

ABERDEEN CITY COUNCIL

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| COMMITTEE | Education and Children's Services |
| DATE | 23 February 2017 |
| DIRECTOR | Gayle Gorman |
| TITLE OF REPORT | Aberdeen Treasure Hub – Lessons Learned |
| REPORT NUMBER | ECS/17/020 |
| CHECKLIST COMPLETED | Yes |

1. PURPOSE OF REPORT

- 1.1 The purpose of this report is to provide Committee with the results of the officer review into the scoping, design and construction of the Aberdeen Treasure Hub. This was referred to the Audit, Risk and Scrutiny Committee by the Education and Children's Services Committee at their meeting of 17 November 2016. Specifically, the Education and Children's Services Committee agreed to:

“refer the reported overspend position in relation to the Aberdeen Treasure Hub to the February 2017 meeting of the Audit, Risk and Scrutiny Committee”.

2. RECOMMENDATION(S)

- 2.1 It is recommended that Committee agree:
- (i) Note the findings of the review into the scoping, design and construction of the Aberdeen Treasure Hub which are set out in Section 5 of this report;
 - (ii) Agree that all Heads of Service ensure that those officers conducting a Project Manager role have undertaken the appropriate training to enable them to discharge this function;
 - (iii) Agree that the lessons learned from the Aberdeen Treasure Hub are incorporated into all future capital project planning and management; and
 - (iv) Otherwise note the content of this report.

3. FINANCIAL IMPLICATIONS

- 3.1 The 2014/15 budget setting meeting of the Council identified a budget of £3.674 million for the Aberdeen Treasure Hub. In 2015/16 this initial budget was uplifted by the Council to £5.850 million to reflect the cost of tender returns and an increased specification which included sophisticated environmental conditions to better protect the collection.
- 3.2 A final account has yet to be received for the completed works and a cost of £6.549 million has been incurred to date. This additional cost has included an upgrade and testing to the fire suppression system to meet the Council's insurer's requirements. Further commentary on the financial controls related to construction of the Treasure Hub is included in Section 5 of this report.
- 3.3 In addition to the capital cost, the Council has also paid for the storage of elements of the collection which were taken from the Art Gallery in March 2015. An agreement with the contractor was signed in February 2015 at a value of £226,000 and to date the cost of this storage from March 2015 has been £338,000. This increased cost has come as a result of the late delivery of the Treasure Hub, but it should be noted that the cost has been offset by savings in the running cost of the Art Gallery which had a revenue budget of £94,000 in its last year of operation.

4 OTHER IMPLICATIONS

4.1 Property

The Aberdeen Treasure Hub provides the Council with a fit for purpose building to store its art collection which is not on display in any of the Council's museums or galleries. A key element of the building is public access and its location also provides an opportunity to take art into areas of regeneration.

4.2 Legal

There are no legal implications arising from this report.

5. BACKGROUND/MAIN ISSUES

- 5.1 In reviewing the delivery of the Treasure Hub, officers have taken the opportunity to assess performance in the following areas:
 - Setting the scope;
 - Project management;
 - Financial management;
 - Resource management

(a) **Setting the Scope**

The scope of the project was inaccurately defined and vastly underestimated the cost of the project. Further work carried out which identified a need for the deployment of sophisticated mechanical and electrical system to create a suitable environmental conditions resulted in the uplift of costs which were noted in paragraph 3.1 of this report.

(b) **Project Management**

Project management was ineffective throughout the project as the project manager was not clear on their role and responsibilities and the project team intimated that they did not understand the required governance arrangements even though a Project Board was established and updates were being provided to the Strategic Asset and Capital Board by the project manager.

Project management was also hindered by a lack of effective communications throughout the project from all parties concerned. This can be evidenced by the construction consultancy team taking responsibility for delivering the construction part of the project, through a contract administrator/architect who was responsible for budget monitoring. This role was not understood by the client project manager as they believed the contract administrator/architect was acting as project manager.

The Insurance Team were not engaged at the start of the project. At the time they were engaged the insurance provider refused the fire suppression system that had been designed and installed. This required a re-design and installation to comply with insurance requirements which added significantly to the building completion.

The service project team did not seek support from the ECS Estates Team which is unusual given the specialist skills and role they play in delivering other service capital projects.

