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**Report to**

Cabinet  
Council

27<sup>th</sup> June 2006

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**Report of**

Director of City Development, Director of Community Services and Director of Finance and ICT

**Title**

The Herbert Art Gallery and Museum Development

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### 1 Purpose of the Report

To provide an update on the progress of the Herbert Art Gallery and Museum redevelopment scheme following the report to Council on 17 May 2005 and to seek approval to proceed with full implementation of Phases 2 and 3 of the scheme.

### 2 Recommendations

The Cabinet recommends the following to Council:

- 2.1 The Council approves the increased capital cost of the scheme of £18.435m including £521,000 in respect of the final cost of Phase 1 (to be funded from the overall scheme resources).
- 2.2 The Council approves the associated addition of £2.428M to the capital programme to be funded by European Regional Development Fund (£1.68M – subject to confirmation by Government Office West Midlands which is expected before the date of the meeting), DCMS Wolfson Foundation (£150,000), the West Midlands Museum Hub (£178,000), City Council revenue/ English Heritage (£45,000), and Council Resources (either Corporate or Service) still to be identified £375,000 – see 2.6 below)
- 2.3 The Council approves expenditure on additional temporary posts for business support to deliver ERDF outputs and to be funded by an ERDF grant of £120,000.
- 2.4 Subject to finalisation of ERDF grant approval, the Council approves the appointment of Galliford Try Construction Limited as main contractor for construction of Phases 2 & 3 in the sum of £11,005,961 and delegates authority to the Director of City Development in liaison with the Director of Finance and ICT to authorise any necessary contract increases within the sum set aside within the scheme for contingency/risk.
- 2.5 The Council approves the contract increases for professional fees associated with the appointments of Pringle Richards Sharratt; Turner & Townsend; Gardiner & Theobald, Event Communications; and ISG as listed in paragraph 5.2.2
- 2.6 The Council approves that the additional temporary accommodation/storage costs of up to £172,000 per annum (up to £375,000 in total) be dealt with within the existing Budgetary Control and PPR processes as outlined in paragraph 5.2.3.
- 2.7 The Council approves the ongoing revenue implications/costs of the Herbert redevelopment which will rise to £186,000 per annum ongoing by 2010/11 and will require

additional revenue resources rising to £114,000 per annum in 2010/11 to be identified as indicated in paragraph 5.2.4.

- 2.8 The Council accepts the project risks outlined in section 5.8, the key ones being:
- That Heritage Lottery Stage 3 grant of £2.875m if not secured would have to be funded by the City Council.
  - The Herbert Trust fails to secure re-financing of the £3M loan to meet its obligations to the Alan Edward Higgs Charity or to meet the ongoing servicing costs of the new loan from within its overall budget.
  - Although all reasonable precautions have been taken in preparation for the construction of the project, there is an inherent risk of additional costs and delays arising from unforeseeable additional works that may affect the completion and opening of the project

### **3 Information/Background**

#### **Description of the scheme**

- 3.1 The redevelopment of the Herbert Art Gallery and Museum forms part of the wider programme of investment in City Centre cultural facilities together with the Coventry Transport Museum and the Belgrade Theatre. These developments follow on from the investment in the Skydome and the Phoenix Initiative to create a step change in the image and profile of the City Centre and the City as a whole which is currently benefiting from a £6billion investment programme of regeneration and redevelopment. Plans for the Herbert will transform it into a major cultural facility serving the City and the region, attracting more people into the city as well as strengthening the Herbert's work with local communities and schools.
- 3.2 The Herbert has been a member of the West Midlands Museum Hub since 2003 as part of central government's Renaissance in the Regions programme for major investment in the work of regional museums. Hub Business Plans for 2004-06 and for 2006-08 have enabled the Herbert to develop education and social inclusion and cultural diversity programmes and to improve access to the museum collections via the development of a computer database. These developments complement and feed into the capital development. For example, work with disabled groups has influenced the development of a gallery which focuses on sensory access to natural history collections and work with various community groups has provided objects for inclusion in and stories which are told in the new history galleries.
- 3.3 The redevelopment of the Herbert is being phased. Phase 1 was completed in mid 2005 and provides over 1000 square metres of new and refurbished space including bringing back into use the Lecture Theatre wing of the building. The new café and education space on the ground floor, the audio, video and new media studio facilities and new and re-equipped gallery spaces on the first floor and the arts information and training spaces on the top floor have been operating successfully since September 2005. At the same time, the remainder of the existing building has been closed, awaiting refurbishment, with preliminary work taking place including an asbestos survey and strip-out. Despite the closure of the majority of the building visitor numbers using the new facilities have increased and some exhibitions have had a high profile including coverage in the national press.
- 3.4 The final stage of the redevelopment creates a landmark building facing Coventry Cathedral and University Square. It comprises a 'Phase 2' and 'Phase 3' of development which has been determined to take maximum advantage of external grant funding opportunities. These two phases are interdependent being part of the same design scheme

