 to consider detailed financial reports, including those on recovery plan colleges.
	<u>Review of Standards & Quality</u>	
	The Council undertook a review of quality assessment in further education colleges in November 1999. On the basis of this, the Council will focus on two areas in the coming months: working with colleges, Scottish Enterprise, Highlands & Islands Enterprise and SQA to reduce the audit burden on colleges in the short term and on developing a more unified system of assessment in the longer term; and revising the quality framework used by HMI in its reviews. The Council will consider how to take this work forward at its May Council meeting.	The Council agreed a revised methodology for quality assessment which will place more emphasis on the student experience and dissemination of good practice. The new method was launched in September 2000 and the first of the new reviews are now underway.
	In addition, the Council intends to consider how to develop an effective link or range of links between	The Council has developed a strategy for promoting continuous

Audit Committee's recommendations to the Council	SFEFC's comments on progress reported to the Committee on 28 October 1999	Update on progress to December 2000
	quality and funding. To assist this it will (1) offer improved guidance on current performance indicators for 2000-01 and (2) it will undertake a review of a broad range of performance indicators used in its work.	quality improvement in the sector. This will include clearer sanctions against unsatisfactory provision, and mechanisms to fund the spread of good practice. The Council also conducted a review of performance indicators, which identified a need to improve the current PIs and to develop some new ones, particularly on Widening Access on Teaching Qualifications for FE staff. The Council is currently consulting the sector on both these proposals.
	<u>Review of Estates</u>	
	Review currently underway, to be reported to the Council in May 2000. Feedback to individual colleges will be provided after the review findings have been considered by the Council. (See also later text on Estates Strategy and Backlog Maintenance).	Reports considered by Council in May and July 2000. All colleges received individual reports. Council intends requesting annual returns, through the operational plan submissions, which will assist in monitoring the impact of the Council's policies in this area.
	<u>Review of Information and Communication Technology</u>	
	The Council is to invest £10M in the financial year 2000-01 and £14M in the financial year 2001-02, as part of the CSR funding, in order to develop the FE	The Council announced its ICT strategy in May 2000, and distributed funding of £7.5M direct

Audit Committee's recommendations to the Council	SFEFC's comments on progress reported to the Committee on 28 October 1999	Update on progress to December 2000
	hub of the National Grid for Learning. The council conducted a survey of existing provision in November 99, and used this to develop a draft strategy which went out for consultation in Feb/March. The final strategy will be announced in May. It's expected that the strategy will address a range of parallel strands including network development, college infrastructure, staff development, content development and promotion of effective college policies. The Council has also decided to join JISC (Joint Information Systems Committee) which will give all FECs high-bandwidth access to JANET (Joint Academic Network)., All colleges will be connected to JANET by March 2001.	to colleges for infrastructure and staff development. Colleges were required to produce their own ICT strategies, and the Council has provided feedback on these. The Council has now set specific targets for the provision of computers to students, and will monitor these on an annual basis. Progress continues on connecting all colleges to JANET and the Council expects to meet its deadline of March 2001 for completion of this project.
	"Action planned to tackle college deficits"	
	Through the operation of its financial health monitoring framework the Council will continue to monitor financial performance and to work with colleges on a case by case basis to help deliver any necessary improvements. In addition, guidance on good practice in various aspects of financial management will be developed and disseminated to the sector. A key responsibility of the Council's Audit Committee is to monitor the trend in deficits at the sector and individual college levels, and the impact, in broad terms, of the Council's financial health monitoring framework on these results.	A detailed financial report was considered by the Council and its Audit Committee in November 2000. This showed a steady improvement in the sectors financial health with historic costs surpluses forecast in each of the years 2000/01 – 2002/03. Also the number of colleges forecasting historic cost surpluses is expected to increase from 18 in 1998/99 to 37 in 2002/03. During this year the format of college financial forecasts has

Audit Committee's recommendations to the Council	SFEFC's comments on progress reported to the Committee on 28 October 1999	Update on progress to December 2000
		been revised to allow more detailed and forward looking analysis and monitoring. The revised format is also consistent with colleges' strategic and operational planning processes.
	"Improve college management"	
	This will be achieved principally through the follow-up work from the management review (see above), but another important area where the Council is already working with the sector is development of improved strategic development planning. (See earlier text on Review of Management).	See earlier text on Management Review See earlier text on review of Strategy.
	"Rationalise further education provision in Scotland"	
	This issue needs to be considered in the context of the other strategic reviews currently underway. Only when equipped with the evidence from these reviews and of financial health matters can balanced and robust decisions about the scope for and benefits of rationalisation be taken.	
	The Council is to report to the Minister by December 2000 on how it proposes to approach any rationalisation of the shape and structure of the sector, to enhance the provision of further education in a regional context and deliver best value for public funds.	A report will be sent to the Minister for Education and Lifelong Learning by end December 2000.
• ***Review of the recovery plans at***	***"Review of Recovery Plans at the remaining ten****	

Audit Committee's recommendations to the Council	SFEFC's comments on progress reported to the Committee on 28 October 1999	Update on progress to December 2000
the remaining 10 colleges in poor financial health, and on the progress made in implementing action plans and improving financial health of the colleges concerned;	***colleges"*** **At the time of the earlier evidence, three of the 13 colleges had agreed recovery plans in place*.	
	In accordance with the statement given in written evidence, Recovery Plans were either in place or in the process of being prepared by 31 December 1999. At the end of March 2000, agreed Recovery Plans are in place at three colleges; draft Recovery Plans have been reviewed by the Council for a further six colleges; and two colleges are currently in the process of preparing plans which have yet to be reviewed by the Council. In the case of two colleges: Aberdeen and James Watt; the Council is now satisfied that sufficient improvement has been made, or is in train, to obviate the requirement for a formal Recovery Plan. A formal process of reporting progress on Recovery Plans to the Council's Audit Committee has been established. This is a key issue in the remit for this Committee.	Since October 1999 one further recovery plan has been agreed and implementation of the associated action plans for these four colleges is monitored quarterly. Draft recovery plans have been received from the remaining seven colleges and are currently being reviewed by the Council's Executive. Progress in agreeing recovery plans has been slower than originally estimated. The principal reasons for the delay are: the essential lead time in validating, fundamental reviews at a curriculum and business level; in some cases major reviews of physical estates; and the resource input of Council and College staff. It is now estimated that all recovery plans will be agreed by the end of July 2001.
	"Progress made in implementing action plans and improving financial health of the colleges concerned"	

Audit Committee's recommendations to the Council	SFEFC's comments on progress reported to the Committee on 28 October 1999	Update on progress to December 2000
	Action plans can only start to be implemented after agreement is reached on the Recovery Plan. At this point the Council will use the action plan as the principal tools for monitoring implementation. The frequency of monitoring will be no less than quarterly. It is intended that Recovery Plans for all of the colleges identified will be in place by the end of the academic year 1999/2000. Staff from the Council are working closely with Colleges and this has encouraged colleges to adopt a very positive attitude to the need for and benefits of Recovery Plans.	
• ***Review of the estates strategy and the scale of any backlog maintenance and plans to invest further in this key aspect of infrastructure;***	***"Review of the estates strategy"*** Following on from the previous work by the Scottish Executive to develop this area of strategic planning, the Council has reviewed and assessed the estates strategies produced as a result of the guidance issued by the SE over several years from 1996. To date [30] colleges have produced estates strategies in accordance with the guidance. While there are some examples of good strategies, the majority lack a strategic focus and fail to provide an effective means for ongoing monitoring by the colleges or the Council. In view of the above, the Council will issue further guidance to the sector by Autumn 2000 and work with colleges to develop robust estates strategies. The Council agreed at its meeting on 30 March 2000 that the delivery of an estates strategy which	Guidance on the link between college strategic plans and estate strategies, and on investment decision making, was issued to colleges in November 2000.

