



# CHELTENHAM

## BOROUGH COUNCIL

### Notice of a meeting of Audit Committee

**Thursday, 29 January 2015**  
**5.00 pm**  
**Pittville Room - Municipal Offices**

<b>Membership</b>	
<b>Councillors:</b>	Colin Hay (Chair), Chris Nelson (Vice-Chair), Matt Babbage, Flo Clucas, Dan Murch, David Prince and Pat Thornton

The Council has a substitution process and any substitutions will be announced at the meeting

### Agenda

<b>1.</b>	<b>APOLOGIES</b>	
<b>2.</b>	<b>DECLARATIONS OF INTEREST</b>	
<b>3.</b>	<b>PUBLIC QUESTIONS</b> These must be received no later than 12 noon on the fourth working day before the date of the meeting and must relate to the specific matter for which this meeting has been convened	
<b>4.</b>	<b>UPDATE ON AUDIT WORK IN RELATION TO THE WILSON ART GALLERY AND MUSEUM EXTENSION PROJECT</b> Report of the Chief Executive	(Pages 1 - 124)
<b>5.</b>	<b>ANY OTHER ITEM THE CHAIRMAN DETERMINES TO BE URGENT AND REQUIRES A DECISION</b>	
<b>6.</b>	<b>DATE OF NEXT MEETING</b> 25 March 2015	

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## Cheltenham Borough Council

### Audit Committee – 29 January 2015

#### Update on audit work in relation to the Wilson Art Gallery and Museum Extension Project

<b>Relevant Cabinet portfolio holder</b>	<b>Cabinet Member, Healthy Lifestyles – Cllr. Rowena Hay and Cabinet Member, Finance – Cllr. John Rawson.</b>
<b>Accountable officer</b>	<b>Andrew North, Chief Executive</b>
<b>Ward(s) affected</b>	<b>All</b>
<b>Key Decision</b>	<b>No</b>
<b>Executive summary</b>	<p>At the Audit Committee meeting on 11 December 2014 it was reported that the findings of a review into the overspend on the Art gallery and Museum Extension project from forensic auditors at Grant Thornton was being delayed because new information relating to expenditure on the project had recently been brought to the attention of the Chief Executive.</p> <p>It was resolved at the meeting that additional audit work be carried out to investigate the new information to accurately determine the extent of the project overspend and to explore any failures which led to its late reporting.</p> <p>It was resolved that authority be delegated to the Director Resources to consider what further work should be undertaken by Grant Thornton and/or by Audit Cotswolds and to enter into contracts accordingly.</p> <p>It was also agreed that the findings by Grant Thornton and Audit Cotswolds be reported to Audit Committee as soon as possible.</p>
<b>Recommendations</b>	<p><b>The Committee is recommended to:</b></p> <ol style="list-style-type: none"> <li><b>1. To consider the Grant Thornton report (Appendix 2) including their recommendations, to approve the CBC management response and to make any additional recommendations that it feels necessary</b></li> <li><b>2. To consider the Audit Cotswolds draft scoping document (Appendix 3) for their follow up review and to make any additional recommendations that it feels necessary.</b></li> </ol>

<p><b>Financial implications</b></p>	<p>The council has previously agreed budgetary provision to fund its share of the Art Gallery and Museum Development project including the overspend identified and reported to Cabinet and Council in February 2014.</p> <p>The additional overspend has been validated and is included within the Grant Thornton report</p> <p>The Cabinet and Council will need to agree a budget to fund the overspend and it is anticipated that this will be complete and incorporated in the final budget proposal for 2015/16 to be agreed in February 2015.</p> <p><b>Contact officer: Mark Sheldon,</b></p> <p><b>Email: mark.sheldon@cheltenham.gov.uk,</b></p> <p><b>Tel: 01242 264123</b></p>
<p><b>Legal implications</b></p>	<p><b>There are no legal implications arising directly from the report</b></p> <p><b>Contact officer: Sara Freckleton</b></p> <p><b>Email:sara.freckleton @tewkesbury.gov.uk,</b></p> <p><b>Tel: 01242 295010</b></p>
<p><b>HR implications (including learning and organisational development)</b></p>	<p>There are no direct HR implications to be resolved at this time. Any HR implications arising from the completed supplementary review will be reported to Audit Committee and where applicable addressed under the appropriate existing HR operational policies.</p> <p><b>Contact officer: Julie McCarthy</b></p> <p><b>EMAIL: julie.mccarthy@cheltenham.gov.uk,</b></p> <p><b>Tel: 01242 264355</b></p>
<p><b>Key risks</b></p>	<p><b>See risk template</b></p>
<p><b>Corporate and community plan Implications</b></p>	<p>The Art Gallery and Museum redevelopment project was identified in the Corporate Strategy Action Plans in both 2012-13 and 2013-14 as an improvement action to deliver the Council's outcome "Arts and culture are used as a means to strengthen communities, strengthen the economy and enhance and protect our environment".</p>

### 1. Background

- 1.1 For many years the council retained the vision of an extended Art Gallery and Museum with high quality display spaces to show off the council's own superb collections and enable the town to attract world class exhibitions and displays.
- 1.2 Prior to seeking tenders for construction the estimated cost of the project was £6.3m and full Council agreed to underwrite costs to this level. However, when a contract was awarded to the construction company, ISG, the budget was revised downwards to £5.6m owing to the apparently keen tender price received. The outturn cost was eventually calculated at just under £6.7m, £1.1m more than the revised budget and around £0.4m more than the originally anticipated cost.
- 1.3 Completion of the project was also considerably delayed; from an initial completion date of September 2012 to the actual completion in October 2013.
- 1.4 This project should nevertheless be seen as a success, despite the outturn cost being more than expected, because the overspend was largely due to unforeseen and unavoidable work in developing the adjacencies between a heritage building and a contemporary building (this was always a risk the council had to carry). The project also faced challenges which added time and cost, such as the structural engineering contractor going into liquidation early in the life of the contract, mistakes with concrete pouring which required removal and replacement and frequent changes of key personnel within ISG. Though these are contractor risk items, the reality with a large and complex project which involved over 1000 change requests during its lifetime is that the burden is shared.
- 1.5 However, notwithstanding the well-publicised successes that The Wilson has achieved since opening we do need to be very concerned that the arrangements for control and reporting of the budget and of project timescales proved inadequate so that councillors (including the Cabinet) and senior officers were taken by surprise on key issues; thus opportunities to take action to recover time or reduce the overspend were missed.
- 1.6 Grant Thornton's forensic auditors were asked to review the project and to report its findings; this was due to happen at the Audit Committee meeting on the 11 December. Unfortunately the publication of the report had to be postponed because new information on additional expenditure had come to light at the last minute resulting in it not being complete for publication.
- 1.7 It is clearly unacceptable for an additional overspend to have been discovered at a late stage which required additional investigation and explanation.
- 1.8 Following the December Audit Committee meeting GOSS Finance were asked to complete its work on the accounts to determine the value of any outstanding financial commitments in relation to the project. This additional expenditure amounts to £89,783.00, the GOSS finance team also confirmed that this information had not been available in February partly because the Purchase Order management system had not been used and some of the expenditure had been incorrectly coded.
- 1.9 The Corporate Governance Group met with Grant Thornton on the 17 December and discussed their report and the new findings. It was agreed that;
  - Grant Thornton would be provided with a copy of the December Audit Committee report and draft minutes so that they could consider the comments made by Members
  - Grant Thornton would be provided with any additional information that they required to complete the report, including data relating to the additional expenditure to enable them to complete their review, once complete the report would be circulated to the AG&M Project Teams Key Officers for sign off and comment before submission to Audit Committee
  - Audit Cotswolds our Internal Auditors would carry out a further supplementary review based

upon Grant Thornton's findings and recommendations. The draft scope of the review is attached and Members are asked to consider if they require any additional lines of enquiry (Appendix 3).

- When their supplementary review is complete the findings and recommendations will be reported to Audit Committee.

**1.10** Grant Thornton completed their report on the 14 January which was circulated to the key project team members for factual accuracy and comment. Any further information produced or brought to the attention of Grant Thornton or the Council will be considered by Audit Cotswolds as part of their supplementary report.

**2. Alternative options considered**

**2.1** Internal Audit could have undertaken the review and prepared a report but it was considered that an external independent report would be more appropriate.

**3. Consultation and feedback**

**3.1** The Grant Thornton report has, to date; included working with those involved with the project to ensure accuracy and has been the subject of senior officer discussions and recent briefings. The proposed further audit work will similarly involve appropriate consultations.

**4. Performance management – monitoring and review**

**4.1** The proposed additional audit work will enable report back to this committee on all relevant matters.

**4.2** In due course the Council will need to set aside further budget to fund any additional overspend not covered by the decision made on 14 February 2014.

<b>Report author</b>	<b>Contact officer: Corporate Governance Risk and Compliance officer</b> <b>Email; bryan.parsons @cheltenham.gov.uk,</b> <b>Tel; 01242 264189</b>
<b>Appendices</b>	<ol style="list-style-type: none"> <li>1. Risk Assessment</li> <li>2. Grant Thornton's review report into the Cheltenham Art Gallery and &amp; Museum project</li> <li>3. Internal Audits Scoping Document</li> </ol>
<b>Background information</b>	<ol style="list-style-type: none"> <li>1. Report to and minutes of the meeting of full Council held on 14 February 2014</li> <li>2. Report to and minutes of the Audit Committee meeting on the 11 December 2014</li> </ol>

The risk				Original risk score (impact x likelihood)			Managing risk				
Risk ref.	Risk description	Risk Owner	Date raised	Impact 1-5	Likelihood 1-6	Score	Control	Action	Deadline	Responsible officer	Transferred to risk register
	If the council does not fully identify and report any additional costs on the Art Gallery and Museum project (The Wilson) then there could be a significant unidentified financial impact	Chief Executive	02/12/2014	2	4	8	reduce	Identify and agree the final costs in relation to the AG&M project and to provide a progress report to Audit Committee on the 29/01/2015 and report fully to Council as soon as possible.	29/01/2015	Mark Sheldon	
	If the council does not fully identify and report any additional costs on the Art Gallery and Museum project (The Wilson) then there could be a significant reputational risk.	Chief Executive	02/12/2014	4	4	16	reduce	Identify and agree the final costs in relation to the AG&M project and to provide a progress report to Audit Committee on the 29/01/2015 and report fully to Council as soon as possible.	29/01/2015	Mark Sheldon	

**Explanatory notes**

**Impact** – an assessment of the impact if the risk occurs on a scale of 1-5 (1 being least impact and 5 being major or critical)

**Likelihood** – how likely is it that the risk will occur on a scale of 1-6

(1 being almost impossible, 2 is very low, 3 is low, 4 significant, 5 high and 6 a very high probability)

**Control** - Either: Reduce / Accept / Transfer to 3rd party / Close





**Review of Cheltenham Art Gallery & Museum project  
dated 19 January 2015**

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## **APPENDICES**

- 1 Reporting of project progression**
- 2 Reporting of financial aspect of construction costs provided by Davis Langdon**
- 3 Summary of financial information contained within Davis Langdon cost reports**
- 4 List of documents provided**

## **EXHIBITS**

- 1 Extracts of Davis Langdon reports showing the breakdown of project costs**
- 2 Unsigned final account agreement letter addressed to ISG from AECOM**
- 3 Redacted Cheltenham Art Gallery and Museum Redevelopment - Project Initiation Document (PID)**

# 1 INTRODUCTION

## INSTRUCTIONS

- 1.1 Grant Thornton UK LLP (Grant Thornton/we) have been instructed by Cheltenham Borough Council (CBC/the Council), to prepare a report on the reporting of the financial aspects and overspend relating to the Cheltenham Art Gallery & Museum (AG&M). Our work under these instructions has fallen into the following areas:
  - 1.1.1 a brief background in order to set out our understanding of events and provide readers of the report with a context for the project (Section 3);
  - 1.1.2 the initial project budget (Section 4);
  - 1.1.3 the appointment of the contractor (Section 5);
  - 1.1.4 how the project timeline progressed and how this was reported within CBC (Section 6); and
  - 1.1.5 the project's financial reporting within CBC (Section 7).
- 1.2 Recommendations are included throughout the report and are summarised in Section 8. Our work is summarised in an executive summary in Section 2.
- 1.3 This report, has been confirmed as being factually accurate by the Project Sponsor and Project Manager. We have not been able to obtain confirmation from the Project Senior User. However, if further information is produced and brought to our attention after service of this report, we reserve the right to revise our opinions as appropriate.
- 1.4 This work does not constitute an audit performed in accordance with Auditing Standards.
- 1.5 Except to the extent set out in this report, we have relied upon the documents and information provided to us as being accurate and genuine. To the extent that any statements we have relied upon are not established as accurate, it may be necessary to review our conclusions.
- 1.6 The report has been prepared using Microsoft Word and Microsoft Excel. The report may contain minor rounding adjustments due to the use of computers for preparing certain calculations.

**RESTRICTION ON CIRCULATION**

- 1.7 This report has been prepared for CBC and is confidential and should not be used, reproduced or circulated for any other purpose, in whole or in part, without our prior written consent. Such consent will only be given after full consideration of all the circumstances at the time.
- 1.8 No responsibility is accepted to anyone other than CBC.

**FREEDOM OF INFORMATION REQUESTS**

- 1.9 Where a request is made to CBC ("You") under the Freedom of Information Act 2000 ("the Act") or other legislation (including but not limited to the Environmental Information Regulations 2004 ("the Regulations") which requires the disclosure of any information contained in this report ("the Report"), it is agreed that You will promptly notify Grant Thornton, in writing, of the request and consult with Grant Thornton prior to disclosing such information. You also agree to pay due regard to any representations made by Grant Thornton and any relevant exemptions which may exist under the Act or Regulations applicable to the information. If subsequent to the above the information is disclosed in whole or in part the Authority agrees that it will ensure that any disclaimer which Grant Thornton has included or may subsequently wish to include in the information disclosed is reproduced in full and in all copies disclosed.

**DISCLOSURES OF INTEREST**

- 1.10 Grant Thornton are external auditors to CBC. The audit engagement is led by Mr Peter Barber. This review has been undertaken by the Forensic and Investigation Services team at Grant Thornton who have been engaged with CBC under separate cover. No members of the external audit team have been involved in the detailed work of this review or in the preparation of this report.
- 1.11 To the best of our knowledge, we have no further connection with any of the parties involved that would represent a conflict.

## LIMITATIONS OF SCOPE

- 1.12 Our work is performed in our capacity as accountants. We do not opine on costing aspects relevant to the role of a quantity surveyor.
- 1.13 We have not been instructed to review the tender process involved in the awarding of the construction contract. This was a process undertaken by Davis Langdon, who were engaged by CBC as quantity surveyors which included performing the tender process to appoint a construction contractor.
- 1.14 There are gaps in the evidence provided to us which has limited our ability to opine on certain areas. These include:
- 1.14.1 a signed copy of a tender acceptance form for the awarding of the construction contract to ISG Pearce (ISG);
  - 1.14.2 a copy of the Davis Langdon contracts with CBC;
  - 1.14.3 a difference between CBC's and Davis Langdon's view of the impact of the appointment of a new structural engineer (see paragraphs 6.20 and 6.21);
  - 1.14.4 we have only been provided with copies of CBC Cabinet meeting minutes which were specifically provided by CBC due to them containing reference to the AG&M project;
  - 1.14.5 the Executive Sponsor retired from CBC on 28 March 2014. We had one phone conversation the day prior to his retirement;
  - 1.14.6 the most recent external project manager from Davis Langdon has also retired. We were able to have some email contact with this individual prior to their retirement; and
  - 1.14.7 we have comments provided to CBC on our report from the Project Senior User but have not been able to obtain formal confirmation of factual accuracy due to time constraints.
- 1.15 We have not been instructed to review the additional works carried out on the AG&M relating to the café and commercial spaces as this was commissioned separately to the main project.
- 1.16 Our work did not involve a comprehensive interview process with all members of the Council's Project Team or those individuals within Davis Langdon who were involved in the project.

Details of the individuals we have communicated with are set out at paragraph 1.17 and 1.19 below.

### **INFORMATION SOURCES**

1.17 In producing this report, we have considered the documentation set out at **Appendix 4**. We have also held conversations with individuals within CBC who were appointed to the following roles:

1.17.1 Project Sponsor;

1.17.2 Senior User;

1.17.3 Finance representative;

1.17.4 Project Manager; and

1.17.5 Executive Sponsor (note that this individual retired from CBC on 28 March 2014).

1.18 The above roles are those as set out in the Project Initiation Document (PID) dated 11 August 2011. It is noted that there was a suggestion in the Senior Leadership Team (SLT) meeting of 19 July 2011 that the Executive Sponsor should be listed as the Project Sponsor and the Project Sponsor should in fact be the Senior User. This change has not been reflected in the PID. We have therefore referred to roles throughout this report as per those set out in the PID provided to us.

1.19 We have also held conversations with three individuals from Davis Langdon, the most recent Project Manager (now retired), an Assistant Quantity Surveyor on the Project and a Director from the cost management team.

### **FORMS OF REPORT**

1.20 For your convenience, this report may have been made available to recipients in electronic as well as hard copy format. Multiple copies and versions of this report may therefore exist in different media and in the case of any discrepancy the final signed hard copy should be regarded as definitive.



## 2 EXECUTIVE SUMMARY

### Background to the AG&M project

- 2.1 A detailed background is set out in Section 3. We are informed by the Senior User that the renovation of the AG&M was originally agreed at a budget of £6.3m with an anticipated completion date of 27 September 2012. Following the award of the construction tender to ISG, the cost was revised downwards to £5.6m.
- 2.2 The project was completed just over one year after the anticipated completion date and the AG&M was reopened on 5 October 2013. The expected final cost of the project as at February 2014 was £6.7m, a total of £1.1m more than the revised cost of £5.6m. In November 2014, a final account review was carried out including costs relating to the Design Phase and the 'Additional Works' on the commercial parts of the AG&M. This identified a further £89,000 of unbudgeted expenditure on the total cost. We are advised by CBC that this additional costs will be subject to a separate review by Internal Audit.

### Project budget

- 2.3 Sections 3 and 4 outline the development of the project budget from March 2006 to the time that ISG were awarded the construction contract. The project was initially outlined as a £4m scheme (March 2006). This grew to £5m (April 2008) and then £6.3m (October 2010). Following a tender process for the awarding of the construction element, the cost was revised downwards to £5.6m in July 2011. This did not result in a discussion at the Project Team meeting to formally reduce the budget of £6.3m. The reduction in expected cost was reported to SLT in the Operational Programme board (OPB) programme highlight report in December 2011 but there is no record of a discussion of a budget reduction. The cost reduction was not formally reported to Cabinet at this time.
- 2.4 The Project Team did discuss the impact of costs being below budget on HLF grant funding and a risk was created in the risk register. A consideration of the HLF grant funding is outside the scope of this review.
- 2.5 Davis Langdon undertook a number of cost variations to the project throughout the design stage (see paragraph 4.3). We have seen no evidence that these variations were reported to and agreed by Cabinet prior to a contract being awarded.

### **Contract award**

- 2.6 The tender process for the appointment of the construction contractor was undertaken by Davis Langdon. Following the initial tender review, members of CBC and Davis Langdon attended meetings with the shortlisted contractors and following these meetings we are informed by the Senior User that the contract was awarded, by the then Cabinet Member for Culture and Sport, to ISG. We are informed by the Senior User that this was a verbal process although we note that Davis Langdon supported the decision to award the contract to ISG. The contract was worth £4.3m (being the £3.7m quoted price plus a £600k contingency fund).
- 2.7 We have seen no evidence that, prior to the award of the contract, the decision to award the contract to ISG was discussed and agreed within an SLT or Cabinet meeting. Neither have we seen evidence of delegated authority being given to the Cabinet Member of Culture and Sport to make this decision.
- 2.8 Discussion with the current CBC Procurement Officer noted that a tender acceptance form should have been completed by CBC prior to a contract being set up. We were further informed that as Davis Langdon undertook the tender process, the actual tender award report was produced by Davis Langdon and it is therefore this document which required signature from CBC. Therefore a CBC tender acceptance form was not required. We have been provided with a copy of the Davis Langdon tender award report. However, the copy we have been provided with has only been signed by Davis Langdon and has not been signed by representatives of CBC.
- 2.9 It is apparent that CBC's current contract rules do not set out the procedure requirements for when a third party undertakes a tender exercise on behalf of the Council although we were informed by the Procurement Officer that the contract rules are due for review.

### **Project timeline**

- 2.10 Details of the timeline of the project are set out in Section 6. From an early stage, the project encountered delays due to the removal of asbestos, the discovery of unknown basements and a wall which was in poor condition. These items set the project back by around two weeks.
- 2.11 The project then encountered further delays due to the weather, a change in structural engineer (following the collapse of Dewhurst Macfarlane), issues with concrete pouring and other on-site issues.

- 2.12 By April 2012, Davis Langdon were reporting that there was a concerning level of delay to the project and by August 2012, Davis Langdon were reporting a delay of around 14 and a half weeks.
- 2.13 Davis Langdon continued to report delays to the project until their last formal report was completed in May 2013. The project was eventually completed in time for the opening on 5 October 2013.
- 2.14 Despite the various updates given by Davis Langdon on the timeline of the project, accurate and precise information on the movement of the project deadline were not always reported in a timely manner to the Project Team or SLT.
- 2.15 The Davis Langdon project manager sat on the Project Team and provided an update at each meeting. The formal Davis Langdon reports which contained information regarding time details and project finances were made available to the Senior User and the CBC Property Officer. The Project Manager advised that the project update reports that they prepared for the Operational Programmes Board (part of the SLT) were based on the discussions which took place within the Project Team meetings. These project update reports, once discussed with the Senior User and approved by the Project Sponsor, were provided to and informed the SLT during their meetings. The Project Manager advised that they were not aware that Davis Langdon were providing written reports to the Council.
- 2.16 Project delays were not reported by the Project Sponsor or Executive Sponsor in any context to the CBC Cabinet or Overview and Scrutiny Committee.
- 2.17 Therefore the Cabinet Members of CBC were not fully informed of the project time delays impacting the project and the reasons behind them.

### **Financial aspects of the project**

- 2.18 Full details of the financial aspects of the project are set out in Section 7.
- 2.19 There are two elements to the financials of the project; the construction costs (being ISG's costs) and the non-construction costs such as professional fees, fixtures and fittings etc.

**Construction costs**

- 2.20 Constructions costs were reported monthly by Davis Langdon as part of their formal project update report. These reports continued until May 2013. It is noted that from September 2011 to December 2011, Davis Langdon also reported on the non-construction costs but this ceased after December 2011.
- 2.21 In December 2011, Davis Langdon reported an increase in the total expected cost of £70,000. This was due to an increase in professional fees and survey costs. This was not a use of contingency but a fixed increase in expected costs.
- 2.22 In June 2012, Davis Langdon reported that the construction contingency budget was being used at a rate in excess of what was anticipated and that, if the use of the contingency continued in such a manner, it would be used before the project was due to finish.
- 2.23 Between February 2013 and May 2013, Davis Langdon reported that expected costs had further increased and that by May 2013, ISG were predicting a final account of £5.17m. Davis Langdon advised that CBC should make provisions to cover that expected amount.
- 2.24 It is noted that the Senior User emailed the Project Sponsor in both March 2013 and May 2013 with details of the overspend. We have seen no evidence that this information was communicated further although note that the Project Sponsor informed us that at this time they were heavily involved in the development of a new Charitable Leisure & Culture Trust and were therefore less involved in the AG&M project.
- 2.25 The Davis Langdon reports were produced following discussion at the Construction Progress Meetings (which were run by Davis Langdon) and were circulated to the attendees of those Construction Progress Meetings. It is noted that the Senior User and the CBC Property Officer for the project attended the Construction Progress Meetings and were therefore provided with copies of the reports produced by Davis Langdon. The Senior User and CBC Property Officer were both part of the Project Team.
- 2.26 Minutes of the Project Team meetings show that verbal updates were provided by the Davis Langdon Project Manager. The Davis Langdon reports were not circulated at the Project Team meetings. CBC's Project Manager provided SLT with an update based on discussions in the Project Team meetings. None of the construction financial issues set out within the reports of Davis Langdon as detailed within Section 7 of this report were found to be reported to the SLT, Cabinet or Overview and Scrutiny Committee.

