The Scottish Parliament

FINANCE COMMITTEE

AGENDA

22nd Meeting, 2001 (Session 1)

Tuesday 13 November 2001

The Committee will meet at 10.00 am in Committee Room 1 to consider the following agenda items:

1. **Items in private:** The Committee will decide whether to take agenda items 4 and 5 in private.

2. **Scottish Parliament Corporate Body Budget Submission for 2002/03:** The Committee will consider the Scottish Parliament Corporate Body's expenditure plan for 2002/03 and take evidence from—

   Paul Grice, Clerk and Chief Executive, Scottish Parliament;

   Robert Brown MSP, Member, Scottish Parliament Corporate Body;

   Stewart Gilfillan, Director of Corporate Affairs, Scottish Parliament;

   Sarah Davidson, Project Director, Holyrood Project Team

3. **Scottish Parliament Corporate Body - Quarterly Report on the Scottish Parliament Building Project:** The Committee will consider a quarterly report on the progress of the Holyrood Project and take evidence from—

   Paul Grice, Clerk and Chief Executive, Scottish Parliament;

   Robert Brown MSP, Member, Scottish Parliament Corporate Body;

   Stewart Gilfillan, Director of Corporate Affairs, Scottish Parliament;

   Sarah Davidson, Project Director, Holyrood Project Team

4. **2002/03 Budget Process:** The Committee will consider the Stage 2 budget reports of the Parliament's subject committees.

5. **Arrangements for Kirkcudbright:** The Committee will consider the arrangements for its meeting in Kirkcudbright on 19 November.

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The papers for this meeting are:

Agenda item 2

2002/03 SPCB Budget Submission	FI/01/22/1
Letter from The Presiding Officer	FI/01/22/2
Paper from the Clerk	PRIVATE PAPER

Agenda item 3

Scottish Parliament Building Project quarterly report	FI/01/22/3
Paper from SPICe	PRIVATE PAPER

Agenda item 4

Paper by Brian Ashcroft, budget adviser to the Committee	PRIVATE PAPER (*to follow*)
Education, Culture and Sport Stage 2 report	PRIVATE PAPER
Enterprise and Lifelong Learning Stage 2 report	PRIVATE PAPER
Equal Opportunity Stage 2 report	PRIVATE PAPER
Health and Community Care Stage 2 report	PRIVATE PAPER
Justice 1 and 2 Stage 2 report	PRIVATE PAPER
Local Government Stage 2 report	PRIVATE PAPER
Rural Development Stage 2 report	PRIVATE PAPER
Social Justice Stage 2 report	PRIVATE PAPER
Transport and Environment Stage 2 report	PRIVATE PAPER

Agenda item 5

Paper by SPICe	PRIVATE PAPER *(to follow)*

SCOTTISH PARLIAMENTARY CORPORATE BODY

SPCB aim: To provide the Parliament, or ensure the Parliament is provided with the property, staff and services required for the Parliaments purposes.

OPERATING BUDGET SHOWING RESOURCES ALLOCATED TO OBJECTIVES:
Scottish Parliamentary Corporate Body

Objective: To enable the efficient and effective conduct of parliamentary business.

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Operating Budget (note 1)	**Forecast Outturn 2001-02 £'000**	**Proposed Budget 2002-03 £'000**	**Revised Forecast 2003-04 £'000**
Resource Costs			
Property Costs	4,090	4,155	7,105
Running Costs	7,532	7,391	7,357
Staff Pay	11,939	12,843	13,726
Staff Related and General Costs	3,187	3,175	3,125
MSP Pay	7,048	8,260	8,162
MSP Office, Staff and Accom. Costs	8,231	8,410	8,595
Contingencies & Exceptional Items	3,008	2,995	3,372
	45,035	**47,229**	**51,442**
Capital Costs			
Non Holyrood	1,654	5,177	2,500
Holyrood	72,000	89,000	20,500
	73,654	**94,177**	**23,000**
Capital Charges			
Depreciation	3,170	3,700	8,200
Cost of Capital	6,703	10,400	13,025
Noitional External Audit Charge	75	75	75
	9,948	**14,175**	**21,300**
Total Gross Expenditure	**128,637**	**155,581**	**95,742**
Less Retained Income	-200	-200	-200
Operating Expenditure	**128,437**	**155,381**	**95,542**
Less: EYF brought forward	-32,729	-14,945	
Resource Funding Requirement	**95,708**	**140,436**	**95,542**
Less: previous estimate of Resource Budget funding requirement (March 2001)	**95,708**	**116,728**	**73,034**
Increase in funding requirement for 2002-03 v. Level 1 Bid of 9/3/01	**0**	**23,708**	**22,508**

