

## ABERDEEN CITY COUNCIL

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COMMITTEE	Finance, Policy and Resources
DATE	1 December, 2017
REPORT TITLE	Aberdeen Art Gallery Redevelopment and Provost Skene's House Refurbishment and Museum Progress
REPORT NUMBER	ECS/17/072
DIRECTOR	Gayle Gorman, Director of Education and Children's Services
REPORT AUTHOR	Scott Davidson, City Centre Programme Manager

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### **1. PURPOSE OF REPORT:-**

- 1.1 Committee approval is sought for the approach and actions relating to the resolution of programming and budgetary issues of the cultural programme; with particular regard to the Aberdeen Art Gallery (AAG) redevelopment and Provost Skene's House (PSH) refurbishment (incorporating the Hall for Heroes).

### **2. RECOMMENDATIONS**

#### 2.1 That the Committee –

- a. Note the amended programme for the Aberdeen Art Gallery redevelopment as presented in paragraphs 3.7 and 3.8 of the report.
- b. Instruct the Head of Finance, following consultation with the Convenor of the Finance, Policy and Resources Committee, to identify funding options for the additional costs of Aberdeen Art Gallery redevelopment and Provost Skene's House refurbishment as presented in Section 4 of the report and submit to the Council's budget setting meeting on 19 February, 2018.
- c. Request the Chief Internal Auditor to include the Aberdeen Art Gallery in the internal audit of capital governance.
- d. Approves Option 3 in regard to the refurbishment of Provost Skene's House as detailed in the exempt Appendix of this report and delegates authority to the Interim Director of Communities, Housing and Infrastructure, following consultation with the Head of Commercial and Procurement Services, to undertake a tender process for the procurement and thereafter award of contract to undertake internal and external works.

- e. Approve the total estimated expenditure for Provost Skene's House refurbishment as detailed in the exempt appendix to this report.

### **3. BACKGROUND AND MAIN ISSUES**

#### **Aberdeen Art Gallery (AAG) Redevelopment**

3.1 With regard to AAG redevelopment the following considers:

- The Capital Programme Governance Review.
- The Programme Management Office (PMO).
- Current programme issues and their resolution.
- Current budgetary issues and their resolution.

3.2 For clarity, the roles in the AAG redevelopment are:

- Client – Aberdeen City Council
- Project Team
  - Client's Project Manager – Faithful and Gould (from August 2017)
  - Client's Project Manager – Art Gallery & Museums Manager, Education and Children's Services (to August 2017)
  - Client's Project Sponsor – Head of Policy, Performance and Resources, Education and Children's Services (from November 2016)
- Contract Administrator – Hoskins
- Project Quantity Surveyor – AECOM
- Client's Claims Consultant – Faithful and Gould
- Contractor – McLaughlin & Harvey

#### **Capital Programme Governance Review**

3.3 Following the review of the capital programme the Audit, Risk and Scrutiny Committee at its meeting on 27 June, 2017 resolved, amongst other things, to:

“Note the amended governance arrangements for Strategic Infrastructure Plan and Capital Plan delivery...incorporating the delivery of City Centre Masterplan projects within these governance arrangements.”

3.4 These governance arrangements have been implemented promoting robust project management for AAG and PSH through the City Centre Masterplan Board.

## **Programme Management Office (PMO) Review**

3.5 In July 2017, the PMO undertook a review of the cultural programme that included the AAG redevelopment. Principal conclusions, with regard to AAG, were:

- The project team and Contract Administrators (Hoskins) were aware of an emerging issue with progress against plan since January 2017 and an opportunity may have been lost to act quickly and minimise the impact.
- Project governance was inconsistent; particularly during 2017.
- Invest in project management to ensure adequate and appropriate resource.
- Appoint a claims consultant to manage issues arising from contractor's claim.
- Review project budget
- Review project programme

3.6 In order to address these matters, the City Centre Masterplan team took on a programme role in July 2017 with Faithful and Gould appointed as Project Managers in August, 2017 and as Claim Consultants in October, 2017.

## **Project Programme**

3.7 The construction programme is under review and key items for consideration are:

- Main Construction Completion – the current contract completion was due in May 2017. This was extended from the original date of March 2017 due to discoveries on site. However, completion of construction works is impacted by contractor performance, site discoveries, design issues and governance issues. The contractor indicates an end of February 2018 completion. It is realistic and prudent to extend the construction completion into March 2018 due to ongoing programme slippage.
- Fit-out Works - The fit-out programme is 9 months. Assuming the construction contract completes in March 2018, completion of fit-out would be December 2018.