Audit Committee's recommendations to the Council	SFEFC's comments on progress reported to the Committee on 28 October 1999	Update on progress to December 2000
	complies with the Council's guidance will become a condition of grant in the future. The implementation date for this change has yet to be determined, and will need to reflect the scale of the task, given the other demands being faced by colleges.	The Council distributed approximately £20m as formula funding to colleges in the current financial year. Having in place an approved estate strategy is now a condition of grant. All bar two colleges now have estate strategies in place (we have agreed timescales for their production) and the Council is giving feedback during site visits.
	"Scale of backlog maintenance"	
	The sector wide condition survey will be completed by the end of April 2000 and presented to Council in May. In addition to the condition of survey there is a parallel survey underway of colleges compliance in terms of the requirements set in the Disability Discrimination Act 1995 (DDA). The findings of the survey will also be reported to Council in May.	The DDA survey was completed and the results presented to Council in May and July 2000. Council subsequently agreed to make £5m available to the sector to address compliance with the DDA. The Council will be monitoring impact of this investment through the operational plans. £15m was made available to colleges to tackle the most pressing estate needs. The Council's draft Corporate Plan contains target to decrease the sector's estate investment needs which are classified as high

Audit Committee's recommendations to the Council	SFEFC's comments on progress reported to the Committee on 28 October 1999	Update on progress to December 2000
	Following the consideration by the Council, colleges' will receive individual reports on the detailed findings from both surveys. These reports will provide colleges with important information in which they will need to evaluate in light of the development of estates strategies (see above). ***"Plans to invest further in this key aspect of infrastructure"*** The findings and conclusion from the condition and DDA surveys will provide the Council with a comprehensive assessment of the sector's backlog maintenance, health and safety and DDA requirements. However, this information must be considered in the context of the other current strategic reviews, in particular of Supply and Demand and ICT, and financial health considerations to enable the Council to arrive at balanced and informed view of the sector's infrastructure needs and priorities for the future.	priority. The Council now has a capital funding methodology which supports strategic investment in capital, including ICT, and is consistent with the development of regional clusters of FE provision and the need to improve and stabilise colleges' financial health.
• ***Development of benchmarking, of performance indicators including a "Balanced Scorecard", and plans to improve college costing systems;***	***"Development of benchmarking"*** As indicated in the evidence given to the Audit Committee the review of management has addressed at the first three stages of the framework for implementing best practice for benchmarking identified in the NAO report. Specifically, critical success factors and their underpinning key	As already reported, the Action Plans from the follow-up to the Management Review are to be received by 31 March 2001.

Audit Committee's recommendations to the Council	SFEFC's comments on progress reported to the Committee on 28 October 1999	Update on progress to December 2000
	processes and these will be used as a basis for ensuring the effective targeting of activities to be benchmarked. The recommendations from the management review which are directed at Boards of Management and Principals will be expressed in the form of a series of "challenge questions" which will be answered through a process of self-assessment against a range of good practice benchmarks. The results of the self assessment exercise will be closely reviewed and, where appropriate, followed-up by the Council.	
	In addition, the Council is currently reviewing the options for developing other forms of benchmarking, including the opportunity to develop further the current practice in relation to "Unit Costs".	As indicated, it is the intention that the Action Plans from the Management Review will provide a clearer focus on key areas to be benchmarked. In addition, the Council agreed it in November 2000 to further develop Unit Costs as a form of benchmarking. This development will see Unit Costs used as a more direct measure of colleges relative financial performance. The sector will shortly be consulted on the use of Unit Costs in this way to establish how able it will be to respond to this development. In particular, the Council will seek to assess the robustness of colleges' costing and management

Audit Committee's recommendations to the Council	SFEFC's comments on progress reported to the Committee on 28 October 1999	Update on progress to December 2000
		information systems (the Management Review will also inform the process). Feedback on Unit Costs will be provided to colleges in April/May 2001.
	"Development of performance indicators including a 'Balanced Scorecard'" The Council has agreed to develop performance indicators (PIs) in two ways.	
	Short-term, to improve the definitions of the existing set of PIs, which narrowly focused. Improved definitions will apply to the generation of PI data for the academic year 2000/01.	Revised definitions for PIs were announced in June 2000 and a number of staff developments events were organised. The Council expects this to improve the robustness of PI data collected from 2000-01.
	Long-term, undertake a wider review of the potential to develop a range of PIs across all major aspects of FE college activity, in other words, applying the principles of the "balanced scorecard". The review process will commence in April 2000 and be reported to Council around February 2001. It is proposed that new PIs will be implemented progressively from the academic year 2001/02.	The Council conducted a broader review of performance indicators, which identified a need to improve the current PIs and to develop some new ones; the Council is consulting the sector on these proposals. The Council also intends to further develop a more holistic approach to quality across colleges, but believes this should not begin until after it has reviewed the college responses to the Management Review.

Audit Committee's recommendations to the Council	SFEFC's comments on progress reported to the Committee on 28 October 1999	Update on progress to December 2000
	"Plans to improve college costing systems" As indicated in the evidence, the need to help colleges improve their costing systems is recognised. In addition, the application of management accounting information in the decision making process is an issue identified by the Review of Management as requiring further development by colleges. The Council will take this forward as part of its overall report on the Review of Management	See earlier text on Unit Costs benchmarks.
• ***A target for efficiencies that can be achieved without harming the quality of education"***	<u>Target for Efficiencies</u> The issue of efficiencies needs to be considered at two levels: the sector as a whole; and individual colleges. At sector level, the target is for a 1% annual efficiency gain. The sector has already delivered significant efficiencies since incorporation. There is now a funding model which aims to promote planned and sustainable growth, and colleges are no longer able to secure efficiencies through significant growth. The Government has set out many challenges for the sector, all of which have cost implications - for example the relatively high costs of working with students from excluded communities. Provided the sector is funded to carry out the challenges which Government has set for it, the Council believes that the sector should be able	As noted above, the introduction of the Council's new forward-looking approach to funding has been welcomed by the sector in that it provides colleges with greater funding predictability. This is an improvement on the previous situation where colleges did not know the planned level of efficiencies. The recent three year funding announcement has provided significantly increased resources for the sector which will allow investment in all areas of colleges activities. There is also funding available for growth in student numbers. The Council

