



Cynulliad Cenedlaethol Cymru
The National Assembly for Wales

NATIONAL ASSEMBLY FOR WALES

NEW BUILDING PROJECT INFORMATION

JUNE 2000

NATIONAL ASSEMBLY FOR WALES NEW BUILDING PROJECT INFORMATION

Purpose

1. The purpose of this document is to set out the events leading to the choice of location for the Assembly and to report on the reviews that were initiated following the debate in the Assembly on Tuesday 4 April 2000.

Background

2. There were various stages of activity in 1997 and 1998, which preceded the announcement by the Secretary of State for Wales on 28 April 1998, that the location of the Assembly would be in Cardiff Bay. Economic appraisals were prepared based on Treasury guidance for a range of options and in relation to the final decision three sites were considered.

3. The decision made at that time was intended to decide where the Assembly should be located on a long-term basis.

Project progress

4. The project to provide the overall accommodation solution has been progressed in three phases.

Phase 1 - Crickhowell House and Pierhead building were adapted to provide the Assembly with its permanent office accommodation and temporary debating committee and public facilities ready for the 11th May 1999.

Phase 2 - the further adaptation and utilisation of the remaining space within Crickhowell House following the vacation of the building by the remaining NHS staff in December 1999.

Phase 3 - the development of the new Assembly building design and project infrastructure involving design development, procurement activity, refining the cost estimates and ensuring that the project delivered the Assembly's key objectives and met the needs of all users.

The Reviews

5. Action has been taking place on several fronts since the First Secretary announced to the Assembly on 22 March 2000 that he was putting the new building proposal “on hold” in order to review the figures. They include:

- *the Turner and Townsend review of the estimated costs of the Richard Rogers proposals,*
- *the advice from the National Audit Office on the reliability of the economic appraisals which underpinned the original decision to locate the Assembly in the Bay,*
- *an Internal Audit review of the cost of stopping the scheme and of the existing project management arrangements,*
- *specific questions raised by the First Secretary*

Turner & Townsend Review

6. Turner and Townsend undertook a review of the costs and programme for the new building. Their key findings are as follows : -

- the building should be capable of being built for £26.9 million (including contingency provision and some provision for the present delay) compared to the cost plan for the scheme of £22.8 plus a reserved contingency of £3.4 million - a total of £26.2 million (with no provision for the present delay)
- based on a risk analysis, they consider that if every risk was not managed this could rise to £32.1 million
- the timetable is achievable but it is tight and they consider that risks would be reduced by extending the programme to allow for occupation - by 31 weeks

The costs of the Turner and Townsend review was £31,000.

7. The Terms of Reference and Executive Summary of the Turner Townsend report is attached at Annex A. The full report contains a considerable amount of financial detail which could be commercially damaging to the interests of the Assembly if published. The detail included in the report would enable potential tenderers to identify the sums of money included in the budget for particular blocks of work and could lead to them bidding at a higher price than might otherwise be the case. The detailed figures lead to the totals which are contained in the Executive Summary which is reproduced in full. The First Secretary has provided on a “Commercial in Confidence” basis a copy of the FULL Turner and Townsend report to each of the Party Leaders and the Presiding Officer so that they can be assured that the full report is not being suppressed.

Auditor General for Wales/NAO report

8. The Auditor General has provided a letter setting out his findings on the preparation and consideration of the Economic Appraisals of the Options for the choice of location for the Assembly in Cardiff.

9. He has concluded :-

- that the Economic Appraisals were soundly based
- some further sensitivity analysis would have been useful
- some of the City hall costs were understated
- the decision to locate in the Bay was the correct one based on the facts available at the time
- his own sensitivity analysis confirmed that the Bay remained the best option

10. A copy of his letter to the Permanent Secretary is attached at Annex B.

Internal Audit review

11. Internal Audit has reviewed the costs of the project including the costs of cancelling the project. Their findings are :-

- that fees for design and project management to date are £1,082,082
- the design competition cost £119,482
- staff costs (not normally included in any cost analysis) have been £172,560
- further costs would accrue if the project was cancelled of approximately £600,000

12. This takes no account of any claims for compensation which might arise from a decision to cancel the project.

13. Internal Audit also examined the current project management structure and arrangements and were satisfied that they were appropriate and robust.