and construction contract. This final stage of development (i.e. both Stages 2 and 3) is scheduled to start on site in July 2006 and scheduled for completion in 2008, the construction of the building completing in January 2008 with exhibition fit-out being scheduled for completion in mid 2008.

3.5 The 'Phase 2' building is a new extension from the Phase 1 building towards the cathedral and University Square. It results in:

- The Coventry History Centre which brings together the City Archives, the Local History collections currently based at the Central Library, and virtual (information technology) resources into a high profile, easy access, one stop centre to promote and make accessible the heritage of the city and its people.
- A 'covered court' will house reception, tourist information and retail facilities. On the opposite side of this to the History Centre will be the History Galleries which use the Herbert's collections to tell the story of the City, particularly in the Medieval, Victorian and Twentieth Century periods. It is designed to appeal to people of all ages and both to local people and visitors to Coventry.
- The high profile frontage to the Cathedral and University is designed to attract people into the building and to make the Herbert a desirable venue for use by local businesses, the University, the City Council and others.
- On the floor above the History Galleries will be new gallery spaces designed for the programme of temporary exhibitions, including high profile national and international touring exhibitions and spaces for local artists and makers to exhibit their work.

3.6 'Phase 3' is the refurbishment of that part of the existing building not included in Phase 1. It results in:

- Exhibitions of the Herbert's sculpture and visual arts collections
- An exhibition called 'Elements' which is aimed at people with disabilities, focussing on sensory access to parts of the Herbert's natural history collections
- An exhibition called 'Discover Godiva' which looks at various aspect of the Godiva story and is aimed at families with children
- An exhibition on the theme of Peace and Reconciliation which deals with both the city's international role and the city's communities
- Education spaces to enable the Herbert to increase the number of school groups using it
- Storage and conservation facilities for the museum collections including an 'Accessible Store' for some parts of the collection which cannot be included in the exhibitions in the Phase 2 and 3 building.

### 3.7 Phase 1 Development - Final Outcome

Phase 1 was completed in April 2005 and the building has been fully open to the public since September 2005. The new facilities have been well received by users and visitors alike. The new Education space has given the Herbert a dedicated space to work with school groups and for family activities, the new studio spaces and the training room are increasingly being used for a variety of courses and the new café has been successful including as a venue for music events. Although the remainder of the building has been closed awaiting Phase 3, in the one gallery still functioning the Herbert has put on a wide variety of arts and heritage exhibitions and events.

Members have previously received reports that advised of delays and contractual disputes in relation to the construction of Phase 1. After consideration of the report to Council dated

17 May 2005, members delegated authority to the Director of City Development, Director of Finance and the Director of Legal and Democratic Services to approve payments to the Contractor and to the respective Consultants for Phase 1 to meet the Council's contractual obligations and the decisions in any future adjudications within the limits shown in Private Appendix 1 of that report.

All claims and disputes and the outcome of a further adjudication process related to Phase 1 are now concluded and the financial implications determined.

Construction costs have been settled at an additional cost of £396,000 (the best scenario was £211,000 and worst scenario was £574,000). Fee costs have been settled at an additional cost of £90,000 (best scenario was £43,000 and worst scenario was £93,000). Fee costs increased due to the need to defend claims and adjudications in order to minimise the settlement of construction costs. To equip the building to function fully £34,957 was expended on furniture and equipment in excess of the budget. This included additional café furniture to reflect the level of custom in the café, storage units in the education space and elsewhere and adjustments to the reception desk and other features in the lobby area. The overall cost implications are well within the range reported to Council in May 2005.

Phase 1 has now reached the end of the Defects Liability Period and, following rectification of the defects arising, final payments will be made, including release of retentions, to both Contractor and Consultants and those accounts will then be closed.