Resource Funding Requirement Comparison to the Published Scottish Budget			
Less: estimate of Resource Budget funding requirement (November 2000)	**95,708**	**107,064**	**76,284**
Increase in funding requirement for 2002-03 v. the Scottish Budget	**0**	**33,372**	**19,258**

Notes
(1) In line with Resource Accounting and Budgeting requirements, recoverable VAT is netted off directly against Revenue and Capital Expenditure. Previous budget submissions, under cash accounting, showed this under "Retained Income".

The Rt Hon Sir David Steel KBE MSP
The Presiding Officer

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September 2001

SPCB BUDGET SUBMISSION FOR 2002-03

I wrote to you on 9 March with a provisional expenditure plan for the SPCB's proposed spending in 2002-03. Under the terms of the agreement between the SPCB and the Committee, we are required to provide you, and the Scottish Executive, with more detailed plans, which also reflect any changes, by 7 September 01.

The provisional expenditure plan, as given to you in my letter of 9 March, was for a Resource Funding Request in the financial year 2002-03 of £116.728m. As I explained in that letter, the capital expenditure forecast for Holyrood did not at that stage incorporate any allowance for inflation or other cost pressures beyond the Holyrood Project budget of £195m. These pressures are now reflected in the attached 2002-03 Budget Submission, which shows a Resource Funding Requirement of £140.436m, an increase of £23.768m over the provisional expenditure plan.

As the Finance Committee may be aware, the SPCB has EYF of £47.7m available at the end of the financial year 2000-01. We anticipate using £32.7m of the EYF in 2001-02 to meet our funding requirements, as previously agreed with the Finance Committee, and are planning to carry forward the remaining £14.9m to 2002-03. This is detailed on the attached Schedule.

Capital Expenditure

The Holyrood Project expenditure is based on the latest estimate of the total cost over the lifetime of the project (£234.5m, including assumptions about future inflation and risk) and shows projected expenditure of £89.0m in 2002-03 (against the March provisional expenditure plan of £58.6m). This increase is partly offset by the re-phasing of forecast expenditure from 2001-02 which is £6.7m lower than previously estimated. The additional funding required in 2002-03 is therefore £23.7m (£89.0m - £58.6m - £6.7m). The estimate submitted to the Finance Committee in March was based upon total forecast Project expenditure of £195m.

Non-Holyrood capital expenditure is budgeted at £5.2m, £2.2m above the previous expenditure plan. The capital expenditure is principally IT expenditure on a major technology refresh. This work is being undertaken in 2002-03 to allow installation directly into Holyrood, rather than into the interim accommodation first. This is effectively funded by using EYF to roll forward the under-spend from 2000-01 and the project underspend from 2001-02.

The total capital expenditure budget sought is £94.2m in 2002-03.

Revenue Expenditure

The attached schedule shows that revenue expenditure is forecast to be £47.2m, which is £2.7m above our provisional expenditure plan. We have been undertaking a major exercise to plan for the next parliament, including the move to Holyrood, and we now have a better idea of some costs which were previously uncertain. There is, however, still a great deal of uncertainty about some aspects of the migration to Holyrood, eg the extent, timing and costs of running 2 complexes at the same time.