Options

14. In spite of the attractions of being so close to Cathays Park, the City Hall option is not now a realistic one either on grounds of availability or cost since the Council have now got some 500 staff back in occupation. Other locations in Cardiff, apart from the Bay, have previously been explored and discarded. The likelihood of being able to build a Chamber building some distance from AM's offices is now thought to be quite improbable. Furthermore, building a new Chamber and office building combined away from Crickhowell House would involve sub-letting Crickhowell House.

15. The options therefore considered in the review are:

- A. Do nothing
- B. Continue with the Richard Rogers Partnership (RRP) proposal
- C. Build a different, smaller building confined to the original Plot 1E using a non-signature architect
- D. Improve the existing chamber in Crickhowell House
- E. Build a new chamber on columns in the car park at Crickhowell House and provide improved Committee Room facilities in Crickhowell House through conversion of existing chamber.

(The Richard Rogers Partnership have prepared an outline of a slightly different scheme for the Car Park but it is too early to come to a view on its suitability or costs. It could be considered further if the Assembly decided in principle to pursue the Car Park option).

16. Details of each Option with a brief description together with estimated costs and timetable are provided in the paragraphs which follow. The table below provides a summary of the principal cost and timetable information.

£ Million

Option	Estimated Capital Cost	Net Present Cost (N P C)	Completion date
A	1.7	57.6	Immediate
B	26.9 (plus £0.6 for extended programme)	76.9 (77.3)	January 2003 (September 2003)
C	18.2	71.7	January 2004
D	21.2	84.0	Sept 2003
E	13.5	72.1	January 2003 Chamber September 2003 rooms

17. All NPC calculations include the costs of preparing Crickhowell House already incurred. The capital figures for C,D and E exclude the £1.7m of abortive expenditure which would be incurred if Option B is abandoned but this is included in the NPC calculations for all but Option B. There are revenue costs relating to the decant of accommodation included in the NPC calculations for Options C, D and E which have a significant impact on the figures.

18. Option A

Description: continue to use existing Chamber and Committee Rooms at Crickhowell House.

Costs: £1.7m sunk into existing proposals would have to be written off. Possible unquantifiable claims for damages from Grosvenor Waterside to be met.

Net Present Costs (NPC): £57.6

Timetable: Immediately available.

19. Option B

Description: Build the RRP proposals as currently designed on the extended Site 1E.

Costs: About £26.9 m (including contingency) by the T&T figures. Could increase by £0.6 m if construction/procurement period is extended as recommended by T&T but this would produce a greater degree of cost certainty.

NPC: £76.9 million or £77.3 with an extended programme

Timetable: Immediate decision to restart project would enable occupation by:

- (a) January 2003 if original programme adopted
- (b) September 2003 if T&T proposal to extend programme adopted

20. Option C

Description: Commission a different Architect to design another, smaller building on the original Site 1E

Costs: £18.2 m + 1.7m abortive expenditure already incurred on option B

NPC: £71.7 million

Timetable: January 2004

21. Option D

Description: Improve the existing Chamber in Crickhowell House by removing ceiling and pillars and relocating public gallery at first floor level. **Requires landlord's consent from GW.**

Costs: £22.2m + 1.7m of abortive expenditure.

NPC: £84.0 million

Timetable: September 2003

22. Option E

Description: Construct a Chamber on pillars in the car park at Crickhowell House connected to existing building by an atrium. Members would enter at first floor level new assembly space. Public access would be to a gallery at second floor level reached by a lift from the existing milling area. Improved Committee Room provision would be achieved through the conversion of the existing Chamber. **Requires landlord's consent from GW.**

Costs: £ 13.5m + 1.7m for abortive costs.