- 2.27 The Senior User informed us that they understood that a claim could have been made against ISG for extension of time on the project which would have recouped some of the additional spending. However, the potential for a claim was not reported to Cabinet or Overview and Scrutiny Committee. There was mention in the Project Team meeting of 13 June 2012 that *"if ISG are at fault for the delay, CBC are entitled to predefined damages"*. Mention of a possible claim was also presented in an update report to the SLT at their meeting of 19 June 2012 but this was the only occurrence and the claim was not further discussed.
- 2.28 At a meeting of the Executive Board of 18 July 2013, the Senior User notes a potential claim for extension of time of £160k with the potential for a further amount of £100k. This is the only financial reporting evidence we have been provided with in relation to extension of time claims.
- 2.29 The final account with ISG was agreed at £4.78m and no claim was made against them for liquidated damages. This was following input from CBC's legal team who advised that the likely success of a claim would be minimal and that in pursuing a claim, ISG would also have likely made a claim for extension of time costs. Had ISG been successful in their claim, the CBC legal department advised that the cost to CBC would outweigh any potential recovery under a claim made by CBC against ISG.

**Non-construction costs**

2.30 In addition to the construction costs, the non-construction costs were overspent by some £594k as follows:

	<b>Budget<sup>1</sup></b>	<b>Actual<sup>2</sup></b>	<b>Variance</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Architect fees	308	393	85
AECOM <sup>3</sup>	206	365	158
Dewhurst Macfarlane <sup>4</sup>	96	93	(3)
Buro Happold <sup>5</sup>	191	213	22
Other project management fees	72	99	27
	<u>873</u>	<u>1,163</u>	<u>289</u>
Surveys	27	65	38
Fixtures, fittings and equipment	255	259	4
De/re-canting collection	150	211	61
	<u>432</u>	<u>535</u>	<u>103</u>
<b>Forecast additional costs</b>			
Prolongation fees	-	17	17
Up-lift fees	-	100	100
Re-canting expenditure	-	85	85
	<u>-</u>	<u>201</u>	<u>201</u>
<b>TOTAL</b>	<u><u>1,305</u></u>	<u><u>1,899</u></u>	<u><u>594</u></u>

2.31 We are informed by the Senior User that professional fees increased due to the appointment of a new structural engineer and due to extension of time on the project. The de/re-canting costs increased due to the pressure on CBC to re-open the AG&M on the agreed date of 5 October 2013.

2.32 The Project Manager informs us that it is unclear who had responsibility for the reporting and monitoring of non-construction costs. The Project Manager notes that Davis Langdon initially included information about non-construction costs in its reports, but that this ceased in December 2011. We have not been provided with a copy of the contract with Davis Langdon and the Project Sponsor and Senior User both inform us that it was not Davis Langdon's responsibility to report on non-construction costs. If the responsibility rested with CBC, it is unclear who within CBC had responsibility for monitoring and reporting on these costs. We

<sup>1</sup> Refers to revised budget of £5.6m as we have not been provided with a breakdown of the original £6.3m budget

<sup>2</sup> February 2014 forecast outturn figures.

<sup>3</sup> Quantity surveyor, project manager and structural engineer fees

<sup>4</sup> Original structural engineer who went out of business, replaced by AECOM

<sup>5</sup> Mechanical and electrical engineers

note that none of the variances in the non-construction costs have been reported throughout the project to the Project Team, SLT, Cabinet or Overview and Scrutiny Committee.

- 2.33 It was not until February 2014 that the Cabinet were updated of the financial implications of the project, some three months after the AG&M had re-opened. The agreement to a settlement figure with ISG was signed by the Executive Sponsor on 4 March 2014.

### **Recommendations**

- 2.34 A summary of our proposed recommendations is set out in Section 8.
- 2.35 The AG&M project was a large value, complex project. The project did not run to time and was finished just over 12 months from the initial anticipated completion date.
- 2.36 The project encountered unforeseen problems throughout due to issues with the structural engineers, contractor issues and the complexities of working within two existing structures.
- 2.37 It is apparent that there was a breakdown in communication of both the project timeline and the varying financial aspects of the project between those working on the project on a daily basis and the SLT and members with CBC. The Cabinet and Overview and Scrutiny Committee were not formally updated on either the timescale or financial aspects of the project. Furthermore, the Project Team and SLT were not updated on any of the concerns over the financial aspects of the project.
- 2.38 CBC has project management guidelines<sup>6</sup> in place which provide guidance on how to manage different types of projects. This includes the requirement for the production of a Project Initiation Document (PID). The PID for the AG&M project clearly stated that the project was to:
- 2.38.1 report formally every four weeks to the Operational Programmes Board (part of the Senior Leadership Team (SLT) meetings);
  - 2.38.2 be monitored on a quarterly basis by the SLT; and
  - 2.38.3 be monitored every six months by the Cabinet and Overview and Scrutiny Committee.

<sup>6</sup> The Project management guidelines were last updated in November 2010

- 2.39 In addition, the PID sets out that the Executive Sponsor and Project Sponsor have direct responsibility for reporting to the Cabinet, Operational Programmes Board, Overview and Scrutiny Committee and any fundraising bodies.
- 2.40 CBC therefore had requirements in place for how the project was to be monitored throughout its lifetime.
- 2.41 Davis Langdon provided comprehensive monthly reports to CBC containing details of both the project timeline and construction costs. The information contained within these reports regarding delays to the project and concerns over the financial implications was not fully communicated to the SLT or members of the Council. CBC did not produce similar reports for the non-construction costs and did not have clear allocation of responsibility for monitoring and reporting of these costs.
- 2.42 With regard to communication within a project, it is recommended that all time delays and financial variations to a large and complex project should be reported promptly and in full to the relevant Project Team, SLT, Cabinet and Overview and Scrutiny Committee meetings. The full extent of delays should be explained and the opportunity given to raise questions. This is addressed in Sections 6 and 7.
- 2.43 In addition to the lack of reporting, we have identified a number of areas throughout our review which we feel should be addressed by CBC as follows:
- 2.43.1 the Project Initiation Document should be accurate and contain clear details of the responsibilities of each proposed team which is to be involved within a project (paragraph 3.8);
- 2.43.2 the requirements for attendance at Project Team meetings should be adhered to. If relevant individuals are unable to attend, an appropriate person should attend in their place or consideration should be given to rescheduling the meeting to ensure that the requirements as set out within the PID are adhered to (paragraph 3.12);
- 2.43.3 if a decision is made not to undertake particular meetings as set out in the PID, this should be discussed, agreed and formally minuted by those with senior responsibility for a project. The implications of not undertaking such meetings should be considered and an appropriate way forward, which ensures the formal updating of all relevant parties, agreed (paragraph 3.20);



- 2.43.4 full details of project budgets should be presented to and agreed by the SLT within the Council, retained on project files and used for financial management within the Agresso Financial Management System (FMS). Any decisions made regarding these budgets should be minuted and actioned appropriately (paragraph 4.14);
- 2.43.5 external meetings held with potential contractors should be minuted and these minutes retained within the project files (paragraph 5.6);
- 2.43.6 the current contract rules should be updated to include the procedure to follow when a third party undertakes a tender exercise on behalf of the Council (paragraph 5.9);
- 2.43.7 prior to awarding a contract, the decision should be discussed and agreed at an SLT and Cabinet meeting or the appropriate delegated authority granted and documented (paragraph 5.9);
- 2.43.8 tender acceptance documentation should be signed by all required parties. Copies of the signed documentation should be retained securely by the Council (paragraph 5.9);
- 2.43.9 the project risk register should be updated to include details of financial risk when financial aspects of a project change (paragraph 5.11 to 5.18);
- 2.43.10 any mitigating actions outlined within the risk register should be followed or revised should they no longer be deemed appropriate (paragraph 5.11 to 5.18);
- 2.43.11 key stages of any project, such as awarding a contract, should be discussed and documented with Project Team meetings (paragraph 5.23);
- 2.43.12 consideration of incorporating a formal requirement to have all contract variations agreed formally in writing with evidence of this being retained (paragraph 7.53 to 7.57);
- 2.43.13 consideration of thresholds over which the formal requirement to have all contract amendments agreed formally in writing is applicable and whether other thresholds should set out the requirement to have certain changes of higher value signed off formally by more senior members of CBC (paragraph 7.53 to 7.57); and
- 2.43.14 the actual and projected expenditure to completion should be measured against the detailed budget. Financial variances should be investigated and promptly reported (Section 7).

### 3 BACKGROUND

- 3.1 The AG&M project was principally managed from outside CBC by Davis Langdon (part of AECOM), who were the project architects and quantity surveyors. As part of its role, Davis Langdon produced monthly project reports (which included a financial report) and hosted monthly construction progress meetings which representatives from CBC attended (see paragraph 3.24). The Project Manager advised that they were not aware that Davis Langdon were providing written reports to the Council.
- 3.2 There was also a team of people from within CBC who were responsible for managing the project. There was an Executive Sponsor and Project Sponsor from CBC who were responsible for reporting to the CBC Cabinet, the Social and Community Overview and Scrutiny Committee, the Operational Programmes Board (part of the SLT meetings) and any funding bodies relating to the project<sup>7</sup>.
- 3.3 The Project Sponsor informed us that their *"level of involvement with the AG&M Redevelopment Project during 2013-14 was extremely limited"* as their focus was on leading the creation of a new 'Charitable Leisure & Culture Trust' for the Council<sup>8</sup>. The Project Sponsor also stated that during the first half of 2013, their work was focused on preparing the pre-qualification questionnaire and subsequent responses for this new Trust<sup>9</sup>. The Project Sponsor then informed us via a telephone conversation that it was really from the summer of 2012 that their role started to become less involved due to the focus on the Charitable Leisure & Culture Trust. The Project Sponsor stated that as a result they were absent from a number of SLT meetings and Project Team meetings<sup>10</sup> and that the Executive Sponsor had more of a role in leading the project at this time.
- 3.4 The Senior User stated that they agreed that during the time that the Project Sponsor had less involvement in the project, the Executive Sponsor took over the responsibility. This was confirmed in a telephone conversation with the Executive Sponsor which took place prior to their retirement. However, the Executive Sponsor did state that they only had detailed involvement in the project in the later stages.

<sup>7</sup> Project Initiation Document dated 11 August 2011, page 7

<sup>8</sup> Email from Project Sponsor dated 7 August 2014

<sup>9</sup> Email from Project Sponsor dated 6 August 2014

<sup>10</sup> Email from Project Sponsor dated 6 August 2014

- 3.5 It therefore appears that there is a lack of clarity regarding who was managing the project between the Project Sponsor and Executive Sponsor from the summer of 2012 onwards.
- 3.6 The PID (Exhibit 3) states at paragraph 5.1 that a Project Team was to be established which consisted of:
- 3.6.1 Project Sponsor;
  - 3.6.2 Senior User;
  - 3.6.3 supplier representatives; and
  - 3.6.4 Project Manager.
- 3.7 Paragraph 5.1 of the PID states that the above individuals were required to meet on a monthly basis or "*as varied by agreement*". Paragraph 5.1 does not list who comprises of supplier representatives, the organisation chart on Page 7 of the PID identifies a number of roles under the suppliers block. Our review of the Project Team meeting minutes identified that some but not all of this 'supplier representatives' group were consistently in attendance at the monthly Project Team meetings.
- 3.8 The responsibilities of the Project Team or agenda to be discussed at such Project Team meetings and who is required to attend are not clearly set out within the PID. We note below at paragraph 3.16 that the Project Team appear to have taken over the responsibilities of the Project Board.

### ***Recommendation***

If a Project Team is set out as a requirement to a project, the responsibilities of such a team and a basic agenda for what should be discussed at their meetings and required attendees should be set out within the PID.

- 3.9 The Executive Sponsor was not determined in the PID to be a requirement of the Project Team meetings. However, the Executive Sponsor did take over the role of the Project Sponsor at the later stage of the project. The Executive Sponsor and Project Sponsor were also directly responsible for reporting to the CBC Cabinet, Social and Community Overview and Scrutiny Committee and the SLT (see paragraph 3.2).

3.10 Review of the Project Team minutes shows that the Executive Sponsor and Project Sponsor were present at the following meetings:

Meeting number	Date	Project Sponsor	Executive Sponsor
1	4 May 2011	YES	NO
2	8 June 2011	YES	NO
3	11 July 2011	YES	NO
4	10 August 2011	YES	NO
5	19 September 2011	YES	YES
6	12 October 2011	YES	NO
7	9 November 2011	YES	YES
8	14 December 2011	NO	NO
9	11 January 2012	YES	NO
10	8 February 2012	YES	NO
11	14 March 2012	YES	YES
12	11 April 2012	NO	NO
13	9 May 2012	NO	NO
14	13 June 2012	YES	YES
15	11 July 2012	YES	YES
16	8 August 2012	NO	YES
17	12 September 2012	YES	YES
18	10 October 2012	NO	YES
19	14 November 2012	YES	YES
20	12 December 2012	YES	YES
21	9 January 2013	NO	YES
22	13 February 2013	NO	NO
23	13 March 2013	YES	NO
24	10 April 2013	YES	NO
25	8 May 2013	YES	NO
26	10 July 2013	NO	YES
27	14 August 2013	NO	YES

3.11 The above table shows that on four occasions, neither the Project Sponsor or Executive Sponsor attended the Project Team meeting. The PID stated that it was a requirement for the Project Sponsor to attend these meetings (paragraph 3.7).

3.12 As the AG&M project was a large and complex project, should the Project Sponsor have been unable to attend, it is in our view that the Executive Sponsor should have attended in their place, being an equivalent senior figure with direct reporting responsibilities. Had neither the Project Sponsor nor Executive Sponsor been available for a meeting, consideration should have been given as to whether the meeting should have proceeded or been re-arranged for another date.

### **Recommendation**

The structure established by CBC for managing the project was appropriate. However, for meetings to be effective, the requirements set out and agreed within a PID document in relation to the personnel needed to attend project meetings should be adhered to.

If certain key individuals are not available, a suitable replacement should attend in their stead. If this is not possible, consideration should be given to re-arranging the meeting for a date when the key individuals are available to ensure that the requirements as set out within the PID are adhered to.

3.13 The PID also states that there was a Project Board to be established which was also required to meet on a monthly basis<sup>11</sup>. This included the same individuals as the Project Team but also the:

3.13.1 Cabinet Member; and

3.13.2 Buildings Project Manager.

3.14 The PID states that the Project Board will manage the project, including monitoring the business case, agreeing any changes and signing off the project.

3.15 The Project Sponsor stated that the Cabinet Member changed in May 2012<sup>12</sup>. This was nine months after the start of the construction phase.

3.16 Our discussions with the Project Manager identified that the Project Board meetings were not undertaken as the Project Team meetings covered the areas required by the Project Board. The PID states that the Project Board will consist of the relevant Cabinet Member. The Project Team does not have a requirement for the Cabinet Member to attend. In the absence of the Project Board meetings, the Project Manager stated that the Cabinet Member did not attend the Project Team meetings but was kept up to date by the Project Sponsor.

3.17 The Project Sponsor informed us that the process for updating the Cabinet Member was through a verbal update on the Wellbeing & Culture Portfolio. These meetings were generally held monthly<sup>13</sup>.

3.18 The Project Sponsor also stated that the Cabinet Member was part of the AG&M Development Trust (an external Trust which was set up for fundraising purposes for the AG&M). The Senior User informed us that Development Trust meetings were held three or four times per year and the Trust received an update from the Senior User on fundraising progress, the construction process and the re-opening programme.

<sup>11</sup> Project Initiation Document dated 11 August 2011, page 9

<sup>12</sup> Email from Project Sponsor dated 6 August 2014

<sup>13</sup> Email from Project Sponsor dated 6 August 2014

- 3.19 We have not been provided with minutes from the Development Trust meetings.
- 3.20 Although it is noted in the PID that the Cabinet Member was required to be involved in the project by attending Project Board meetings, the PID states that the responsibility for reporting to the CBC Cabinet, the Social and Community Overview and Scrutiny Committee, the Operational Programmes Board (part of the SLT meetings) and any funding bodies relating to the project lay with the Executive Sponsor and Project Sponsor.

### **Recommendation**

If a decision is made not to undertake particular meetings as set out in the PID, this should be discussed, agreed and formally minuted by those with senior responsibility for a project. The implications of not undertaking such meetings should be considered and an appropriate way forward, which ensures the formal updating of all relevant parties, agreed.

- 3.21 The PID states that an update on the project was also required to report every four weeks to the CBC Operational Programmes Board (which formed part of the SLT meeting) and quarterly to the SLT. As part of the Council's corporate strategy, the project was also to be reported every six months to the Cabinet and Economy and Business Improvement and Scrutiny Committee<sup>14</sup>. We are informed by the Project Manager that the Economy and Business Improvement and Scrutiny Committee and the Social and Community Overview and Scrutiny Committee were disbanded from February 2012 and that a single Overview and Scrutiny Committee was formed.
- 3.22 The Project Manager also informed us that the Operational Programmes Board is part of the SLT meeting, the project was therefore not reported separately to each but rather formed part of the update to the Operational Programmes Board which was presented as part of the SLT meeting.
- 3.23 The Project Manager informed us that they produced update reports to the Operational Programmes Board based on the information that was discussed during the Project Team meetings. Prior to an update report being submitted to the Operational Programmes Board, the Project Sponsor was provided with a copy of the draft minutes electronically. We have been informed the Project Sponsor would agree the content of these reports either verbally or by email.

<sup>14</sup> Project Initiation Document dated 11 August 2011, page 3

### **Construction progress meetings**

- 3.24 Davis Langdon held monthly construction progress meetings which the Senior User and CBC Property Officer attended. The Senior User informed us that Davis Langdon produced their monthly project update reports following these meetings and that copies of these reports would be circulated to attendees of the construction progress meetings.

### **Project timeline**

- 3.25 Discussions with the Senior User of the project noted that the original decision to redevelop the AG&M was made sometime in 2004.
- 3.26 Minutes of the Council meeting dated 1 December 2003 state that Councillors agreed to a new scheme at the AG&M to provide exhibition gallery space and artists' studio. The cost and scope of such a development is not recorded. It is recorded that 70% of the proceeds from the sale of a CBC owned building would be allocated towards the project.
- 3.27 Minutes of the Cabinet meeting of 29 March 2006 state at item 12 that a strategic review report on culture in Cheltenham was discussed. This included the redevelopment of the AG&M. At this meeting the Cabinet endorsed an outline £4m scheme for the redevelopment of the AG&M.
- 3.28 Minutes of the Cabinet meeting of 17 April 2007 state at item 7 that a report was provided on the AG&M redevelopment. The report provided to Cabinet states that the project was still estimated to be a £4m scheme and also set out aims for fundraising for the scheme. Fundraising targets are not noted in this report.
- 3.29 Minutes of the Cabinet meeting of 15 April 2008 state at item 7 that a further update was provided on the AG&M redevelopment. The report provided to Cabinet notes that the scheme was now estimated at an outline £5m, a total of £4m for building costs and £1m for fees, fittings and closure costs. The report states that a charitable trust had put forward a funding proposal for a grant payment of £750k and that the proposal is on the condition that CBC commit an additional £2m to the scheme (in addition to the sale proceeds from the CBC building noted in paragraph 3.26). The Cabinet approved this decision. Additional fundraising targets or financial requirements were not addressed.
- 3.30 The Senior User informed us that fundraising began in early 2008 in order to establish funds for the project.

- 3.31 Minutes of the Cabinet meeting dated 22 September 2009 included an update report on the AG&M. This update report states that to date £3.825m had been raised towards the scheme which equated to *"approximately 70% of the funds needed to start construction"*. This agrees with the revised outline of £5m stated in the 15 April 2008 Cabinet meeting.
- 3.32 By October 2010, fundraising had reached £4.528m with an aim to raising a further £750k via a Heritage Lottery Fund (HLF) grant application<sup>15</sup>. It was reported in the Cabinet meeting of 26 October 2010 that CBC agreed to underwrite the project up to £922k (being a budget of £6.3m less fundraising to date, less the potential HLF grant). Therefore at this stage, the project budget had increased from £5m to £6.3m.
- 3.33 The Senior User stated to us that by March 2011 the HLF grant had been awarded and fundraising had reached a total of £5.278m.
- 3.34 The AG&M closed to the public on 31 March 2011 in order that items could be removed and put into storage prior to any building works commencing.
- 3.35 In July 2011, the main construction project was awarded to contractors ISG, following a competitive tender exercise undertaken by Davis Langdon. This is further discussed in Section 5. Construction work began in August 2011 with an original estimated completion date of 4 October 2012.
- 3.36 Due to on-going project delays, the completion date was revised to 28 March 2013. Further delays arose. This is discussed further in Section 6.
- 3.37 The AG&M, rebranded as 'The Wilson', was officially re-opened to the public on 5 October 2013.

### **Project costs**

- 3.38 The Senior User informed us that the original total project cost was budgeted at £6.3m but the budget was then revised down to £5.6m as set out below.
- 3.39 From discussion with the Senior User, the original budget was said to include the construction element (for which ISG were responsible), associated professional fees and other allowances.

<sup>15</sup> Update on AG&M Development scheme presented to Cabinet – 26 October 2010



- 3.40 Following the tender process, ISG anticipated a construction cost of £3.7m. Davis Langdon advised to implement a £600k contingency, bringing the construction cost total to £4.3m. Professional fees and other allowances were estimated at £1.3m. This resulted in the downward revision of the cost to £5.6m in August 2011 when the contact was awarded to ISG.
- 3.41 In addition to the project costs, a further budget of around £700k was set up for construction of an on-site café, meeting rooms and the museum shop (Additional Works). This was subjected to a separate tender exercise and was kept separate from the main project. This was because the funding was reliant on CBC as fundraising was not available for the commercial spaces.
- 3.42 We have not been instructed to review the Additional Works. Including these works, the original 'total' budget was £7m<sup>16</sup>, with a revision downwards of expected costs to £6.3m<sup>17</sup>.
- 3.43 Project costs are discussed further in Sections 4 and 7.

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<sup>16</sup> £6,300,000 + £700,000 = £7,000,000

<sup>17</sup> £5,600,000 + £700,000 = £6,300,000

## 4 INITIAL PROJECT BUDGET

- 4.1 The AG&M had a PID which was first produced by the Project Manager in June 2011 and finalised in August 2011. It was approved by the Project Sponsor and the Cabinet Member. Page 6 of the PID sets out the anticipated cost of the project to be £6.3m of which CBC have agreed to underwrite up to £922k. The PID does not set out the breakdown of the £6.3m budget.
- 4.2 Discussions with the Senior User noted that the original £6.3m budget had been put forward by Davis Langdon at some point in 2009/10. We have not seen a copy of anything produced by Davis Langdon to support this figure of £6.3m. The Senior User informed us that this included construction costs, professional fees and other allowances but did not include construction of the commercial spaces as noted in paragraph 3.41.
- 4.3 The Senior User has provided copies of reports from Davis Langdon which set out cost estimates at various stages of the design process. Extracts from these showing the breakdown of costs can be found at **Exhibit 1**.
- 4.4 In summary these show the following:

	<b>Stage D Rev A February 2009 £'000</b>	<b>Stage D Rev B1 July 2009 £'000</b>	<b>Stage E Rev 01 December 2009 £'000</b>
Subcontractor costs	4,926	4,821	5,226
Professional fees	744	728	788
Allowances	779	531	539
	<u>6,449</u>	<u>6,080</u>	<u>6,553</u>

- 4.5 The Senior User has informed us that the costs outlined in the February 2009 report of £6.4m were subject to anticipated savings which brought the budget down to £6.3m. It appears that figure of £6.3m was not revised following the increase in potential costs suggested in the December 2009 Davis Langdon report.
- 4.6 We have not been provided with documentation to show that the details of the suggested £6.3m budget, or details of the Davis Langdon cost estimates produced were presented to any meeting of the SLT within CBC.
- 4.7 The project costs were to be met by the fundraising activities, donations, sale of CBC assets plus a cash amount underwritten by CBC.

- 4.8 The Senior User informed us that fundraising commenced in 2008. By 2010, funding commitments of £4.528m had been achieved<sup>18</sup>. A report on the AG&M project was presented to the CBC Cabinet on 26 October 2010. This report set out details of a HLF bid for £750k which, if successful, would go towards the project. The report also states that the HLF had set out as the criteria for the bid for funding that CBC secures £5.55m in finances, of which CBC underwrites £1.022m. The Cabinet minutes also note that since the update report was written a further £100k had been secured (bringing the total raised to £4.628m) meaning that the amount to be underwritten by CBC, against the budget of £6.3m, reduced to £922k.
- 4.9 During this Cabinet meeting, five options were presented for different approaches to the AG&M project. In summary these were:
- 4.9.1 Option 1 – to close the AG&M on 1 January 2011 without knowing the outcome of the HLF bid;
- 4.9.2 Option 2 – to close the AG&M on 31 March 2011 once the outcome of the HLF bid is known;
- 4.9.3 Option 3 – to re-scope the project for a design costing £4.5m to fit in with fundraising achieved to date;
- 4.9.4 Option 4 – to re-scope the project for a design costing £2.5m to fit in with CBC's commitment to the project (through asset sales and commitments); or
- 4.9.5 Option 5 – to abandon the project.
- 4.10 The Cabinet agreed with Option 2. It was also agreed that the Council would underwrite up to a maximum of £922k being the shortfall between the anticipated project costs and the funding secured.
- 4.11 Discussion with the Senior User noted that the HLF grant for £750k was successful and was awarded in March 2011. This brought the total raised to £5.378m with CBC underwriting the remaining £922k.