3.8 This suggests an opening in January 2019.

3.9 Options to mitigate delay could be focused around the fit out programme and would involve:

- Commence fit-out earlier – the fit-out works could commence earlier than the construction completion date. However, access to site is limited and co-ordination issues could result in additional programme delay and increased risks and liability resulting from co-ordinating two contracts on the same site. This represents an unacceptable risk in the view of the Project Manager.
- Reduce fit-out programme – this would potentially bring forward completion; but the programme involves numerous concurrent activities and would present a risk for further delay and/or quality issues if further concentrated as complexity would increase. This represents an unacceptable risk in the view of the Project Manager.

### 3.10 Risks to the construction programme is:

- Programme delay – there remains an ongoing risk that the construction programme continues to lose time and completion moves beyond March 2018. As a clear and present risk, mitigation actions are in place of:
  - All change requests have been ceased and any operational changes are reviewed and confirmed by the Project Manager before issue.
  - A programme review workshop was held 23 November 2018 to interrogate the programme and measure robustness of activities and timescales. This confirmed the revised programme and applied an action tracker for monitoring; although some issues emerged that will require effective management and delivery.
  - Senior council officers have engaged with the contractor in discussions to agree solutions on programme and quality. This has elicited a commitment from the contractor to appropriate on-site leadership to see construction programme to completion.

## **Budget**

- 3.11 The original capital budget was £30 million; of which the construction budget was £22 million. Fixed contributions of £10 million from the Heritage Lottery Fund (HLF) and £10 million through fund raising (of which £3.35 million has been donated) have been budgeted. The remaining contribution of £10 million was identified from Council's non-housing capital budget.
- 3.12 The contingency within the Council's £10 million budget was able to incorporate the original extensions to the construction completion date and agreed changes on the project. This contingency is spent.
- 3.13 It has been agreed, through FP&R Committee resolution, to underwrite the philanthropic and public campaign of £10 million. Currently, this is approximately £6.65 million and will be subject to separate reporting on progress to the Committee or its successor in the early part of 2018.

- 3.14 The Contractor has submitted claims for additional works and for delay and disruption, which are disputed and in negotiation.
- 3.15 Additionally, provision has been forecast for £0.5 million of additional fit-out costs as a result of delay and disruption. This will be reviewed and assessed as part of the project management.
- 3.16 These budgetary considerations will be considered at Council's budget setting meeting on 19 February, 2018

### **Actions to Progress**

- 3.17 Negotiation is currently progressing with the Contractor in respect of the cost overrun and ongoing delays.
- 3.18 A Claims Consultant – Faithful and Gould – has been appointed to undertake an initial review of the robustness of the Contractor's delay and disruption claim. Discussions are ongoing with regard to the additional works/variations led by the Project Manager.

### **Provost Skene's House (PSH) Refurbishment and Hall for Heroes**

- 3.19 With regard to PSH refurbishment and Hall for Heroes the following considers:
- Project establishment and progress
  - The Programme Management Office (PMO) review of July 2017.
  - Project Business Case

### **Project Establishment and Progress**

- 3.20 At its meeting on 20 September 2016, The FP&R Committee noted that

“The redevelopment and transformation of Provost Skene's House provides an opportunity to extend and enhance the cultural offer for local residents and visitors to Aberdeen and to extend its reach to new audiences ... It is therefore proposed that [it] becomes a celebration of what Aberdeen ... has given to the world, focusing on the important Aberdonians through history but also providing a chance for visitors to the House to see current iconic figures from the city.”

A budget for the works was set at:

- Essential building works/professional fees - £875,000
- Interpretation works and design - £1,000,000

The committee resolved to allocate £1.5m to the project with the remaining £375,000 being a developer contribution from Muse – the developer of Marischal Square.

It was programmed for completion in July 2017.

- 3.21 As part of the Listed Building application, a full condition survey of the building was carried out in June 2017. It highlighted a number of urgent, necessary and desirable works for PSH.
- 3.22 The £375,000 MUSE contribution had been reduced to meet heating costs to PSH, installation of a new boiler, alteration of the electricity meter and professional fees in line with the Council's property framework and to ensure required environmental conditions for the artefacts in the building. A remaining £110,000 is now available to add to the £500,000 from the City Centre Masterplan budget for the enabling works. The budget for the essential/enabling works was reduced to £610,000 (with a recorded spend to date of £51,000).
- 3.23 Earlier in 2017 public consultation was undertaken to identify the Hall for Heroes figures and those selected, who are still living, have been engaged in preparing the exhibition.
- 3.24 Work packages associated with the interpretation and fit out of PSH have commenced in line with the original programme (to July 2017) and budget (£1 million).