NPC: £72.1 million

Timetable: January 2003 for the Chamber and September 2003 for the Committee rooms

23. Information boards for Options B and E which are those to be put to the Assembly for discussion will be available in the Milling area from Monday 19 June to Wednesday 21 June 2000. MS Division staff will be present at the following times to answer any question for Members :-

Monday 12 noon to 1400 hours

Tuesday 0800 to 0930 and 1200 to 1400 hours

Wednesday 1200 to 1400 hours "

Specific questions raised by First Secretary and Cabinet

24. What about the costs of moving NHS staff out of Crickhowell House?

With the exception of Health Solution Wales who have rented accommodation in Brunel House, all of the other units moved out of Crickhowell House have been accommodated in existing vacant accommodation owned or rented by the NHS or the Assembly. The rental cost of Brunel House is lower per square foot than Crickhowell House by £3 per square foot.

25. Could Crickhowell House be sub-let at £15 per square foot?

The full cost of renting Crickhowell House was included in the economic appraisal. There is now some doubt as to whether Crickhowell House could be sub-let at £15 per square foot if the Assembly moved out, given that the presence of the Assembly in the Bay increases rental values and the fact that Crickhowell House will be in competition with brand new accommodation which is being built close by.

26. Is it possible to collect data on Civil Servant's wasted time on the bus journeys between Cathays Park and Cardiff Bay?

Staff time involved in travel between Cathays Park and Cardiff Bay was not included in the original economic appraisal, as the only cash costs involved is the annual bus rental of £37,000 per annum, which was not a significant figure for the appraisal. There are no additional financial costs to the Assembly for staff travelling between the Park and the Bay, only the opportunity costs of approximately £250,000 per annum, which when calculated on the Net Present Cost figure, totals £2.75 million over the 17 year period. The comparative opportunity cost of staff walking to the City Hall would be around £900,000. These figures do not materially affect the outcome of the economic appraisals.

27. How did the staff figures in the Bay rise from 280 to 743?

Original estimates for occupation in the Bay were 60 Members, plus 120 support staff, plus 100 officials for the Cabinet Secretariat and OPO. The table below sets out the position from the start of the Assembly to the current position, and gives a forecast for the future. Included in this table are some 52 staff who support the Secretary of State, the media and catering, who were not included in the original estimate.

	May 1999	Sept 1999	Dec 1999	Mar 2000	Forecast
Members and staff	180	180	180	180	191
Cab Sec & Press Office	21.00	33.31	54	54	54
OPO	78	107	116	138	154
Corporate Support	50	55	55	55	66
OSSW	3	7	7	7	7
Media	28	28	28	28	28
Catering	17	17	17	17	17
Total (FTEs)	377	427	457	479	517

The difference between 517 and 743 is accounted for by a proposal to utilise the remaining spare space in the building for other Assembly staff not directly related to the day to day running of the Assembly thus relieving pressure on Cathays Park.

28. Could Caspian Point be used to accommodate Assembly staff in the Bay, letting CP1 and CP2 if we wished to keep the administrative staff close to the Debating/Members offices area?

Caspian Point is not large enough to accommodate Assembly staff without acquiring another 200,000 square feet of office accommodation or building new office accommodation of some 400,000 square feet to relocate staff in the Bay. N>B> This is not being pursued.

29. How far are other Government buildings in the UK from their Parliament site? How does the Assembly Building compare in terms of size and costs with other developments?

On distance the answers vary between Northern Ireland where everybody is within a 2 minute walk, through the Westminster situation where all Ministers are within 8 minutes driving time of Parliament, with their officials spread over a much larger area, to Scotland, where some Ministers and their staff are located in Glasgow and travel to the Scottish Parliament in Edinburgh, some 46 miles away, with the bulk of staff located in Victoria Quay, some 3 miles from the Scottish Parliament building.

Comparisons with Holyrood and Portcullis House, Westminster:

Scotland

30. The Scottish Parliament currently meets in temporary accommodation at The Mound. This site consists of 7 buildings which makes regular movement of MSPs, their staff and Parliamentary staff between the buildings very difficult. The new permanent accommodation for the Scottish Parliament is to be based in the Holyrood site.