(c) **Financial Management**

Financial management was not controlled as required in the project. It is unclear who had ownership of the project's financial profiling and budget monitoring, either by the Project Manager or the contract administrator/architect. It appears that the project manager relied on the finance services monthly spend reports to monitor the project budget, which meant only spend incurred was being tracked, not any future commitments.

As noted previously the cost increased due to the upgrade in specification. This work led to a value engineering exercise being undertaken but this work led to further changes to the design

specification and increased cost of £140,000 which reduced the contingency budget from 5% to 2%.

There is a lack of evidence as to how the Architect's Instructions (AIs) were approved. It's not clear if AIs were approved by the Project Manager. The interaction and communication between the Project Manager and the contract administrator/architect could have been better. However, regardless of approval, AIs were issued and approved without full costs having been identified. The main items of potential overspends identified are additional mechanical, electrical and structural variations (£144k), additional changes to design specification for the installation of a lift shaft, steel doors and roof walkways (£180k) and a revision to the programme (£35k).

(d) **Resource Management**

Due to a lack of resource and demands placed on the project administrator/ architect, they were assigned to a number of projects at the same time. This may have contributed to some of the issues of this project.

5.2 **Lessons Learned**

Taking into consideration all of the above findings, the additional information received while undertaking the review, and the output from the lessons learned workshop, below are the lessons to be learned:

(a) **Setting the Scope**

In scoping a project there is a need to ensure full engagement with the appropriate Council services such as the Insurance team at all stages of the project. This should be part of the normal governance and gateway process.

(b) **Project Management**

Ensure the Project Manager has had appropriate project management training and clearly understands their role and responsibility in project delivery.

The Project Manager needs to understand and monitor spending on the project and full budget on an on-going basis. The contract administrator should profile and then monitor the construction budget appropriately, reporting all variations to the project manager as soon as is practically possible.

Effective and regular communication between the project manager and the contract administrator/architect is essential. This should be timetabled as a key element of the agreed and established governance arrangements.

(c) **Financial Management**

To manage the project costs effectively all AIs should be produced with the full cost implications identified. Criteria and tolerances need to be set as to what AIs need approval from the Project Manager and if necessary through the Project Board or Strategic Asset and Capital Board before they are authorised.

The use of contingency budgets needs to be controlled and reported immediately to the Project manager and Project Board.

(d) **Resource Management**

Project Boards need to suitably constituted, so as to provide clear project-sponsorship and decision-making, supported by a suitably constituted project team capable with the skill set required to progress the project.

(e) **Governance Arrangements**

The governance arrangements and gateway process need to ensure that the client service accurately define the scope and design specification of the project at the start to get realistic costs, as well as seek specialist advice on scope and review comparative projects. This needs built into the gateway process.

Internal governance arrangements must be complied with in full. Complete business cases with full costings should be approved by the Strategic Asset and Capital Board before the project is added to the Council's capital plan.

6. IMPACT

6.1 Improving Staff Experience

Providing staff with appropriate development opportunities will mean that they are better prepared to successfully deliver projects of a capital nature. Further, clarifying respective roles and responsibilities will allow all parties to work with certainty on what are they are responsible for and for what areas other members of the wider project team hold responsibility.

6.2 Improving Customer Experience

Delivering capital projects provides a platform from which successful Council services can be provided to meet the needs of Aberdeen's citizens.

6.3 Improving our use of Resources

By incorporating the lessons learned into all capital projects, the Council will maximise the use of available resources. Improved control of expenditure is essential to ensure best value for money whilst delivering the necessary public infrastructure.

6.4 Corporate

Improved governance and project management arrangements will ensure that officers are aware of their responsibilities. This is necessary to ensure the successful delivery of projects and the delivery of best value.

7. MANAGEMENT OF RISK

- 7.1 There is no risk directly associated with this report.
- 7.2 Incorporation of the lessons learned from 5.2 will allow Project managers and Project Boards to more effectively reduce the risk of capital projects not being effectively scoped or being delivered later than anticipated or over budget.

8. BACKGROUND PAPERS

Education and Children's Services Committee – 17 November 2016 -
2016/17 General Fund Revenue & Capital Budget Monitoring

9. REPORT AUTHOR DETAILS

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