That explains the bulk of the increase in our proposed expenditure compared to our previous plans, but much of it will be taken as a contingency rather than allocated to specific budgets. Other reasons for the increase include additional IT equipment maintenance and support costs; increased printing costs; additional staff pay costs (arising from a better understanding of the budgetary effects of implementing the Scottish Executive pay deal last year, the costs of implementing the Parliament's own pay and grading structure, and the costs of some additional staff); and the costs of restoring Members' pay to 90% of MPs' pay, as originally recommended by the Senior Salaries Review Body. No provision is being made at this stage to meet possible SSRB recommendations to increase pay above 90% parity or to increase allowances.

Other items for which we wish to make contingencies include; the costs of the Parliamentary Commissioner for Standards; further possible additions to staff numbers to provide new and better services to Members; and the potential costs of moving the Parliament outside Edinburgh next May.

Summary

In summary, the SPCB is proposing total expenditure of £155.381m including capital charges. We will use £14.945m of available EYF from 2000-01, and are therefore seeking total funding in 2002-03 of £140.436m.

I am copying this letter to Angus Mackay and to Paul Grice.

David Steel

SCOTTISH PARLIAMENT BUILDING PROJECT

QUARTERLY REPORT BY THE SPCB TO THE FINANCE COMMITTEE – NOVEMBER 2001

Background

The motion approved by Parliament on 21 June 2001 required the SPCB to provide information, *"on a quarterly basis to the Parliament's Finance Committee on the progress of the project in respect of inflation and materialisation of risk, in order to inform the committee's consideration of the annual Budget Bill".* This paper constitutes the first such quarterly report. Future reports are expected to be provided annually in January, April, July and October.

The Members of the SPCB hold regular meetings with the Holyrood Progress Group to receive information on issues relating to programme, budget and quality. The project is now entering a critical phase with the majority of contracts having been let and work underway on site on all fronts. The SPCB is currently awaiting a detailed report from the HPG on 27 November which will assess the issues facing the project in its final key stages. We will make a supplementary report to the Committee in the light of that information.

A full explanation of the risk and inflation review methodology is given at Annex A in the form of an extract from the SPCB's report to Parliament in June 2001**. The following report should be read alongside that Annex**. For Members' interest, a brief update on progress on site is given at Annex B.

Risk

A further review of project risks was concluded in late September. This process involves identifying risks which have moved from potential into actual expenditure; risks which have not materialised and any new risks which have been identified.

Of the sums identified in June as 'design risks', some have, as expected, come to fruition in addition to the sums already committed by that stage against the Debating Chamber Frame package.

Excluding 'force majeure' risks and those within the client's control, **£21.67m** (gross) design and construction risk remains in the risk register. While the risk register is a fluid management tool, this figure can broadly be compared with the 26.3m quoted in the June SPCB report to Parliament.

In particular, commitment of sums over and above the original estimates have been authorised on the following packages:

Q H Add In Belvedere Construction	£135,000
Assembly Building Frame (Node Cover)	£460,000
Assembly building pre-cast concrete cladding	£291,563
Foyer frame and glazing	£2,429,303
Assembly building roofing	£1,168,492
MSP and QH Flooring	£94,736
TOTAL	£4,579,094

Points to note:

- Insolvency of a trade package contractor comes under the category of 'force majeure' risk. The recent termination of Flour City UK's contract for the MSP cladding may lead to some additional costs which would be identified as materialised risk. It is not yet possible to quantify these, although it is hoped that they can be kept to a minimum and they will be picked up in the next risk review.

- The complexity of some of the Assembly Building design issues have taken the architects and structural engineers longer to resolve than they had anticipated. The Construction Manager and Design Team have been instructed to make a detailed assessment of the extent to which such 'design delays' can be absorbed within the overall strategic programme. There is already a sum identified in the risk register against the possible impact of programme delays; the next risk review will identify whether any additional consequential programme risk costs should be included.