<sup>18</sup> CBC Cabinet meeting minutes dated 26 October 2010

- 4.12 Once the contract was awarded to ISG in July 2011, the total cost of the project was revised down to £5.6m. The Project Team did not formally discuss a reduction in the project budget from £6.3m to £5.6m. The Project Team did consider the impact of the reduction in cost on grants at the Project Team meeting on 19 September 2011 and an entry was created in the risk register to address this. Consideration of any potential impact on the grant is outside the scope of this review.
- 4.13 The reduction in the cost of the project was reported to the SLT in the OPB Programme Highlight Report dated 1 December 2011. The Minutes of the SLT meeting on 6 December 2011 do not record a discussion about the cost reduction or alterations to the budget but state *"The scheme is looking positive – on schedule and on budget. A clerk of works has been appointed"*.
- 4.14 There was no report of the cost reduction to Cabinet at this time. The cost of £5.6m was included in a financial budget report to Cabinet dated 8 February 2013. The total budget included in the document, which sets out budget proposals for 2013/14, is stated to have originally been £6.3m but the total committed and future spend totals to £5.6m. The Council's budget for the project remained at £6.3 million including within the Agresso financial management system.

### **Recommendation**

A project budget was set but details of the basis and composition of the budget should have been made available to the SLT within the Council. Such evidence should be retained on the project files. The detailed budget composition should be reflected in the Agresso financial management system. Details of all project budgets produced and significant changes in costs should be presented to, discussed and agreed with the SLT at all stages throughout the design phase of a project.

Any decisions made regarding variations to these budgets should be minuted and actioned appropriately.

## 5 APPOINTMENT OF CONTRACTOR

- 5.1 The tender process for the appointment of a contractor to the project was dealt with by Davis Langdon. We have been informed by Davis Langdon that the exercise was undertaken under OJEU procurement rules. We have not been instructed to review the tender process.
- 5.2 Davis Langdon stated that the tender process commenced with a pre-qualification questionnaire and, following this exercise, five companies submitted tenders for the AG&M project.
- 5.3 We have been provided with a copy of a tender report prepared by Davis Langdon in July 2011. The tender report suggested ISG be awarded the contract based on them achieving the highest scores on a scoring matrix which considered both technical and economic aspects<sup>19</sup>. The tender submitted by ISG estimated construction costs at £3.73m<sup>20</sup>. Davis Langdon also recommended a contingency be put in place for £600k for construction and other project cost movements<sup>21</sup>. Fees and other allowances were then budgeted at £1.177m, bringing the total cost to £5.507m as follows:

	<b>£'000</b>
Construction costs	3,730
Contingency	600
Fees and other allowances	<u>1,177</u>
	5,507

- 5.4 This is resulted in the project cost being revised down to £5.6m.
- 5.5 Davis Langdon sent a letter of intent to CBC dated 14 July 2011 outlining their support for the contract to be awarded to ISG based on their achieved matrix scores.
- 5.6 Prior to a final decision being made, the Senior User stated that individual meetings were held between CBC and the three shortlisted contractors. These meetings included the CBC Procurement Manager who was in place at the time and the Cabinet Member for Culture and Sport. CBC do not have minutes of these meetings.

<sup>19</sup> Davis Langdon tender report dated July 2011, paragraph 1.2

<sup>20</sup> Davis Langdon tender report dated July 2011, paragraph 1.1

<sup>21</sup> Davis Langdon tender report dated July 2011, paragraph 1.5

**Recommendation**

Where external meetings are held in discussion with potential tender candidates, in order to ensure a record exists, details of the meeting should be formally minuted and retained within the project files.

- 5.7 We are informed by the Senior User that following these meetings, and the letter of intent from Davis Langdon, the Cabinet Member made a decision to award the contract to ISG. We are informed by the Senior User that this was a verbal decision made by the Cabinet Member and that the contract award was not discussed or agreed at any meeting of CBC.
- 5.8 Review of CBC's current contract rules showed that the exact requirements of the Council for the procedure to follow when an external body has undertaken a tender exercise on CBC's behalf has not been clearly defined.
- 5.9 We are informed by the current CBC Procurement Officer that the current contract rules are due for review. We were also informed by the current CBC Procurement Officer that a 'tender acceptance form' should have been completed for the awarding of the AG&M project to ISG. We were informed by a member of the CBC legal department that as Davis Langdon co-ordinated the tender exercise, they produced a tender acceptance report. We have been provided with a copy of this report but this has only been signed by a representative from Davis Langdon and not by any individuals within CBC. The document was required to be signed by the Senior User, the Project Sponsor and the Cabinet member for Culture and Sport.

**Recommendations**

The current contract rules should be updated to reflect the process which must be followed if an external body undertakes a procurement exercise on behalf of CBC.

It is our view that the suggestion for the awarding of any contract should be presented to, discussed and agreed at an SLT and Cabinet meeting or appropriate delegated authority discussed and granted. Any decision regarding delegated authority should be documented.

Tender acceptance documentation should be signed by all required parties. Copies of the signed documentation should be retained by the Council.

- 5.10 On 14 July 2011, the Project Sponsor sent a letter to ISG explaining that they had been awarded the contract. This confirmed a start date on site of 9 August 2011.

- 5.11 As the award of the contract does not appear to have been discussed at any meeting of CBC, communication of the details of the cost risk of the project are not apparent. We have been provided with a copy of the initial risk register attached to the PID. Resource risk 5.3 notes the risk of the project being overspent. The proposed action states to *"transfer risk to building contractor"* and to *"manage contract change"*. This risk was allocated a risk score of 12 (being made up of an 'impact' score of four and a 'likelihood' score of three which gave it an amber rating.
- 5.12 We have also been provided with two interim risk registers which were produced during the project. The first interim risk register dated 19 July 2011, states the same resource risk and proposed action. The risk score is also still allocated as 12. The second interim risk register dated 14 December 2012 showed that the risk score allocated to risk 5.3 had reduced to nine. This is because the 'impact' score had been reduced to three. This second interim risk register also includes a new risk at resource risk 5.4 which states *"if project costs are incompletely captured and the project appears to be underspent against the HLF bid, then HLF may retrieve up to 12% of their grant"*. The mitigating action is to *"ensure actual and projected costs are fully captured at all stages"*. This risk was allocated a risk score of four (being made up of an 'impact' score of two and a 'likelihood' score of two which gave it a green rating.
- 5.13 Although this new risk is not directly addressing overspend, it is stating the importance of capturing all actual and projected costs throughout the project.
- 5.14 We have also been provided with a copy of the final risk register produced as at August 2013 which includes the same information as the second interim risk register.
- 5.15 We were informed by the Project Manager that the project risk register was reviewed on a line by line basis by the Project Team every quarter and also included as an agenda item at each Project Team meeting. Review of the monthly Project Team minutes show that any considerations of the risk register were recorded in the minutes. Any changes to the risk register were also included in the project update reports prepared for the Operational Programmes Board.
- 5.16 Although the risk register was being reviewed and amended throughout the project, the risks identified did not directly address where a cost risk lay directly with the Council and where cost risks could have been allocated to the contractor.

- 5.17 We are informed by Davis Langdon that the contract was a standard JCT 2011 contract which would have included a section stating where the financial risks of the project lie. Davis Langdon informed us that the financial risks lie with the contractor provided no changes are made by the client. The financial risk lies with the client if the client makes changes to the project. As we have not been provided with evidence of any updates throughout the project to the risk register regarding financial risk, we cannot assess if CBC were aware of where the financial risk lay throughout the project.
- 5.18 We have been provided with a copy of the contract. This supports the view of Davis Langdon with regard to where the financial risks of the project lay.

### **Recommendation**

If financial aspects change throughout a project, the project risk register should be updated as appropriate outlining where the cost risk lies. This information should then be reported upwards to SLT and Cabinet through the next available formal update meeting.

Any mitigating actions outlined within the risk register should be followed or revised should they no longer be deemed appropriate.

### **Initial Project Team meetings**

- 5.19 Copies of the minutes from the monthly Project Team meetings have been provided. Monthly meetings commenced on 4 May 2011.
- 5.20 With regard to the appointment of a contractor, it is noted that at a meeting on 11 July 2011, contract tenders were discussed. It was stated that two contractors had been interviewed by the Executive Sponsor, Cabinet member and the Project Team member responsible for Property. The minutes state that a decision of who to appoint was due that week (minute item 4.1).
- 5.21 As noted at paragraphs 5.7 and 5.10, the contract was awarded to ISG on 14 July 2011. The Senior User informed us that this decision was made verbally. We have seen no evidence that this decision was discussed at a meeting of the Council prior to award. As stated in paragraph 5.9, we have not been provided with a copy of a tender acceptance form which has been signed by CBC.



- 5.22 We note that at the next meeting of the Project Team dated 10 August 2011, the awarding of the contract to ISG is not minuted. There is therefore no recording of the decision process which was followed to finally award the contract to ISG, prior to the decision being made. The first mention of ISG in the minutes is at item 5.1.1 where it is stated that the Senior User had met ISG on site the previous week.
- 5.23 Although it is acknowledged that Davis Langdon undertook the tender process, CBC was ultimately responsible for making the decision of awarding the contract.

### ***Recommendation***

Key stages of a capital project, such as the awarding of a contract, should be discussed and clearly documented within Project Team meetings. The rationale for awarding the contract and the procedure followed should also be discussed and documented.

## 6 PROJECT PROGRESSION AND REPORTING

### Initial work plan

- 6.1 Work on site commenced in August 2011. The project was planned to be a 60 week project with a completion date of 27 September 2012<sup>22</sup>.

### Summary of progression of project deadline

- 6.2 We consider below the various deadline extensions imposed on the project. A summary showing the progression of the project deadline as per the reports of Davis Langdon and subsequent reporting within CBC is set out at **Appendix 1**.

### Davis Langdon reporting

- 6.3 Davis Langdon provided regular meeting pack updates to CBC from the commencement of the project. We have been provided with copies of these meetings packs dated from 4 September 2011 to 13 May 2013 (the date of the last report). These meetings packs include progress reports on the project timeline which were produced by Davis Langdon. The Senior User has confirmed that they received copies of all these reports. In addition, when the Senior User was out of the office during November and December 2012, the Project Sponsor informed us that they received a copy of the November 2012 report, but not the December 2012 report.
- 6.4 The Senior User also confirmed that the Property Officer of the project also received copies of the reports. The Property Officer was part of the supplier representative group and the property officer attended all but four of the Project Team meetings.
- 6.5 It is also noted that the Davis Langdon project manager was present at the Project Team meetings and had an opportunity to update the Project Team and answer any relevant queries.

### Extension of deadline to 18 October 2012

- 6.6 On 4 November 2011, Davis Langdon reported a provisional deadline extension of three weeks. This was due to delays with the removal of additional asbestos, unknown basements within the original buildings and a wall which was in poor condition and needed to be removed. Davis Langdon report that these issues are all client risks and that the cost of rectifying will be down to CBC. The contingency fund would be used.

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<sup>22</sup> Davis Langdon progress report dated 4 September 2011

**Reporting to Project Team**

- 6.7 At the Project Team meeting of 9 November 2011 it was reported that there had been a delay of around two weeks (not three weeks as reported by Davis Langdon) to the project due to the discovery of asbestos, a crack in a party wall and an unknown basement which needed to be excavated and filled.

**Reporting to SLT**

- 6.8 The project update report presented to the SLT meeting of 6 December 2011 also notes that there is a two week extension to the deadline (not three weeks as stated by Davis Langdon). It is noted at item 1 of the 6 December 2011 SLT minutes that the project is reported to be "*on schedule and on budget*". As a two week delay was included in the project update report, it is assumed that reference to being 'on schedule' means to the revised deadline.
- 6.9 At the SLT meeting of 3 January 2012, item 2.5 states that the Project Sponsor had advised of a delay to the project with regard to asbestos. The project update report provided to the SLT does state a revised deadline of 18 October 2012 (as stated by Davis Langdon in their report of 4 November 2011).
- 6.10 At the next SLT meeting of 31 January 2012, item 1 notes that the project is "*on schedule*". It is assumed that as the delay was reported, the reference to 'on schedule' is against the revised deadline.

**Extension of deadline to 8 November 2012**

- 6.11 On 3 February 2012, Davis Langdon reported a provisional deadline extension of a further three weeks. This additional three weeks was their view of an extension, due to delays relating to a crane tower, drawing submissions and cold weather. The Davis Langdon report states that ISG were only reporting a two week delay at this stage. It is stated by Davis Langdon that although these issues were contractor risks, there were also other client risks which had occurred which could be claimed to have led to the delay such as drawing changes, structural engineer issues and ICT changes.
- 6.12 It was also reported by Davis Langdon on 3 February 2012 that there had been a critical downturn in the performance of the structural engineer, Dewhurst Macfarlane. This was due to the project consultant leaving Dewhurst Macfarlane on 27 January 2012 and they had not been replaced. The report states that no design queries had been answered since the consultant's departure and hence the project was proceeding without the structural engineer fulfilling their role. An urgent resolution to this is also noted in the 'key actions' section of the progress report.

- 6.13 On 7 March 2012, Davis Langdon reported that AECOM has been appointed to replace Dewhurst Macfarlane as the structural engineers. Davis Langdon report that there is a risk further delay would be incurred due to this changeover but that AECOM were working to produce new calculations as required.

#### **Reporting to Project Team**

- 6.14 At the Project Team meeting on 8 February 2012, the issues with Dewhurst Macfarlane were discussed and it was stated that a notice period of two weeks had been served on Dewhurst Macfarlane for breach of contract.
- 6.15 The Project Team minutes do not make mention of the extended deadline to 8 November 2012.
- 6.16 At the Project Team meeting on 14 March 2012, it was noted that AECOM had replaced Dewhurst Macfarlane as the new structural engineers.
- 6.17 The Project Team minutes do not make mention of the extended deadline to 8 November 2012. Item 4.1.2 states there would possibly be a programme delay but "*as no formal notification had been received yet from ISG, this cannot be officially reported*". Whilst it is correct that ISG had not reported an extension to the deadline, Davis Langdon had recommended that, in their view, there was further delay to what was officially reported by ISG. It does not appear that this was considered by the Project Team.

#### **Reporting to SLT**

- 6.18 The SLT meeting of 28 February 2012 at item 1 notes that there have been issues with the concrete pouring but that the exact extent of the delay was yet to be confirmed. There is also mention of the difficulties faced with the structural engineers.

#### **Structural engineer**

- 6.19 The Senior User informed us that the original structural engineers, Dewhurst Macfarlane, went out of business in early 2012 and the new structural engineer AECOM was appointed by February 2012. Davis Langdon undertook the procurement exercise to appoint the new structural engineer.
- 6.20 Davis Langdon informed us that as a new structural engineer was appointed, the drawings and work of the old structural engineer were not to be fully relied upon. Therefore elements of a new structural design exercise were undertaken. This changed the structural design from that initially set out by Dewhurst Macfarlane, upon which the award of the tender was based resulting in changes to ISG's work.

- 6.21 However, the Senior User informed us that it was their understanding that there was no change to the structural design initially and that any changes were as a result of issues which are within the existing main structures that only became apparent as work progressed. This is not the view of Davis Langdon.

#### **Project update – 5 April 2012**

- 6.22 Davis Langdon reported on 5 April 2012 that the project was experiencing a *"concerning level of delay"* which could *"pose a potential risk to the funding committed"*.
- 6.23 The report states that as at 29 February 2012, ISG were reporting an eight week delay to the programme.
- 6.24 The report of Davis Langdon also states that defect notices have been issued in relation to concrete frames which were poured by a sub-contractor appointed by ISG. Davis Langdon also note in the April 2012 report that a replacement sub-contractor had been considered by ISG and that all parties are working towards mitigating the associated time delays. Davis Langdon also note in the April 2012 report that there are delay risks in relation to the concrete pouring and that these lie with the contractor as they appointed the sub-contractor.
- 6.25 Davis Langdon also noted in the April 2012 report that an extension of time claim is expected from ISG due to the delays on the project.

#### **Reporting to Project Team**

- 6.26 Minutes of the Project Team meeting dated 11 April 2012 do not include the update from Davis Langdon with regard to the concerning level of delay and the expected extension of time claim.
- 6.27 Item 4.1 notes that no notification had been received from ISG on the delay to the project.
- 6.28 Item 5.6 is part of the Davis Langdon project manager update. This states that the amount of time lost due to delays could not be confirmed. This does not agree with details contained within the formal report of Davis Langdon dated 5 April 2012 where it is stated that ISG are reporting an eight week delay.

**Reporting to SLT**

- 6.29 SLT meeting minutes dated 24 April 2012 note that the Project Sponsor updated the SLT on the delays to the building work. The update report covering the period to 19 April 2012 noted that a nine week delay was anticipated with a revised potential completion date of 20 December 2012. The report also states that it is understood that ISG will bear the cost of this particular delay but confirmation is awaited. There is no mention of potential extension of time claims highlighted by Davis Langdon. These are separate from the delays caused by ISG. However, the SLT minutes do state that CBC are awaiting confirmation that there will be *"no costs to bear by the Council because of the delay"*.

**Extension of deadline to 21 December 2012**

- 6.30 It is again reported by Davis Langdon on 3 May 2012 that the project was experiencing a *"concerning level of delay"* which could *"pose a potential risk to the funding committed"*. Davis Langdon reported that a further delay had been incurred due to AECOM (the structural engineer) needing to carry out additional design works beyond what was defined in the original scope. This was a result of further analysis and subsequent works on site. It is stated that a fee proposal for this was being prepared. Davis Langdon also note that they *"feel it right to bring the risk of increased fees to the Client's attention"*.

**Reporting to Project Team**

- 6.31 The Project Team minutes dated 9 May 2012 note that it is reported that there is a delay to the project of around nine weeks with a revised completion date of mid-December 2012. This was also re-iterated in the project manager update.
- 6.32 There is no detailed record of a discussion at this meeting around the specific cost risks raised by Davis Langdon but it is noted that some of the contingency fund had been set aside to cover potential extension of time claims (four weeks at £9,000 per week) and extra works and risk elements (£219,000).

**Reporting to SLT**

- 6.33 The SLT meeting minutes dated 22 May 2012 note that there is a delay to the project of *"seven weeks, not nine"*. The project update report provided to SLT states that although the delay is nine weeks, mitigating measures have been identified which may reduce the delay by two weeks. A revised deadline of 20 December 2012 is then stated.

**Extension of deadline to 31 January 2013**

- 6.34 On 6 August 2012, Davis Langdon reported a further delay to the project. This was due to the on-going delays with the concrete pouring. As at 25 July 2012, ISG were reported to be running 14 and a half weeks behind schedule.
- 6.35 Davis Langdon also report that ISG have submitted a claim for extension of time for five weeks and that Davis Langdon were analysing this.

**Reporting to Project Team**

- 6.36 The further extension to the deadline of 31 January 2013 is not included in the minutes of the Project Team meetings of 8 August 2012 or 12 September 2012.

**Reporting to SLT**

- 6.37 The SLT meeting minutes of 14 August 2012 state that there is a delay to the building work with a phased re-occupation planned from October 2012. The project update report presented to SLT states a deadline of 20 December 2012. This does not agree with what Davis Langdon were reporting which was a deadline for completion of 31 January 2013. Davis Langdon do not mention a phased re-occupation.
- 6.38 The SLT meeting minutes of 11 September 2012 note that *"overall project progress and the financial picture is good"*. It is noted that the project update report provided at this meeting states that the overall status of the project is 'amber'. The report continues to state the revised deadline as 20 December 2012.

**Extension of deadline to 15 February 2013**

- 6.39 On 10 September 2012, Davis Langdon reported a further delay due to ISG reporting a later completion date of 15 February 2013. Davis Langdon note that this provided *"little confidence in the Contractor to accurately report the progress of the works and when they will complete"*. Davis Langdon go on to state that they believe the rate of progress to be unacceptable and that they anticipate that completion would not take place until March 2013 if further slips in the project are incurred.

**Reporting to Project Team**

- 6.40 The further extension to the deadline of 15 February 2013 is not included in the minutes of the Project Team meetings of 12 September 2012 or 10 October 2012.

**Reporting to SLT**

- 6.41 The further extension to the deadline of 15 February 2013 is not included in the minutes or the project update reports of the SLT meetings of 11 September 2012 or 9 October 2012.

**Extension of deadline to 28 February 2013**

- 6.42 On 8 October 2012, Davis Langdon reported a further delay of two weeks due to ISG stating that work in relation to ground floor slabs and birdcage scaffolding taking longer than anticipated.
- 6.43 Davis Langdon note that this *"further undermines the Contractor's ability to effectively manage the works"*. They note again that they do not believe the project will be completed until March 2013.

**Reporting to Project Team**

- 6.44 The further extension to the deadline of 28 February 2013 is not included in the minutes of the Project Team meetings of 10 October 2012 or 14 November 2012.

**Reporting to SLT**

- 6.45 The further extension to the deadline of 28 February 2013 is not included in the minutes of the SLT meeting of 9 October 2012. The project update report presented to the SLT meeting of 6 November 2012 states that ISG had been unable to provide a date for expected handover of the site. It is noted that the expected completion date within this update report remains at 20 December 2012 with an allocated 'amber' status.

**Email to Project Sponsor**

- 6.46 On 19 November 2012, the Davis Langdon project manager emailed the Project Sponsor attaching a copy of the latest project report. Within this email it is stated that the project was 22 weeks behind schedule with a projected completion date from ISG of February 2013. The Davis Langdon project manager states that Davis Langdon believe that completion is more likely to be at the end of March 2013.

**Extension of deadline to 29 March 2013**

- 6.47 On 6 December 2012, Davis Langdon reported a further delay based on ISG's revised programme. Davis Langdon also note that ISG have not reported any further delay but they are *"doubtful as to the accuracy of this given works to critical areas haven't progressed to programme in the month"*. Davis Langdon had therefore suggested a completion date of 29 March 2013.

**Reporting to Project Team**

- 6.48 Project Team minutes dated 12 December 2012 note at item 4.2 that possession of the building would be given by 31 March 2013.



- 6.49 Item 4.6 of the minutes state that the Executive Sponsor requested that a note was sent to Cabinet and SLT explaining the complexities of the project. The minute states that the Project Sponsor will undertake this. This is addressed below.

#### **Reporting to SLT**

- 6.50 The project update report provided to the SLT meeting of 4 December 2012 stated that the expected completion date had been revised to 18 February 2013. It is noted that the Davis Langdon report containing their view of the deadline being 29 March 2013 was produced after the SLT meeting had taken place, although Davis Langdon had notified on 8 October 2012 of an expected completion date of 28 February 2013 (paragraph 6.42).
- 6.51 The SLT meeting of 29 January 2013 notes that the Project Sponsor reported that the last two months had been challenging with regards to the progress of the project. A slip in the timetable had meant a revised soft opening date of August 2013. The project update report states a revised deadline of 31 March 2013.

#### **Reporting to Cabinet**

- 6.52 The motion stated above for providing the Cabinet with a update is not included in the minutes of the Cabinet meetings of 15 January 2013 or 5 February 2013.

#### **Extension of deadline to 26 April 2013**

- 6.53 On 8 February 2013, Davis Langdon reported a further delay to 26 April 2013 based on ISG's revised programme which included works required to rebuild a wall.

#### **Reporting to Project Team**

- 6.54 The Project Team meeting of 13 February 2013 notes that full completion would not be achieved by March 2013 and that some additional works would be carried out during April 2013. No exact date for a revised completion date is stated.

#### **Reporting to SLT**

- 6.55 The SLT meeting minutes of 26 February 2013 note that *"there were no real issues to report"*. The project update report stated that ISG had set a revised date for partial handover by 31 March 2013 with a full hand over by the end of April 2013. The expected completion date had been revised to 30 April 2013 with an allocated 'amber' status.

**Extension of deadline to 28 June 2013**

- 6.56 On 13 May 2013, Davis Langdon reported a further delay based on ISG's revised programme but that partial handover had been offered and agreed with CBC. No exact date for this is stated. Davis Langdon stated that it was critical that this deadline was met in order to ensure the new opening date of 5 October 2013.