Audit Committee's recommendations to the Council	SFEFC's comments on progress reported to the Committee on 28 October 1999	Update on progress to December 2000
	to deliver a 1% efficiency gain without a detrimental effect on quality. The Council has also pointed out that if the sector were permitted to re-invest the expected 1% efficiency gain, then more could be done in addressing the Government's priority areas.	therefore believes that the sector should be able to deliver some efficiency gains over the next three years without a detrimental effect on quality. However, these efficiency gains are unlikely to exceed 1% per annum.
	At individual college level there is evidence, in the NAO Report and more recently through the work of the Council, to indicate that there is scope to secure efficiencies at certain colleges. Through the work on Recovery Plans and options for rationalisation, the Council will explore the opportunities for efficiency savings. In addition, the Council's development of benchmarks and PIs will provide an effective measure of relative performance and through this the scope for further efficiencies.	Work with individual colleges on financial recovery plans has identified many examples where costs reductions and efficiencies can be achieved. In many cases these have been driven by curriculum based reviews. The good practice identified from this work will be fully analysed and disseminated to the sector in due course.

AUDIT COMMITTEE 1st REPORT 2000 - SCOTTISH FURTHER EDUCATION COLLEGES: MANAGING COSTS

(The Committee requested that by December 2000, the Council should report its progress on a number of fronts. On 22 December 2000, Professor Sizer wrote to the Committee and informed them that in recognition of the scale of the task the timetable had to be extended. He therefore proposes to report to the Committee on this again in the summer of 2001. Professor Sizer has provided the Committee with a narrative against each of the recommendation headings, setting out progress.)

Audit Committee Recommendation	Summary of the Council's response
1. Report from the Council on root and branch review of the sector and on the action planned to tackle college deficits, improve college management, and to rationalise further education provision in Scotland;	The Council has considered a report on the review of supply and demand in the sector. This indicated provision meeting demand at a national level but further work on mapping supply in major subjects is being undertaken to assess the relative adequacy across areas. (Page 1) The Council has established and is chairing a joint steering group with the Glasgow Colleges Group to analyse available data on need and provision in Glasgow and to commission an analysis of strategic options for Glasgow. (Page 2) The Council's new forward-looking approach to funding was welcomed by colleges as being more transparent and predictable. Coupled with the recent announcement of increased funding over the next three years this should ease some of the problems colleges faced. (Page 3) The Management Review – covering various aspects (financial monitoring, standards and quality, estates, IT/Comms)(Page 4-7) The Council reports a steady improvement in the forecast financial health of the sector, with 37 colleges forecasting a historic cost surplus by 2002/2003, up from 18 in 1998/99. (Page 7) A report on the Council's approach to rationalisation of further education provision in Scotland was going to the Minister for Enterprise and Lifelong learning by the end of December 2000. (Page 8)
2. Review of the recovery plans at the remaining 10 colleges in poor financial health, and on the progress made in implementing action plans and improving financial health of the colleges concerned;	Of the ten colleges from whom the Council had originally requested a recovery plan in mid 1999, seven of the plans are still in draft form only. The date set for the finalisation of all recovery plans is the end of July 2001. (Pages 8&9) No commentary has been provided on the extent of any progress made at those colleges with a recovery plan.
3. Review of the estates strategy and the scale of any backlog maintenance and plans to invest further in this key aspect of infrastructure;	The Council completed its consideration of the review of college estates in July 2000 and the Council reports increased capital funding to the

	sector. There is no mention in the response of the findings of the estates review or the scale of backlog maintenance. (Pages 6, 10, 11 and 12)
4. Development of benchmarking, of performance indicators including a "Balanced Scorecard", and plans to improve college costing systems;	The Council agreed in November 2000 to further develop Unit Costs as a more direct measure of colleges' relative financial performance. The sector is to be consulted to see how it will respond to this development and the Council will be assessing the robustness of college's costing and management information systems. (Page 12) Revised PI's have been introduced for 2000/01 and the council is developing a more holistic approach to quality across the colleges; but will not tackle this until the colleges' response to the management review has been received. (Page 13)
5. A target for efficiencies that can be achieved without harming the quality of education. "	The council is sticking with the 1 per cent efficiency gain across the sector in each of the next three years that it reported in 1999. However, the Council recognises that "Work with individual colleges on financial recovery plans has identified many examples where cost reductions and efficiencies can be achieved (Page 15)

AUDIT COMMITTEE

6TH REPORT 2000

NEW SCOTTISH PARLIAMENT BUILDING
RESPONSE OF THE SCOTTISH EXECUTIVE

FEBRUARY 2001

SE/2001/63

AUDIT COMMITTEE

6TH REPORT 2000

NEW SCOTTISH PARLIAMENT BUILDING RESPONSE OF THE SCOTTISH EXECUTIVE

Introduction

The Scottish Executive has considered the Audit Committee's report on the new Scottish Parliament building. This document provides the Executive's response to the report and individual conclusions and recommendations contained in it.

The report deals with matters within the responsibilities both of the Scottish Executive and the Scottish Parliamentary Corporate Body. This response deals solely with those aspects of the report which are for the Scottish Executive, and the Scottish Office before it. We understand that the Parliamentary authorities will submit a separate response.

The Scottish Executive provided Audit Scotland with access to papers and to officials during the preparation of the Auditor General's report on Holyrood which had been requested by the Audit Committee; and subsequently provided the Audit Committee with oral and written evidence during the course of its own investigation. The Executive has studied the ensuing report with care. The Executive accepts the thrust of the report's recommendations and this response sets out in detail action being taken that we believe will address the proposals made by the Committee. We regret that, in our view, some of the conclusions do not fully reflect the evidence given. However the Executive fully recognises that important lessons can be learned from the report.

The report draws attention to the importance of the Holyrood project and the challenges that it has posed. The Executive believes that a great deal was achieved prior to the project being handed over to the Scottish Parliament. This enabled the work to move ahead once the Parliament was established. Key preparatory work such as the choice and acquisition of the Holyrood site, the selection of a design team and other consultants and detailed development of the design concept was all undertaken in a relatively short period. The aim of this was to give effect to the wish of Ministers that a permanent and fitting Parliament building should be available to the new Parliament early in its life. It is in that policy context that both the development of the Holyrood project itself and the Committee's report on it should be viewed.

The Executive notes that the Audit Committee's report does not express criticism of the outcomes secured from, or the major processes involved in, the strategic decisions taken by the Scottish Office to select and acquire the Holyrood site and the related decisions concerning the means whereby the project would be procured and developed. Very careful consideration was given to these pivotal matters.