#### **Programme Management Office (PMO) review**

- 3.25 In July 2017, the PMO undertook a review of the PSH project. Principle conclusions were to:
- Review the project programme to establish appropriate phasing.
  - Investigate internal and external funding for the project.
  - Prepare a business case for the project and submit to the Capital Board.
- 3.26 In order to bring these recommendations forward, Faithful and Gould were appointed as project managers in August, 2017

#### **Provost Skene's House: Business Case**

- 3.27 The revised Business Case for Provost Skene's House is detailed in the exempt Appendix 1.

### **4. FINANCIAL IMPLICATIONS**

- 4.1 Financial implications arising from the report, with regard to AAG, are an exposure for additional costs for delay and disruption, additional

works/variations, provision for fit-out delay and disruption and professional fees.

## 5. LEGAL IMPLICATIONS

- 5.1 There are no direct legal implications arising from the recommendations of this report. The Head of Legal and Democratic Services will attend to the interests of the Council as regards the Contractor's claim in accordance with delegated powers.

## 6. MANAGEMENT OF RISK

- 6.1 The following presents the management of risks by identifying them and their impact, establishing the likelihood of occurrence, setting out appropriate mitigation and providing a pre and post mitigation score.

Risk/Impact	Likelihood	Score	Mitigation	Revised Score
Maximum exposure to contractor's claim at AAG through adjudication	Medium	High	<ul style="list-style-type: none"> <li>• Negotiation</li> <li>• Procure legal advice</li> </ul>	Medium
Further construction programme extension at AAG	Low	High	<ul style="list-style-type: none"> <li>• Maintain project management services</li> <li>• Pause delay damages</li> </ul>	Low
Commercial confidentiality of negotiations at AAG could have adverse reputational impact	Medium	Medium	<ul style="list-style-type: none"> <li>• Develop and implement communications plan</li> </ul>	Low
Reputational impacts through late delivery at increased cost at AAG.	High	High	<ul style="list-style-type: none"> <li>• Develop and implement communications plan</li> <li>• Proactive stakeholder engagement</li> <li>• Maintain project management and claims consultant services</li> </ul>	Medium
Budgetary increases at PSH due to unforeseen works	High	High	<ul style="list-style-type: none"> <li>• Appropriate budget contingency to reflect building age</li> </ul>	Medium

Risk/Impact	Likelihood	Score	Mitigation	Revised Score
Programme increase at PSH due to unforeseen works	High	High	• Appointment of Faithful and Gould to manage programme	Medium

6.2 There are no further financial, employee, customer / citizen, environmental, technological, legal or reputational risks.

## 7. IMPACT SECTION

7.1 The considerations in this report do not provide any new impacts related to economy, people, place or technology on the strategic themes of Aberdeen City Council and Community Planning Aberdeen, as set out in the Aberdeen City Local Outcome Improvement Plan 2016-26 and the Aberdeen City Council Strategic Business Plan.

## 8. BACKGROUND PAPERS

Report to Council on 23 August 2017 **Council Financial Performance – Quarter 1 2017/18 (CG17/084)**

Report to Audit, Risk and Scrutiny on 27 June 2017 **Review of the Capital Programme Governance (CHI/17/153)**

Report to FP&R Committee on 20 September, 2016 **Refurbishment of Provost Skene's House (ECS\16\058)**

Adams Napier Partnership June 2017 **Condition Survey Report on Provost Skene's House, Aberdeen**

Capital Board on 15 November, 2017 **Provost Skene's House Business Case**

Report to FP&R on 19 June 2014 **Art Gallery Redevelopment Programme Procurement of the Construction Works (ECS-14-046)**

**Art Gallery redevelopment programme – procurement of the Museums Collections Centre**, Education, Culture and Sport Committee, 27 March 2014  
**Aberdeen Art Gallery redevelopment programme**, Urgent Business Committee, 29 November 2012

**Aberdeen Art Gallery redevelopment**, Education, Culture and Sport Committee, 7 June 2012 and Finance and Resources Committee, 21 June 2012

Finance Policy & Resources Committee, 15 September 2015, Article 25: **Art Gallery Redevelopment Fundraising**

Finance Policy & Resources Committee, 7 June 2016, Article 27: **Art Gallery Fundraising - Update**

Finance Policy & Resources Committee, 1 December 2016 **Art Gallery Fundraising**

## 9. APPENDICES (if applicable)

Appendix 1 – Provost Skene's House: Business Case (Exempt)



**10. REPORT AUTHOR DETAILS**

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