

Cheltenham Borough Council
Cabinet – 11 February 2014
Council – 14 February 2014

The Wilson – Development Project Outturn Briefing Report

Accountable member	Councillor Rowena Hay – Cabinet Member for Sport & Culture Councillor John Rawson – Cabinet Member Finance
Accountable officer	Grahame Lewis – Executive Director Mark Sheldon – Director of Resources
Ward(s) affected	None directly
Key Decision	Yes
Executive summary	<p>This report provides an update on the Art Gallery and Museum Development including a projection of the outturn financial costs and projected funding shortfall.</p> <p>The report outlines the issues with the project leading to an increase in costs, sets out the current position with the main contractor, ISG, and recommends settlement of the final contract sum.</p> <p>The report also covers the overall funding position and makes provision for additional council support in the event that the increased project shortfall is not met by income from outstanding fundraising activity.</p>
Recommendations	<ol style="list-style-type: none">1. That Cabinet delegates authority to the Executive Director / Director of Resources to settle the contract sum with the main contractor as set out in Appendix 2 (Exempt).2. That Cabinet supports additional underwriting of the AG&M development project in the sum of £360,000 and recommends to Council that budgetary provision for this be approved.

Financial implications	<p>As outlined throughout the report.</p> <p>At a meeting on 11th February 2011, Council agreed to underwrite any shortfall in funding of the Art Gallery & Museum Development scheme up to a maximum value of £922,000. At this stage, the latest estimate of the outturn position suggests that this level of underwriting is insufficient to cover the funding shortfall in project costs by £359,376. As such, Council is requested to set aside a further allocation of capital receipts (from the sale of Midwinter allotments) to increase the amount of underwriting by £360,000 to £1,282,000. The separate budget report to Council for this meeting makes provision for this additional amount.</p> <p>Contact officer: Mark Sheldon,</p> <p>Email: mark.sheldon@cheltenham.gov.uk,</p> <p>Tel no: 01242 264123</p>
Legal implications	<p>The legal advice in respect of settling the final contract sum is contained in exempt Appendix 2.</p> <p>Contact officer: Peter Lewis,</p> <p>Email: peter.lewis@tewkesbury.gov.uk,</p> <p>Tel no: 01684 272012</p>
HR implications (including learning and organisational development)	<p>There are no direct HR implications arising from the content of this report.</p> <p>However, moving forward, it is important that capacity is carefully monitored and managed in respect of any new or additional fund raising work-streams that are embarked upon to mitigate the budget shortfall.</p> <p>Contact officer: Julie McCarthy,</p> <p>Email: julie.mccarthy@cheltenham.gov.uk,</p> <p>Tel no: 01242 264355</p>
Key risks	<p>Advice on legal risk is set out in exempt Appendix 2.</p>

1. Background

1.1 Project Summary

In 2007, a RIBA Open Design Competition was launched for the procurement of a design / design team for the building of a new extension and the refurbishment of the existing 1989 extension and No. 51 Clarence Street. The total project costs for the Development Scheme were estimated at £6.3 million – and included estimated costs for construction, professional fees, surveys and fixtures / fixings etc.

The project was in response to a report by David Pratley Associates (commissioned by the Council and Arts Council, England) that endorsed proposals to re-develop the Art Gallery & Museum – based on two previous schemes - and a long-held ambition to utilise / develop the footprint of the current site. The brief asked for an iconic and outstanding building that complimented the surrounding historical and conservation area, as well as acknowledging the significance of the collections within a regional, national and international context. Set against

this background - and the complexities of extending new buildings to adjoining listed buildings – the project team realised from the start that it was going to be a complicated and difficult project to bring to fruition. This has led to delays, increased project costs and, since fund raising activity is still underway, a shortfall in funding at this stage.

- 1.2** The Wilson successfully re-opened to the public on 5th October 2013, with the launch of an exciting exhibitions and events programme – starting with Casting Brilliance, by Colin Reid and The Times, Newseum and now currently showing Embrace and (soon to be unveiled) Rodin's The Kiss. During this period there has been a huge increase in visitor numbers – which have far exceeded initial expectations - from 27,413 in the first month (October) to 77,539 by the end of January 2014. Previous numbers to the Art Gallery & Museum were 75,000 for the last full year (prior to closure) in 2010, and similarly 72,000 to the Tourist Information Centre. There has also been an increase in enquiries for group tours and school bookings.
- 1.3** It is envisaged that there will be a significant increase in general growth of tourism as a direct result of the facility opening. A number of PR campaigns linked to the current exhibitions programming, and promoting Cheltenham as a tourist destination, will be launched throughout 2014. For example, the return of Rodin's The Kiss (after 80 years) and the 100 centenary of Rodin's residency in Cheltenham is being used as the basis of the Embrace Cheltenham campaign – promoting the opening of The Kiss, but also linking into other 'Valentine' events throughout the town, as well as directly promoting accommodation, retail and food / drink businesses within Cheltenham.