**Reporting to Project Team**

- 6.57 The Project Team meeting minutes of 8 May 2013 show that the project was due to be completed by the end of June 2013 with an opening date of 5 October 2013. It is noted that no Project Team meeting was undertaken in June 2013. The next meeting was held on 10 July 2013.

**Reporting to SLT**

- 6.58 The SLT meeting of 23 April 2013 reports the expected opening date of October 2013. The project update report notes that building work will not be completed until the end of June 2013 with an allocated 'amber' status. This is also reported at the SLT meeting of 21 May 2013.

**Project updates post May 2013**

- 6.59 We have been informed by Davis Langdon that no project update reports were completed after the May 2013 report (report number 19).
- 6.60 The Senior User informed us that Davis Langdon ceased creating their formal reports from May 2013 which was the time a new Davis Langdon project manager took over the project. The Senior User informed us that project updates from this time until the completion of the project were verbal and that the Davis Langdon project manager also gave a verbal update at Project Team meetings in July and August 2013. Review of the July and August 2013 Project Team minutes show that the Davis Langdon project manager was in attendance and gave an update.
- 6.61 At the Project Team meeting of 10 July 2013, it is minuted that the Davis Langdon project manager stated that:
- 6.61.1 ISG were originally due to complete their build programme by the end of June but that had not happened. It is reported that work is still ongoing and there was a push to ensure that access could be granted;
- 6.61.2 the staircase may not be finished until the third or fourth week of August; and
- 6.61.3 practical completion should be achieved by the end of September 2013.

6.62 There are no financial issues recorded as being contained with the Davis Langdon project manager update. However, it is noted at item 3 of the minutes that options were to be discussed regarding options for recovering damages. This is further explained at paragraph 7.82.

6.63 At the Project Team meeting of 14 August 2013, it is minuted that the Davis Langdon project manager stated that:

6.63.1 areas of the AG&M were being handed over on a piece meal basis; and

6.63.2 ISG should finish on site by the end of October.

6.64 There are no financial issues recorded as being contained with the Davis Langdon project manager update.

### **SLT meetings post May 2013**

6.65 It is noted that the project update reports presented to SLT meetings post May 2013 contained the following information with regard to the completion date of the project:

6.65.1 meeting of 18 June 2013 – building work would not be completed until early July 2013;

6.65.2 meeting of 16 July 2013 - building work would not be completed until early July 2013;

6.65.3 meeting of 13 August 2013 – the building would be progressively handed back during August 2013; and

6.65.4 meeting of 10 September 2013 - the building would be progressively handed back during August 2013 and re-opening would be on 5 October 2013.

### **Verbal update meetings between the Senior User and Project Sponsor**

6.66 We are informed by the Senior User that they held verbal one to one meetings with the Project Sponsor regarding the progress of the project. These meetings were initially held on a weekly basis and then monthly from around March/April 2013. The Senior User informed us that during these verbal meetings aspects of the project timescale would be discussed, however, no formal record was made of these meetings.

6.67 The Project Sponsor confirmed that verbal one to one meetings were held with the Senior User but that from around the summer of 2012, these were not as focused on the AG&M project due to the Project Sponsors other commitments regarding the 'Charitable Leisure & Culture Trust'

(see paragraphs 3.3 and 3.3). The Project Sponsor informed us that at this time, the Executive Sponsor had taken over more of the management of the project and that the one to one meetings with the Senior User were more focused on line manager aspects (as the Project Sponsor was the Senior User's line manager).

### **Cabinet reporting**

- 6.68 It is noted that none of the information with regard to time delays to the project has been recorded in the minutes as reported to the Cabinet during the project duration.
- 6.69 Discussion of the final account was presented at the 11 February 2014 meeting. This is discussed at paragraph 7.101.

### **Overview and Scrutiny Committee**

- 6.70 It is noted that none of the information with regard to time delays to the project has been recorded in the minutes as reported to the Overview and Scrutiny Committee during the project duration.

### **Executive Board**

- 6.71 We have been provided with a copy of the Executive Board minutes from 18 July 2013. The Senior User noted that they had given an update report at this meeting.
- 6.72 The minutes state that the contractors will not be finished on site until late September 2013 but that partial possession had been acquired.

### **Project completion**

- 6.73 The Senior User noted that in June 2013 a meeting was held between CBC, Davis Langdon and ISG and partial possession of the building was agreed so that re-canting could commence.
- 6.74 The Project Team meeting minutes of 10 July 2013 state that completion had not been achieved by June 2013 as anticipated. There is a note that the internal staircase would not be finished until the third or fourth week of August 2013.
- 6.75 The Project Team meeting minutes of 14 August 2013 note that all work on site should finish by September 2013.
- 6.76 ISG agreed a completion date of 30 September 2013 and this was reached. The AG&M then officially re-opened on 5 October 2013.

### **Summary of the reporting of the project timeline**

- 6.77 As set out above, the timeline of the project varied significantly throughout the life of the project and resulted in the AG&M re-opening just over 12 months late.
- 6.78 Updates on the project timeline were regularly provided by Davis Langdon within their monthly formal reports which clearly set out both what ISG were reporting as being the change in deadline and also what Davis Langdon's view of this was. This gave a comprehensive evaluation of the likely timescales of the project up to May 2013, when the last Davis Langdon report was produced. The Senior User and CBC Property Officer were recipients of the Davis Langdon reports.
- 6.79 The changes reported by Davis Langdon were not always relayed in a timely manner to the Project Team or the SLT. They were not reported in any context to the Cabinet or Overview and Scrutiny Committee.
- 6.80 The project was delayed due to a number of factors beyond the control of CBC. However, if the exact extent of the time delay had been reported to the Project Team and SLT in a timely manner it may have allowed individuals to question in more detail the extent of the delay and report to Cabinet accordingly.
- 6.81 Cabinet and the Overview and Scrutiny Committee were not formally updated on the delays to the project. Again, had this been undertaken, members would have been fully aware of the reasons behind the delays to the project and may have had the opportunity to question any aspects of the project which they saw fit.
- 6.82 It is appreciated that the Davis Langdon project manager was present at the Project Team meetings but it should not have been the case that reliance was placed on them to verbally reiterate what was already contained with the formal monthly report that had been prepared by Davis Langdon prior to the meeting. It is in our view that CBC should have reviewed those monthly reports and raised questions with the Davis Langdon project manager should the extent of delays discussed in the Project Team meetings not agree to the formal report.

### **Recommendations**

In line with the requirements set out for reporting within the PID, all time delays to a large and complex project should be reported promptly and in full at the relevant Project Team and SLT meetings. The full extent of delays should be fully explained and the opportunity given to raise questions.

Project delays should also be reported promptly and in full at the next scheduled Cabinet and Overview and Scrutiny Committee meetings.

It must be ensured that any time revision to a project is communicated to the appropriate persons immediately.

## 7 FINANCIAL REPORTING

7.1 The original budget for the project<sup>23</sup> and the final anticipated costs at February 2014 are as follows:

	<b>Budget</b>	<b>Actual</b>
	<b>£'000</b>	<b>£'000</b>
<b>Contract works</b>		
ISG	3,730	3,880
Contingency	500	600
Settlement of account	-	300
	<u>4,230</u>	<u>4,780</u>
<b>Client works</b>		
Architect fees	-	393
AECOM <sup>24</sup>	-	365
Dewhurst Macfarlane <sup>25</sup>	-	93
Buro Happold <sup>26</sup>	-	213
Other project management fees	-	99
Professional fees and allowances <sup>27</sup>	752	-
	<u>752</u>	<u>1,163</u>
Surveys	20	65
Fixtures, fittings and equipment	255	259
De/re-canting collection	150	211
Project contingency	100	-
	<u>525</u>	<u>535</u>
<b>Forecast additional costs</b>		
Prolongation fees	-	17
Up-lift fees	-	100
Re-canting expenditure	-	85
	<u>-</u>	<u>201</u>
<b>TOTALS</b>	<u><u>5,507</u></u>	<u><u>6,679</u></u>

### Davis Langdon reporting

7.2 Davis Langdon provided regular meeting pack updates to CBC from the commencement of the project. We have been provided with copies of these meeting packs dated from 4 September 2011 to 13 May 2013 (the date of the last report). These meeting packs include financial reports which were produced by Davis Langdon. The Senior User has confirmed that they received copies of all these reports. In addition, when the Senior User was out of the office during

<sup>23</sup> Davis Langdon financial report number 1, dated September 2011

<sup>24</sup> Quantity surveyor, project manager and structural engineer fees

<sup>25</sup> Original structural engineer who went out of business, replaced by AECOM

<sup>26</sup> Mechanical and electrical engineers

<sup>27</sup> £657k professional fees plus £95k fee allowances

November and December 2012, the Project Sponsor informed us that they received a copy of the November 2012 report, but not the December 2012 report.

- 7.3 The Senior User also confirmed that the Property Officer of the project also received copies of the reports. The Property Officer was part of the supplier representative group and the property officer attended all but four of the Project Team meetings.
- 7.4 The financial reports are consecutively numbered. All reports, from number 1 to 19, produced in the above period, have been provided with the exception of financial report number 11.
- 7.5 Discussions with Davis Langdon noted that the financial reports produced by them in relation to the construction costs are reliant on information provided by the contractor, ISG.
- 7.6 It is noted that the first four financial reports of Davis Langdon (September 2011 to December 2011) include a breakdown of the actual against budgeted cost for the whole project as noted above in paragraph 7.1. The Client Works costs are noted in the Davis Langdon report "*are as advised and confirmed by Cheltenham Borough Council*". From January 2012, only the construction costs were included in the financial reports.
- 7.7 The Davis Langdon report referred to below therefore only account for the reporting against the construction costs from January 2012. After this date other costs were not formally monitored. There was no clear responsibility within CBC for monitoring and reporting of these costs and no overruns in these costs were identified by the Project Team.

### **Summary of financial information**

- 7.8 A summary showing the progression of the financial implications highlighted by Davis Langdon and subsequent reporting within CBC is set out at **Appendix 2**.
- 7.9 A summary of the financial information contained within the Davis Langdon financial reports is set out at **Appendix 3**.

### **Increase of expected cost by £70,000 – December 2011**

- 7.10 The Davis Langdon financial reports show that the total cost of the project was predicted to be on budget ie £5.507m (see paragraph 5.3) as at 31 October 2011. The next report dated 13 December 2011, reported an increase in the anticipated outturn cost of £70k to £5.577m. This was an increase to the total budget, not the utilisation of the contingency fund, as the total contingency fund of £600k was already included within the £5.507m figure.



7.11 The increase of £70,365 was due to the following:

	£
Increase in professional fees	158,365
Increase in survey costs	7,000
Allowance for additional fees	(95,000)
	<u>70,365</u>

7.12 This increase in budget is therefore related to the 'project costs' and not the construction costs.

#### **Reporting to Project Team**

7.13 The increase in the 'project costs' budget of £70k reported by Davis Langdon is not included in the minutes of the Project Team meetings of 14 December 2011 or 11 January 2012. Minutes of the 14 December 2011 Project Team meeting note at section 5.5 that "*the contract budget is unchanged*". This minute is attributed to the Davis Langdon Project Manager update. This does not agree with the statement recorded in the Davis Langdon project update report which states that the budget has increased by £70,365.

#### **Reporting to SLT**

7.14 The increase in budget of £70,000 reported by Davis Langdon is not included in the minutes or project update report of the SLT meeting of 3 January 2012. Nor is it included in the minutes of any SLT meeting throughout the project.

#### **Transfer of 'project contingency' to 'construction contingency'**

7.15 The financial report of Davis Langdon dated 31 January 2012 states that the construction budget has increased from £4.230m to £4.330m due a transfer of the £100k project contingency to the construction budget.

#### **Reporting to Project Team**

7.16 The transfer of the £100k project contingency reported by Davis Langdon is included in the Project Team minutes of 8 February 2012.

#### **Reporting to SLT**

7.17 The transfer of the £100k project contingency reported by Davis Langdon is not included in the minutes or project update report of the SLT meeting of 28 February 2012. Nor is it recorded in the minutes or project update reports of any SLT meeting held throughout the project.

#### **Contingency notification – June 2012**

7.18 The financial report of Davis Langdon dated June 2012 (report number 9) reported that the project had utilised 75% of the allocated construction contingency. The report states that this

was in excess of the anticipated expenditure at that stage and that if contingency continued to be spent at that level, the project would use its full contingency in advance of the work being completed. Davis Langdon do not quantify any additional funds that may be required should this have happened. It is then recommended that a strict 'no change' policy is applied with changes only being permitted where unavoidable.

#### **Reporting to Project Team**

- 7.19 The Project Team meeting minutes dated 11 July 2012 show that the figures incurred to date on the contingency fund were stated (item 4.6). However, the concerns raised by Davis Langdon about the utilisation of the contingency fund were not highlighted. There is no mention of the possibility of the contingency being spent in full before completion of the project or the 'no change' policy.

#### **Reporting to SLT**

- 7.20 The SLT meeting minutes of 17 July 2012 state that there are no issues to report with regard to the AG&M.

#### **Finance update – September 2012**

- 7.21 The financial report of Davis Langdon dated September 2012 (report number 12) states that the construction contingency has reduced by £10k due to significant structural changes occurring on site. Davis Langdon also stated that costs associated with the changes would continue to develop as further works were identified. Davis Langdon also report that they believe there to be construction risks associated with the project and that there is a continued risk in relation to items that have remained 'unpriced' by ISG.

#### **Reporting to Project Team**

- 7.22 The Project Team minutes dated 10 October 2012 state at item 5.4 that the contingency was discussed. It is also reported that the figures quoted in the contingency are Davis Langdon estimates as ISG had not provided actual figures.

#### **Reporting to SLT**

- 7.23 The SLT minutes or project update report presented on 6 November 2012 do not mention the issues which Davis Langdon have raised with regard to the un-priced items from ISG.
- 7.24 The report does state that there is uncertainty about the contingency fund given the delays incurred by ISG but this does not specifically relate to un-priced items.

**Finance update – November 2012**

- 7.25 The financial report of Davis Langdon dated November 2012 (report number 14) notes that ISG's latest application for payment stated a projected 'final account' figure of £4.3m which included £200k in relation to losses and expense claims. Davis Langdon have stated that they have included a figure of £56k for such claims but state that although it is their opinion that ISG are not entitled to such claims, it needs to be recognised that ISG were reporting that figure internally and as such is a risk to the project.

**Reporting to Project Team**

- 7.26 Davis Langdon's views on the £200k loss and expense claims are not included in the minutes of the Project Team meetings of 12 December 2012 or 9 January 2013.

**Reporting to SLT**

- 7.27 Davis Langdon's views on the £200k loss and expense claims are not included in the minutes or project update reports of the SLT meetings of 4 December 2012 or 29 January 2013.

**Increase of expected cost by further £50,722 – February 2013**

- 7.28 On 8 February 2013, Davis Langdon reported that the project was overspent by £50,722 compared to the revised budget of £5.577m (which was not reported to the Project Team or SLT). This figure took into account a 12 week extension of time claim. Davis Langdon note that the final cost position would not be known until some three months following the completion date.
- 7.29 The cost manager report included in the 8 February 2013 report is dated January 2013 (report number 16). This report notes that ISG were anticipating a final account figure of £4.7m, this was £400k higher than the original £4.3m budget<sup>28</sup>. ISG are stated to have included a £450k amount in the £4.7m total which was in relation to loss and expense claims. Davis Langdon note this is significantly higher than the amounts reported in the previous month.
- 7.30 Davis Langdon also state that although they are of the opinion that ISG are not entitled to such claims, the cost of these claims remains a risk to the project as ISG were reporting them internally.
- 7.31 Davis Langdon also note that ISG had only priced 73% of all known change items to date and as such 27% of the change items are stated at the budget cost and not the actual cost. Davis Langdon note that there is also a cost risk associated with these items.

<sup>28</sup> £3.7m contract price plus £600k contingency

**Reporting to Project Team**

- 7.32 The increase to the project budget of £50,772 or the projected final account figure of £4.7m is not noted in the Project Team minutes of 13 February 2013. Item 5.5 notes that the Davis Langdon project manager reports a construction budget increase of £15k.
- 7.33 It is also noted that the meeting minutes from 13 March 2013 note at item 5.6 that the Davis Langdon project manager reported that there were no changes to the project budget.

**Reporting to SLT**

- 7.34 The SLT meeting minutes of 26 February 2013 note that "*there were no real issues to report*". The project update report contains no details of the financial changes.

**Increase of expected cost by £64,390 – March 2013**

- 7.35 On 8 March 2013, Davis Langdon reported that the project was currently overspent by £64,390 (compared to the £4.330m<sup>29</sup> construction budget). Davis Langdon also stated that ISG were predicting a final account of £5.1m (some £800k above the initial budget). Davis Langdon note that they did not consider the final account figure to be accurate but state that provisions be put in place by CBC to cover the amount.
- 7.36 Davis Langdon go on to state that the overspend of £64,390 accounted for a 12 week extension of time claim but did not include an allowance for work associated with "*the No.51 wall*". This is highlighted by bold and underlined text within the report. Davis Langdon also state that it is their opinion that they predict a final cost of between £4.5m and £5.1m given the uncertainty around cost and the extent of the extension of time claims made by ISG. Again this is highlighted by bold and underlined text within the report.
- 7.37 The cost manager report included in the project update is dated February 2013 (report number 16). This includes the same detail as noted above. However, it does state that ISG application for payment dated February 2013 predicted a final account figure of £4.8m. The project update report includes a higher figure of £5.1m.

**Reporting to Project Team**

- 7.38 As noted at paragraph 7.33, the Davis Langdon project manager reported to the Project Team meeting of 13 March 2013 that there had been no changes to the project budget. The increase in the budget or potential final account figure is not included in the minutes of this meeting.

<sup>29</sup> Original budget of £4.230m plus £100k contingency transferred. Total £4.330m (see paragraph 7.15)

**Reporting to SLT**

- 7.39 The SLT meeting minutes for 26 March 2013 state that an update report was noted in the absence of the Project Sponsor. This update report does not contain any information with regard to the increase in expected costs.

**Correspondence with Project Sponsor**

- 7.40 The Senior User emailed the Project Sponsor on 22 March 2013 to inform them of the projected overspend reported in the March 2013 report. The Senior User notes the overspend of £64,390 and the prediction that the potential final cost could be in the range of £4.4m to £5.1m.
- 7.41 This information is not contained within meeting minutes or project update reports presented to the SLT from March 2013.
- 7.42 The Project Sponsor has noted, as stated in paragraph 3.3, that during this time their focus was on leading the creation of a new 'Charitable Leisure & Culture Trust' for the Council and as such they were absent from a number of SLT and Project Team meetings.

**Increase of expected cost by £133,590 – April 2013**

- 7.43 On 4 April 2013, Davis Langdon reported that the project was overspent by £133,590 and that ISG were still predicting a final account of £5.1m. The overspend of £133,590 is stated to include the costs of the rebuild of the No. 51 wall. Again Davis Langdon state that although they did not consider the final account figure to be accurate, provisions should be put in place to cover the amount. Davis Langdon also again state that they predict a final cost of between £4.5 and £5.1m. This is highlighted by bold and underlined text within the report.
- 7.44 The cost manager report included in the project update is dated March 2013 (report number 18). This includes the same detail as noted above. The cost manager report also notes that 32% of change items to date were outstanding and as such they had been un-priced by ISG. Davis Langdon note that there is a cost risk associated with these items.

**Reporting to Project Team**

- 7.45 The Project Team meeting minutes dated 10 April 2013 do not record that any increase in budget was discussed or mention given to the projected final account of ISG. This is also the case in the 8 May 2013 meeting minutes.

**Reporting to SLT**

- 7.46 The SLT meeting minutes dated 23 April 2013 and corresponding project update report do not record that any increase in budget was discussed or mention given to the projected final account of ISG. This is also the case in the 21 May 2013 meeting minutes and project update report.

**Increase of expected cost by £141,886 – May 2013**

- 7.47 On 13 May 2013, Davis Langdon reported that the project was overspent by £141,886 and that ISG were predicting a final account of £5.17m. Again Davis Langdon state that although they did not consider the final account figure to be accurate, provisions should be put in place to cover the amount. Davis Langdon also state that they predict a final cost of between £4.5 and £5.17m. This is highlighted by bold and underlined text within the report.
- 7.48 The cost manager report included in the project update is dated April 2013 (report number 18). This includes the same detail as noted above. The cost manager report also notes that 35% of change items to date were outstanding and as such they had been un-priced by ISG. Davis Langdon note that there is a cost risk associated with these items.

**Reporting to Project Team**

- 7.49 There was no Project Team meeting held in June 2013. The meeting of 10 July 2013 does not include a discussion regarding the increase to the budget. This is also the case of the Project Team meeting dated 14 August 2013. We are informed by the Senior User that Project Team meetings did not take place after 14 August 2013. Project progress meetings, which had commenced in June 2013, were held in their place. We have been provided with a copy of the progress meetings minutes for the following:

<b>Meeting number</b>	<b>Date</b>
1	7 June 2013
2	21 June 2013
5	2 August 2013
6	19 August 2013

- 7.50 We have not been provided with minutes for meetings 3 and 4.
- 7.51 Review of the minutes that have been provided show that no financial information about the costs of the project were discussed.

**Reporting to SLT**

- 7.52 The SLT meeting minutes dated 21 May 2013 and corresponding project update report do not record that any increase in budget was discussed or mention given to the projected final account of ISG. This is also the case in the 18 June 2013 meeting minutes and project update report.

**Project change items**

- 7.53 Throughout the project, Davis Langdon were reporting contract variations which included architects instructions, confirmation of verbal instructions, miscellaneous items, claims and provisional sums. These can be seen in **Appendix 3**.
- 7.54 The draft final account paper produced by AECOM dated 28 November 2013 showed the following:

<b>Description</b>	<b>Number of changes</b>	<b>Overall adjustment £</b>	<b>Of which agreed £</b>	<b>Of which pending £</b>
Provisional sums	17	<i>(84,517)</i>	(84,517)	-
Architects instructions	426	<i>782,964</i>	565,712	217,252
Variation log	589	<i>180,022</i>	23,487	156,535
Other cost issues/LE claim	11	<i>848,730</i>	11,144	837,586
	<u>1,043</u>	<u><i>1,727,199</i></u>	<u>515,826</u>	<u>1,211,373</u>

- 7.55 The Senior User noted that each area of the project was allocated a provisional sum by Davis Langdon and that if this provisional sum was thought to have been at risk of being exceeded due to changes required, the Davis Langdon Project Manager would seek authority from CBC to go ahead with the change. Any changes which were within the provisional sum were not required to have formal agreement by CBC regarding the cost of the change as the total provisional sum was not exceeded.
- 7.56 The Senior User also noted that due to the Project Sponsor spending less time on the project due to their focus on the new Charitable Leisure & Culture Trust, it was agreed between the Project Sponsor and senior User that the Senior User could authorise contract amendments up to £10,000. Anything over this amount had to be agreed by the Project Sponsor. We have not seen documentation to support this agreement.
- 7.57 The Senior User stated that contract amendments were almost always agreed verbally although some were agreed by email. There was no requirement to retain formal evidence of the agreement of the contract amendments.

### **Recommendations**

There was an appropriate mechanism in place for Davis Langdon to manage contract variations which were within the provisional sums and to obtain approval from CBC for those outside the provisional sums. However, this was not recorded by CBC and therefore there is no document trail showing the approvals by CBC of contract variations.

CBC should consider incorporating a formal requirement to have contract variations which exceed provisional sums agreed formally in writing and the evidence of this should be retained within the project files.

It should also be considered if a threshold over which this is applicable should be implemented and whether other thresholds should set out the requirement to have certain changes of higher value signed off formally by more senior members of CBC.

### **Correspondence with Project Sponsor**

- 7.58 On 17 May 2013, the Davis Langdon project manager emailed the Senior User stating that the project was forecasted to overspend by £141,886. However, the email also points out that the project is currently 23 weeks behind schedule and that ISG are forecasting a total cost of £5.17m which was an additional £635k more than what had already been reported ie the total overspend was predicted at £870k<sup>30</sup>.
- 7.59 This email was forwarded by the Senior User to the Project Sponsor on 22 May 2013. The Senior User points out that the project is overspent by £141,886. The email does not specifically draw attention to the potential additional £635k of overspend predicted by ISG but it is noted that the text states "*please see the attached email below from [Davis Langdon] on budgets and progress*".
- 7.60 This information was not recorded as reported to the SLT as it is not contained within meeting minutes or project update reports from May 2013.
- 7.61 The Project Sponsor has noted, as stated in paragraph 3.3, that during this time their focus was on leading the creation of a new 'Charitable Leisure & Culture Trust' for the Council and as such they were absent from a number of SLT and Project Team meetings.