### **3.8 Phase 2 and 3 issues**

#### **3.8.1 Coventry University**

The Council has worked closely with Coventry University to ensure that the extension plans for the Herbert work alongside the University's own aspirations for the development of its adjoining site. This has included the relocation of the footprint of the new extension to the Herbert so that it lies entirely on Council owned land. This has necessitated redesign of the new building, although the style and character of the proposed building are retained.

The effect of the work to redesign the scheme and the process for approval has been to delay the programme for procurement and implementation of the project, which in turn incurs additional costs arising from additional fee costs for redesign etc. and inflation and market fluctuations in construction costs.

Discussions with Coventry University have continued meanwhile to resolve the practical issues around implementation of the building works in close proximity to operational buildings used by the University and future use and access issues. These discussions have been successfully concluded and fully documented in a legally binding agreement between the University and the City Council. Where applicable the obligations upon the City Council in that agreement are replicated in the terms of the proposed main construction contract, in particular in regard to control of noise.

#### **3.8.2 Planning Approval**

It was necessary to resubmit the amended proposals for planning approval. The revised design and layout of the proposed development was referred to the Planning Forum on 14 November 2005 and, subsequently, after minor revision to accommodate the observations

of the Forum, was formally submitted for approval. The Planning Committee granted full consent for the revised design on 26<sup>th</sup> January 2006.

The revised scheme was submitted to the Commission for Architecture and the Built Environment who responded with positive support for the design and who strongly commended the proposals. English Heritage also approved the revised proposals.

### 3.8.3 Removal of collections and staff from the site

In preparation for the next stage of the development staff and collections have been removed from the site. The City Archives Service has been relocated from Mandela House, which will be demolished, to the Canal Basin until it returns to the new History Centre. Archive collections previously in Mandela House have been relocated to suitable archive storage in Warwickshire, Staffordshire and Oxfordshire and are made available to be consulted at the Canal Basin Offices.

Those staff not required for the day-to-day operation of the Phase 1 Herbert building have been relocated to offices at the Canal Basin which, like the premises occupied by the Archives Service, are part of the City Council's commercial property portfolio. Museum collections previously housed in the Herbert have been removed to three outstores, two of which were previously occupied by the Herbert and the third of which is part of the City Council's commercial property portfolio. Those parts of the collection requiring specialist environmental conditions have been housed in private specialist facilities in London and elsewhere.

The housing of staff and collections in other premises is incurring an additional cost to the Herbert and Archives budgets of up to £192,000 per annum only partially offset by a rates reduction for the empty parts of the Herbert of around £20,000 per annum. For annual breakdown of costs see 5.2.3. Either Corporate or Service resources remain to be found to meet the overall one-off cost of £375,000 as part of the Council's normal in year budget management processes.

It is intended that staff currently housed in the Canal Basin will return to the Herbert within two months of the building being handed over by the contractor which is scheduled for January 2008. The return of collections needs to take place over several months, with priority being given to those collections required to get the Herbert open and fully functioning: that is, the archive collections to enable the History Centre to open and those parts of the museum collection required in exhibitions to enable the exhibitions to open to the public. Following re-opening, those parts of the museum collections to be stored in the Herbert will be evacuated from the additional outstore accommodation. Complete evacuation of the additional accommodation being occupied is expected within four months of re-opening The Herbert.

### 3.8.4 Asbestos removal

Both Mandela House and the former Tourist Information Centre are to be demolished in the next phase of development. These buildings and the existing Herbert building have been the subject of intrusive level 3 asbestos surveys to advise the presence of asbestos. Work has now been completed on the removal of asbestos identified by those surveys from walls, floors and ceilings in the existing Herbert building. Only small amounts of asbestos have been discovered in Mandela House and the removal of these will be included in the main construction contract. No asbestos has been revealed in the former Tourist Information Centre

### 3.8.5 Archaeological work

The first phase of archaeological work in the Mandela House car park was completed by Birmingham Archaeology in 2005. A second phase has been undertaken in the Peace Garden and has also been completed. Whilst both phases have been of considerable importance in adding to our knowledge of the history of the City, nothing has been found which will impede the project or require any alterations to the design of the building. Birmingham Archaeology will have a watching brief on those parts of the site running around Mandela House and the former Tourist Information Centre during the early part of the construction period. Provision has been made to protect the medieval Undercroft underneath the former Tourist Information Centre during the construction works and to undertake some remedial work to prevent water penetration and provide a new access as part of the Herbert re-development. Funding had been separately identified for this work (see paragraph 3.9.2 note 8) and is now included in the scheme.