2. Financial outturn / fund raising position

- 2.1** The Council approved the scheme to move forward, and to secure funding for the project, a fundraising campaign was launched in early 2008 (with a base-line budget of £500,000, from the proceeds of the sale of the Axiom Centre). By mid-2008, this amount had increased to £3,250,000 (when the Council match-funded a further £2 million against a grant offer from the Summerfield Trust of £750,000) and by 2010, the fundraising campaign had levered in a total of £4,550,000. In March 2011, following a successful grant application to the Heritage Lottery for £750,000, the Council agreed to underwrite the outstanding amount of £922,000 – thus enabling the closure of the Art Gallery & Museum and the project to formally commence.
- 2.2** In July 2011, ISG (South West division) were awarded the main construction contract through a formal procurement exercise. The contract price came in at £3,730,000, for a 60-week build programme, and a hand-over date of 4th October 2012. This was subsequently extended to 62 weeks (following a two-week delay during the ground work investigations), with a revised hand-over date of 25th October 2012. We also assigned a construction contingency of £600,000 – elevating the forecast expenditure for the main construction to £4,330,003. By April 2012, the project was in further delay - this was initially due to problems on the construction of the concrete frame, but there were also technical challenges with certain elements of the construction, particularly the design and installation of the Brise Soleil – and consequently, the date for the re-opening was extended to the 5th October 2013 (allowing for the commencement of the re-canting and the installation of fixtures / fittings).

2.3 Construction Final Account

Following the re-opening, AECOM were asked to undertake an options / risk appraisal towards a

potential settlement with and subsequently a Final Account Options Appraisal was tabled at the Executive Board on 28th November 2013. Following discussions, the Board requested that AECOM progress the conclusion of the Final Account with ISG. The information received from AECOM is referred to in Appendix 2 (exempt). Cabinet is being recommended to authorise the Executive Director/Director of Corporate Resources (both with equal authority) to settle the final contract sum with the contractor as set out in Appendix 2 (exempt).

2.4 Additional Works Final Account

Outside of the main contract for construction works with ISG, procurement commenced from April 2013 for an additional contractor to undertake the internal fitting-out works for the café, corporate spaces / meeting room, shop and rooms within No. 51. It was always proposed from the beginning of the development scheme to operate a separate contract and programme of works for these areas, as we realised early in the campaign that fundraising was unavailable for the refurbishment and fitting-out of commercial spaces, and therefore capital would need to be sourced directly from the Council.

The Additional Works were scheduled to start from 15th July 2013 – but due to delays on the agreed partial handover of the above areas from ISG, the work was delayed, and the project actually commenced on site from 22nd July 2013. The works were completed in time for the opening; however snagging is still being undertaken in a number of areas.

The Final Account with The Hub is currently being finalised by the Project QS, and therefore any reported figures are forecasts only.

2.5 Other Project Accounts

These include the expenditure for surveys, professional fees (i.e. the architects, quantity surveyor, structural engineer, mechanical engineer and project management) and the de-canting / re-canting of the collections – including the interior fixtures and fittings for the galleries and stores.

2.6 A summary of the overall forecast final cost, including additional works contract, compared with the awarded contract can be found at Appendix 2 (Exempt).

3. Financial outturn / fund raising position

3.1 Outstanding Items

These include the following:

- The Final Account Agreement Settlement will need to be formally agreed and the letter signed;
- Final Account to be agreed with The Hub and final outturn for the Additional Works programme to be finalised and signed-off;
- Final figures to be determined in relation to the fitting-out / re-canting budgets / professional fees.

4. Future Fundraising Proposals

4.1 A fundraising campaign was successfully launched in spring 2008 to raise a target amount of £6.3 million for the Art Gallery & Museum development scheme, *Building for a New Future*. To

date, a total amount of £5,403,741 has been raised through a combination of direct capital funding from the Council, grants from major charitable trusts, donations from the Friends group and partnership funding – including a grant award from the Heritage Lottery.

