

THE CABINET OF THE NATIONAL ASSEMBLY RESPONSE TO THE AUDIT COMMITTEE REPORT 03- 03: *THE NATIONAL ASSEMBLY'S NEW BUILDING: UPDATE REPORT*

Purpose

The Cabinet of the National Assembly's response to the Recommendations of the Audit Committee following the presentation of their report on 3 April 2003.

The Cabinet of the Assembly is grateful for the report. We welcome the findings and offer the following response to recommendations in the Report.

Recommendation (i)

That in future all contracts are agreed and signed by both parties before they are acted upon to ensure that agreement on all terms is achieved from the outset.

Agreed.

The contractual arrangements with the Richard Rogers Partnership (henceforth RRP), including the fee proposal, were fixed by the Welsh Office before the Assembly came into existence. The Assembly was not therefore in a position to set the terms, as regards fees and any such terms could only be achieved with the agreement of RRP. The Assembly had to attempt to renegotiate the whole arrangement (including the fee). The Assembly's bargaining position was disadvantageous as RRP had already started work on the project and therefore had little incentive to agree to fee reductions. Despite this, the Assembly was successful in agreeing a cap on the Partnership's fees (thus stopping them from being dependent on the final out-turn cost) and reducing the overall percentage rate charged from 24.2% to 21.1%, a reduction of 3.1%.

In terms of the future contractual arrangements, the Permanent Secretary has given his assurance that the Assembly will enter into a signed contract prior to the commencement of construction work on the new building later in the year. The Committee, did however note the legal advice received by the Assembly which confirmed that the lack of a signed contract with RRP did not materially prejudice the Assembly's position.

The Minister for Social Justice and Regeneration, formerly the Finance Minister, previously announced that the Assembly's approval to the Contractor's Proposal will be sought prior to Summer Recess 2003 and the contract with the main contractor will be signed immediately thereafter.

With regard to the wider issues of contractual good practice raised in the Audit Committee Report, the Assembly Government will ensure that a copy of the Committee report and a copy of this response is circulated within the Assembly and sent to Assembly Sponsored Public Bodies (ASPBs) by the end of May 2003, for information and future reference in the conduct of contractual negotiations.

Recommendation (ii)

That, prior to contracts being signed, both parties should understand and agree on the provisions included in relation to payment mechanisms, including arrangements in the event of the contract being terminated.

Agreed.

Agreement will be reached between both parties on all such issues prior to the award and signature of the contract.

Recommendation (iii)

That, in all its contracts the Assembly adheres to the principle that contractors are only paid for work actually completed and that any cashflow issues for the contractor are not allowed to override this principle.

Agreed.

Robust monitoring systems have been put in place for the Assembly Building Project to ensure that stage payments will be made only against work completed as part of an agreed programme of work. This already applies to other Assembly contracts with contractors.

The Assembly lets a number of other contracts with the private sector containing payment terms on the basis of milestones achieved. This includes the majority of the Transport Directorate's major road schemes and the Schal International Project Management Appointment for the Assembly Building Project.

In the preparatory phase of such projects, the contract is based upon a breakdown of fees into payments against an agreed programme of milestones, key stages, identifiable reports or decision points prior to the commencement of Works.

In terms of the contract with Schal International Management the contract permits the National Assembly to make adjustments to the payment schedule to reflect the above, or where there might be a delay in the performing of services.

With NHS building projects, the Assembly does not act as the Employer (Client) in consultant agreements as this role is undertaken by NHS Trusts. The standard form of agreement used in the NHS in Wales contains similar payment terms as the proposed Assembly Building contract.

Recommendation (iv)

That, in view of the frequency with which issues of risk analysis and management have arisen in our reports, the Assembly Government consider obtaining

professional advice on the handling of risk by the Assembly and Assembly Sponsored Public Bodies.

The Assembly Government agrees that the assessment and handling of risk should be a key consideration in all project management.

A proactive approach has been taken to the future management arrangements and risk management of the Assembly Building Project. In the light of an independent review undertaken by Francis Graves Ltd, a revised project management structure has been put in place that sets out clear roles and responsibilities in line with PRINCE² Project Management Methodology. This approach was endorsed by the Auditor General in his report published on 8 November 2002. The Assembly has also adopted a different procurement method and revised timetable for delivering the building.

In terms of risk management, the Assembly Building Support Team has established a comprehensive Risk Management database based on PRINCE² Project Management Methodology to record all risks associated with the project. The team report regularly to the Assembly Officials Project Board on all high level risks to seek approval to proposals for managing risks or to seek direction. This risk register is also shared with the Project Manager and the Preferred Bidder.

This approach to risk management was acknowledged in an independent Gateway Review undertaken on the project and has been shared within the Assembly Government as a model of best practice. The importance of obtaining professional advice on the assessment and management of risk in major projects will be highlighted in the covering letter used to circulate the Committee report and this response within the Assembly Government and to ASPBs.

Furthermore, the Assembly Government is working with other UK central government departments to implement the recommendations of the Cabinet Office's Strategy Unit report *Risk: Improving Government's Capability to Handle Risk and Uncertainty*. The Assembly Government has appointed a Risk Improvement Manager who is leading a programme of reviewing and improving risk management practice across the administration and supports senior management in ensuring that there is a clear and balanced account of risk judgements and management actions.

Agreed.

The Assembly Government will employ professional advice to review the progress which it and all its ASPBs have made on the introduction of risk management procedures.

Recommendation (v)

It is essential that all witnesses who appear before us should feel able to give full and frank answers to the questions put to them...We Recommend that the Permanent Secretary draw this important principle to the attention all Accounting Officers.

Agreed.

This will also be included in the covering letter referred to above. The Permanent Secretary will also raise the issue at a meeting of all Accounting Officers scheduled for early Autumn 2003.

Recommendation (vi)

That, independent reviews of this project be carried out as necessary during the remainder of its life and after it has been concluded.

Agreed, it is the intention that regular Gateway Reviews, as recommended by the Office of Government and Commerce, will be undertaken at key stages throughout the remaining life of the Project.

An initial Gateway Stage 2 Review was undertaken taken by Chandler KBS in October 2002 prior to the issuing of the documents invitation to tender documents inviting Stage 1 tenders were issued. A Gateway Stage 3 Review is scheduled for June 2003 prior to the award of contract for the appointment of the design and build contractor.

Recommendation (vii)

That, the Assembly takes all possible steps to ensure that costs are kept within the upper limits of the latest cost estimate.

Agreed.

The procurement route now adopted will ensure a high level of cost certainty and delivery of the project. Furthermore, as part of the Schal International Project Management appointment, the Assembly has its own cost consultant, Northcroft. Northcroft's responsibility is to work in partnership with the preferred bidder in an open book manner to develop a detailed cost plan that will lead to a fixed price contract.

This work is also monitored by the Assembly's own internal professional Quantity Surveyor.

Recommendation (viii)

That the design and build contract specifies a completion date for the National Assembly's new building.

Agreed.