It is also welcome that the report in describing a number of the issues that were dealt with during the development of the project reflects their complexity. This complexity is also acknowledged by the Auditor General in his report which informed the Committee's own examination. While highlighting the 'complex and challenging decisions' for all involved with the project and drawing attention to a number of procedural matters also addressed by the Committee, that report also acknowledges strengths in project management arrangements and in other aspects of the early development of the project.

A change of client followed by changed requirements to provide the Parliamentary complex which the Parliament now assesses as necessary means that the project is now very different from that envisaged at the time of handover. As previously stated we believe that there were considerable achievements before the handover.

The detailed commentary below sets out the Executive's views on the procedural and other conclusions and recommendations made by the Committee.

Conclusions

Seven of the conclusions relate directly to matters for which the Scottish Executive (or Scottish Office) had responsibility. The Executive's views on them follow:-

Significance of the new Parliament building (paragraph 7)

The Scottish Executive endorses the view of the Committee that the Holyrood building is the most significant building in modern Scottish history and that the challenge for all those who have been involved has been to create a building of which we, as a nation, can be proud. Since the inception of the project those involved with it in the Scottish Office and the Executive have been conscious of the challenge and the responsibility of the task, and have taken pride in their involvement with it. The Executive also agrees that the project has been an exacting one and that it is important in such a project that the highest standards of financial management are achieved. As noted above very major decisions about the new Parliament were taken as part of planning for devolution by the then Scottish Office The Executive believes that these were soundly based and to the benefit of the project's subsequent development.

Disclosure of full estimated costs (paragraph 13)

The Scottish Executive agrees with the Committee's view that to compare over time construction cost estimates with overall cost estimates is an invalid comparison. We regret any misunderstanding in the public mind. However the Auditor General's report (paragraph 2.4) correctly describes the status of the £50 million construction estimate at the time of selection of Holyrood in January 1998. It acknowledges that the figure was systematically researched and that it reflected a notional design for the building. The status of the building cost figure was made clear in the Ministerial press release announcing the selection of the Holyrood site, and it was also stated that VAT, fees and site acquisition costs would need to be added to that figure. It was noted that the final cost of the Parliament would depend on the final design, the fees negotiated with the successful architect and the outcome of the competition between developers actually to construct the building. By the time of the June 1999 Debate on Holyrood in the Scottish Parliament it was possible to provide an estimated full cost figure on the basis of a specific set of design proposals (whose status is dealt with below) and it was that figure that was used in the Debate. That allows a realistic comparison between the estimated costs at that time and those now forecast.

Transparency in cost reporting arrangements (paragraph 14)

Paragraph 14 of the report rightly refers to the view of the Accountable Officers on the limited scope for systematic cost reporting in advance of a settled design. A good deal of evidence was given on the status of cost estimates and the Auditor General's concerns about reporting of these estimates. It should be stressed, however, that this is not a criticism that implies any absence of proper control over actual expenditure, or indeed any lack of concern for value for money in the use of resources. Rather the point in question is the timing of reporting estimated costs of proposals. The Executive emphasises that the aim of all concerned, as detailed in evidence, was to ensure that proposals to be reported were soundly based and justified before a request for a change to the budget was made.

Information for the Accountable Officer (paragraph 15)

Again, detailed evidence was given on this point. The Committee's view is that the construction cost estimate provided by cost consultants to the Project Team in November 1998 should have been reported or the Accountable Officer should have enquired about it. The Accountable Officer explained the arrangements for delegation of supervision of the project to a Steering Group of senior officials which had been set up in accordance with project management disciplines. The Executive regrets that the report's conclusion on this point does not reflect the significance of these arrangements for delegation.

The Accountable Officer in his evidence noted that through subsequent work the November 1998 figure was later reduced and that he and Ministers were involved when it became appropriate. This was once consideration needed to be given to adjusting the budget to reflect changes, by then assessed as necessary, that had arisen both because of design development and also revisions to forecast user requirements. In the Executive's opinion the arrangements for delegation had therefore worked satisfactorily: forecast costs had been reviewed critically with a view to securing a reduction; the strict rules for seeking a variation of budget were complied with; and the matter was referred to the Accountable Officer and to Ministers. Accordingly on this point the Executive takes a different view.

Risk Assessment (paragraph 35)

The Scottish Executive agrees with the Audit Committee's views on the importance of proper risk management and assessment, and proper accounting for risk. As the Executive's evidence made clear this is a complex area often involving fine judgement of particular issues. On the one hand it is important to identify the likelihood and impact of risks coming to fruition, so that steps may be taken to mitigate the risks and, as appropriate, cost their effects. On the other - particularly in the early stages of a project - the extent to which this realistically can be done through formal risk analysis techniques is inevitably limited. The Audit Committee's report highlights the dilemmas that exist in this area. (This is also illustrated by the early work of the cost consultants which was the subject of the memorandum by the Accountable Officer associated with the Auditor General's report.) There is no question of Treasury or other guidance on such matters having been disregarded. Evidence made clear the status of such guidance and the Executive's awareness of the need to maintain careful judgement throughout the life of projects about handling of risk. The Committee's report refers particularly to one element of the complex judgements required, and that is the extent to which explicit risk allowances should be made public. The Scottish Executive takes the view that great care is needed in disclosing such factors. This is dealt with further below in responding to the related recommendation.

The status of the project at the time of its transfer in June 1999 (paragraph 45)

The Committee's report contains two conclusions on the forecast costs of the project at the time of its transfer to the Scottish Parliamentary Corporate Body in June 1999. Firstly the Committee indicates that they are not in a position to say conclusively when increased costs projected in the late summer of 1999 first arose. The Scottish Executive is not in a position to comment on the detailed progress of the project after the handover. However the Executive's evidence explained that the design (for “Stage D”) was settled apart from minor details at the time of the handover, and the cost consultant's building cost estimate at that time reflected that design. Secondly the Executive regrets that the Committee does not express confidence in the Accountable Officer's view that the project was clearly sustainable within the budget set in June 1999. The Executive re-affirms this view. Changes after the transfer gave rise to the higher cost estimates prepared later in 1999. We believe that the conclusion could better reflect the evidence given.

Recommendations

The report contains 4 recommendations. The Executive's response to them is as follows:

- *"For future high profile projects we recommend that accountable officers within the Scottish Administration and other public bodies consider carefully their responsibilities to answer to Ministers and to 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 becoming real as well as the likelihood of this occurring. Where the consequences may be so great as to undermine confidence in the viability or value for money of the project the accountable officer should consider informing Ministers, who may then inform the Parliament. (paragraph 24)"*

  The Memorandum issued by the Principal Accountable Officer to Accountable Officers on appointment specifically requires Accountable Officers to ensure that, in the consideration of policy proposals, all relevant financial considerations are taken into account, and where necessary brought to the attention of Ministers. In the case of public bodies, the responsibility is to bring matters to the attention of the body concerned. Relevant financial considerations will include that of risk, both the probability and implications, where that is appropriate; and the requirement applies equally when there are major changes as well as on initial consideration.

