

**Cheltenham Borough Council**  
**Audit Committee – 11 December 2014**  
**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 meeting of Council on 14 February 2014 it was reported that the outturn cost of the extension to the Wilson Art Gallery and Museum exceeded the previously agreed budgetary provision by £360,000 and accordingly Council were asked (and agreed) to make additional budgetary provision in that sum. In addition the project completion was 12 months later than originally planned.</p> <p>Council was, at that meeting, also informed that internal audit would carry out a review of the Wilson extension project to ensure that any lessons were learnt for the future. It was mentioned that following that review a report would be submitted to this Committee.</p> <p>In the event a report was commissioned from forensic auditors at Grant Thornton to ensure complete transparency and also manage limited capacity within the internal audit team at Audit Cotswolds. The audit process has taken much longer than anticipated.</p> <p>However, it became apparent on Friday 28 November 2014 that the full extent of the overspend had not previously been revealed and that the report to Council on 14 February 2014, whilst prepared in good faith, was incorrect. At this stage the additional overspend would appear to be less than £100,000, though work continues to confirm this.</p>
<b>Recommendations</b>	<p><b>The Committee is recommended to:</b></p> <ol style="list-style-type: none"> <li><b>1. Request that additional audit work be carried out to investigate new information on the extent of the project overspend and to explore any failures which led to its late reporting.</b></li> <li><b>2. To delegate to the Director Resources the decision as to what further work should be undertaken by Grant Thornton and/or by Audit Cotswolds and to enter into contracts accordingly.</b></li> </ol>

<b>Financial implications</b>	<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 yet to be validated but this work will be incorporated in the additional audit work proposed.</p> <p>Once the final position has been established, 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>The funding of the additional piece of audit work will be met from within existing, current years budgets.</p> <p><b>Contact officer: Mark Sheldon,</b>  <b>Email: mark.sheldon @cheltenham.gov.uk,</b>  <b>Tel: 01242 264123</b></p>
<b>Legal implications</b>	<p>There are none directly arising from this report.</p> <p><b>Contact officer: Sara Freckleton , @tewkesbury.gov.uk, 01242</b></p>
<b>HR implications (including learning and organisational development)</b>	<p>There are no direct HR implications for the Committee to consider in this update report.</p> <p>The Committee will receive the final Grant Thornton report at a future meeting. Any HR implications arising from the final report will be highlighted at that time.</p> <p><b>Contact officer: Julie McCarthy,</b>  <b>EMAIL: julie.mccarthy@cheltenham.gov.uk, 01242 264355</b></p>
<b>Key risks</b>	<p>See risk template in appendix 1</p>
<b>Corporate and community plan Implications</b>	<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>
<b>Environmental and climate change implications</b>	<p>None</p>
<b>Property/Asset Implications</b>	<p>None</p> <p><b>Contact officer: David Roberts@cheltenham.gov.uk</b></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** From 2006 this became an active project with a design competition, pledges of funding from the council and external fundraising.
- 1.3** Prior to seeking tenders for construction the estimated cost of the project was £6.3m and 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.
- 1.4** Completion of the project was also considerably delayed; from an initial completion date of September 2012 to the actual completion in October 2013.
- 1.5** 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.
- 1.6** However, we still consider the project to have created excellent public value. Since the re-opening on 5 October 2013 there were well over 187,000 visitors during the first year (the original footfall was anticipated at 115,000) as well as 158 educational activities, involving 6,280 children and 2,993 adults. To date the total number of visitors is recorded at 209,170.
- 1.7** The Wilson has been awarded the following accolades during the first year of opening:
  - 2014 RIBA National Award - Berman Guedes Stretton / The Wilson
  - 2014 RIBA South West - Client Award
  - 2014 RICS South West – awarded a Highly Commended certificate
  - 2014 Cheltenham Civic Society Award
  - Graphis Silver – Kiss Campaign
  - 2014 Arquiva Commercial Radio Award - Kiss Campaign
  - 2014 RIBA South West – (Innovative Building) Berman Guedes Stretton / The Wilson
- 1.8** Notwithstanding the successes 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.
- 1.9** It is clearly unacceptable for an additional overspend to have been discovered at this late stage which clearly requires investigation and explanation.

## 2. Reasons for recommendations

- 2.1 To ensure that all relevant information is collected for presentation to Audit Committee on the failures which occurred in the management of this project with a view to learning lessons for the future.

## 3. Alternative options considered

- 3.1 The findings of the report may offer alternative options which will need to be considered. At this point the key concern is that the facts need to be ascertained.

## 4. Consultation and feedback

- 4.1 The Grant Thornton report has, to date, included much work 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.

## 5. Performance management – monitoring and review

- 5.1 The proposed additional audit work will enable report back to this committee on all relevant matters.
- 5.2 In due course a report may need to be submitted to Council to authorise any additional overspend not covered by the decision made on 14 February 2014.
- 5.3 Any HR implications of the audit work will be taken account of and if necessary actioned in parallel with these reporting processes.

<b>Report author</b>	<b>Contact officer: Andrew North, Chief Executive</b> <a href="mailto:Andrew.north@cheltenham.gov.uk">Andrew.north@cheltenham.gov.uk</a> , 01242 264100
<b>Appendices</b>	1. Risk Assessment
<b>Background information</b>	1. Report to and minutes of the meeting of Council held on 14 February 2014

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 14/01/2015 and report fully to Council as soon as possible.	14/01/2015	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 14/01/2015 and report fully to Council as soon as possible.	14/01/2015	Mark Sheldon	

<b>Explanatory notes</b>										
<b>Impact</b> – 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)										
<b>Likelihood</b> – 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)										
<b>Control</b> - Either: Reduce / Accept / Transfer to 3rd party / Close										