### 3.8.6 Appointment of contractor

The revised proposals have been the subject of a new procurement process. EC Procurement regulations are applicable to this contract in view of the construction value. Hence a notice was published in the OJEU to seek expressions of interest. From those expressions of interest, 5 contractors were selected from whom tenders were invited in competition. By the appointed date 3 valid tenders were received of which the lower two were in close contention although in excess of the budget provision.

The tenders received were as follows:-

- £11,625,207
- £11,989,280
- £13,562,619

The lower 2 tenders have been thoroughly reviewed and interrogated in detail by an evaluation panel comprising the external project managers, the architects, costs consultants and a representative from City Development Project Management and in close collaboration with the contractors concerned. A number of resulting queries and clarifications have been addressed. In addition and, in conjunction with the Contractors, a value engineering process has been undertaken to identify scope for reductions in cost without impact on the quality or functionality of the scheme and without prejudicing the ability to deliver the essential outputs required by the external funding bodies.

Both remaining contractors have then submitted final tender offers that fully reflect the above changes, clarifications and reductions.

The revised tender offers were as follows:-

- £10,995,883
- £11,329,331

Further discussions have subsequently taken place with the contractor who submitted the lowest revised tender, Galliford Try, to (a) pursue savings that had not previously emerged and (b) to take account of some savings offered in their revised tender that were not acceptable with the effect that Galliford Try have now agreed a final offer of £11,005,961 (exclusive of contingencies).

On the basis of the final offers received, it is recommended that Galliford Try Construction Limited be appointed with immediate effect and that a formal contract be entered into with that company.

Galliford Try Construction Limited have a record of successful contracts delivered for the City Council and of high quality and high profile contracts delivered in the Arts sector and are well equipped to deliver the Herbert project.

### 3.9 Phase 2 and 3 Funding

#### 3.9.1 Confirmed funding for the project is as follows

Corporate Capital Resources	5,459,000
Higgs Trust Loan	3,000,000
AWM grant	196,000
Heritage Lottery Fund Phase 2	1,998,000
ERDF Phase 2	2,286,000
DCMS Phase 2	192,100
DCMS Phase 3	150,000
Museum Hub (exhibition development)	178,000
Funding for vault (revenue + English Heritage grant)	<u>46,000</u>
<b>SUB-TOTAL</b>	<b><u>£13,505,100</u></b>
Funding decision awaited:	
ERDF Phase 3	1,680,000
Heritage Lottery Fund Phase 3	2,875,000

TOTAL £18,060,100

#### 3.9.2 Notes on external grants

(1) The Higgs Trust Loan

The financial agreement proposed by the Alan Edward Higgs Charity was reported to Cabinet in the report dated 17<sup>th</sup> May 2005. The Charity has confirmed a loan of £3M to the Herbert Trust over a three-year period with a grant of £87,500 (from the Higgs and another local charity) to the Herbert Trust to help pay the costs of the loan. The financial implications of this for the Trust were reported in the Cabinet Report dated 17<sup>th</sup> May 2005. These assume that the short and long term annual costs of the loan will be able to be met by the Trust to be set up – either with the resources it is set up with (to be subject to a separate later report to Cabinet) or with resources it is able to generate.

(2) AWM grant. This was for the feasibility and early design stage of the development and has been claimed and spent.

(3) Heritage Lottery Fund Phase 2. £86,000 of this grant contributed towards the development costs of the project. A contract is in place with HLF for this grant.

(4) ERDF Phase 2. This grant was linked to the University Square development and £590K of the grant has already been spent

- (5) The ERDF Phase 3 grant comprises £1.68M of capital and £120,000 of revenue funding to assist in the delivery of the outputs. The outputs are as follows:-  
6 new 'visitor attractions' (Godiva, Peace and Reconciliation, Visual Arts, Elements, Accessible Store, Sculpture galleries)  
51 new jobs (direct and indirectly through the project)  
33 safeguarded jobs at The Herbert

These figures have been calculated by independent consultants as part of the bid submitted to ERDF. The ERDF funding for Phase 3 is required as the last element of funding for the project. A formal decision from Government Office West Midlands on this grant has not been received at the time of writing this report but is expected by the time of the Cabinet meeting on 27 June following further discussions with Government Office.