### **Project updates post May 2013**

- 7.62 We have been informed by Davis Langdon that no project update reports were completed after the May 2013 report (report number 19).

<sup>30</sup> Original budget of £4.3m compared to predicted final cost of £5.17m



- 7.63 The Senior User informed us that Davis Langdon ceased creating their formal reports from May 2013 which was the time a new Davis Langdon project manager took over the project. The Senior User informed us that project updates from this time until the completion of the project were verbal and that the Davis Langdon project manager also gave a verbal update at Project Team meetings in July and August 2013. Review of the July and August 2013 Project Team minutes show that the Davis Langdon project manager was in attendance but it is not recorded that any financial information was discussed at these two meetings.

### **SLT project update reports**

- 7.64 At each SLT meeting, a project update report was presented. As part of this report, it is consistently stated that the *"Council has agreed to underwrite any funding gap up to a figure of £922k"*. This was based on the difference between the original budget of £6.3m and the secured fundraising of £5.378m (see paragraph 4.11).
- 7.65 When the project budget was revised down to £5.6m (some £700k less), the amount agreed to be underwritten by the Council was not revisited. It is in our view that the Cabinet should have been given the opportunity to discuss whether the agreed underwrite of £922k should have been revised. This was not the case. Had the Cabinet been given this opportunity, it may have been the case that the 'agreed' amount to be underwritten was also reduced by the same amount that the project budget had reduced ie to £222k. Therefore, the reporting of the agreement of the Council to underwrite £922k, although correct based on the original £6.3m budget, appears to show that an agreement has been made to support the costs of the project if they were c.£700k overspent (as the original budget had been reduced from £6.3m to £5.6m). If the Cabinet had been given the opportunity to discuss the maximum underwrite amount and had deemed that this should have been revised, this revised figure should have been that which was reported in the SLT project update reports.
- 7.66 It is also noted that the project update reports contained details of the remaining project contingency fund. This was presented in reports to SLT at meetings between 22 May 2012 and 23 April 2013. From May to November 2012, the unassigned contingency fund reported to SLT agreed to that reported by Davis Langdon. From December 2012 to April 2013, the project report presented to SLT consistently reported that the *"unassigned contingency fund stands at £150k. All unassigned contingency will remain allocated to the project until building works are fully complete & handover is achieved"*. However, Davis Langdon were reporting that the contingency fund during this period was £nil. They report that it is their opinion that the contingency fund has been *"fully expended"* on the project.

- 7.67 Although it is acknowledged that the SLT project update reports state that the unassigned contingency fund will remain in the project, the statement could have been misleading to the SLT as it was in fact Davis Langdon's view that no contingency fund remained.

### **Verbal update meetings between the Senior User and Project Sponsor**

- 7.68 We are informed by the Senior User that they held verbal one to one meetings with the Project Sponsor regarding the progress of the project. These meetings were initially held on a weekly basis and then monthly from around March/April 2013. The Senior User informed us that during these verbal meetings aspects of the financial impact of the project would be discussed. No formal record was made of these meetings.

- 7.69 The Project Sponsor confirmed that verbal one to one meetings were held with the Senior User but that from around the summer of 2012 were not as focused on the AG&M project due to the Project Sponsors other commitments regarding the 'Charitable Leisure & Culture Trust' (see paragraph 3.3). The Project Sponsor informed us that at this time, the Executive Sponsor had taken over more of the management of the project and that the one to one meetings with the Senior User were more focused on line manager aspects (as the Project Sponsor was the Senior User's line manager).

### **Cabinet reporting**

- 7.70 It is noted that none of the information regarding the increase in the project budget has been recorded as reported to the Cabinet during the project duration.
- 7.71 Discussion of the final account was presented at the 11 February 2014 meeting. This is discussed at paragraph 7.101.

### **Overview and Scrutiny Committee**

- 7.72 It is noted that none of the information regarding the increase in the project budget has been recorded in the minutes as reported to the Overview and Scrutiny Committee during the project duration.

### **Executive Board**

- 7.73 We have been provided with a copy of the Executive board minutes from 18 July 2013. The Senior User noted that they had given an update report at this meeting.

7.74 The minutes state that there was a potential liquidated damages claim of 33 weeks but that there was a possibility that up to 13 of these 33 weeks could be subject to a counter claim. It is also reported that the extension of time claim could amount to £160k and there was potential for a further £100k on top of this. Following completion of the project, the Council did not pursue a claim against ISG (see paragraph 7.82).

### **Project outturn briefing report**

7.75 At a meeting of the Executive Board held on 28 November 2013, it was agreed that AECOM<sup>31</sup> were able to negotiate a settlement figure up to £4.8m for the final account figure for ISG. This meeting was attended by the Chief Executive, the Executive Sponsor, the initial Project Sponsor and the Senior User. The meeting was also attended by a Director and Quantity Surveyor from AECOM.

7.76 The Quantity Surveyor noted that they had been able to certify £4.48m of the works but that it was the opinion of AECOM that a realistic settlement figure was between £4.7m and £4.8m.

7.77 A project outturn briefing report dated January 2014, prepared by the Senior User, was presented to the Cabinet at a meeting of 14 February 2014. This document states that ISG had provisionally agreed to a settlement figure of £4.78m. We have been provided with a copy of an unsigned final account agreement letter addressed to ISG from AECOM. This states that the final sum will be £4.78m (**Exhibit 2**).

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<sup>31</sup> Note that at this time, Davis Langdon had merged with AECOM and were referred to collectively as AECOM

7.78 Excluding the additional works relating to the café and other commercial spaces, the outturn report states the following as the project costs:

	<b>Davis Langdon budget</b>	<b>Budget<sup>32</sup></b>	<b>Actual</b>	<b>Variance</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Contract works</b>				
ISG	3,730	3,730	3,880	150
Contingency	500	600	600	-
Settlement of account	-	-	300	300
	<u>4,230</u>	<u>4,330</u>	<u>4,780</u>	<u>450</u>
<b>Client works</b>				
Architect fees	-	308	393	85
AECOM <sup>33</sup>	-	206	365	158
Dewhurst Macfarlane <sup>34</sup>	-	96	93	(3)
Buro Happold <sup>35</sup>	-	191	213	22
Other project management fees	-	72	99	27
Professional fees and allowances <sup>36</sup>	752	-	-	-
	<u>752</u>	<u>873</u>	<u>1,163</u>	<u>289</u>
Surveys	20	27	65	38
Fixtures, fittings and equipment	255	255	259	4
De/re-canting collection	150	150	211	61
Project contingency	100	-	-	-
	<u>525</u>	<u>432</u>	<u>535</u>	<u>103</u>
<b>Forecast additional costs</b>				
Prolongation fees	-	-	17	17
Up-lift fees	-	-	100	100
Re-canting expenditure	-	-	85	85
	<u>-</u>	<u>-</u>	<u>201</u>	<u>201</u>
<b>TOTALS</b>	<u><u>5,507</u></u>	<u><u>5,636</u></u>	<u><u>6,679</u></u>	<u><u>1,044</u></u>

7.79 It is noted that this differs from the budget breakdown set out in the Davis Langdon financial report as noted at paragraph 7.1 and we have therefore included this as a comparison.

<sup>32</sup> Refers to revised budget of £5.6m as we have not been provided with a breakdown of the £6.3m budget

<sup>33</sup> Quantity surveyor, project manager and structural engineer fees

<sup>34</sup> Original structural engineer who went out of business, replaced by AECOM

<sup>35</sup> Mechanical and electrical engineers

<sup>36</sup> £657k professional fees plus £95k fee allowances

- 7.80 The funding in place for the project (excluding the works for the café and commercial areas) and the resultant net shortfall is shown as follows:

	<b>Funds raised £'000</b>
AG&M Development Trust	1,741
University partnership	60
Friends of AG&M	250
Other contributions	4
LAGBI grant	35
Heritage Lottery Fund	750
AG&M Capital & Reserve	2,459
Development Trust-TBP	100
	<hr/> 5,398
Cost of project	6,679
Shortfall	<hr/> 1,281

#### **Variance in construction costs**

- 7.81 The reasons for the variances in construction costs are as set out in this Section of the report (paragraphs 7.15 to 7.52). The settlement of the final account is as noted at paragraphs 7.75 to 7.77.

#### **Potential for claim against ISG**

- 7.82 The Senior User informed us that CBC had been advised by Davis Langdon of a potential claim against ISG for extension of time damages, due to some of the delays encountered being at the fault of ISG (such as the issues with the concrete pouring set out at paragraphs 6.18 and 6.24). It was thought that had this been pursued some of the additional spending on the project would have been recouped, reducing the overall project overspend. However, review of Project Team, showed that the potential for a claim was not discussed in detail throughout the project. There was mention in the Project Team meeting of 13 June 2012 that *"if ISG are at fault for the delay, CBC are entitled to predefined damages"*. Mention of a possible claim was also presented in an update report to the SLT at their meeting of 19 June 2012 but this was the only occurrence and the claim was not further discussed.
- 7.83 It is also noted that mention was made of a potential claim at the Executive Board meeting of 18 July 2013 (paragraph 7.73).
- 7.84 The potential for a claim against ISG was not shown as being discussed in the minutes of Cabinet or Overview and Scrutiny Committee.

- 7.85 On 28 November 2013, AECOM produced a draft final account paper. This set out that ISG's current position was that they had incurred a cost £5,457,203 on the project (compared to an original contract budget of £4.3m (£3.7m plus £600k contingency). It is noted that pending 'claim related items' amount to £837,586. AECOM go on to state that majority of un-agreed items are contained within these claim related items.
- 7.86 AECOM state that it is their opinion that the likely outcome for the final account figure is £4.7m being the original contract sum plus agreed variations and allowing a further £454,171 for pending items and claim related items. In this document, AECOM do not opine on whether CBC should pursue a claim against ISG for liquidated damages.
- 7.87 On 23 January 2014, a representative from CBC's legal services department emailed the CBC Chief Executive, Director of Resources and Corporate Governance, Risk and Compliance Officer providing advice on the perusal of a claim against ISG. The email states that ISG have already agreed to a figure of £4.78m in full and final settlement of the matter, meaning that ISG would not pursue a claim for any outstanding amounts.
- 7.88 The legal advice given is that although the Council are in a position to be able to claim for liquidated damages, pursuing such a claim would be high risk due to the fact that ISG appear to have a legitimate claim for recovering more costs, should the matter litigate, which would cancel out any claim made by the Council for liquidated damages. It is noted that the actual quantum for any potential for the Council to claim liquidated damages is not stated, however, it is acknowledged that any claim would be lower, if successful, than ISG's claim.
- 7.89 On 11 February 2014, a report was provided to CBC Cabinet regarding the final account position with ISG. This report outlined that ISG had provisionally agreed to a figure of £4.78m in full and final settlement of the matter. The legal advice regarding the pursuit of a claim against ISG, the likelihood of success and the potential for ISG to also make a claim for increased costs is outlined within the report.
- 7.90 The Cabinet agreed that the sum of £4.78m should be put forward to settle the contract sum with ISG and hence no claims were to be made. Delegated authority was given to the Executive Sponsor to action this.
- 7.91 The final account agreement for £4.78m, stating that neither party would pursue additional claims, was signed by the Executive Sponsor on behalf of CBC on 4 March 2014.

**Variance in fees<sup>37</sup>**

- 7.92 As noted above at paragraph 7.78, professional fees are stated to be £289k over budget (or £411k<sup>38</sup> over budget compared to the original budget set out in the first financial report of Davis Langdon).
- 7.93 The Senior User informed us that the rise in professional fees was partly as a result of having to pay for another structural engineer (AECOM) once Dewhurst Macfarlane were taken off the project. The Senior User also informed us that the legal team within CBC are currently undertaking an exercise to review if any claim can be made against Dewhurst Macfarlane as there were a number of areas on the project that were not covered by them initially which AECOM had to rectify resulting in an increased cost.
- 7.94 The Senior User informed us that another reason for the increase in professional fees was as a result of the delays to the project which meant that more fees were having to be paid out to the various parties involved.
- 7.95 As stated in paragraph 7.10, Davis Langdon reported in December 2011 that the overall project budget had increased by £70,365. This was due to an increase in professional fees. However, as noted at paragraphs 7.13 and 7.14, this was not reported to the Project Team or SLT.
- 7.96 Review of Project Team, SLT, Cabinet and Overview and Scrutiny minutes showed that the total variance in professional fees was not reported throughout the project.

**Other variances<sup>39</sup>**

- 7.97 As noted above at paragraph 7.78, other variances are stated to be £103k over budget (or £10k<sup>40</sup> over budget compared to the original budget set out in the first financial report of Davis Langdon).
- 7.98 The Senior User informed us that the survey cost increase was in relation to the changes made throughout the project.

<sup>37</sup> Includes architect, AECOM, Dewhurst Macfarlane, Buro Happold, other project management fees and professional fees and allowances

<sup>38</sup> £1.163m less £752k

<sup>39</sup> Includes surveys, fixtures and fittings and de/re-canting

<sup>40</sup> £535k less £525k

- 7.99 The Senior User informed us that the fixtures, fittings and de/re-canting increased due to the pressure on CBC to open the AG&M following the delay in handover of the site by ISG. The opening was scheduled for 5 October 2013 and this deadline could not be missed. Therefore the cost of additional curators, professional movers and security personnel increased.
- 7.100 Review of Project Team, SLT, Cabinet and Overview and Scrutiny minutes showed that these other variances were not reported throughout the project.

#### **Cabinet meeting 11 February 2014**

- 7.101 In January 2014 an estimated outturn was prepared and presented to Cabinet on 11 February 2014 and Council on 14 February 2014. This report recommended the cabinet support the underwriting of an additional £360,000 of unbudgeted expenditure. The calculation of this figure was before the agreement of the final account and all costs had been reported in relation to the project.
- 7.102 The minutes of the Cabinet meeting dated 11 February 2014 state that the fundraising and sponsorship campaign would continue with a view to reducing the funding gap. The Senior User informed us that they have started working on this campaign with a current target of £380k to help reduce the funding gap.
- 7.103 The minutes also note that the Cabinet agreed to the settlement of the sums with ISG and that the additional shortfall in funding was to be included within the Council's budget.

#### **Final account**

- 7.104 In November 2014 a further analysis was carried out of the total project cost including the Design Stage and Additional Works (commercial spaces). This report has not dealt with the Design Stage and Additional Works costs. The analysis determined that there was a further unbudgeted shortfall on the project of £89,000 relating to either the Main Development or Additional Works.
- 7.105 We are advised that the reason for the difference will be subject to further consideration by internal audit.



### **Summary of the reporting of the financial aspects of the project**

- 7.106 As set out above, the construction costs of the project increased towards the end of the project. However, prior to this, concerns had been raised by Davis Langdon with regard to the use of the contingency fund and the potential final outturn cost proposed by ISG.
- 7.107 Updates on construction costs were regularly given by Davis Langdon within their monthly formal reports. The later reports clearly setting out the potential projected costs of ISG. The Senior User and CBC Property Officer were recipients of these reports.
- 7.108 The information outlined in the paragraphs above as included in the reports produced by Davis Langdon was not reported in any context to the Project Team, SLT, Cabinet or Overview and Scrutiny Committee.
- 7.109 Financial information regarding variations in the non-construction costs was also not reported to the Project Team, SLT, Cabinet or Overview and Scrutiny Committee.
- 7.110 Project update reports provided at SLT meetings consistently reported that the Council would underwrite the costs by £922k, but this was based on a project budget of £6.3m, not the £5.6m which the project had been revised to.
- 7.111 The Senior User informed us that CBC had been advised of a potential claim against ISG for extension of time damages. CBC did not pursue this due to the Cabinet agreeing, following legal advice, that it would not be of benefit to the Council to do so. However, the overall project costs were still greater than anticipated. It should have been the case that the total anticipated costs and any potential claim was reported in full to the relevant parties to make them aware of the range of values at which the final project costs might have come in at.
- 7.112 Reliance should not have been placed on the Davis Langdon project manager to verbally reiterate financial information which was already contained with the formal monthly report that had been prepared by Davis Langdon prior to the meeting. It is in our view that CBC should have reviewed those monthly reports and raised questions with the Davis Langdon project manager should any financial information discussed in the Project Team meetings not agree to that contained within the formal report.

***Recommendations***

The actual and projected expenditure to completion should be monitored against the detailed budget. The responsibility for preparing regular reports should be clearly allocated within the Council, unless the role has been passed to an external contractor. In line with the requirements set out for reporting within the PID, all financial variances to a large and complex project should be reported promptly and in full to the relevant Project Team, SLT, Cabinet and Overview and Scrutiny Committee meetings. The full extent of variances should be fully explained and the opportunity given to raise questions.

A primary control for monitoring the project costs is an effective reporting system for actual and expected costs. As a potential additional control, CBC should consider how to operate its purchase order system on capital projects.

It must be ensured that any significant revision to a project budget is communicated to the appropriate persons immediately.

## 8 RECOMMENDATIONS SUMMARY

Report ref.	Recommendation	Management response and agreed action	Agreed timescale
3.7	A Project Team was established which met on a regular basis.	Accept recommendation	
	If a Project Team is set out as a requirement to a project, the responsibilities of such a team and a basic agenda for what should be discussed at their meetings and required attendees should be set out within the PID.	There are project management procedures on the council's Intranet which identify the thresholds for the application of project management formality based on cost and risk and outline requirements for senior sponsorship, qualified project managers, composition of project boards, attendance requirements, management of budget, decisions, risks and issues etc.	
		Action has already been taken to reinforce the importance of clear project management processes, clarity of roles and responsibilities of team members and the application of guidelines at a meeting of the Senior Leadership Team and Service Managers on 14th July 2014.	Actioned
		The requirement to include a basic project team meeting agenda will be incorporated into the standard PID template.	Business Development Manager 30 April 2015
3.12	The structure established by CBC for managing the project was appropriate. However, for meetings to be effective, the requirements set out and agreed within a PID document in relation to the personnel needed to attend project meetings should be adhered to.	<b>Accept recommendation</b>	
	If certain key individuals are not available, a suitable replacement should attend in their stead. If this is not possible, consideration should be given to re-arranging the meeting for a date when the key individuals are available to ensure that the requirements as set out within the PID are adhered to.	This will be addressed as part of the review of project PID template / project management guidelines.	Business Development Manager 30 April 2015
		Project Sponsors / Managers will remind the project teams that attendance at meetings is critical.	Actioned

Report ref.	Recommendation	Management response and agreed action Accept recommendation.	Agreed timescale
3.20	If a decision is made not to undertake particular meetings as set out in the PID, this should be discussed, agreed and formally minuted by those with senior responsibility for a project. The implications of not undertaking such meetings should be considered and an appropriate way forward, which ensures the formal updating of all relevant parties, agreed.	<p>A review of project management PID / project management guidelines is already under consideration by the CBC project and programme managers to address the recommendations throughout this report.</p> <p>The conclusions of the review will be shared with the council's partners (for example Ubico and The Cheltenham Trust)</p> <p>This recommendation will be addressed as part of the review of project PID template / project management guidelines to ensure that a formal reporting mechanism is put in place including the sharing of project status reports on large, complex, high-risk projects with Cabinet Members.</p>	Business Development Manager 30 April 2015

Report ref.	Recommendation	Management response and agreed action Accept recommendation.	Agreed timescale
4.14	<p>A project budget was set but details of the basis and composition of the budget should have been made available to the SLT within the Council. Such evidence should be retained on the project files. The detailed budget composition should be reflected in the Agresso financial management system. Details of all project budgets produced and significant changes in costs should be presented to, discussed and agreed with the SLT at all stages throughout the design phase of a project.</p> <p>Any decisions made regarding variations to these budgets should be minuted and actioned appropriately.</p>	<p>As part of review of the project PID template / project management guidelines, consideration will be given to improving financial management and reporting including the potential for the adoption of monthly finance boards for specific projects.</p> <p>The CBC standard PID template will be updated to ensure project budgets are clearly defined with appropriate detail.</p> <p>The decision log template will be updated to ensure that budget changes are included.</p> <p>The suggested requirement to present information to SLT during the design phase will be extended to cover the whole life of the project.</p> <p>Any budget decision outside the remit of the project team requiring Cabinet / Council approval will be documented in the project status report to SLT and actioned.</p>	<p>Business Development Manager 30 April 2015</p> <p>30 April 2015</p> <p>30 April 2015</p> <p>Immediate</p>
5.6	<p>Where external meetings are held in discussion with potential tender candidates, in order to ensure a record exists, details of the meeting should be formally minuted and retained within the project files.</p>	<p><b>Accept recommendation.</b></p> <p>This will be included in the review of the project PID template / project management guidelines.</p> <p>GOSS will review the current procurement code / guidance toolkit to ensure that this is included.</p>	<p>Business Development Manager 30 April 2015</p> <p>Business partner – Procurement (GOSS) 30 April 2015</p>

Report ref.	Recommendation	Management response and agreed action Accept recommendation.	Agreed timescale
5.9	The current contract rules should be updated to reflect the process which must be followed if an external body undertakes a procurement exercise on behalf of CBC.	<p>The current Contract Rules (23.1) state that:</p> <p>‘Any consultants used by the Authority shall be appointed in accordance with these Contract Rules. Where the Authority uses consultants to act on its behalf in relation to any procurement, then the Authorised Officer shall ensure that the consultant carries out any procurement in accordance with these Contract Rules. No Consultant shall make any decision on whether to award a contract or who a contract should be awarded to. The Authorised Officer shall ensure that the consultant’s performance is monitored.’</p> <p>GOSS will review the current procurement code / guidance toolkit to emphasise the procedural requirements for when a third party undertakes a tender exercise on behalf of the Council following the production of a GOSS wide Procurement and Contract Management Strategy’ Refresher training to officers will be rolled out.</p>	<p>Authorised Officer</p> <p>Business partner - Procurement (GOSS) 30 April 2015</p>
5.9	It is our view that the suggestion for the awarding of any contract should be presented to, discussed and agreed at an SLT and Cabinet meeting or appropriate delegated authority discussed and granted. Any decision regarding delegated authority should be documented.	<p><b>Accept recommendation.</b></p> <p>Any recommendations for awarding contracts will be documented in the project status reports to SLT for discussion.</p> <p>These requirements will be emphasised in the ‘Revised Procurement code / guidance toolkit’ and covered in the refresher training to officers.</p> <p>The council already strengthened the decision making process by introducing new requirements to publish decisions, including those delegated from committees.</p>	<p>Project Sponsors / Manager</p> <p>Business partner - Procurement 30 April 2015</p> <p>Actioned</p>

<b>Report ref.</b>	<b>Recommendation</b>	<b>Management response and agreed action</b> <b>Accept recommendation.</b>	<b>Agreed timescale</b>
5.9	Tender acceptance documentation should be signed by all required parties. Copies of the signed documentation should be retained by the Council.	GOSS Procurement team recommend that for contracts over £100K in value that the Project Board should also sign to evidence approval and this be minuted.	Business partner - Procurement 30 April 2015
		These requirements will be emphasised in the 'Revised Procurement code / guidance toolkit' and covered in the refresher training to officers.	
		Project Initiation Document (PID) template will be amended to emphasise the need to include all responsibilities for ensuring project documentation is in order.	Business Development Manager 30 April 2015

<b>Report ref.</b>	<b>Recommendation</b>	<b>Management response and agreed action</b> <b>Accept recommendation.</b>	<b>Agreed timescale</b>
5.11 to 5.18	If financial aspects change throughout a project, the project risk register should be updated as appropriate outlining where the cost risk lies. This information should then be reported upwards to SLT and Cabinet through the next available formal update meeting.	At the SLT/SM session held on 14 July 2014, senior managers were reminded of the importance of reviewing and updating the project risk registers as changes occur.	Actioned
		Financial change, management and reporting through a project will be a key consideration in the review of project management guidelines.	
		The requirement to report to SLT and Cabinet should apply to large, complex, high risk projects (defined in CBC's Project Management Guidelines) and this will be reinforced in the revised project PID template / project management guidelines.	Business Development Manager 30 April 2015
		In future, project cost variances and significant changes to financial risk profiles on large, complex, high-risk projects will be formally reported to Cabinet as part of the quarterly budget monitoring reports or sooner if there is an issue which needs addressing.	Project Sponsors / Managers Immediate