31. The new accommodation will provide much more space, allowing improved public access to the building. The initial cost estimate for the building was £50 million. The costs of the building have increased for a number of reasons: (1) increase in the gross area of the building to accommodate the staff numbers now required by the Parliament, (2) increased circulation space percentage and (3) changes to the entrance of the building. The current estimate is £230 million, which has been agreed by the Scottish Parliament.. The building is scheduled to be completed in December 2002

Westminster

32. Portcullis House is the new Parliamentary Building in Westminster, which was approved by the House in 1992. It was designed by Sir Michael Hopkins and will make it possible, for the first time, for all Members to have an office on the Parliamentary Estate. The building will consist of the following:

Ground floor	Cafeteria, Post Office, Office of the Vote, Office of the Library
First Floor	25 Committee and Conference Rooms, of which 4 are Select Committee rooms, 2 multi-purpose rooms, a number of meeting and interview rooms and 2 television interview rooms
Floors 2-6	210 offices for members

Offices for 200 staff

The building is expected to be ready for occupation no later than early 2001 at a cost of £235 million.

	Use of Building	Size of building	Estimated Cost
Holyrood Building, Scotland	Approx. 1000 staff and Members. Chamber for 129 Members, media facilities, MSP staff and Parliamentary support services	23,000 square metres	£230 million
Portcullis House, Westminster	Offices for Members and their staff, Committee and Conference Rooms with public access	22,811 square metres	£235 million Total cost including professional fees, furniture and fittings and VAT £2,000 being spent on furnishing Member's offices
Assembly Building, Cardiff Bay	60 Members in Chamber, 3 committee rooms, public facilities. Members and staff accommodation in the adjacent Crickhowell House building	2,559.3 square metres	£22.8 million

June 2000

Terms of Reference for the Review of the Assembly New Building Project

- a) To review the present estimates for the full costs of acquiring the site, designing, constructing, fitting out and equipping the new Assembly building, ready for occupation to ensure that:
- i) all costs have been taken into account;
 - ii) estimates of cost are soundly based;
 - iii) appropriate contingency provisions have been included;
 - iv) appropriate estimates have been made for inflation
- b) Identify any areas of the project where there are uncertainties in relation to the cost, and seek to identify the range within which the estimate of cost could lie, together with an assessment of the likely level of risk across the estimated range of costs.
- b) Review the estimated completion date of August 2002 for the occupation of the building. Provide a commentary on whether this date is achievable, and the risk factors and likelihood of them occurring, which would influence this.

Executive Summary

The key findings of the review can be summarised as follows:-

- Based on the information available and the current level of design development, our assessment of the likely outturn project cost, is marginally in excess of the Total Project Budget (inclusive of the 15% reserve) identified by the Welsh Assembly.
- There are a significant number of commercial risks which if realised produce a 'maximum likely risk' of approximately £5.2m in excess of the Total Project Budget (inclusive of project reserve).
- Our assessment of the range of outturn project costs is thus £26.9 to £32.1m based on current information using a recognised risk assessment process.
- There are opportunities to mitigate these risks and thus reduce the range of outturn costs for the project. We have identified suggested mitigation measures and 'owners' which should be validated by the Project Team.
- In our view there is a significant risk that the programme periods identified will be exceeded irrespective of the delay resulting from the present suspension of the works. Based on benchmark comparisons, the periods allowed for design, procurement and construction are ambitious, though achievable, when reviewed in isolation. However, the extent of overlap between design procurement and construction is extensive and gives rise to a significant risk of delay. This overlap also gives rise to potential risk associated with the design co-ordination and approval process.
- It is important that the project objectives, in terms of the required completion date and the level of cost certainty, based on tendered returns from contractors, is clarified. The current programme and proposed procurement route provide very limited 'commercial' certainty prior to contractual commitment.