- (6) The DCMS grants. These are specifically to contribute towards the exhibition elements of the redevelopment. The deadline for claiming the first of the grants (£192,100) is August 2006, although DCMS have said that they are prepared to negotiate an extension.
- (7) Museum Hub grant. This is for various exhibition interactives with educational and community content and has been secured.
- (8) Funding for vault. This includes £40,000 of funding in the budgets of City Development set aside for work to the vault and a grant of £6,000 from English Heritage.
- (9) Heritage Lottery Fund Phase 3. This bid is the subject of a two-stage application process to the National Trustees of the HLF. A Stage 1 pass was secured in 2004. Additional documentation, including information about the possible move to Trust Status, has been provided to the HLF and a decision will be made by the Trustees at their meeting on 25<sup>th</sup> July 2006. A recent letter from the regional office of the HLF has confirmed that the £2.875M is still "ringfenced" for the scheme, subject to formal approval on 25<sup>th</sup> July.

#### **4 Proposal and Other Option(s) to be Considered**

- 4.1 Completing the redevelopment of the Herbert will provide the City with an art gallery and museum of regional significance and with a national reputation and of great benefit to local people. It will be a high profile component in the City's attractiveness to visitors and to investors. It will provide modern facilities for access to and display and storage of the city's archives, art and museum collections. It will enable the city to receive high profile art and heritage exhibitions that otherwise local people would have to travel to other cities to experience. It will provide excellent opportunities for local schools and be a source of pride for Coventry people, many of whom have contributed documents, artefacts and stories for inclusion in the History Centre and History Galleries or have been consulted in the creation of the displays.
- 4.2 The City Council has already spent £2.333M on the second and third phases of the redevelopment in consultancy and design fees and preparatory work such as the archaeological excavations and the removal of asbestos. If the development does not proceed this money will have been expended with no tangible outcome.



- 4.3 £2.107M of external grant has been spent on the Phases 1 and 2 elements of the project and much of this will be at risk of being clawed back, given that grant funders have stated that they have supported each phase of the scheme on the basis that all phases will be completed.
- 4.4 A considerable amount of preliminary work has already taken place on the project in order not to delay the start, to reduce risks in the main construction project and to prepare the way for the contractor to start on site. This has included:
- The stripping out of asbestos from walls, ceilings and floors in the existing Herbert building
  - The removal of the main History exhibition ("Godiva City") and the museum collections to outstores and specialist storage
  - The relocation of staff to other office accommodation
  - The removal of staff, archive collections and shelving from Mandela House
  - Archaeological excavations on the Mandela House car park and the Peace Garden on Bayley Lane

The cost of reinstating the existing buildings and landscape and creating new displays of the art and museum collection has not been calculated in detail but this will be very considerable and without the benefit of external grant. In addition, the new Herbert was partly designed to address the problems of lack of storage space for the city's archive collections and storage and access solutions will need to be found to this problem if the collections currently stored outside Coventry are to be returned to the city.

- 4.5 The Herbert is currently a Registered Museum with regional status as a member of the West Midlands Museum Hub, which receives funding from the Department of Culture, Media and Sport via the Museums, Libraries and Archives Council. If the Herbert remains mostly closed – as it is at present – with hardly any of its collections on display - the Museums, Libraries and Archives Council has made it clear that this would make it highly unlikely that the Herbert's Registered Status would be renewed in 2008-09. This would have considerable implications for the City Council especially as Accreditation (the successor to Registration) has been proposed by the Audit Commission as an indicator for the Culture Block in the Comprehensive Performance Assessment for local authorities. It would also mean that the Herbert would be unable to retain its membership of the West Midlands Museum Hub. Hub funding funding in 2006/07 and 2007/08 amounts to £725,000 per annum for education, access and community programmes run by the Herbert in the city. This would be lost if the Herbert is unable to retain its membership of the Hub.
- 4.6 At present the Herbert is delivering a severely curtailed service from the completed Phase 1 accommodation and from temporary accommodation. Any further delay in implementation risks inflationary increases in costs at the rate of approximately £50,000 per month and weakens the Council's commercial position in negotiating contracts with contractors and their supply chain. Therefore, it is essential to proceed with the construction contract without delay (a) in order to secure the contract at the tendered sum and (b) in order to progress the project to satisfy the funding agencies and to complete the project and return the Herbert to normal use as soon as possible.
- 4.7 Due to the nature of some of the capital funding and in order to secure the long-term future of the facility and services, management options for the Herbert have been subject to an appraisal by Lawrence Graham solicitors who specialise in leisure management options appraisal for the public sector. This is to be the subject of a separate report to a future Cabinet meeting which recommends that the Herbert move to Trust Management over the next 18 months.