- 4.2** A key aspect of the campaign was the creation of a fundraising charitable ‘arm’, the CAG&M Development Trust, which enabled the campaign to seek funding from other major charitable organisations, not normally open / or accessible to applications from local authorities. The grant from the Heritage Lottery Fund was also a significant award, as it included a caveat that the Council would underwrite up to £922,000 for the fundraising target to reach £6.3 million, and this subsequently enabled the project to commence from April 2011. It was always proposed to continue fundraising to cover this shortfall, and particularly now that the new building has successfully re-opened with a significant increase in visitor numbers and an exciting exhibitions and events programme scheduled for 2014 /2015 – therefore an updated fundraising campaign will be launched from spring / summer 2014 to spring 2015.

Action	Timescale
Creation of a branding and strapline for the campaign – to effectively ‘sell’ the ethos of supporting the campaign, and the benefits of the new building (through enhanced access for everyone to the new galleries, open stores / collections and visitor facilities)	By 28/02/14
Explore the potential of aligning the shortfall campaign to the Museum Phase II re-development, Galleries, Stories & Spaces	By 28/02/14
Research and identification of funding grant application prospects – revise existing funding database and draw-up Gift Table	By 28/03/14
Develop the Fundraising Mix – through a variety of individual ‘Patrons’ / public giving campaigns and corporate sponsorship deals for named areas within the galleries and visitor areas	By 07/04/14
Launch of fundraising campaign and events	From 21/04/14
Start of PR and marketing campaign	From 21/04/14
Develop ‘advocacy’ partnerships – linked to the launch of the campaign	From 05/05/15
Review on progress of the campaign and re-align / revise the Gift Table and Fundraising Mix	From 30/09/14
Refresh research and identification of funding grant application prospects	From 30/09/14
Devise and launch new / fresh campaign events where appropriate	From 31/10/14

5. Audit Review

- 5.1 A piece of work has been commissioned for internal audit to identify any weaknesses in the control, monitoring and approval mechanisms supporting this project and to understand how the Council might have been better informed about the likely cost overrun thus giving us an opportunity to take corrective action. This work will be important for building in to future construction projects. The report of internal audit will be submitted for consideration by Audit Committee.

6. Reasons for recommendations

- 6.1 The existing funding allocation is insufficient to finance the current estimated project costs.

7. Alternative options considered

- 7.1 Fundraising activity is still being pursued and may, ultimately, reduce the council's funding requirements.

8. Consultation and feedback

- 8.1 Group Leaders have been briefed on this issue.

9. Performance management –monitoring and review

- 9.1 Ongoing monitoring of the outturn by the project team will continue until the final account is settled.

Report author	Contact officer: Grahame Lewis, Email: grahame.lewis@cheltenham.gov.uk, Tel no: 01242 264312
Appendices	1. Risk Assessment 2. Project Costs, Legal Advice and Risk (exempt)

Risk Assessment

Appendix 1

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 mitigate the increased costs on the Art Gallery and Museum project (The Wilson) then there could be a significant financial impact on the budget project costs.	Grahame Lewis (Executive Director)	05/02/14	3	5	15	Reduce	Identify and agree the final costs in relation to the fitting-out / re-canting budgets / professional fees. To deliver additional income streams through the proposed fundraising campaign.		Jane Lillystone (Museum Arts & Tourism Manager) Andrew North (Chief Executive) / Mark Sheldon (Director of Resources) Jane Lillystone (Museum Arts & Tourism Manager)	
	If Cabinet / Council do not approve the additional underwriting of the AG&M development project in the sum of £360,000 then there could be unmet project costs and significant legal exposure if the matter was to proceed to litigation.	Grahame Lewis (Executive Director)	05/02/14	2	3	6	Reduce	To recommend to Cabinet / Council that it approves the additional underwriting. To continue to negotiate a settlement of the outstanding sum at an agreed figure and thereby avoid costly litigation.		Grahame Lewis (Executive Director) / Director of Resources	
	If the Council does not	Grahame	05/02/14	3	4	12	Reduce	To prepare a		Jane	

	mitigate the increased costs on the Art Gallery and Museum project (The Wilson) then there could be a significant impact upon the council's reputation in terms of its ability to effectively manage major project costs.	Lewis (Executive Director)						communications strategy to reflect the decision by Cabinet and Council.		Lillystone	
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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