  Obviously, the circumstances and timing of when it is appropriate to report to Ministers, or the body, will vary depending on the circumstances, particularly the size and nature of the particular case and the type of information available. But the Executive agrees that a particularly careful judgement should be made on this in major cases. Accordingly, arrangements have been made for the Committee's recommendation to be brought to the attention of all Accountable Officers.

- *"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. (paragraph 27)"*

  Capping the fees of consultants who provide additional professional works services is one of a number of mechanisms by which clients can achieve extra ‘value added’ services over and above those originally specified. (Other examples include shortening the contract duration to achieve earlier project delivery, changing the timing of staged payments, agreeing alternative designs or working methods). Incentivisation mechanisms in general are expected to be most appropriate in the case of long term contractual relationships with large suppliers where there is a degree of repetition and sufficient time for the incentives to achieve mutual benefits for client and supplier. Complex or unique projects which are less repetitive are not so well suited to this approach, and it is generally accepted that incentives should be employed with great care, for example they should not penalise those who are not responsible for changes or cost increases, otherwise they can be divisive.

  Nevertheless the Executive accepts that capping the fees of works consultants may be appropriate, in certain circumstances, for large single projects particularly those featuring straightforward or repetitive construction forms. The Executive's construction procurement documentation is currently being revised (see below) and, in response to the Committee's remarks, the documentation will highlight the question of percentage fees for professional works services and the appropriate use of abatement mechanisms, making clear the need for a careful approach in this area.

- "*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 but in a way which does not encourage cost inflation. As part of this review, we suggest that Ministers may wish to consider guidelines under which accountable officers present monitoring reports to them. We recommend that the Scottish Executive considers the issues pertaining to public reporting and overall public expenditure planning. We consider that the type of questions which need to be addressed include defining the circumstances where risk assessment figures should - as a matter of course - be reported to the Parliament, and hence made public. (paragraph 36)"*

The current revision of construction procurement documentation will result in issue of a Client Pack, to be issued in May, as briefing for those responsible for managing major projects. The Pack will take account of the Committee's recommendations and will include material on risk assessment and management. The guidance to Accountable Officers referred to above will highlight the importance of provision of information to Ministers on risk issues.

We have considered the issues pertaining to public reporting of risk allowances and its implications for overall public expenditure planning. We agree with the Committee that, if projects were costed with no allowance for risk, other programmes could have to be adjusted to accommodate emerging cost overruns. We therefore agree that projects should make adequate allowance for risk in their overall cost. The Executive is, however, concerned that the public reporting of risk allowances could threaten the ability of managers to maintain a downward pressure on costs. It is not therefore in favour of reporting these sums individually.

However the new budget process should allow Committees and the Parliament the ability to monitor major capital projects undertaken by the Executive without a new procedure and ensure they are being delivered within the planned budget including the risk allowance. The documents accompanying the Annual Budget Bill will include a table showing information on all major (over £3 million) capital projects undertaken directly by the Scottish Executive (including health authorities) and its Agencies. The Parliament will be able to track progress with these projects through subsequent Budget Bill information and the published accounts. Both of these will show any variations from the original approved budget. If a project is exceeding its cost and requires funding from another sub-programme, the Executive can transfer up to 15% of the receiving subhead or £50m whichever is the lower without Parliamentary authority. However, the transfer would have to be reported and in practice this would be done by informing Parliament of the change through a Budget Revision. In cases where the transfer of the required funding was met from another main programme then Parliamentary authority would need to be sought for the transfer through a Budget Revision. The Finance Committee, and if necessary, the Parliament, would have the opportunity to take evidence at that point before agreeing to the transfer.

- *"For future major capital projects we recommend that the Executive, and other public bodies in Scotland, consider the appointment of independent scrutineers to reinforce project monitoring at critical stages. (paragraph 48)"*

The 1999 Review of Civil Procurement in Central Government proposed that, in the case of certain large, complex or novel procurements, the contract monitoring checks which form part of most projects should take the form of reviews (known as ’gateway’ reviews) carried out by people with the relevant expertise who are also independent of the specific project. The Office of Government Commerce (OGC) is currently developing procedures to implement this recommendation and the Executive is keeping in touch with these developments.

In addition, the Minister for Finance last year appointed a Procurement Supervisory Board to oversee the Executive’s procurement strategy and to report its findings and recommendations to Ministers. One of the identified areas for development is in the monitoring arrangements for large and/or high risk projects. The Executive will develop a framework of approval gateways as part of the project management arrangements for such projects and this will involve independent scrutiny of them. The Client Pack referred to above will include guidance on gateway reviews, and further work will be done on this, informed by separate but parallel development of this type of project discipline by OGC. This work will take account of the Committee’s remarks.

FEBRUARY 2001

AUDIT COMMITTEE

6TH REPORT 2000

THE NEW SCOTTISH PARLIAMENT BUILDING

This is the formal response to the Audit Committee's 6th Report 2000 on the New Scottish Parliament Building insofar as it concerns matters for which the Scottish Parliamentary Body is responsible. The terms of the response have been agreed by the Corporate Body.

Introduction

We welcome the Committee's Report on the Holyrood project. In particular, we appreciate the Committee's recognition of the significance of the project and the exacting nature of the assignment. We also welcome the Committee's endorsement of the management arrangements put in place following the Spencely Report and the Clerk's response to the recommendations of the Auditor General for Scotland in his report. Our response to specific criticisms in the Committee's report and conclusions affecting the SPCB is given in the following paragraphs. We understand that the Scottish Executive is replying separately on matters within its field of responsibility and on the recommendations in the Report.

Withholding of cost information in August 1999

The report notes (paragraph 20) that the accountable officer, Mr Grice, did not inform the SPCB of a construction cost estimate of £115m, compared to the budget of £62m, in August 1999. In its conclusions, the Committee disagrees with the decision made by the accountable officer in this respect and considers that, in its judgement, it was unacceptable that this information was withheld from the SPCB.

We have carefully considered all the evidence surrounding this matter. The cost estimate received on 30 August 1999 was the first since responsibility transferred to the SPCB on 1 June. Project management immediately identified that a significant increase in area and enhancements to the specification had been incurred without the SPCB having been notified of any changes in the brief. Their immediate reaction was to seek explanations for these changes with a view to determining what the changes were and whether they should be accepted or rejected. In these circumstances, project management took the view that cost estimates were unreliable and unacceptable. It was on this basis that the accountable officer notified the SPCB that detailed checks were being undertaken into the estimates which had been received and the reasons for these checks being made. He did not at that stage disclose the amount of the estimate to the SPCB, although the Corporate Body was told that the cost implications could be significant.