<b>Report ref.</b>	<b>Recommendation</b>	<b>Management response and agreed action</b> <b>Accept recommendation.</b>	<b>Agreed timescale</b>
5.11 to 5.18	Any mitigating actions outlined within the risk register should be followed or revised should they no longer be deemed appropriate.	<p>At the SLT/SM session held on 14 July 2014, senior managers were reminded of the importance of reviewing and updating the project risk registers including mitigating actions as changes occur.</p> <p>Project risk registers will be appended to Operational Programme board (OPB) reports to SLT.</p> <p>Risk management refresher training will be rolled out across the organisation.</p>	<p>Project Sponsors / Corporate Governance Officer Actioned</p> <p>Actioned</p> <p>Corporate Governance Officer 30 April 2015</p>
5.23	Key stages of a capital project, such as the awarding of a contract, should be discussed and clearly documented within Project Team meetings. The rationale for awarding the contract and the procedure followed should also be discussed and documented.	<p><b>Accept recommendation.</b></p> <p>The revised project management guidelines will specifically include a requirement to formally minute the Contract award procedure and decision at a Project Board meeting.</p>	<p>Business Development manager 30 April 2015</p>

<b>Report ref.</b>	<b>Recommendation</b>	<b>Management response and agreed action</b>	<b>Agreed timescale</b>
Section 6	In line with the requirements set out for reporting within the PID, all time delays to a large and complex project should be reported promptly and in full at the relevant Project Team and SLT meetings. The full extent of delays should be fully explained and the opportunity given to raise questions.	<p><b>Accept recommendation.</b></p> <p>Delays to large, complex, high risk projects should be discussed at project teams and reported to SLT OPB using the project status update reports. If more prompt reporting is appropriate Executive Board <b>MUST</b> be informed.</p> <p>Copies of the OPB reports will be provided to Cabinet lead members. The revised project management guidelines will include this requirement. The project status update report template will be reviewed to allow for this to be captured.</p> <p>Where external technical Project Management support is engaged, the Project Sponsor will consider their attendance at SLT to provide an account of time delays and cost overruns.</p>	<p>Business Development manager 30 April 2015</p> <p>Project Sponsors 30 April 2015</p> <p>Project Sponsors Immediate</p>
Section 6	Project delays should also be reported promptly and in full at the next scheduled Cabinet and Overview and Scrutiny Committee meetings.	<p><b>Accept recommendation.</b></p> <p>The review of project management guidelines will consider how to address the need for formal reporting to Cabinet and Overview and Scrutiny committee.</p>	<p>Business Development Manager 30 April 2015</p>
Section 6	It must be ensured that any time revision to a project is communicated to the appropriate persons immediately.	<p><b>Accept recommendation.</b></p> <p>The review of project management guidelines will consider how to include this requirement in the communications / engagement plan.</p>	<p>Business Development Manager 30 April 2015</p>

Report ref.	Recommendation	Management response and agreed action Accept recommendation.	Agreed timescale
7.53 to 7.57	<p>There was an appropriate mechanism in place for Davis Langdon to manage contract variations which were within the provisional sums and to obtain approval from CBC for those outside the provisional sums. However, this was not recorded by CBC and therefore there is no document trail showing the approvals by CBC of contract variations.</p> <p>CBC should consider incorporating a formal requirement to have contract variations which exceed provisional sums agreed formally in writing and the evidence of this should be retained within the project files.</p> <p>It should also be considered if a threshold over which this is applicable should be implemented and whether other thresholds should set out the requirement to have certain changes of higher value signed off formally by more senior members of CBC.</p>	<p>The revised project management guidelines and updated procurement code will emphasise the need to ensure that contract variations and formal contract updates using appropriate templates are formally recorded.</p> <p>The review of project management guidelines will consider appropriate recording mechanisms for variations including threshold values and the use of contingency budgets which ensure that SLT are made aware of the variances.</p>	<p>Business Development Manager / Business Partner - Procurement 30 April 2015</p>
Section 7	<p>The actual and projected expenditure to completion should be monitored against the detailed budget. The responsibility for preparing regular reports should be clearly allocated within the Council, unless the role has been passed to an external contractor. In line with the requirements set out for reporting within the PID, all financial variances to a large and complex project should be reported promptly and in full to the relevant Project Team, SLT, Cabinet and Overview and Scrutiny Committee meetings. The full extent of variances should be fully explained and the opportunity given to raise questions.</p>	<p><b>Accept Recommendation.</b></p> <p>Financial variances on all projects <b>MUST</b> be discussed and recorded at the Project Board meetings.</p> <p>Financial variances on large, complex, high risk projects (as defined in CBC Project Management Guidelines) should be reported to SLT through the project status update reports. If more prompt reporting is appropriate Executive Board <b>MUST</b> be informed.</p> <p>The revised project management guidelines will emphasise the need to ensure formal reporting and the review will consider how to address reporting to Cabinet and Overview and Scrutiny committee.</p>	<p>Business Development Manager 30 April 2015</p>

<b>Report ref.</b>	<b>Recommendation</b>	<b>Management response and agreed action</b>	<b>Agreed timescale</b>
Section 7	A primary control for monitoring the project costs is an effective reporting system for actual and expected costs. As a potential additional control, CBC should consider how to operate its purchase order system on capital projects.	SLT /Service managers / project managers will be reminded of the need to utilise Purchase Order Management (POM) functionality in Agresso <b>Accept recommendation.</b>	SLT/SM 31 January 2015
Section 7	It must be ensured that any significant revision to a project budget is communicated to the appropriate persons immediately.	The review of project management guidelines will consider how to include this requirement in the communications / engagement plan. <b>Accept recommendation.</b>	Business Development Manager 30 April 2015

Grant Thornton UK LLP

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19 January 2015

# 1 REPORTING OF PROJECT PROGRESSION

Report ref	Date of Davis Langdon report	Issue reported	Project Team	SLT	Overview of Scrutiny Committee and Cabinet
6.6	04-Nov-11	Extension of deadline to 18-Oct-12	09-Nov-11 - Delay of two weeks reported	06-Dec-11 – delay of two weeks reported 03-Jan-12 – deadline extended to 18-10-12	Not reported
6.11	03-Feb-12	Extension of deadline to 08-Nov-12 – this was Davis Langdon's view due to issues on site	14-03-12 – reported that a possible delay to programme but that nothing formal had been received from ISG	28-Feb-12 – reported that there were issues with concrete pouring but exact extent of delay unknown	Not reported
6.22	05-Apr-12	Reported that there was a concerning level of delay	11-Apr-12 – reported that no information received from ISG as to delay	24-Apr-12 – reported that there was a nine week delay, deadline extended to 20-Dec-12	Not reported
6.30	03-May-12	Extension of deadline to 21-Dec-12	09-May-12 – reported nine week delay to project with revised completion of mid-December 2012	22-May-12 – minutes state that there was a delay to the project of seven weeks, not nine weeks. Project update report states nine weeks with mitigating measures in place to reduce by two weeks, deadline of 20-Dec-12	Not reported
6.34	06-Aug-12	Extension of deadline to 31-Jan-13	Meetings of August and September nothing reported	14-Aug-12 – reported that phased re-occupation from October 2012, deadline of 20-Dec-12 11-Sep-12 – reported that project progress was good	Not reported
6.39	10-Sep-12	Extension of deadline to 15-Feb-13	Meetings of September and October nothing reported	Meetings of September and October nothing reported	Not reported

Report ref	Date of Davis Langdon report	Issue reported	Project Team	SLT	Overview & Scrutiny Committee and Cabinet
6.42	08-Oct-12	Extension of deadline to 28-Feb-13	Meetings of October and November nothing reported	Meeting of October nothing reported November meeting states expected completion date unknown but also states as 20-Dec-12. Amber status allocated.	Not reported
6.47	06-Dec-12	Extension of deadline to 29-Mar-13 - this was Davis Langdon's view due to issues on site	12-Dec-12 – reported that possession of building granted by 31-Mar-13	29-Jan-13 – reported that there had been a slippage in the timetable and a revised soft opening date of August 2013 was suggested. Revised deadline of 31-Mar-13	Not reported
6.53	08-Feb-13	Extension of deadline to 26-Apr-13	13-Feb-13 – reported that full completion not achieved by March 2013 and some work will be undertaken in April 2013	26-Feb-13 – reported that there were no real issues with project. Partial handover by 31-Mar-13 and expected deadline 30-Apr-13. Amber status allocated.	Not reported
6.56	13-May-13	Extension of deadline to 28-Jun-13	08-May-13 – reported that project due to be completed by end of June 2013	23-Apr-13 – reported that expected opening date is 05-Oct-13 and completion of work in June 2013	Not reported
6.65 and 6.74	n/a	n/a	10-Jul-13 – reported that project finished by third or fourth week of August 2013	21-May-13 – deadline of 31-Mar-13	n/a
6.65 and 6.75	n/a	n/a	14-Aug-13 – reported that all work on site should finish by September 2013	18-Jun-13 – building work to be completed by early July 2013	n/a
6.65	n/a	n/a	n/a	16-Jul-13 - building work to be completed by early July 2013	n/a
6.65	n/a	n/a	n/a	13-Aug-13 – building to be progressively handed back during August 2013	n/a

6.65	n/a	n/a	n/a	10-Sep-13 – building to be progressively handed back during August 2013 with re-opening 05-Oct-13	n/a
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## 2 REPORTING OF FINANCIAL ASPECT OF CONSTRUCTIONS COSTS PROVIDED BY DAVIS LANGDON

Report ref	Date of Davis Langdon report	Issue reported	Project Team	SLT	Overview & Scrutiny Committee and Cabinet
7.10	12-Dec-11	Budget increase of £70k due to increase in professional fees and surveys	Meetings of December and January nothing reported	Meeting of January nothing reported	Not reported
7.15	31-Jan-12	Transfer of £100k project contingency to construction budget	Reported in meeting of 8 February 2012	Meeting of February nothing reported	Not reported
7.18	June 2012	Concerns over utilisation of contingency and that could run out before project complete	Meeting of July nothing reported	Meeting of July nothing reported	Not reported
7.21	September 2013	Concerns over un-priced items from ISG and costs could continue to develop as result of further works identified	10-Oct-12 - reported that figures quoted in contingency were Davis Langdon estimates	Project update report for November 2012 meeting states uncertainty about the contingency fund given the delays incurred by ISG but does not specifically mention un-priced items	Not reported
7.25	November 2012	Noted that ISG had included £200k in final account estimate for time and expense claims	Meetings of December and January nothing reported	Meetings of December and January nothing reported	Not reported

Report ref	Date of Davis Langdon report	Issue reported	Project Team	SLT	Overview & Scrutiny Committee and Cabinet
7.28	08-Feb-13	Project overspent by £50,722 with final account of ISG estimated at £4.7m (£400k higher than budget)	13-Feb-13 – project overspend of £50,722 not reported. Stated that Davis Langdon Project Manager stated cost increased by £15k	26-Feb-13 – reported that there were no issues in project	Not reported
7.35	08-Mar-13	Project overspent by £64,390 with final account of ISG estimated at £5.1m (£800k higher than budget)	Meeting of March nothing reported	Meeting of March nothing reported	Not reported
7.43	04-Apr-13	Project overspent by £133,590 with final account of ISG estimated at £5.1m (£800k higher than budget)	Meetings of April and May nothing reported	Meetings of April and May nothing reported	Not reported
7.47	13-May-13	Project overspent by £141,886 with final account of ISG estimated at £5.17m (£870k higher than budget)	No Project Team meeting in June. Meetings of July and August nothing reported	Meetings of May and June nothing reported	Not reported

**Summary of financial information contained within Davis Langdon cost reports**

Report no.	Approved	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	
Date of financial report	budget	05-Sep-11	04-Oct-11	31-Oct-11	13-Dec-11	31-Jan-12	06-Mar-12	10-Apr-12	30-Apr-12	01-Jun-12	06-Jul-12	Not provided	05-Sep-12	08-Oct-12	12-Nov-12	11-Dec-12	11-Feb-13	13-Mar-13	04-Apr-13	01-May-13	
<b>Contract sum</b>																					
Construction costs	3,730,003	3,730,003	3,730,003	3,730,003	3,730,003	3,730,003	3,730,003	3,730,003	3,730,003	3,730,003	3,730,003	Not provided	3,730,003	3,730,003	3,730,003	3,730,003	3,730,003	3,730,003	3,730,003	3,730,003	
	3,730,003	3,730,003	3,730,003	3,730,003	3,730,003	3,730,003	3,730,003	3,730,003	3,730,003	3,730,003	3,730,003		-	3,730,003	3,730,003	3,730,003	3,730,003	3,730,003	3,730,003	3,730,003	
<b>Contract variations</b>																					
Architect Instructions	-	-	1,031	29,517	60,747	126,881	144,916	172,685	251,596	275,176	324,797	Not provided	464,104	511,818	535,576	567,906	590,696	602,101	628,951	636,498	
Confirmation of Verbal Instructions	-	-	42,440	30,940	69,050	168,050	198,236	185,717	102,749	179,284	161,911	-	67,409	32,394	32,394	2,394	2,294	2,294	2,294	2,294	
Miscellaneous items	-	-	-	15,000	-	10,000	-	53,500	74,500	-	500	-	2,700	9,400	100,710	78,380	19,913	18,761	22,111	22,861	
Claims	-	-	-	-	-	40,000	40,000	40,000	40,000	40,000	40,000	-	40,000	40,000	56,000	56,000	130,000	130,000	169,000	169,000	
Provisional sums	-	-	(3,722)	(3,722)	(36,991)	(67,491)	(69,180)	(69,180)	(69,180)	(77,441)	(77,441)	-	(104,441)	(113,941)	(76,680)	(56,680)	(29,180)	(25,767)	(25,767)	(25,767)	
	-	-	39,749	71,735	92,806	237,440	313,972	382,722	399,665	417,019	449,767	-	469,772	479,671	648,000	648,000	713,723	727,389	796,589	804,886	
<b>Construction contingency</b>																					
Remaining construction contingency	500,000	500,000	460,251	428,265	407,194	362,560	286,028	217,278	200,335	182,981	150,233	Not provided	178,228	168,329	-	-	-	-	-	-	
	500,000	500,000	460,251	428,265	407,194	362,560	286,028	217,278	200,335	182,981	150,233	-	178,228	168,329	-	-	-	-	-	-	
<b>CONSTRUCTION SUB-TOTAL</b>	<b>4,230,003</b>	<b>4,230,003</b>	<b>4,230,003</b>	<b>4,230,003</b>	<b>4,230,003</b>	<b>4,330,003</b>	<b>4,330,003</b>	<b>4,330,003</b>	<b>4,330,003</b>	<b>4,330,003</b>	<b>4,330,003</b>		<b>4,378,003</b>	<b>4,378,003</b>	<b>4,378,003</b>	<b>4,378,003</b>	<b>4,443,726</b>	<b>4,457,392</b>	<b>4,526,592</b>	<b>4,534,889</b>	
																	Over budget	50,723	64,390	133,590	141,886
<b>Project costs</b>																					
Professional fees	657,000	657,000	807,949	807,949	815,365																
Allowance for additional fees	95,000	95,000	Included	Included	Included																
Allowance for surveys	20,000	20,000	20,000	20,000	27,000																
Allowance for decanting/storing current collection	150,000	150,000	150,000	150,000	150,000																
Allowance for FFE equipment and ICT	255,000	255,000	255,000	255,000	255,000																
	1,177,000	1,177,000	1,232,949	1,232,949	1,247,365																
<b>Project contingency</b>																					
Remaining project contingency	100,000	100,000	44,051	44,051	100,000																
	100,000	100,000	44,051	44,051	100,000																
<b>OTHER COSTS</b>	<b>1,277,000</b>	<b>1,277,000</b>	<b>1,277,000</b>	<b>1,277,000</b>	<b>1,347,365</b>																
<b>Anticipated outturn project cost</b>	<b>5,507,003</b>	<b>5,507,003</b>	<b>5,507,003</b>	<b>5,507,003</b>	<b>5,577,368</b>																
<b>Secured funding</b>	<b>6,300,000</b>	<b>6,300,000</b>	<b>6,300,000</b>	<b>6,300,000</b>	<b>6,300,000</b>																
<b>Variance</b>	<b>(792,997)</b>	<b>(792,997)</b>	<b>(792,997)</b>	<b>(792,997)</b>	<b>(722,632)</b>																

**NOTE 1**  
The construction budget increased by £100,000 due a transfer of budget from the 'project contingency'

**NOTE 2**  
A financial report was not provided in the project meeting pack this month

## 4 LIST OF DOCUMENTS PROVIDED

1. Davis Langdon Project Team Meeting 21 May 2013
2. Art Gallery & Museum Redevelopment Decision Log – 22 August 2013, 8 April 2013 & change control process paper
3. Programme Manager's report to operational programmes Board and Change Group – 10 April 2011
4. Programme Highlight Report – 11 April 2011 to 3 November 2011, 2 December 2011 to 22 December 2011, 23 December 2011 to 26 January 2012, 26 January 2012 to 21 February 2012, 22 February 2012 to 20 March 2012, 21 March 2012 to 19 April 2012, 20 April 2012 to 16 May 2012, 20 April 2012 to 16 May 2012, 17 May 2012 to 13 June 2012, 14 June 2012 to 12 July 2012, 13 July 2012 to 8 August 2012, 9 August 2012 to 6 September 2012, 7 September 2012 to 4 October 2012, 4 October 2012 to 1 November 2012, 2 November 2012 to 3 December 2012, 4 December 2012 to 28 January 2013, 29 January 2013 to 21 February 2013, 22 February 2013 to 22 March 2013, 23 March 2013 to 18 April 2013, 18 April 2013 to 15 May 2013, 16 May 2013 to 13 June 2013, 14 June 2013 to 15 July 2013, 10 July 2013 to 8 August 2013, 8 August 2013 to 9 September 2013
5. Cabinet Briefing Note – January 2012
6. SLT Minutes – 29 March 2011, 10 May 2011, 12 April 2011, 24 May 2011, 7 June 2011, 21 June 2011, 5 July 2011, 19 July 2011, 16 August 2011, 27 September 2011, 11 October 2011, 8 November 2011, 6 December 2011, 3 January 2012, 31 January 2012, 28 February 2012, 27 March 2012, 24 April 2012, 22 May 2012, 19 June 2012, 17 July 2012, 14 August 2012, 11 September 2012, 9 October 2012, 6 November 2012, 4 December 2012, 29 January 2013, 26 February 2013, 26 March 2013, 23 April 2013, 21 May 2013, 18 June 2013, 16 July 2013, 13 August 2013, 10 September 2013, 8 October 2013
7. Programme Progress Meeting No 1 – 7 June, No 2 – 21 June, No 5 – 2 August, No 6 19 August
8. The Wilson – Development Project Outturn Briefing Report – Cabinet 11 February 2014, Council – 14 February 2014
9. The Wilson – Development Project Outturn Briefing Report – January 2014
10. Executive Board Agenda – 28 November 2013
11. Email from Jane Lillystone to Sonia Phillips re AG&M OPB report dated 22 March 2013
12. Email from Jane Lillystone to Sonia Phillips re CAG&M PM Report – April 2013
13. Budget Monitoring Report 2011/12 – position as at February 2012 – Cabinet 17 April 2012, position as at February 2012 – Cabinet 17 April 2012.

14. Programme Managers report to Operational Programmes Board and Change Group – 15 July 2011 to 10 August 2011
15. General Fund Capital Programme – 19 June 2012 Capital Programme
16. Davis Langdon – Additional Scope v1.0 – Tender Report – July 2013
17. AGM Development Scheme Project Team notes and actions – Meeting No 1 4 May 2011, No 2 8 June 2011, No 3 11 July 2011, No 4 10 August 2011, No 6 12 October 2011, No 7 9 November 2011, No 8 14 December 2011, No 9 11 January 2013, No 10 8 February 2012, No 11 14 March 2012, No 12 11 April 2012, No 13 9 May 2012, No 14 13 June 2012, No 15 11 July 2012, No 16 8 August 2012, No 18 10 October 2012, No 19 14 November 2012, No 20 12 December 2012, No 21 9 January 2013, No 22 13 February 2013, No 23 13 March 2013, No 24 10 April 2013, No 25 8 May 2013, No 26 10 July 2013, No 27 14 August 2013
18. Redevelopment Meeting – 12 September 2012
19. Davis Langdon – Construction Pre- Start Meeting 3 August 2011
20. Davis Langdon – Construction Progress Meeting – 21 December 2011, 31 August 2011 30 November 2011, 26 January 2012, 29 February 2012, 28 March 2012, 25 April 2012, 30 May 2012, 27 June 2012, 25 July 2012, 29 August 2012, 26 September 2012, 31 October 2012, 28 November 2012, 30 January 2013, 27 February 2013, 27 March 2013, 24 April 2013, 29 May 2013, 16 August 2013
21. AGM Development Scheme Project Team – Notes and Actions – Reoccupation Meeting No 1 – 1 October 2012
22. AGM Redevelopment Scheme Project Team meeting – 10 April – Agenda
23. Programme Highlight Report – 22 February 2013 to 22 March 2013
24. Cheltenham Art Gallery & Museum Development Scheme – Stage D Sign off
25. Davis Langdon - CAG&M Stage D Cost Plan (Rev B1), Stage E (Rev 02)
26. Davis Langdon – reconciliation with previous estimate – costs
27. AECOM letter – 21 August 2014 – Final Account Agreement
28. Copy of minutes from the Executive Board Meeting on 28 November 2013 and the decision to settle final account with ISG
29. Council – 1 December 2003
30. Social and Community Overview and Scrutiny – 11 July 2011 – Cabinet 26 July 2011 – Towards a Commissioning Strategy for Leisure and Culture Outcomes – Preliminary Analysis – July 2011
31. Cabinet Meeting – 29 March 2006 draft minutes, 17 April 2007 draft minutes,
32. Buro Happold letter to Jane Lillystone – 2 November 2011 re Cheltenham Art Gallery

33. AECOM letter to Jane Lillystone – 16 February 2012 re Cheltenham Art Gallery and Museum, Structural Engineering Fee Proposal
34. The Wilson Cheltenham Art Gallery – Design Team Fees
35. Development Progress Report – January 2012
36. Review of the Art Gallery and Museum Project – Project Senior User Response/Statement August 2014
37. Email from Jane Lillystone to Robert Williams at Davis Langdon re CAG&M: PM Report dated 20 November 2012
38. Cheltenham Borough Council – Notes 18 July 2013
39. Cabinet Meeting – 15 April 2008 draft minutes
40. Social and Community Overview and Scrutiny Committee – 7 September 2009, 23 February 2009, 14 January 2009, 20 October 2008, 23 July 2008, 5 June 2008
41. Cabinet Minutes– 11 February 2014 Minutes, 14 January 2014, 12 November 2013, 17 September 2013, 5 February 2013, 17 July 2012, 19 June 2012, 7 February 2012, 13 December 2011, 26 July 2011, 21 June 2011, 7 December 2010, 26 October 2010
42. Draft Minutes – Cabinet 27 September 2011, 27 July 2010, 19 April 2011, 21 December 2010
43. Cabinet – 26 October 2010 – Update on the Art Gallery & Museum Development Scheme
44. Cabinet Meeting – Draft Minutes 22 June 2010, 9 February 2010, 22 September 2009, 21 July 2009, 10 February 2009, 24 June 2008, 3 June 2008
45. Cabinet – 21 September 2009 – Progress Report on the Art Gallery & Museum Development Scheme – Report of the Cabinet Member for Sport & Culture
46. Davis Langdon – Cheltenham Borough Council –Progress Report – 1(4 September 2011) to 17 (13 May 2013)
47. Davis Langdon – Contract – Volumes 1 to 2 – October 2011
48. AGM Redevelopment Risk Register 19 July 2011, 14 December 2012 and Final version
49. Davis Langdon – CAG&M – Levying of Liquidated Damages (LADs) Report – 17 July 2013 and final version
50. Cheltenham Borough Council letter to ISG Pearce re Letter of Intent – 14 July 2011
51. Tender Report – July 2011
52. AECOM letter to ISG re Final Account Agreement – 18 August 2014
53. Davis Langdon Mid Tender Meeting – 1 June 2011
54. Davis Langdon – Tender analysis – summary of project cost – potential range
55. CAG&M Development Scheme – January 2009 – Business Plan – Capital Programme

56. Building for a New Future: a sustainable development for Cheltenham Borough Council - Building for a New Future: Development Scheme - Business Plan: Capital Budget - Building & Design Expenditure / Income
57. Confidential 6 July 2010 - Cheltenham Art Gallery & Museum Development Trust – 6 July 2010 - single agenda meeting to discuss two key milestones
58. Development Progress Report – January 2013

## Exhibit 1

Extracts of Davis Langdon reports showing the breakdown of project costs



1 EXECUTIVE SUMMARY

Based on the design information provided by the Design Team (see Section 6), the Total Anticipated Out Turn Project Cost for the Cheltenham Art Gallery and Museum Project currently stands at £6,553,000, which is £541,000 over the Approved Budget of £6,012,000.