## 5 Other specific implications

	Implications (See below)	No Implications
Best Value		✓
Children and Young People		✓
Comparable Benchmark Data		✓
Corporate Parenting		✓
Coventry Community Plan	✓	
Crime and Disorder		✓
Equal Opportunities	✓	
Finance	✓	
Health and Safety		✓
Human Resources	✓	
Human Rights Act		✓
Impact on Partner Organisations	✓	
Information and Communications Technology		✓
Legal Implications	✓	
Neighbourhood Management		✓
Property Implications	✓	
Race Equality Scheme		✓
Risk Management	✓	
Sustainable Development	✓	
Trade Union Consultation		✓
Voluntary Sector – The Coventry Compact		✓

### 5.1 Coventry Community Plan and Equal Opportunities

The Herbert Art Gallery and Museum forms part of a wider programme of investment in City Centre culture and leisure facilities, which includes the Coventry Transport Museum and the Belgrade Theatre. These projects follow on from investment in various major developments to create a step change in the image and profile of the City Centre and the city as a whole.

Plans for the Herbert will make the museum more accessible to a wider range of visitors. The Herbert's membership of the West Midlands Museum Hub and the investment of central government money in the Hub for education, social inclusion and cultural diversity programmes complements the proposed capital development. Projects with schools and communities have contributed towards the content of several of the exhibitions proposed in

the new Herbert. The plans will both attract more people into the city as well as providing a stronger base for the Herbert's work in schools and communities.

## 5.2 Financial Implications

5.2.1 The following table summarises the changes to the scheme since the May 2005 report:-

<u>Description</u>	<u>May 2005</u>	<u>PPR 2005*</u>	<i>All figures in £000s</i>	
			<u>Post PPR</u>	<u>Current Forecast</u>
<i>Expenditure:-</i>				
Phase 1	270	0	251	521
Construction and other works	9,777	888	916	11,581
Exhibitions	1,859	77	655	2,591
Fees/Other	2,444	692	606	3,742
	<u>14,350</u>	<u>1,657</u>	<u>2,428</u>	<u>18,435</u>
<i>Funded By:-</i>				
Council Resources	3,802	1,657	375	5,459
Higgs Trust	3,000			3,000
Grant/Other	7,548		2,053	9,601
	<u>14,350</u>	<u>1,657</u>	<u>2,428</u>	<u>18,435</u>

\* Approved by Council on 21 February 2006

The item Fees/Other costs include surveys, the cost of moving and storing exhibits etc., and a contingency. Further details are shown in Appendix 1.

At the end of the 2005/06 financial year actual expenditure to that date was £2.805m – including £1.868M on fees and £472,000 on Phase 1 (further details also shown in Appendix 1). £1.955M of this was funded by City Council resources. The spend profile for the remaining £15.255M (excluding the £375,000 for one-off accommodation costs as detailed in paragraph 5.2.3) is estimated to be as follows:-

2006/07 - £5.690M  
 2007/08 - £7.685M  
 2008/09 - £1.880M

Total £15.255M

5.2.2 The increases in cost, as shown in 5.2.1 and appendix 1, are attributable to the following circumstances:-

### Phase 1

A range of figures was reported to the Council in the May 2005 report between best and worst scenarios and the best scenario was budgeted for at that stage. The bulk of the increase represents the level of settlement within the range between best and worst anticipated scenarios. See paragraph 3.7 above..

### Construction

As described in paragraph 3.8.1, since previous approvals it has been necessary to redesign the Phase 2 extension to reconcile with adjoining site development proposals.

The redesign necessitates the relocation of the footprint of the building, a shortening of the new building and the re-disposition of certain accommodation within the building. Resolving these matters has delayed the programme by some 12 months thus incurring inflationary increase in cost as well as repeating the procurement process, following the redesign.

#### Fees

Fee costs have risen in particular due to the necessity to redesign the Phase 2 building; re-obtain approvals and as a result of the programme being protracted.