The SPCB recognises the accountable officer's right to exercise his judgement in this way. The action taken in seeking further clarification of the costs was appropriate in the circumstances and no more than the SPCB probably would have instructed in full knowledge of the cost estimate. Some vindication of project management's attitude to the August cost estimate derives from the results of the value engineering exercise set in train shortly thereafter, which identified potential savings of over £20m, albeit that this was subsequently overtaken by design changes. Although we consider that the full amount of the cost estimate should have been disclosed to us at the time, if only to indicate the dimension of the possible increases, we believe that the action taken was understandable in the circumstances. In that context, we note the Committee's conclusions.

Reporting Systems

Paragraph 23 of the Report comments on reporting systems in place prior to the Spencely report. Formal reporting arrangements between project management and the SPCB were established and followed from the time of the transfer of responsibility. For its part, the SPCB has issued five reports to the Parliament, three before Spencely reported. We have some difficulty, therefore, in accepting the implied criticism in this paragraph.

Reasons for increase in forecast construction costs

In response to a request from the Committee, Mr Grice provided information on the increase in forecast construction costs from £62m to £108m. In its conclusions, however, the Committee indicates that it has been unable to identify when the underlying causes of the increased costs first arose.

In our opinion, the Committee has under-estimated the financial effect of the re-design of the chamber. While relatively inexpensive in itself, the re-design required significant changes to the lay-out and the adjacencies. It also caused a significant delay. This was the only change instructed by the client prior to the feasibility study carried out in November but the possible financial consequences only became clear at a later stage. The client's eventual acceptance of the results of the feasibility study in February 2000 effectively gave ex post facto approval to all the changes identified earlier.

Independent review of the state of the project in June 1999

The Committee concludes that there should have been an independent review of the state of the project in June 1999 to provide assurances on the achievement of programme and budget and highlight remaining risks. With the benefit of hindsight, a case could be made for such a review but much depends on the perception of the project at that time.

The Parliament debated the subject fully on 17 June 1999, and in the light of the resolution which was approved, the SPCB proceeded with the project on the basis of Parliament's instructions. Given the information then available to us, there was no indication that an independent review of the project management was necessary, particularly given the consequential cost and uncertainty entailed. Accordingly, the SPCB does not accept that there was then a basis to instigate such a review.

Current state of the Holyrood project

We note the Committee's encouraging comments and conclusions regarding the post-Spencely management structure. The Holyrood Progress Group is now fully operational and is contributing significantly to the progress of the project. A full-time Project Director, charged with the task of completing the project to time and budget, has recently been appointed. We are confident that the management structure is now in place to achieve these objectives.

We share the Committee's concerns about the impact of construction inflation and we are monitoring developments closely. The information which Mr Grice agreed to provide in respect of tenders currently under negotiation will be available shortly. An analysis of this information will inform future action.

Nick Johnston MSP
Deputy Convener
Scottish Parliament Audit Committee
PHQ

6 February 2001

HOLYROOD PROJECT: REVIEW OF INFLATION RISK

In giving evidence to the Committee in October, I accepted comments made in the Auditor General's report about a number of risks which potentially threatened the Holyrood project budget. I assured the Committee that active risk assessment and management were – and always have been – key components of the Project Management task and that this would continue to be the case. In particular, I supported the Auditor General's view that it was not yet possible at that time to assess fully the potential impact of inflation on the budget but agreed that an analysis of a number of major packages which were due to be let in the autumn-winter period would give Project Management better information about the impact which inflation was making.

Since that time we have tendered and let all but one of the packages to which I alluded in my evidence[1] and having examined these it is appropriate that I should report to you now on the emerging trends, as was requested by the Committee. I am writing with the agreement of the Corporate Body and the Holyrood Progress Group. As I explained at the time, it is not possible to give full details of the sums committed to individual packages for reasons of commercial confidentiality but I am happy to give you the results of the tendering exercises in global terms.

The packages in question form the basement and upper structure[2] of the Chamber itself and the main towers housing Committee rooms and related administrative functions; as well as the external cladding for the MSP building. The cost plan allowance for these three packages (in 1998 prices) was £26.46m. The published indices (explained overleaf) tell us that we should expect to be paying a projected premium for inflation on top of that of £2.91m, giving a total of £29.37m. The total amount that we have committed to the three packages is £31.24m which represents an overspend from the cost plan of £4.78m. This includes a potential commitment from the contingency sum of

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[1] The remaining contract referred to in evidence was the East End cladding package which is due to be tendered in mid March 2001.

[2] Although this package has been let, it contains some provisional sums and the estimated final cost is likely to exceed the current trade contract value.

£1.8m to compensate for a package which has come in over budget; the indices suggest that the rest of the disparity could be attributed to inflation.

To put these figures in context, I can give you similar global figures for the other 19 packages which have already been let. The cost plan allowance for these packages (in 1998 prices) was £18.65m. The indices project inflation at £1.23m, giving a total of £19.88m. The total commitment is £19.83m; in other words, savings made on these particular packages have slightly offset the assumed impact of inflation.

The overall picture, adding all these packages together, shows that having committed in the region of £51m, (or half the construction budget), we are currently sitting at £5.9m over the original cost-plan budget of which around £4m may be attributable to inflation. It is worth noting here that there is a contingency of just under £11m within the total budget of £195m which is not expressly designed to address inflationary pressures. However, as the Auditor General noted in his report, some or all of this sum could have been available for this purpose if it were not expended elsewhere. I should also clarify that the Project spend is comfortably within its cash allocations for this year and next and there is therefore no requirement to seek additional expenditure cover at this stage.

As Committee members will recall, the Auditor General explained in his report that the £108m construction budget was compiled from estimates based on constant March 1998 prices. The Corporate Body's report to Parliament in March 2000 stated that it was not common practice to include a separate inflation allowance in government building procurement and that the SPCB believed that this was the correct approach in relation to the Parliament building. This is indeed customary practice in public procurement projects where the total amount required for inflation cannot be known at the start of a project and it would not be good practice to make the contractor aware of any allocated notional figure being held in reserve. Budget figures quoted for such projects are therefore always exclusive of inflation. The Holyrood construction budget is consistent with this approach and therefore excludes actual and forecast building cost inflation over the life of the project.

Following the Auditor General's report, and recognising that the Parliament had not explicitly agreed that the £195m should be treated as a real terms target, the Holyrood Progress Group asked the Project's cost consultants to identify the cost of inflation on each package as a management tool. This has been done using the BCIS National All In Tender Price Index, nationally recognised and published indices which allow us to identify separately the cost of inflation. While these give a nation-wide picture, we are advised that they are as fair a representation as any of the current situation in the Edinburgh area. In addition, anecdotal evidence suggests that some of the publicity surrounding the project at an earlier stage as well as the tight timescale for completion of works may have had a negative impact on our competitiveness in the market place.

However, we are satisfied with the tender results on the MSP block where, setting aside the inflation element, all of the works packages let to date have come in on or under the original cost-plan budget. The same is true of all the other early packages as well as a number of the later ones . Nonetheless, it is now clear that inflation will have an impact on the project budget to a degree which is not yet fully quantifiable.