There is a project cost movement of £473,000 since Stage D Cost Plan (Rev B) was issued in July 2009. Section 3 includes a reconciliation with the previous estimate and a detailed reasoning for the increases for each building element. Please also note that this Cost Plan includes £52,000 anticipated project cost increase for additional scope to Nr. 51 Clarence Street.

From the above overspend of £541,000, we understand there is a potential additional funding of £452,000 to be included within the project. If this additional funding is secured, the anticipated project overspend will be £89,000. The items related to these additional funding are as follows:-

- Inclusion of the Ground Source Heat Pump Works within the main contract @ £210,000;
- Late User Changes @ £150,000;
- Additional M&E upgrading works to the Arts and Crafts Gallery within Hugh Casson Building @ £40,000;
- Additional scope to Nr. 51 Clarence Street @ £52,000.

Further to the above and through the design consultation process the Team have identified savings totalling (£193,000). Please see Section 9 for detailed breakdown. In conjunction to the Value Engineering Exercise which the Team will undertake in the next couple of days, we would also request that the Client confirm all the anticipated expenditure of various project on-costs (i.e. professional fees for the core team and other consultants, surveys, asbestos removal works, decanting, FF&E, equipment and ICT).

Should the additional funding be secured and should all the Value Engineering Proposals be fully approved, this will result in an Anticipated Project Cost underspend of £104,000 against the approved budget of £6,012,000.

2 PROJECT COST SUMMARY

	Base Project	New Build	Refurbishment	Stage E	Approved Budget	Difference
	GIA: 1232 m <sup>2</sup>	GIA: 268 m <sup>2</sup>	GIA: 1,535 m <sup>2</sup>	GIA: 1,500 m <sup>2</sup>	GIA: 35 m <sup>2</sup>	
	£	£	£	£	£	£
Total Elemental Cost	3,267,000	2,583	834,000	3,089	2,022	383
Main Contractors Prelims	518,000	409	133,000	423	516,000	79
Extra over for phased construction @ 2%	Excluded	-	Excluded	-	Excluded	-
Allowance for Client Contingencies, say 10%	379,000	300	97,000	309	395,000	232
<b>Sub Total Construction Costs at current date</b>	<b>4,164,000</b>	<b>3,292</b>	<b>1,064,000</b>	<b>3,405</b>	<b>4,359,000</b>	<b>509</b>
Inflation to Start on Site 3Q 2010 <sup>(i)</sup>	-	-	-	-	262,000	(154)
<b>Total Construction Costs at 4Q 2009</b>	<b>4,164,000</b>	<b>3,292</b>	<b>1,064,000</b>	<b>3,405</b>	<b>4,621,000</b>	<b>355</b>
Professional Fees @ 15.1%	628,000	496	160,000	593	696,000	54
Allowance for additional Fees @ 1.9% <sup>(ii)</sup>	79,000	62	20,000	74	-	58
Allowance for surveys	10,000	8	10,000	37	20,000	-
Allowance for asbestos removal	5,000	4	10,000	10	25,000	(6)
Allowance for decanting / storing current collection <sup>(iii)</sup>	150,000	119	Included	150,000	150,000	-
Allowance for FF&E, equipment, ICT <sup>(iv)</sup>	255,000	202	Included	255,000	500,000	(144)
<b>Sub Total Project Costs at 4Q 2009</b>	<b>5,291,000</b>	<b>4,183</b>	<b>1,264,000</b>	<b>4,681</b>	<b>6,012,000</b>	<b>317</b>
VAT @ 17.5% <sup>(iv)</sup>	Excluded	-	Excluded	-	Excluded	-
<b>Total Anticipated Out Turn Project Cost</b>	<b>5,291,000</b>	<b>4,183</b>	<b>1,264,000</b>	<b>4,681</b>	<b>6,012,000</b>	<b>317</b>

Notes

- (i) Allowance for inflation has been adjusted according to reflect current market conditions;
- (ii) Allowance for additional fees includes additional appointments (Catering Consultant, CDM-C etc) plus planning application etc. Please note that this Cost Plan excludes the potential overspend of £180,000 to the Professional Fees;
- (iii) Allowances only - client to confirm costs;
- (iv) Assumes project VAT exempt - client to confirm.

3 RECONCILIATION WITH PREVIOUS ESTIMATE

Item	Stage E (Rev 01)		Stage D (Rev B1 dated July 09)		Difference		Notes
	New Build	Refurbishment	New Build	Refurbishment	New Build	Refurbishment	
	£	£	£	£	£	£	
Demolitions	155,000	97,000	252,000	75,000	11,000	22,000	
Substructure	303,000	303,000	254,000	-	49,000	-	
Frame	424,000	3,000	389,000	3,000	35,000	-	
Roof	107,000	38,000	145,000	47,000	(53,000)	(9,000)	Review of roof structure within this section - please also see the Roof Section for the completed savings due to this cost transfer.
Stairs	111,000	10,000	121,000	10,000	7,000	-	Transfer of roof structure into the Frame Section (E54); reduced roof area to North & South of High Casston Building (E56); reduced rooflight area (E 50).
External Walls, Windows and Doors	458,000	38,000	496,000	63,000	(3,000)	(25,000)	Increased quantity of glass balustrades to annum area.
Internal Walls, Partitions and Doors	181,000	107,000	288,000	44,000	43,000	63,000	Inclusion of repairs / in-fill works of the refurbishment areas within the Demolition and Alteration Section.
Wall Finishes	35,000	18,000	53,000	25,000	(39,000)	(7,000)	Increased walls due to omission of WC cubicles (E20K); increased doors (E40K) and use of non standard doors (E30K); 3rd glazed doors in lieu of solid (E54).
Floor Finishes	80,000	19,000	99,000	22,000	8,000	(3,000)	Omission of ceramic tiling to WC's (E19K); omission of wet plaster to new build (E19K); omit acoustic finish to kitchen (E5K); reduced plywood lining (E15K).
Celling Finishes	32,000	15,000	47,000	16,000	(1,000)	(1,000)	Timber flooring to 1st Level picture gallery area (E13K); increased area for bairner meeting (E6K); increased rate for Lino flooring (E23K).
Fixtures and Fittings	65,000	122,000	187,000	116,000	(4,000)	6,000	Handrails to both sides of ramps (E4K); motorised roller blinds to 3rd Level (E20K).
Sanitary Appliances	10,000	4,000	14,000	5,000	-	(1,000)	Increased rainwater pipework (E3K).
Disposal Installations	26,000	11,000	37,000	9,000	2,000	2,000	Increased size of portable water storage tank (E6K); additional water point to kitchen (E4K).
Water Installations	48,000	12,000	60,000	8,000	6,000	4,000	Inclusion of GSHP (E25K).
Heat Source	151,000	-	151,000	-	119,000	-	Inclusion of CHP (E25K).
Ventilation, Space Heating and Air Treatment	355,000	178,000	533,000	141,000	-	37,000	Increased size of chiller (E3K); add actuators to louvres (E6K); additional fire dampers (E3K); upgrade and add 1st AHU (E30K); reduced LTHW (E20K).
Electrical Installations	282,000	51,000	333,000	45,000	(28,000)	6,000	Omission of UPS (E26K) and increase in specialist lighting (E19K).
Natural Gas Installations	25,000	8,000	33,000	2,000	2,000	6,000	Review cost allowances based on ADT's quote.
Protective Installations	9,000	1,000	10,000	1,000	1,000	-	
Communications Installations	115,000	35,000	150,000	56,000	(11,000)	(21,000)	
Specialist Installations	75,000	18,000	93,000	18,000	2,000	-	
Lifts	79,000	-	79,000	83,000	(4,000)	-	
Builders Work in Connection	57,000	14,000	71,000	13,000	4,000	1,000	
M&E services to No 51	-	-	-	-	-	-	
External Services	63,000	-	63,000	-	-	-	Reduced scope for making good of external paving.
External Works	21,000	21,000	30,000	-	(9,000)	-	Increased scope to Nr. 51 Clarence Street, including internal finishes and general lighting and small power increase.
Additional Works to Refurbishment Area	-	35,000	-	-	-	35,000	
<b>Sub Total</b>	<b>3,287,000</b>	<b>834,000</b>	<b>4,101,000</b>	<b>719,000</b>	<b>137,000</b>	<b>115,000</b>	<b>252,000</b>
Main contractor's prelims (say 52 weeks)	518,000	133,000	650,000	108,000	48,000	25,000	73,000
Extra over for phased construction	379,000	Excluded	Excluded	Excluded	Excluded	Excluded	Excluded
Allowance for client contingencies, say 10%	-	97,000	475,000	79,000	63,000	18,000	80,000
<b>Sub total construction costs at current date</b>	<b>4,164,000</b>	<b>1,064,000</b>	<b>5,226,000</b>	<b>906,000</b>	<b>248,000</b>	<b>158,000</b>	<b>405,000</b>
Inflation allowance to 3Q 2010	-	-	-	-	-	-	-
<b>Total Construction Costs at 4Q 2009</b>	<b>4,164,000</b>	<b>1,064,000</b>	<b>5,226,000</b>	<b>906,000</b>	<b>248,000</b>	<b>158,000</b>	<b>405,000</b>
Professional Fees (Core Team) @ 15.1%	628,000	160,000	788,000	591,000	37,000	24,000	61,000
Allowance for additional fees @ 1.9%	79,000	20,000	99,000	74,000	5,000	3,000	8,000
Allowance for Surveys	10,000	10,000	20,000	10,000	-	-	-
Allowance for Asbestos Removal	5,000	10,000	15,000	5,000	-	-	-
Allowance for Decanting	150,000	Included	150,000	Included	-	-	-
Allowance for FF&E, equipment, ICT	255,000	Included	255,000	Included	-	-	-
<b>Sub total Project Costs at 4Q 2009</b>	<b>5,291,000</b>	<b>1,264,000</b>	<b>6,553,000</b>	<b>5,001,000</b>	<b>230,000</b>	<b>185,000</b>	<b>473,000</b>
VAT @ 17.5%	-	-	-	-	-	-	-
<b>Total Anticipated Out Turn Project Cost</b>	<b>5,291,000</b>	<b>1,264,000</b>	<b>6,553,000</b>	<b>5,001,000</b>	<b>230,000</b>	<b>185,000</b>	<b>473,000</b>

## 1 EXECUTIVE SUMMARY

This Stage D Cost Plan is based upon the information made available by the Design Team (listed in Section 6), which incorporates changes as a result of the consultation process with CABE and English Heritage.

The Total Anticipated Out Turn Project Cost now stands at £6,080,000 which is £80,000 over the Approved Budget of £6,000,000. Section 3 includes a reconciliation with the previous estimate and a detailed reasoning for the increases for each building element. This overspend was reduced by £368,000 since Stage D Cost Plan (Rev A) was issued in February 2009.

The Team have identified savings totalling £95,000 which, if secured, will create an underspend of £15,000. Through the design consultation process the Team have confirmed that savings totalling £78,000 are no longer achievable. The items no longer achievable are:-

- a) Omit powder floated concrete replace with floor finish of £60/m<sup>2</sup> (e.g. quarry tiles) to workshop only @ (-£1,000)
- b) Omit powder floated concrete replace with floor finish of £60/m<sup>2</sup> (e.g. quarry tiles) generally @ (-£14,000)
- c) Omit acoustic wall panels and replace with plasterboard @ (-£9,000)
- d) Retain the existing entrance and screens to Hugh Casson Building @ (-£33,000)
- e) Omit blackout blinds to gallery spaces @ (-£12,000)
- f) Omit works to upgrade security system to Hugh Casson building @ £27,000 (saving achieved although was previously marked as unachievable)
- g) Rationalise fire detection system @ (-£5,000) as the current proposed saving is (-£4,000) in lieu of the previously agreed saving at (-£9,000)
- h) Rationalise level of humidity control to gallery spaces @ (-£24,000)
- i) Rationalise small power distribution @ (-£7,000) as the current proposed saving is (-£7,000) in lieu of the previously agreed saving at (-£14,000)

## 2 PROJECT COST SUMMARY

Base Project	New Build		Refurbishment		Stage D (Rev B1)		Approved Budget		Difference	
	GIA: 1232 m <sup>2</sup>	£	GIA: 268 m <sup>2</sup>	£	GIA: 1,500 m <sup>2</sup>	£	GIA: 1,705 m <sup>2</sup>	£	GIA: 1,705 m <sup>2</sup>	£
Total Elemental Cost	3,130,000	2,541	719,000	2,683	3,849,000	2,566	3,437,000	2,016	412,000	242
Main Contractors Prelims and OHP @ 15%	470,000	381	108,000	403	577,000	385	516,000	303	61,000	36
Extra over for phased construction @ 2%	Excluded	-	Excluded	-	Excluded	-	Excluded	-	-	-
Allowance for Client Contingencies	316,000	256	79,000	295	395,000	263	395,000	232	-	-
<b>Sub Total Construction Costs at current date</b>	<b>3,916,000</b>	<b>3,179</b>	<b>906,000</b>	<b>3,381</b>	<b>4,821,000</b>	<b>3,214</b>	<b>4,348,000</b>	<b>2,550</b>	<b>473,000</b>	<b>277</b>
Inflation to Start on Site 4Q 2009 <sup>(i)</sup>	-	-	-	-	-	-	261,000	153	(261,000)	(153)
<b>Total Construction Costs at 4Q 2009</b>	<b>3,916,000</b>	<b>3,179</b>	<b>906,000</b>	<b>3,381</b>	<b>4,821,000</b>	<b>3,214</b>	<b>4,609,000</b>	<b>2,703</b>	<b>212,000</b>	<b>124</b>
Professional Fees @ 15.1%	591,000	480	137,000	511	728,000	485	696,000	408	32,000	19
Allowance for additional Fees @ 1.9% <sup>(ii)</sup>	74,000	60	17,000	63	91,000	61	-	-	91,000	53
Allowance for surveys	10,000	8	10,000	37	20,000	13	20,000	12	-	-
Allowance for asbestos removal	5,000	4	10,000	37	15,000	10	25,000	15	(10,000)	(6)
Allowance for decontaminating / storing current collection <sup>(iii)</sup>	150,000	122	Included	-	150,000	100	150,000	88	-	-
Allowance for FF&E, equipment, ICT <sup>(iii)</sup>	255,000	207	Included	-	255,000	170	500,000	293	-	-
<b>Sub Total Project Costs at 4Q 2009</b>	<b>5,001,000</b>	<b>4,059</b>	<b>1,080,000</b>	<b>4,030</b>	<b>6,080,000</b>	<b>4,053</b>	<b>6,000,000</b>	<b>3,519</b>	<b>325,000</b>	<b>191</b>
VAT @ 17.5% <sup>(iv)</sup>	Excluded	-	Excluded	-	Excluded	-	Excluded	-	Excluded	-
<b>Total Anticipated Out Turn Project Cost</b>	<b>5,001,000</b>	<b>4,059</b>	<b>1,080,000</b>	<b>4,030</b>	<b>6,080,000</b>	<b>4,053</b>	<b>6,000,000</b>	<b>3,519</b>	<b>325,000</b>	<b>191</b>

### Notes

- (i) Allowance for inflation has been adjusted according to reflect current market conditions
- (ii) Allowance for additional fees includes additional appointments (Catering Consultant, CDM-C etc) plus planning application etc.
- (iii) Allowances only - client to confirm costs.
- (iv) Assumes project VAT exempt - client to confirm.



## Exhibit 2

Unsigned final account agreement letter addressed to ISG from AECOM

21 August 2014  
SOC/AL

Rob Martin / Jeremy Gorman  
ISG  
Parklands,  
Hambrook Lane,  
Stoke Gifford,  
Bristol  
BS34 8QU

Dear Rob / Jeremy,

**Cheltenham Art Gallery & Museum | Final Account Agreement**

This letter represents an agreement between the Employer and the Contractor to vary the Contract in order to compromise by full and final settlement all direct or indirect loss and/or expense costs, delays and claims actual or potential in respect of the period between the commencement of the Contract.

The following Enclosures are attached hereto:

- Appendix A: Final Account Agreement Report dated 02 December 2013.

Notwithstanding the position described above, in consideration of the benefits and obligations passing between the parties in accordance with the contract, the Employer and the Contractor have agreed to the following terms of settlement in respect of all delays between the commencement of the Contract and the date of this letter:

1. The Employer shall pay to the Contractor the sum of **£4,780,000** for full and final settlement of the Final Account as discussed above;
2. The Employer shall not pursue Liquidated Damages; and
3. The Contractor shall pursue no claim for an extension of time or loss and expense or otherwise by way of a relevant event in respect of any delay to the Contract or Subcontract;

The Employer signifies his agreement to these terms by the issue of this Letter.

.....  
(Signed for the Employer) (Date)

The Contractor signifies his agreement to these terms by countersigning below:

.....  
(Signed for the Contractor) (Date)

Yours sincerely

**Andrew Langmaid**  
Director  
AECOM

Enc. Appendix A: Final Account Agreement Report dated 02 December 2013.

## Exhibit 3

Redacted Cheltenham Art Gallery and Museum Redevelopment  
- Project Initiation Document (PID)





# Art Gallery and Museum Redevelopment

## PROJECT INITIATION DOCUMENT

<b>Author</b>	REDACTED, Project Manager
<b>Owner</b>	REDACTED, Project Sponsor

### DOCUMENT HISTORY

<b>Document Location:</b>	S:\Special Projects\AGM redevelopment Project\Start Up and Closure\AG&M Project Initiation Document.doc
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Version Number	Version Date	Summary of Changes
0.1	June 2011	First draft
0.2	June 2011	Second draft
0.3	4 July 2011	Third draft
0.4	7 July 2011	Fourth draft
0.5	14 July 2011	Fifth draft
0.6	19 July 2011	Sixth draft following SLT review
0.7	2 August 2011	Following further suggestions from REDACTED
0.8	11 August 2011	Changes following project team meeting including definitions of construction roles

**This document is to be approved by:**

Name	Role	Version approved
REDACTED	Project Sponsor	0.4
REDACTED	Cabinet Member for Sport and Culture	0.6
REDACTED	Heritage Lottery Fund	



## 1 Project Background

Cheltenham Art Gallery and Museum (AG&M) was established between 1898 (gallery) and 1907 (museum) and now holds several outstanding collections (many of which were given by local people); including a nationally designated Arts and Crafts Movement collection, much of which relates to the Cotswolds.

In April 2005 Cheltenham Borough Council (CBC) Cabinet commissioned a major strategic review report on culture in Cheltenham (the 'Pratley' report) to ensure its future health and sustainable development. The report was approved by Cabinet in March 2006 – outlining the major conclusions and the Council actions to be taken as a result of the findings, which included outline proposals for the construction and refurbishment costs of £4m, as part of a development scheme at the AG&M.

Since the review, progress on the scheme has been steadily maintained, and in June 2007, a two-stage RIBA Open Design Competition was launched. A total of 77 international entries were received, and, following two stages of public consultation, shortlisting and views from an expert Advisory Panel and the Competition Jury Panel, the architects, Berman Guedes Stretton were appointed.

Fundraising continued throughout 2008, 2009 and 2010 and, in October 2010, the cabinet agreed to delay the scheme until the outcome of a bid to the Heritage Lottery Fund was known and to underwrite the additional funding requirement. Following HLF confirmation of funding, the AG&M closed its doors to the public on 31 March and decanting started on 1<sup>st</sup> April.

This project initiation document defines the work needed to redevelop the AG&M and bring it back into operation.

## 2 Project Definition

### 2.1 Project Objectives

The objective of the project is the redevelopment and reopening of the Cheltenham Art Gallery and Museum to provide, as specified in the agreed design:

- a dedicated picture gallery
  - centralised storage and workshop areas
  - public archive and other study facilities
  - flexible temporary exhibition galleries
  - dedicated spaces for schools and other learning projects (formal and informal learning), outreach services and arts development programmes
  - ground floor café / bistro and separate retail outlet
  - ground floor reception and informal display areas
  - a pedestrian link between Clarence Street and Chester Walk
- to be fully open not later than April 2013.

The project makes a substantial contribution to CBC's corporate objective of

*enhancing the provision of arts and culture*

CBC's commitment to the project is reflected in its identification as an action on its five year strategy framework.

## 2.2 Approach

The project will be managed according to PRINCE2 standards supported by CBC's own in-house guidelines for resource management, reporting etc.

The project will report formally every four weeks, along with other major corporate programmes and projects (currently six in number), directly to CBC's Operational Programmes Board, made up of its Senior Leadership Team and programme managers.

Additionally CBC's corporate strategy, which includes this project, is monitored

- quarterly by the Senior Leadership Team
- every six months by the council's Economy and Business Improvement Overview and Scrutiny Committee and the council's Cabinet.

## 2.3 Project deliverables

The main deliverables of the project will be:

1. The redeveloped and refurbished building. It is the responsibility of the appointed building contractors to deliver the building according to the agreed plans.
2. Completion of the organisational re-structures and appointment of new teams including the merger of the AG&M Visitor Services team with the Tourist Information Centre's team.
3. The completion of the re-canting and fitting-out programmes and the re-opening of the building to the public.
4. The relocation of the Tourist Information Centre within the new ground floor reception area
5. Operational procedures – including the revised Normal Operating Plan / Emergency Action Plan and completion of the 10-year Management & Maintenance Manual
6. Staff fully trained in the operation of the redeveloped building.
7. Agreements with partners, tenants and suppliers of services
8. Awareness of the redevelopment and relaunch (including rebranding) throughout the community and other stakeholders.
9. Completion of the Evaluation Report with reference to the completion of the project and the Activity programme
10. Financial statements of funds raised and their application.
11. Installed and tested technology

## 2.4 Scope and Boundaries

### Within Scope

- As described above

### Outside Scope

- Physical integration with the Library building

- AG&M Programme taking place during the shutdown of the main site
- Re-decoration of the third floor offices (1989 building)
- Refurbishment of the events space on the first floor (current meeting room)

## 2.5 Constraints

The project's constraints are:

- The building must be fully open by April 2013 when it will host the Major National Portrait Gallery Exhibition
- The project must meet HLF funding conditions:
  - A project execution plan by the end of July, which sets out the clear objectives / deliverables, before HLF allow work to start.
  - A full partnership agreement in place before the end of December 2011 with the University of Gloucestershire (Summerfield gallery) and Gloucestershire Guild of Craftsman (retail shop)
- CBC's support for the underwriting of any funding shortfall after October 2010 must not exceed £922K
- The Art Gallery and Museum must be able to maintain a programme of educational and outreach services during the period when the main building is closed.

## 2.6 Dependencies

Other CBC projects are potentially dependent upon the redevelopment:

- Leisure and Culture Review – the review reports to Cabinet in July 2011 on the leisure and culture needs of the community and will recommend that a business case is developed, by April 2012, to propose the most appropriate delivery arrangement for the AG&M which
  - delivers the outcomes and measures of success required by the Heritage Lottery Fund;
  - meets the requirements of the HLF special conditions;
  - creates an opportunity to secure wider economic and creative growth as well as the regeneration potential that a cultural quarter presents for the town; and
  - reduces the ongoing AG&M operational subsidy (based on an appropriate business case)
 and that, as part of this process, there is engagement with all relevant partners and stakeholders to ensure that options and outcomes are fully identified, assessed and consulted upon.
- Cheltenham Development Task Force – the task force is delivering a revitalised urban environment and is developing ideas and plans for the areas around the AG&M - Cheltenham's Cultural Quarter.

The dependencies will be monitored by the programmes / projects themselves and the council's Operational Programmes Board (see section 2.2 above)

## 3 Assumptions

None identified at present

## 4 Initial Business Case

### 4.1 Benefits

The anticipated benefits of the project are:

- Transform the AG&M enabling it to attract national and international touring collections
  - Increase (physical) visitor figures from around 74,000 per year to 115,000 per year.
  - More diverse audiences introduced to, and participating in heritage, specifically by targeting six key groups
    - Young people aged 16-25
    - Students
    - People from under-represented groups (including culturally diverse / socio-economic disadvantaged families)
    - Locals (from Cheltenham, Gloucester, Gloucestershire)
    - Teachers and school groups
    - Day visits (e.g. tourists from counties surrounding Gloucestershire, South West and adjoining regions, and visitors from the wider UK and overseas)
- including doubling the percentage of visitors from under-represented groups
- Contribute to the long-term sustainability of Cheltenham's cultural offer, working with cultural partners and providers such as the University of Gloucestershire and the Gloucestershire Guild of Craftsmen
  - Increase visitor engagement, participation, learning and enjoyment
  - Engage more people in training opportunities
  - Increase access to the site and the surrounding area
  - Engage more people in a range of voluntary activities and more diverse volunteers
  - Make a major contribution to CBC's target outcome of using arts and culture to strengthen communities, strengthen the economy and enhance and protect our environment.
  - As a result of the increased space, a greater proportion of the collections will be on show at any one time.
  - Provide a first step in the development of a Cheltenham Cultural Quarter including the area around St Mary's Church by encouraging the use of facilities by diverse organisations and by opening up access to the churchyard
  - A new base for the Tourist Information Centre making the service fully accessible for all its users and adding value through the café and retail outlet leading to an improved service at lower cost.
  - AG&M operational subsidy reduction of £50K p.a. from 2013/4

Overall responsibility for realising benefits rests with the Museum, Arts and Tourism Manager supported by the Director – Wellbeing and Culture.