- **A detailed risk register and commentary is provided, but the most significant commercial risks are associated with the following:-**
 - Clarification and 'ownership' of the whole project scope.
 - The extent of overlap of design procurement and construction to meet an ambitious target completion date.
 - Uncertainty created through unco-ordinated or apparently ambiguous project documentation, primarily between the Brief and the Outline Design Proposals.
 - The status of approval to the current design proposals from external authorities, in particular, security.
- **On the assumption that it is intended to proceed with the project we would recommend the following:-**
 - The project's primary objectives are re-confirmed and clarified in terms of the criticality of completion date, and the level of cost predictability required at each project stage.
 - Consideration should be given to extending the project programme in the design and procurement phases in order to improve predictability prior to contractual commitment.
 - The Project Team in its widest sense should develop and contribute to a structured risk management process. Collective agreement to the issues, the management strategy and ownership should be established. Contingency should be categorised to aid control.
 - The project scope in its entirety requires clarification to avoid 'scope gap' between construction and other project costs.
 - The Cost Consultant should be appointed directly by the Welsh Assembly and should have full access to all project cost information. Budget holders for all project costs should be identified and accountable.

- The Brief should be updated to align with current design development and Client/External approvals.
- The status of user group acceptance and any associated qualifications or issues for further development should be clarified and future presentations planned and programmed.
- Project management processes, procedures and systems should be developed, agreed and documented in accordance with confirmed project objectives. Particular attention should be given to change and contingency management.
- Implement value management and value engineering to establish opportunities to add value and reduce project costs.
- **The detailed procurement strategy requires development in accordance with clarified project objectives. Consideration should be given to the principles established in the Latham Report 1994 and developed in the Construction Task Force Report 'Rethinking Construction' July 1998, in particular in relation to supplier's involvement.**
- Whilst outside of our terms of reference, we have benchmarked the scheme against similar facilities in terms of functional and unit cost performance. Detailed findings remain confidential, however, we can confirm that the proposed scheme represents reasonable value in both functional and unit cost terms.



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Ein Cyfeirnod/Our

Eich Cyfeirnod/Your

Dyddiad/Date
19 April 2000

THE NATIONAL ASSEMBLY BUILDING

As you will recall, I am currently examining issues relevant to the accommodation arrangements for the National Assembly. This examination was requested by the Audit Committee in response to recent public and political concern.

My review is intended to encompass the whole process which led to the decision on the location of the final home for the National Assembly. Thus I have looked at the way officials at the then Welsh Office went about identifying suitable options for the Assembly building, how they assessed these numerous options which led to the decision to locate the Assembly building at Cardiff Bay; and the project management of the refitting of the temporary accommodation at Crickhowell House as well as for the design of the new building. However, now that the First Secretary has reopened the decision on where the Assembly should ultimately be located and called for a further review of options available, I must obviously complete my work when this further review has been concluded. This will, of course, impact on the time scale for the completion and publication of my work.

Following discussions between the Finance Secretary and the National Audit Office, and my own discussions with the Chair of the Audit Committee, I have agreed to write to you about my findings on the economic appraisals of the three key sites in Cardiff, which were considered in February to April 1998, prior to the decision by the then Secretary of State to locate the National Assembly in Cardiff Bay. These three options were Cardiff City Hall, Bute Square and Capital Waterside at Cardiff Bay.

As agreed, this letter covers only these three sites and not the other options considered and rejected at the same time or earlier in the appraisal process, although these will be considered fully in my final report. My findings as reported in this letter are drawn from an examination of Assembly files and from interviews with officials. I have not verified this information with interested third parties.

The economic appraisals undertaken by the Welsh Office

For the financial comparisons, the then Welsh Office estimated the net present cost of the various options using the methodology and discount factors prescribed by the Treasury, as set out in their "Green Book", *Appraisal and Evaluation in Central Government*, which was issued in 1997. The calculations reflect the estimated capital and running costs of each option over a 17-year period (approximately 15 years from completion of work on any new building) less any residual value at the end of that period. The location of the Assembly building was, of course, a policy decision made by the Secretary of State involving both financial and non-financial matters.