The Holyrood Progress Group had hoped that it might prove possible to absorb this pressure within the available budget by taking advantage of savings delivered by the tendering process. However, some of the contracts which comprise the Debating Chamber and Towers packages give us less cause for comfort than those finalised on the MSP building. In addition to the premium to be paid for inflation, it is unlikely to be possible to bring one or two of these packages back within the original cost plan budget. The Design team and Project Management are examining the detail of these as a matter of urgency, but in order to remain on programme it will be necessary to commit some of the contingency sum to compensate for construction cost overruns. This requirement makes it clear that the entire contingency will not be available to meet inflation costs, in which case further resources would be required in due course to deliver the scheme design as approved by the client in June 2000. A better estimate of the final cost of inflation will become available as the remaining major contracts are let between now and the autumn.

In the meantime, the Holyrood Progress Group and Project Management are committed to doing all they can to bring the project in on budget and the pressure being brought to bear on costs is unrelenting. The project's consultants are under clear instructions to examine every single component of the scheme for potential savings and they are under no illusion about the importance of compensating for the cost of inflation and any other cost overruns wherever possible.

I am copying this letter to the Convener of the Finance Committee to whom I also gave evidence on this matter.

PE GRICE

AUDIT COMMITTEE 6TH REPORT 2000 - THE NEW SCOTTISH PARLIAMENT BUILDING

SUMMARY OF SPCB AND SCOTTISH EXECUTIVE RESPONSES

Audit Committee Conclusions	SPCB Response	Scottish Executive Response
1. The Committee believes the new Parliament under construction at Holyrood to be the most significant building in modern Scottish history. The challenge for all those who have been involved has been to create a building of which we, as a nation, can be proud. Since the budget for this project comes entirely from public funds it is imperative that the highest standards of financial management are achieved. This project is an exacting assignment. (paragraph 7)	We welcome the Committee's Report on the Holyrood project. In particular, we appreciate the Committee's recognition of the significance of the project and the exacting nature of the assignment. ...	The Scottish Executive endorses the view of the Committee ... Since the inception of the project those involved with it in the Scottish Office and the Executive have been conscious of the challenge and the responsibility of the task, and have taken pride in their involvement with it. *More generally, in the preamble to their response, the Executive also comment:* … The Executive accepts the thrust of the report's recommendations ... We regret that, in our view, some of the conclusions do not fully reflect the evidence given. However the Executive fully recognises that important lessons can be learned from the report. The report draws attention to the importance of the Holyrood project ... The Executive believes that a great deal was achieved prior to the project being handed over to the Scottish Parliament. This enabled the work to move ahead once the Parliament was established. ... It is in that policy context that both the development of the Holyrood project itself and the Committee's report on it should be viewed. … It is also welcome that the report in describing a number of the issues that were dealt with during the development of the project reflects their complexity... A change of client followed by changed requirements to provide the Parliamentary complex which the Parliament now assesses as necessary means that the project is now very different from that envisaged at the time of handover …
2. It was not helpful that, from the outset of the project, a misunderstanding in the public mind should have been created about the full costs of this project (ie the construction costs	n/a	The Scottish Executive agrees with the Committee's view that to compare over time construction cost estimates with overall cost estimates is an invalid comparison. We regret any misunderstanding in the public

plus dependent costs). It was unnecessary and wrong not to disclose the estimated full costs once they were available. (paragraph 13)		mind. ... The status of the building cost figure (£50 million, January 1998) was made clear in the Ministerial press release announcing the selection of the Holyrood site, and it was also stated that VAT, fees and site acquisition costs would need to be added ... It was noted that the final cost of the Parliament would depend on the final design, the fees negotiated with the successful architect and the outcome of the competition between developers actually to construct the building. By the time of the June 1999 Debate on Holyrood in the Scottish Parliament it was possible to provide an estimated full cost figure on the basis of a specific set of design proposals …
3. There should have been much greater transparency in the cost reporting arrangements for this project. 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) the accountable officer. (paragraph 14)	n/a	... the report rightly refers to the view of the Accountable Officers on the limited scope for systematic cost reporting in advance of a settled design ... The Auditor General's concerns about reporting of these (cost) estimates ... is not a criticism that implies any absence of proper control over actual expenditure, or indeed any lack of concern for value for money in the use of resources. ... The aim of all concerned ... was to ensure that proposals to be reported were soundly based and justified before a request for a change to the budget was made.
4. Bearing in mind the exceptional and high profile nature of the project, we consider that the Accountable Officer at the Scottish Office should have been given information on cost estimates from the earliest stages. If that information was not forthcoming, then he - as the Accountable Officer - could have done more to seek it out. The evidence led the Committee to believe that Mr Russell was semi-detached from the process. (paragraph 15)	n/a	… detailed evidence was given on this point … The Accountable Officer explained the arrangements for delegation of supervision of the project to … senior officials ... The Executive regrets that the report's conclusion on this point does not reflect the significance of these arrangements for delegation. The Accountable Officer in his evidence noted that … he and Ministers were involved when it became appropriate … In the Executive's opinion the arrangements for delegation had … worked satisfactorily … Accordingly on this point the Executive takes a different view.

5. The risk assessment policies which were in operation prior to the agreement of a cost plan were clearly insufficient and at odds with HM Treasury guidance. It is alarming that such fundamental variances in positions should exist on this matter. (paragraph 35)	n/a	The Scottish Executive agrees with … the importance of proper risk management and assessment, and proper accounting for risk. … it is important to identify the likelihood and impact of risks coming to fruition, … (albeit) in the early stages of a project the extent to which this realistically can be done through formal risk analysis techniques is inevitably limited. … There is no question of Treasury or other guidance on such matters having been disregarded …
6. The forecast construction costs of the Holyrood project increased from £62 million to £108 million after the transfer of client responsibility from the First Minister to the Scottish Parliamentary Corporate Body in June 1999. As a result of the quality of the evidence given, we are not in a position to say conclusively when the underlying causes of the increased costs projected in the late summer of 1999 first arose. However we are persuaded that the redesign of the chamber that the SPCB instructed in June 1999 did not alter the forecast construction costs greatly although it did have a significant impact on the overall progress of the scheme. To our knowledge, no other fundamental changes were instructed by the SPCB in the period from handover to August 1999, when the risk of greatly increased costs was first identified. (paragraph 45)	In our opinion, the Committee has under-estimated the financial effect of the re-design of the chamber. While relatively inexpensive in itself, the re-design required significant changes to the lay-out and the adjacencies. It also caused a significant delay. This was the only change instructed by the client prior to the feasibility study carried out in November (1999) but the possible financial consequences only became clear at a later stage. The client's eventual acceptance of the results of the feasibility study in February 2000 effectively gave ex post facto approval to all the changes identified earlier.	… The Scottish Executive is not in a position to comment on the detailed progress of the project after the handover. However the Executive's evidence explained that the design (for "Stage D") was settled apart from minor details at the time of the handover, and the cost consultant's building cost estimate at that time reflected that design. …
7. We do not have confidence in the former Accountable Officer's view that the project, when transferred in June 1999, was clearly sustainable within the budget set. (paragraph 45)	n/a	… the Executive regrets that the Committee does not express confidence in the Accountable Officer's view that the project was clearly sustainable within the budget set in June 1999. The Executive re-affirms this view. Changes after the transfer gave rise to the higher cost estimates prepared later in 1999. We believe that the conclusion could better reflect the evidence given.
8. There should have been an independent review of the state of the project in June 1999. This would have provided more positive assurance about the	... With the benefit of hindsight, a case could be made for such a review but much depends on the perception of the project at that time.	n/a