Responsibility for checking that the project is on track to deliver benefits rests with the project board during the lifetime of the project.

A plan for benefits realisation will be developed during the project and all outstanding responsibilities and actions arising from it will be assigned during project closure.

## 4.2 Costs

The anticipated capital cost of the redevelopment is £6.3M. £5.38M has been raised so far (May 2011).

Capital costs are met by a number of organisations and individuals including:

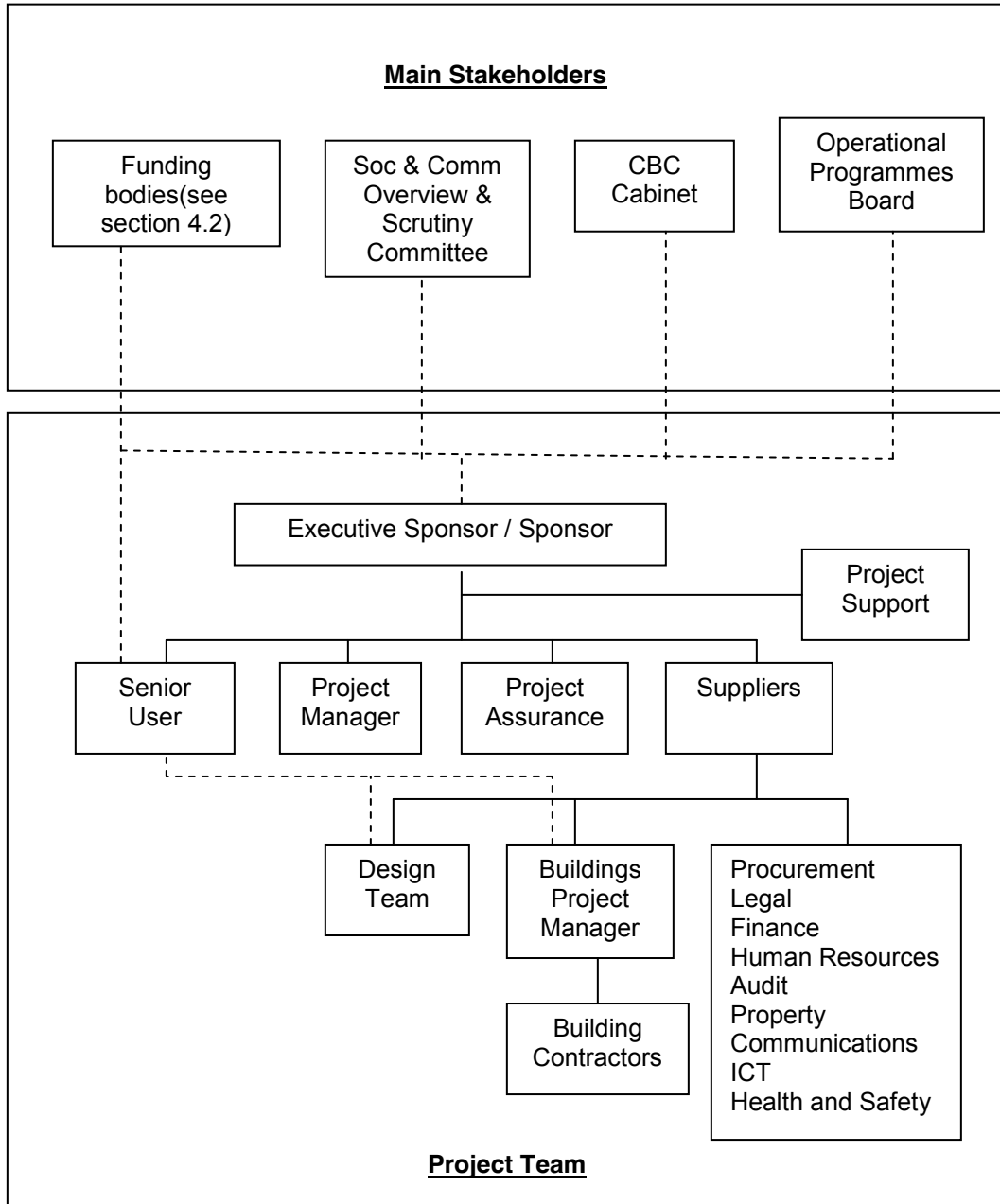
- Cheltenham Art Gallery & Museum Development Trust
- Heritage Lottery Funding
- Summerfield Charitable Trust
- Friends of Cheltenham Art Gallery and Museum
- The Monument Trust
- Foyle Foundation
- Garfield Weston Foundation
- Wolfson Foundation
- Cheltenham Borough Council

Fundraising efforts are continuing to cover the outstanding costs, CBC has agreed to underwrite any shortfall up to £922K.

The internal staff costs of the project are estimated as between 4 and 6 person years and are set out in more detail in section 8.2 below.

The anticipated ongoing costs are included in the council's Medium Term Financial Strategy.

5 Project Organisation



The diagram above shows the structure of the project team and its relationship to the main stakeholders. A full list of stakeholders is included in section 6 below.

The responsibilities of project team roles are set out at length in CBC’s online project management guide and the PRINCE2 methodology. The notes below are intended to summarise the most important aspects.

Role	Role holder	Summary of Responsibilities
Executive Sponsor	REDACTED	Ensures support from the council’s executive board and represents the project at that level.
Sponsor	REDACTED	Ensuring the success of the project – that it meets its objectives and that its deliverables allow the projected benefits to be achieved. Represents the project at senior leadership team level (including reporting to the Operational Programmes

Role	Role holder	Summary of Responsibilities
		Board) and gains commitment from major stakeholders and participants.
Senior User	REDACTED	Ensuring that what is delivered meets the needs of its users (community, customers, tenants and staff). Overall responsibility for delivering project benefits. Liaises with fundraising bodies and cabinet member, the Buildings Project Manager, the Design Team (architects, QS, M&E, structural engineers) and CDM Co-ordinator
Architect	REDACTED	Coordination of the design team. Overall responsibility for the delivery of the design. Prepare information for and liaise with statutory authorities. Achieve sign off from statutory authorities Administer the building contract.
Design Team	REDACTED	Prepare design of the elements of the building. Prepare specifications and design drawings. Inspection of the built works
Buildings Project Manager	REDACTED	Ensuring the redevelopment and refurbishment of the building within budget, time and quality targets.
Clerk of Works	REDACTED	Represent the interests of the client with regards to ensuring quality of both materials and workmanship standards
Project Manager	REDACTED	Ensures all deliverables meet budget, time and quality targets.
Legal Support (contracts)	REDACTED	Ensures the legal requirements of the building and professional fees contracts are met.
Legal Support (except contracts)	REDACTED	Ensures the legal requirements for grants / leases / tenants are met. Provides legal input to cabinet reports.
Procurement	REDACTED	Ensures procurements undertaken by the project are conducted according to professional and corporate standards.
Finance	REDACTED	Ensures adequate management of project spend and drawdown of funds.
Human Resources	REDACTED	Deals with staff issues including restructures, training and employee relations issues.
Audit	REDACTED	Provide an independent overview of the project assurance arrangements and to offer advice on controls in support of the effective management of project risk
Property	REDACTED	Provides technical expertise to support the selection of building contractors, and monitor the delivery of the contract. Advises the Senior User on building issues including acceptance of the finished build.
Property	REDACTED	Sources temporary premises/accommodation for use by the AGM while the present facility is closed

Role	Role holder	Summary of Responsibilities
		including administration and coordination between all parties
Communications	REDACTED	Manages and co-ordinates execution of the project's communication plan.
ICT	REDACTED	Delivers voice and data services to the redeveloped building. Supports the decant and provision of temporary technology facilities during the build.
Health and Safety	REDACTED	Provides advice on health and safety issues.
Project Support	REDACTED	Organises meetings, takes minutes, manages project documentation.

### 5.1 Project Team

Will consist of the sponsor, senior user, supplier representatives and project manager and will meet monthly or as varied by agreement.

### 5.2 Project Board

The project board consists of:

- Cabinet Member
- Project Sponsor
- Senior User
- Buildings Project Manager (during the building phase of the project)
- Project Manager

and will meet monthly.

The main focus of the board will be to provide overall direction and management including monitoring the business case and agreeing any changes, approving any exception plans, approving major changes and signing-off the project. Its role is described in more detail in PRINCE2 documentation and CBC's in-house guidelines.

## 6 Project Stakeholders and Communication Plan

The main stakeholders are:

- Funding Bodies
  - Heritage Lottery Fund - main contact point within HLF is REDACTED
  - AG&M Development Trust,
  - Summerfield Charitable Trust
  - Friends of Cheltenham Art Gallery and Museum
  - The Monument Trust
  - Foyle Foundation
  - Garfield Weston Foundation
  - Wolfson Foundation
- REDACTED, Cabinet Member for Sport and Culture
- CBC Members and member bodies, overview and scrutiny is provided by the Social and Community Committee
- Gloucestershire University
- Gloucestershire Guild of Craftsman
- Cheltenham Library – neighbours of the AG&M, their staff have restricted access to the AG&M building.
- CBC Employees, especially those in the AG&M and the TIC
- Unions
- CBC Senior Leadership Team / Operational Programmes Board



The project's [communication plan](#) sets out the approach for engaging with and informing these groups in order to ensure that all are aware of the new scheme and to maximise support for its objectives.

## 7 Quality Plan

### 7.1 Quality Standards

The redeveloped and refurbished building must meet the following quality standards:

- High standards for display facilities
- High environmental standards
- Use natural and reclaimed materials wherever possible

The building work must comply with health and safety standards.

Project management and procurement standards will be those used by Cheltenham Borough Council, adapted as necessary for use by external suppliers and stakeholders.

The selection of suppliers will take account of their quality management approach.

## 8 Initial Project Plan

### 8.1 Main Milestones

Milestone	Date
Launch phase 3 fundraising	25 May 2011
Return of building tenders	20 June 2011
Appointment of building contractor	26 July 2011
Mobilisation on site	11 August 2011
Begin rebuild – start of demolitions etc.	1 September 2011
Partnership agreement in place with Gloucestershire University and Gloucestershire Guild of Craftsmen	31 December 2011
Complete rebuild	October 2012
Re-open for in-house shows	February – April 2013
Major National Portrait Gallery Exhibition	September 2013

### 8.2 Resource Requirements

Indicative estimates of effort required to deliver this project are presented in the table below:

Person or Group	Effort (range during period of involvement)
REDACTED	1.5 – 2 days per month
REDACTED	17 d / mth (including delivery of touring programme during shutdown)

AG&M Collections Manager	13 d / mth (including delivery of touring programme during shutdown)
AG&M Exhibitions and Education Manager	15 d / mth (including delivery of touring programme during shutdown)
Project Manager	1 – 6 d / mth
Legal	1.5 d / mth
Procurement	2 d / mth (June / July 2011) 3 d / mth (Aug 2012 – Apr 2013)
Finance	1 d / mth
Human Resources (incl Health & Safety)	1 d / mth
Audit	1 d / mth
Property	2.5 d / mth
Communications	1 d / mth
ICT	Generally about 0.5 d / mth with peaks at beginning and end of project
Project Support	1 d / mth

Estimates of future internal resource needs will be reassessed at least monthly and will be included in the quarterly corporate resource planning process which is intended to ensure adequate resources are available to CBC's major corporate programmes and projects.

### 8.3 Schedule

A summary schedule is included in Appendix A.

## 9 Change Control

Key deliverables will be placed under formal change control once agreed so that the impact of any significant changes to them can be properly assessed. These are likely to include:

- Architects specifications
- Building plans
- Project plans
- Project Initiation Document

Definition of formal change control procedures is the responsibility of the project manager.

## 10 Risk Management

A register of all project risks will be maintained by the project manager and kept under review by the project sponsor, board and team, 'Risk' will be a mandatory item on the agenda of every project board meeting.

The Building Project Manager will be responsible for maintaining a register of all risks relating to building construction and informing the Project Manager of any which potentially impact the completion of buildings work to time, cost, and quality standards.

The initial risk register is included as appendix 2 to this document. The current version of the register can always be found [here](#).

## 11 Project Documentation

Projects will be stored electronically at <s:\Special Projects\AGM redevelopment Project> according to CBC's project management standards.

## 12 Project Reporting

The project sponsor will provide a Status Report monthly to the Project Board and to the Operational Programmes Board.

REDACTED attends and reports on regular meetings with the Development Trust and the Development Trust Funding Sub-group (a minimum of four meetings are held per year - but additional meetings are held as and when required). Regular monthly updates are also submitted to HLF and the other key funding stakeholders.



## Appendix 2 – Initial Risk Register

Art Gallery and Museum Redevelopment Risk Register				Risk score				Managing risk			
Risk Ref.	Risk Description	Risk owner	Date raised	Impact and likelihood				Proposed Action	Dead-line	On Target for dead-line?	Responsible officer
				Impact	Likelihood	Score	Control				

### Building (Redevelopment and Refit) Risks

1.1	If health and safety standards are not adhered to during the life of the project this may result in prosecution by the enforcing authority.	REDACTED	Jun-11	4	2	8	Reduce	Ensure contractors appointed are competent for the task, have a proven track record of safe working practices with a relevant health & safety management system in place e.g. suitable and sufficient risk assessments and method statements	Apr-13	Yes	REDACTED
1.2	If archaeological finds are made, construction may be delayed and hence the re-opening deadline may not be met.	REDACTED	Oct-10	4	3	12	Accept	Monitor archaeological assessment. Replan project if necessary.	Aug-12	Yes	Buildings Project Manager / Clerk of Works
1.3	If bad weather delays the building programme then the re-opening deadline may not be met	REDACTED	Oct-10	3	3	9	Reduce	Build time contingency into the building plan. Replan if necessary	Sep-11	Yes	Buildings Project Manager
1.4	If vandalism delays the building programme then the re-opening deadline may not be met and costs may increase due to work needing to be repeated.	REDACTED	Oct-10	3	2	6	Reduce	Build time / finance contingency into the building plan Ensure that the construction site is secure.	Sep-11	Yes	Buildings Project Manager
1.5	If structural problems are discovered in the existing buildings then the re-opening deadline may not be met and costs may increase.	REDACTED	Oct-10	4	2	8	Reduce	Build time / finance contingency into the building plan Ensure that all surveys carried out are thorough.	Sep-11	Yes	Architect / Buildings Project Manager
1.6	If the building is not of an adequate standard then time delays or cost overruns may take place and / or the building may not be able to deliver the benefits sought.	REDACTED	Oct-10	4	2	8	Reduce	Establish quality as a major criterion for tender evaluation. Transfer risk to building contractor. Ensure responsibilities for managing quality are clear and that any defects are identified as soon as possible. Include contingency in project budget.	Complete  Aug 2012	Yes	REDACTED  Buildings Project Manager

Project Manager

## Appendix 2 – Initial Risk Register

Art Gallery and Museum Redevelopment Risk Register				Risk score				Managing risk			
Risk Ref.	Risk Description	Risk owner	Date raised	Impact and likelihood				Proposed Action	Dead-line	On Target for dead-line?	Responsible officer
				Impact	Likelihood	Score	Control				
1.7	If an excellent BREEAM rating is not achieved, then the project may not meet the Local Authority target.	REDACTED D	Oct-10	2	3	6	Reduce	Monitor throughout the assessment period. Identify any measures or resources that can assist in achieving the desired rating.	?	?	Architect / Services Engineer
<b>Public Perception / Awareness Risks</b>											
2.1	If there is a poor public response to the outreach programme whilst the building is shut down and / or the exhibitions / events programme and new areas within the development / new extension then projected income and / or visitor numbers may not be reached.	REDACTED D	Oct-10	3	3	9	Reduce	Effective marketing – including market research, consultation and understanding of audiences through continued focus groups – linking into the Audience Development Programme.	On-going	Yes	REDACTED
2.2	If awareness drops whilst the building is being redeveloped, future numbers of visitors may reduce.	REDACTED D	Oct-10	3	3	9	Accept	Maintain presence through events at other locations including outreach. Maintain interest through the website, local newspaper and other media.	Aug-12	Yes	REDACTED
<b>Stakeholder Risks</b>											
3.1	If it is not possible to attract sponsorship for the main exhibitions programme in the new building then the artistic objectives may not be met.	REDACTED D	Oct-10	3	3	9	Reduce	Ensure that an effective fundraising strategy is in place. Include a contingency to explore other additional income streams	On-going	Yes	REDACTED
3.2	If later phases of fundraising are not completely successful then CBC will have to meet the gap	REDACTED D	Oct-10	4	3	12	Reduce	Plan and execute fundraising campaign	Dec-11	Yes	REDACTED
3.3	If there is a change to the ruling party in Cheltenham then support for the redevelopment may reduce leading to changes in future funding	REDACTED D	Oct-10	2	3	6	Reduce	Continue to ensure that cross-party support for the scheme exists.	Jun-12	Yes	REDACTED

## Appendix 2 – Initial Risk Register

Art Gallery and Museum Redevelopment Risk Register				Risk score				Managing risk			
Risk Ref.	Risk Description	Risk owner	Date raised	Impact	Likelihood	Score	Control	Proposed Action	Dead-line	On Target for dead-line?	Responsible officer
3.4	If agreement with HLF is not appropriately structured, it may not be possible for CBC to meet changing future requirements.	REDACTED D	Oct-10			0	Reduce	Work with HLF to build reasonable flexibility into arrangements, taking account of the outcome of future commissioning activity.	Complete		REDACTED
<b>Project Organisation Risks</b>											
4.1	If the AGM scheme is not effectively project managed, the scheme may not be delivered within budget, quality or timescale.	REDACTED D	Oct-10	3	4	12	Reduce	Put Prince2 project management controls and CBC project manager in place. Appoint a dedicated buildings project manager.	Complete Aug 08	Yes	REDACTED
<b>Resource Risks</b>											
5.1	If key CBC resource is not sufficiently available, e.g. as the result of resource contention with other major projects or business as usual, the project may not meet its objectives	REDACTED D	Jun-11	4	4	16	Reduce	Identify major areas of risk and plan accordingly. Use the corporate resource management process to identify and deal with contention. Use Operational Programmes Board to set priorities if necessary.	Apr-13	Yes	REDACTED
5.2	If CBC (and / or other partners) is unable to adequately subsidise the operational costs of the service following redevelopment, as set out in the MTFS, then the community and artistic benefits of the project will not be met.	REDACTED D	Oct-10	3	3	9	Reduce	Ensure projected costs are budgeted for. Maximise operating efficiency. Identify and deliver additional income streams. Culture and Leisure Review to recommend the most appropriate delivery models	On-going ditto ditto April 2012	Yes	REDACTED
5.3	If project costs increase then the business case for the project will be reduced and / or more fundraising may be required.	REDACTED D	Oct-10	4	3	12	Reduce	Establish cost as a major criterion for tender evaluation. Transfer risk to building contractor. Manage contract change	Complete		REDACTED

## Appendix 2 – Initial Risk Register

Art Gallery and Museum Redevelopment Risk Register				Risk score				Managing risk			
Risk Ref.	Risk Description	Risk owner	Date raised	Impact and likelihood				Proposed Action	Dead-line	On Target for dead-line?	Responsible officer
				Impact	Likelihood	Score	Control				

### Related Project Risks

6.1	If the Culture and Leisure Review investigates and / or recommends changes to the target outcomes and / or delivery model for the AG&M then this may impact the services ability to deliver benefit through the redevelopment (e.g. by absorbing resource)	REDACTED	May-11	4	3	12	Reduce	Liaise closely with the review. Adopt a staged process to the review. Ensure that the design of the review takes account of the needs of the redevelopment. Ensure any relevant business case produced by the review takes into account the impact on the service.	On-going to end of project	Yes	REDACTED ditto ditto ditto
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## Audit Brief

<b>Audit</b>	Review of key issues arising from the Grant Thornton Art Gallery & Museum Report
<b>Client</b>	Cheltenham Borough Council (Andrew North - Chief Executive Officer)
<b>Auditor(s)</b>	Robert Milford
<b>Start Date</b>	29 <sup>th</sup> January 2015
<b>Duration</b>	10 audit days

Introduction
<p>We are conducting a review of the key issues identified in the Grant Thornton Art Gallery and Museum Report presented to Audit Committee on the 29<sup>th</sup> January 2015. This work has been requested by the Corporate Governance Group and is sponsored by the Chief Executive Officer.</p> <p>This brief is being presented to the Audit Committee to seek their endorsement of this work. This is an additional piece of reactive work outside of the Audit Plan as approved in March 2014 by the Audit Committee.</p>

Audit Objective & Scope
<p><u>Objectives</u></p> <p>Listed below are themes arising from the Grant Thornton report, from which questions to determine 'why' actions happened / did not happen can be asked – the outcome being to summarise the responses in a report that will allow an assessment of the extent to which expected or required processes and controls were followed and complied with.</p> <p>There are two elements identified in the GT report [<i>time line and financial position</i>] that demonstrates an overarching theme of:</p> <ol style="list-style-type: none"> <li>1) A consistent indication of reporting of inaccurate, untimely, misleading or incomplete information to various monitoring / stakeholder groups</li> <li>2) A consistent indication of lack of reporting to Member level monitoring / stakeholder groups</li> </ol> <p>Both of these points are significant factors in the indicated lack of awareness and challenge to the project timeline and financial positions, by groups to which the key project officers reported to. Without the awareness and therefore challenge to these two elements, as Grant Thornton indicate, CBC is unable to take appropriate action/decisions. As a result, some actions may have been without appropriate authority or possibly avoided.</p> <p>Sub themes arising from the report are in relation to:</p> <ol style="list-style-type: none"> <li>i. Project structure (hierarchy, roles and accountability)</li> <li>ii. Authorisation and delegation</li> <li>iii. Third party external use and control</li> <li>iv. Competency and skills</li> <li>v. Pressures and priorities</li> <li>vi. Record documentation, maintenance and retention</li> </ol>

## Audit Brief

- vii. Use of formal and informal communications – (verbal updates)
- viii. Risk management – during the project
- ix. Budget management – including the use of reporting by exception and POM
- x. Gate reviews / milestones
- xi. changes in roles and processes e.g. project sponsor, reporting from Davis Langdon,

All of the above themes and sub themes pose the question 'Why', as in, why did this happen or not happen.

The purpose of this internal audit review is to ask relevant questions of officers and Members to determine the Why.

### Scope

These themes will be covered using questions delivered through the use of semi-structured face to face interviews, conducted by Internal Audit supported by Human Resources. The transcript of the interviews will be summarised, checked for accuracy with the individuals and compared / contrasted with the Grant Thornton report and CBC policy/procedures and provide more detail on why certain actions were or were not taken. The results of this will be reported back to the Corporate Governance Group, before being reported back to this committee. It is not anticipated that any recommendations will flow from this report, merely a summary of the why question results.

**Note:** not all involved may now be available for interview as some have left the employment of this organisation. However, Corporate Governance Group has considered this issue and is seeking appropriate cooperation from individuals and organisations involved.

### **Reporting**

Main contacts for the audit review of the Art Gallery and Museum report are:

Andrew North (Chief Executive Officer)  
Corporate Governance Group Officers

A draft report will be produced for the client to check for accuracy and provide a management response. Individuals interviewed will also have the opportunity to check accuracy of elements arising from their interviews.

As this is likely to discuss personal or confidential information due consideration will be given to how any final report will be made available to the Audit Committee. This may include the use of summarised findings or a private meeting. This will be discussed with One Legal and the Chair of the Audit Committee prior to finalisation of the report.

Requested circulation:  
Audit Committee

**Audit Brief**

Auditor contact details: Robert Milford - Head of Audit Cotswolds.  
email [Robert.milford@cheltenham.gov.uk](mailto:Robert.milford@cheltenham.gov.uk)

**Audit brief agreed  
with  
Chief Executive:**

**Date:**

**Audit brief agreed  
with  
Audit Committee:**

**Date:**

*Confirmation of Audit Brief agreement – email from the relevant manager or his/her signature of agreement*

**Approved by Audit  
Management:**

**Date:**

DRAFT

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