The appraisal methodology was applied consistently to all options. However, the main reservation to emerge from my review was the lack of sensitivity analysis to assess the potential likelihood and scale of the risks involved in each option, an appraisal recommended in the Treasury guidance to assess project risk. This technique assesses the key risks to a project to ensure that adverse changes to key assumptions would not eliminate the fundamental viability of the project. Key assumptions in this case were changes to the capital costs involved or to the amount of space required. In the event, the cost of the new building in Cardiff Bay is now estimated by Assembly officials to have increased by 90 per cent from the original estimate of £12 million to the current forecast of £22.8 million; and the Assembly's space requirement has increased by 66 per cent from the original requirement of 72,840 square feet to some 121,000 square feet.

Sensitivity analysis, applied in the manner recommended by the Treasury, would have been informative in assessing the impact of these risks on each option. In this case, however, we have performed sensitivity analysis to assess the impact of an increase in capital costs for construction and adaptation (by an increase of 50 per cent and also by 100 per cent). This analysis favoured the Cardiff Bay options, relative to the other two sites, as the expected capital costs were relatively low.

Costs and benefits included

The then Welsh Office obtained assistance in preparing the economic appraisals from the Property Advisors to the Civil Estate (PACE), a government agency that provides independent professional advice to government departments on major property projects. Further technical advice was provided by the Welsh Office's professional property management company, Symonds, and also from independent consultants that were engaged to advise on specific aspects of the options considered such as construction costs and property negotiations.

Economic appraisal is a technique for the financial comparison of options and, consequently, the then Welsh Office excluded certain costs that they considered would arise on all the options. For instance, they excluded the cost of security and, for the Cardiff sites, the cost of travel between sites, as these costs were assumed to be broadly the same for the options considered. However, at the request of the First Secretary, Assembly officials are currently assessing the travel costs for the Cardiff based sites.

For some aspects of the appraisal, assumptions had to be made about costs and arrangements which, while the best available, could not be verified properly at the

time. In addition, since each site differed markedly in the facilities which it might be able to offer and the amount of work and development which would be needed, it was impossible to make comparisons between sites, in financial terms, on a completely like-for-like basis. The figures referred to here therefore need to be treated with a degree of caution since they depend heavily upon estimates made at the time of the analysis and the facilities available under each option would not be identical.

The result of the economic appraisals

The capital costs, annual running costs and net present cost over the appraisal period for each of the costed options for the three key sites are shown in the table below. These costs are based on the appraisals that were submitted to the Secretary of State on 27 February 1998. This was the last occasion on which all three options were considered together. The appraisals were subsequently adjusted and refined as new information became available and negotiations proceeded.

Option	Capital cost (£m)	Annual running cost (£m)	Net present cost (NPC) (£m)	Ranking by NPC
City Hall option 1: Buy site (including £15.1 million capital costs deferred to year 7)	39.4	1.7	47.4	6
City Hall option 2: Hampton Trust lease option	4.5	4.6	47.7	7
City Hall option 3: MEPC/Grimley lease option	4.5	4.2	45.0	4
City Hall option 4: Exchange for Crickhowell House (including £11.2 million capital costs deferred to year 7)	28.3	3.9	49.6	8
Bute Square	50.5	1.4	58.8	9
Cardiff Bay option 1: Rent Crickhowell House; buy land and construct new building	17.9	2.3	38.7	1
Cardiff Bay option 2: Rent Crickhowell House and new building	5.0	4.0	45.2	5
Cardiff Bay option 3: As Cardiff Bay option 1 plus buy Pierhead Building	19.5	2.4	40.9	2
Cardiff Bay option 4: As Cardiff Bay option 1 plus rent Pierhead Building on 15 year lease	17.9	2.6	42.0	3

These options are explained in more detail below. However, on the basis of these economic appraisals, the then Secretary of State for Wales, decided upon Cardiff Bay (option 4) to lease Crickhowell House and the Pierhead Building and to buy land to

construct a new building to house the Assembly chamber. At this stage, the then Secretary of State envisaged housing the Cabinet and other key Assembly post holders in the Pierhead Building.