prospects for completion on time and on budget and would have usefully highlighted the remaining risks and uncertainties to be faced. (paragraph 47)	The Parliament debated the subject fully on 17 June 1999, and ... the SPCB proceeded with the project on the basis of Parliament's instructions. Given the information then available to us, there was no indication that an independent review of the project management was necessary … ... Accordingly, the SPCB does not accept that there was then a basis to instigate such a review.	
9. We disagree with the judgement taken by the Clerk and Chief Executive of the Scottish Parliament, once he became the Accountable Officer, not to inform the SPCB of the cost consultants' estimate in August 1999 that construction costs could reach £115 million. The SPCB was entitled to receive all relevant information and it is unacceptable that this information was withheld from that body. (paragraph 22)	We have carefully considered all the evidence surrounding this matter. The cost estimate received on 30 August 1999 … (showed) … that a significant increase in area and enhancements to the specification had been incurred without the SPCB having been notified of any changes in the brief. (Project management immediately sought) … explanations for these changes … ... In these circumstances, project management took the view that cost estimates were unreliable and unacceptable. … the accountable officer notified the SPCB that detailed checks were being undertaken into the estimates which had been received and the reasons for these checks being made. He did not at that stage disclose the amount of the estimate to the SPCB … ... The SPCB recognises the accountable officer's right to exercise his judgement in this way. ... Some vindication of project management's attitude to the August cost estimate derives from the results of the value engineering exercise set in train shortly thereafter, which identified potential savings of over £20m, albeit that this was subsequently overtaken by design changes. Although we consider that the full amount of the cost estimate should have been disclosed to us ... the action taken was understandable in the circumstances. In that context, we note the Committee's conclusions.	n/a
10. The Spencely report appears to have been a turning point for the project and there are several indicators of improved management now in place. The Holyrood Progress Group has added an element of independent scrutiny and political control that was not previously evident. It is noted that there is now a settled	We note the Committee's encouraging comments and conclusions regarding the post-Spencely management structure. ...	n/a

design and cost plan in place. (paragraph 49)		
11. We still have concerns about the impact of construction inflation and we have accepted the offer of the Clerk to the Parliament to report to us the details of the global figure showing the results of the major tenders and the extent to which it varies from the target in the cost plan. The trend will be much clearer following the release of that information. (paragraph 54)	We share the Committee's concerns about the impact of construction inflation and we are monitoring developments closely. The information which Mr Grice agreed to provide in respect of tenders currently under negotiation will be available shortly. An analysis of this information will inform future action.	n/a
Recommendations		
1. For future high profile projects we recommend that accountable officers within the Scottish Administration and other public bodies consider carefully their responsibilities to answer to Ministers and to 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 becoming real as well as the likelihood of this occurring. Where the consequences may be so great as to undermine confidence in the viability or value for money of the project the accountable officer should consider informing Ministers, who may then inform the Parliament. (paragraph 24)	n/a	The Memorandum issued … to Accountable Officers on appointment … requires (them) to ensure that, in the consideration of policy proposals, all relevant financial considerations are taken into account, and where necessary brought to the attention of Ministers. In the case of public bodies, the responsibility is to bring matters to the attention of the body concerned. … the circumstances and timing of when it is appropriate to report to Ministers, or the body, will vary depending on the circumstances … the Executive agrees that a particularly careful judgement should be made on this in major cases. Accordingly, arrangements have been made for the Committee's recommendation to be brought to the attention of all Accountable Officers.
2. 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. (paragraph 27)	n/a	… the Executive accepts that capping the fees of works consultants may be appropriate, in certain circumstances … The Executive's construction procurement documentation is currently being revised (see below) and, in response to the Committee's remarks, the documentation will highlight the question of percentage fees for professional works services and the appropriate use of abatement mechanisms, making clear the need for a careful approach in this area.
3. The Scottish Executive should	n/a	The current revision of construction

	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 but in a way which does not encourage cost inflation. As part of this review, we suggest that Ministers may wish to consider guidelines under which accountable officers present monitoring reports to them. We recommend that the Scottish Executive considers the issues pertaining to public reporting and overall public expenditure planning. We consider that the type of questions which need to be addressed include defining the circumstances where risk assessment figures should - as a matter of course - be reported to the Parliament, and hence made public. (paragraph 36)		procurement documentation will … take account of the Committee's recommendations and will include material on risk assessment and management. The guidance to Accountable Officers referred to above will highlight the importance of provision of information to Ministers on risk issues. We have considered the issues pertaining to public reporting of risk allowances and its implications for overall public expenditure planning. We agree with the Committee … that projects should make adequate allowance for risk in their overall cost. The Executive is, however, concerned that the public reporting of risk allowances could threaten the ability of managers to maintain a downward pressure on costs. It is not therefore in favour of reporting these sums individually. … the new budget process should allow Committees and the Parliament the ability to monitor major capital projects undertaken by the Executive without a new procedure and ensure they are being delivered within the planned budget including the risk allowance. The documents accompanying the Annual Budget Bill will include … information on all major (over £3 million) capital projects undertaken directly by the Scottish Executive (including health authorities) and its Agencies. The Parliament will be able to track progress with these projects through subsequent Budget Bill information and the published accounts. Both of these will show any variations from the original approved budget. If a project is exceeding its cost ... the Finance Committee, and if necessary, the Parliament, would have the opportunity to take evidence …
4.	For future major capital projects we recommend that the Executive, and other public bodies in Scotland, consider the appointment of independent scrutineers to reinforce project monitoring at critical stages. (paragraph 48)	n/a	(A Government wide review in 1999) proposed that … contract monitoring checks … should take the form of reviews (known as 'gateway' reviews) carried out by people with the relevant expertise who are also independent of the specific project. The Office of Government Commerce (OGC) is currently developing procedures to implement

		this recommendation and the Executive is keeping in touch with these developments. In addition, the Minister for Finance last year appointed a Procurement Supervisory Board to oversee the Executive's procurement strategy and to report its findings and recommendations to Ministers. One of the identified areas for development is in the monitoring arrangements for large and/or high risk projects. The Executive will develop a framework of approval gateways as part of the project management arrangements for such projects and this will involve independent scrutiny of them. … This work will take account of the Committee's remarks