Inflation

Inflation has also been recast using the BCIS indices in the light of updated information. The total amount currently estimated to be likely to be attributable to construction industry inflation on the project is £23m including the associated fees and VAT. Of the £83.3m (net) committed to date, £11.2m is attributable to inflation, an increase of around £2.9m on the previous report. Using current predictions, inflation will add upwards of 14% to the cost plan value of the packages remaining to be tendered equating to £6.1m (net) or **£8.1m** (gross). The decrease from the previous future inflation figure given, of £10.4m (gross), reflects the reducing number of work packages still to be let.

Overall cost position

In addition to the commitment shown below, £24m of packages are due to be let within the next few weeks, leaving only the finishings work to be tendered. The following table represents the most accurate indication possible of the Project's finances at this point in time. They do however represent a 'one point in time' snapshot of the financial position and do not reflect the inherent fluidity of the cost plan in a project run under a Construction Management contract. For the purposes of this report, we have identified all risks which we know to be crystallising, whether or not these are already firmly contractually committed.

As Members will be aware, the Parliament has recently acquired the area of land which will be the subject of the landscaping scheme associated with the new building. The budget in respect of these works will transfer from Scottish Ministers to the Parliament; at present however these figures specifically exclude landscaping costs.

Summary of current position as known at 25 October 2001	
Site, demolition and archaeology	5.0
Fit out	19.5
Fees and site organisation	32.2
Total construction commitment to date	83.3
VAT on last two items above	20.2
Subtotal (committed to date)	**160.2**
Cost plan value of packages still to be let (at 1998 prices)	43.4
VAT on the item above	7.6
Subtotal (uncommitted)	**51.0**
TOTAL	**211.2**

ANNEX A

RISK AND INFLATION: EXTRACT FROM SPCB REPORT TO PARLIAMENT JUNE 2001

Inflation

As was reported by the HPG in January, the inflationary pressures on this project are considerable. The budget of £195m was based on a construction cost of £108m which was at 1998 prices, i.e. exclusive of construction industry inflation which runs at a level higher than the general rate of inflation. It is measured using a set of recognised indices called the Building Cost Information Service (BCIS) indices. These are national and do not reflect accurately any particular 'hotspots' such as that characterising the Edinburgh area just now.

Technically inflation is outwith the control of the project. As the estimation of inflation is a retrospective science and its full impact cannot be assessed until completion, it is impossible to tell what the final position on this will be. The indices do give us a rough guesstimate and the degree of certainty grows with every passing quarter and as more contracts are let.

To date, we have committed £59.5m in cash terms, of which the BCIS indices suggest that £8.3m (incl. VAT and fees) is attributable to construction industry inflation. Using current predictions, inflation will add upwards of 16% to the cost plan value of the packages remaining to be tendered. On the current construction cost estimate, that would give a figure in the region of £10.4m (incl. VAT and fees). The total amount which is currently estimated to be likely to be attributable to inflation, including the associated VAT and fees is £18.7m.

The risk analysis process and categorisation of risk

As noted by the Auditor General for Scotland in his report on the project, risk analysis is a key component of any construction undertaking. While it is recognised good practice in public sector projects not to include an identified allowance within a construction management contract to cover all the possible eventualities which might come to pass, Project Management has been conducting routine analyses of risk ever since the outset of this project.

The most recent major risk review has just been reported to us. A 'risk review' is a standard technique of project management involving representatives of the design team, construction management, cost consultancy and project team in making a considered assessment of all the eventualities which might conceivably befall the project prior to completion.

There are 3 basic categories of risk, (none of which are new to the project, since under a Construction Management contract the client keeps and manages risk):

Force majeure: (outwith the control of the project and including things such as insolvency of trade contractors and extreme weather conditions). While some actions can be taken by management to mitigate these, they cannot be prevented from happening. If they were to arise they would have to be dealt with but no realistic assessment of the financial impact can be made.

Client body decision: these are risks which are within the control of the client and which the HPG will endeavour to overcome through swift decision making and minimal if any change to the briefed requirements.