City Hall, Cardiff

The City Hall site had previously been considered as the preferred site for the permanent home of the new Assembly. However, negotiations to agree a sale price had been unsuccessful. The District Valuer's "open market valuation" of City Hall was £3.5 million. This is the normal basis of sale between a willing purchaser and a willing seller in the public sector. This was the maximum the then Secretary of State was prepared to pay to a public body for the acquisition of the building. Cardiff County Council did not accept this basis of valuation, taking the view that they should receive the full value of equivalent reinstatement of the facilities at City Hall.

This failure to agree a sale price led to the decision by the then Welsh Office in November 1997 to re-open the issue of the Assembly's location. Cardiff County Council subsequently put forward the following proposals for the Assembly being located in City Hall:

- a. acquisition of the site for £3.5 million but with additional financial benefits such as additional direct grants to the Council which the then Welsh Office valued at £7.5 million;
- b. two private-public partnerships involving the developers Hampton Trust and MEPC Grimley. Under these proposals, Cardiff County Council would sell a long leasehold to the developers, who would then rent the building to the Assembly. In both cases, the then Welsh Office was unhappy about the nature of the works proposed and did not believe that the estimated costs were sufficient to fund the work required. Accordingly they added a contingency of £14.2 million (net present cost) for additional works;
- c. a property exchange option whereby the Assembly could acquire City Hall free of charge in return for sufficient space in Crickhowell House for the 500 staff who would need to be relocated from City Hall. Under this proposal, all costs - for City Hall and Crickhowell House - would be met by the Assembly for a period of five years.

It is clear that the acquisition and two lease options would have been much cheaper if the additional charges - to cover the total cost of acquisition or to include adequate allowance for renovation costs - had not been imputed by the then Welsh Office. However, on the evidence available, I consider that the principle of including these costs was reasonable (although the figures were difficult to quantify) and that the net present cost of these options would have been unrealistically low without them.

Furthermore, the economic appraisals may have understated the cost of upgrading the accommodation at City Hall. The then Welsh Office commissioned a formal conditions

survey of City Hall which indicated the need for major investment to both the structure and to the mechanical and electrical services to satisfy the needs of the Assembly. These findings were consistent with a report prepared by Cardiff County Council in March 1997. The Council Chamber of City Hall was assessed as unsuitable for a modern Assembly (for instance, due to restrictions on public and disabled access; and on the provision of IT for members) and it was considered necessary to construct a new chamber for the Assembly (probably in the Banqueting Hall). Substantial investment would be needed to overhaul ageing mechanical and electrical systems and to carry out general redecoration, refurbishment and external landscaping. The then Welsh Office estimated that these costs would total at least £22 million, and based the economic appraisals on this figure. However, Symonds, the Welsh Office's project management company, had estimated the cost at £25 million and it would have been more prudent to use this figure.

In addition, in respect of the first option (to buy the site) and the fourth option (exchange with Crickhowell House), the economic appraisals assumed that only essential works would be carried out immediately and that most of the costs to upgrade the building would be deferred until year 7. This reflected a request by the then Secretary of State to explore ways of containing the initial set-up costs to around the £17 million estimate included in the White Paper on devolution. However, this deferral of work meant that the quality of accommodation and facilities would not be on a par with the Bute Square and Cardiff Bay options, which were based on a high standard of accommodation from the start. I estimate that the net present cost of these City Hall options would have increased by between £2 million to £3 million if the full capital costs had been included at the start of the appraisal period.

Bute Square

The option in Bute Square was to construct an Assembly building on a plot of land which was in the ownership of Cardiff Bay Development Corporation and therefore available to the Secretary of State at no cost. The costed option provided a substantial building of approximately 80,000 square feet which would have provided all the facilities needed. The estimated capital cost for this building was more expensive than other new build options considered at the same time (at Atlantic Wharf and Prospect Place in Cardiff Bay). PACE provided the following explanations:

- the concepts that they were asked to cost were unusual and would have been difficult and expensive to build;
- a sewer running underneath the site would need to have been re-routed;
- costly underground car parking and slip roads would have been required. The site was small and may have required additional land, which also would have added to cost.

The then Welsh Office also considered Bute Square to have a number of operational problems. The site would have provided a relatively small island site with considerable flows of traffic to either side, on what will become one of the busiest traffic junctions in Wales. Consequently, public access to the Assembly site would have been difficult or costly.

Furthermore, there would have been significant risks with this site because it would be located at the centre of a new development area. The pace of development could not be predicted with any certainty since a proportion of pre-letting was being sought by the developers before specific buildings would be built. There was little control over the buildings which would be constructed and it was possible that building work would continue for a number of years beyond occupation by the Assembly.

Capital Waterside, Cardiff Bay

On consideration of the economic appraisals and non-financial considerations, the then Secretary of State for Wales decided on 28 April 1998 to locate the new Assembly at Cardiff Bay. He opted for the fourth Cardiff Bay option, including:

- the adaptation of Crickhowell House to provide a temporary chamber and committee rooms for the Assembly as well as permanent office accommodation for members and staff;
- a new building comprising a chamber, committee rooms and public areas to be constructed on a plot of vacant land adjacent to Crickhowell House;
- the Pierhead Building, which was originally intended to house the Cabinet and other key Assembly post holders, and will now provide a public information and education centre and overspill office accommodation for the Assembly.

The economic appraisals of the Cardiff Bay options have understated some of the capital costs involved. All four options included £0.5 million as "enabling" works to adapt Crickhowell House into a temporary home for the Assembly. However, many of the facilities within Crickhowell House were to be permanent- such as offices for Members and officials, and the broadcasting facilities - and this figure seriously underestimated the cost. Indeed, subsequent adaptation works on Crickhowell House have, to date, cost around £5.8 million.

Furthermore, the third and fourth Cardiff Bay options (obtaining the Pierhead Building) did not take account of any renovation works to bring the Pierhead Building up to an adequate standard, and which are now estimated at £1 million.

However, by way of offsetting the understatements above, the economic appraisals may have been overly prudent in their treatment of the rental costs of Crickhowell House. The economic appraisals included the full cost of renting the necessary space in Crickhowell House, although the Assembly would be liable to pay this rental cost whichever option had been selected. Treasury guidance would have permitted a lower

cost to be included, that being the rental income foregone from sub-letting the vacant space in Crickhowell House if the Assembly were not located there. This is assumed to be the market value of rent for the property and would have resulted in a net present cost of about £1 million less than the figures shown above.

The final heads of terms agreement between the Secretary of State and Grosvenor Waterside includes the following terms:

- the purchase of part of the plot owned by Grosvenor Waterside for £1 (the new building to be constructed on that land);
- the extension of the remaining 20 years of the existing lease on Crickhowell House to 25 years, with an option to take a further 25 years at the end of the term, and a deferral of the current rent review for five years;
- a 15 year lease on the Pierhead building with an option to purchase in the first five years of the tenancy,
- the Welsh Office would cede 200 of the 400 parking places allocated to Crickhowell House, although the effect of this would not be felt for several years as alternative provision was made available on surrounding sites.

Conclusion

From my analysis of the economic appraisal of the three Cardiff sites at City Hall, Bute Square and the Capital Waterside site in Cardiff Bay, I have drawn the following conclusions.

- The then Welsh Office made good use of professional technical advice in appraising these three options.
- The economic appraisals were generally sound and provided a good basis on which to compare the three sites. Whilst some costs were understated - such as the cost of renovating City Hall and the "enabling" works to adapt Crickhowell House - it is unlikely that these would have materially affected the ranking of the options.
- It would have been advisable for the then Welsh Office to have undertaken sensitivity analysis of the options to assess the impact that the key risks might have had on the viability of the projects. The value of such a technique is indicated by the increase in costs for the selected option as well as the increase in the space requirements for the Assembly. However, in this case, my own sensitivity analysis of the capital costs showed that such analysis would not have affected the ranking of the three sites.

I hope that you find this letter helpful. Naturally, all these matters can only be fully appreciated in the context of the full report and this letter is intended to assist your review, not as a final audit opinion on the merits of the economic appraisals.

I am copying this letter to Janet Davies AM, Chair of the Audit Committee.

JOHN BOURN

Approved by Sir John Bourn and signed in his absence