Design and construction risks: this is the key category of risk with which this paper is concerned. Within this category itself there are two distinct types of risk.

Design Risk

The first is design, or tender, risk. This can be summarised as being the risk that trade packages cannot be bought for the price allocated against them in the cost plan, for whatever reason. We have already realised some £4.5m of design risk in relation to the East Frame package (see para 3). There are other packages currently going through the tender process where it is thought that it is unlikely that those particular items will come in exactly on cost plan, (which is not to say that within the global sum they may not be offset by more favourable tender results elsewhere on the project). At present, the nominal amount of risk set against these items is valued at £10.5m, (£14.2m including fees and VAT). Obviously, as more tenders are let these risks will either crystallise into money spent or else disappear completely. In the meantime the Progress Group have instructed the design team to devote all their combined efforts to ensuring that they simplify and economise on every one of these packages to minimise any overspend. We have also been reassured that the remaining trade packages, (the 18% yet to be tendered), are far more straightforward and therefore less likely to have any risk sums allocated against them.

There will be considerably more certainty about the outstanding design risks by mid autumn by which time over £100m worth of construction costs will have been committed. We will report to Parliament again at that time with updated contract costs and a revised risk assessment.

Construction Risk

The second type of risk in this category is construction risk. Bringing their experience and professional judgement to bear, the team make an educated guess about what might happen over the remainder of the project; judge the impact it would have if it did happen; estimate the total potential cost of it happening; set that against the likelihood of it happening and thereby arrive at a nominal amount to which the client is judged to be exposed, (in £s and weeks). An example is as follows: there is a risk that Bovis might not be able to work freely on site due to constraints imposed by complaints made by neighbours about noise. If this were to happen, the impact would be large; the total cost to the client could be £2m. Yet it has been assessed that there is only a small likelihood of this happening, (the probability is 10%), and therefore the nominal amount to which the Parliament might be exposed appears in the risk register as £200,000.

In this latter category there are both those risks which can be predicted (however small the likelihood of their happening) and those which simply cannot. It is for the latter category – which includes the stresses imposed by the very high level of activity on site which we will be seeing over the coming 12 months – that the construction contingency sum is traditionally set aside. Bovis have suggested that in their experience a reasonable sum to set against the complete unknowns remaining in this project could be somewhere in the region of £9m (£12.1m incl.VAT and fees); they also acknowledge that it could turn out to be less and it could be more.

All our professional advisers remind us that risk analysis is by no means an exact science. The examples given above illustrate the extent to which it is by its very nature based upon educated guesses made at one point in time and the picture is constantly moving. We also believe that all of these construction risks are capable of being managed rigorously. We have instructed the team to bring their professional skills to bear in making sure that many of these risks never actually cost us anything either in terms of money or time, or at the very least to minimise the impact they make on budget and programme.

ANNEX B

PROGRESS ON SITE.

MSP Block

The MSP block has been structurally complete for eight months. The internal services are currently being fitted and the partitions between individual offices are being put in place. Ben Dawson, a local furniture firm, this week went into production of the storage wall, an integral part of each MSP's office. The roofing is well advanced and the external envelope has been prepared to take the cladding components. Given the problems with the Flour City contract there will be some delay in completing the cladding but it is not a critical path activity and therefore does not give rise to particular concern.

Queensberry House

The roof of Queensberry House has been removed in line with its original design, the Belvedere tower is now visible, and the process of replacing the old timber floors with safer and stronger steel is well advanced. Samples for the external harling and rendering are currently being prepared.

'Assembly buildings'

It is now possible to walk across the main foyer area in front of Queensberry House and up the staircase towards the Chamber. The staff and Members' restaurant area is well advanced as are the first floor levels of each of the towers. The remainder of the in-situ concrete in these areas will be poured over the coming weeks. The main public foyer area is now fully defined and the steelwork for the frame of the debating chamber which will sit above this begins erection in late November.