- Pringle Richards Sharratt – Increased to £1,808,963 (was £1,118,257)
- Turner & Townsend – Increased to £222,843 (was £145,000)
- Gardiner & Theobald – Increased to £216,000 (was £148,000)
- Event Communications – Increased to £410,000 (was £379,000)
- ISG – Increased to £94,289 (was £74,330)

#### Exhibitions

In the previous budget, the costs of the Discover Godiva Gallery had been omitted as a cost saving with the intention to apply for funding from other sources. However, a funding application was not successful. Therefore, the costs of this exhibition have been re-introduced into the scheme costs. Its exclusion in the hope of attracting additional funding would have been high risk given that it is a key deliverable for the Heritage Lottery Fund. Failing to deliver it could lead to a reduction in Heritage Lottery Funding grant. If seeking additional funding continued to be unsuccessful, the costs of the gallery would have had to be reinserted at a late stage in the project as a cost to the City Council.

- 5.2.3 In addition to the above, additional one-off costs of £375,000 are being incurred in respect of temporary storage/office accommodation while the project is completed. To date these have been dealt with by allocating Service or Corporate resources within the existing Budgetary Control process. It is intended that 2006/07 should be covered in the same way, and that 2007/08 and 2008/09 should be dealt with within the 2006 PPR process. The annual breakdown of costs is

2006-07	up to £191,985 less £20,000 rates rebate: £171,895
2007-08	up to £186,045 less £20,000 rates rebate: £166,045
2008-09	up to £36,822 (no rates rebate)

Part of this (£123,000) could be considered for funding from PPR resources already allocated (see 5.2.4 below)

- 5.2.4 PMP Consultants were engaged to update the Business Plan for the Herbert for resubmission to the Heritage Lottery Fund as part of the Stage 2 submission for the Phase 3 project. This has been undertaken as a provisional exercise pending a much more detailed business plan to be developed as part of the process of moving the Herbert to Trust Status. The provisional figures of PMP, excluding loan repayments to the Higgs Trust, show that revenue subsidy for the Herbert needs to increase as follows:

All figures are £000

<u>Year</u>	<u>Overall Increase</u>	<u>PPR Resources Already Allocated</u>	<u>Additional (+) Resources Now required</u>
2006/07	0	122	-122
2007/08	71	72	-1
2008/09	139	72	+67
2009/10	182	72	+110
2010/11 Ongoing	186	72	+114

Total increase in subsidy 2006/07 to 2010/11 = £186K which is an ongoing figure.

The 2002 PPR resulted in an ongoing revenue increase for the Herbert of £168K. However, the 2004 PPR savings/efficiencies exercise removed £96K of this leaving a net increase of £72K. Therefore additional revenue resources rising to £114k per annum from 2010/11 will need to be identified. In the short term, PPR resources already identified could be considered to part fund the one-off costs of storage/accommodation referred to in 5.2.3.

The main reasons for the increase are

- The need to increase marketing expenditure to reflect the need to meet visitor targets, following concern expressed by the Heritage Lottery Fund that the marketing budget was too low
- Increased staffing costs because of the increased size of the building and the projected longer opening hours
- The increased running costs of the building in the form of utility bills, cleaning etc.

The figures assume:

- Maintenance of free admission
- Increase in income through enhanced retail, catering and corporate reception
- Rates savings achieved through move to Trust Status
- Estimated levels of funding through membership of the West Midlands Museum Hub post 1<sup>st</sup> April 2008
- Continued success in securing external grants for project work

However, no assumptions have currently been built in with regard to:

- The costs of repayment of the loan from the Higgs Charity
- Costs currently met through the City Council's central support (Personnel, Finance, Legal etc)
- Possible income through sponsorship and a more commercial approach
- The possibilities of a Trust being able to access sources of grant income currently unavailable to a Council-run service.

These will be examined in more detail in the exercise to be undertaken of developing a robust business plan for a Herbert Trust, following consideration of a report to a future Cabinet meeting relating to the move to Trust Status.

### 5.3 Human Resources

The Herbert redevelopment involves the creation of additional employment in the city and safeguards existing positions at the facility by creating a modern, high profile and high quality facility which is able to respond to and attract new and diverse audiences. The

proposed temporary posts funded using ERDF grant will be established and recruited to in accordance with City Council HR procedures.

#### 5.4 Impact on Partner Organisations

The Herbert forms part of a network of organisations and individuals promoting and developing arts and heritage in the city. A redeveloped Herbert will have a major impact on the tourist potential of Coventry and work has started with CVOne and others to look at how the city can maximise the enhancement to the city's image and the tourist potential of the Coventry Transport Museum, the Belgrade Theatre and The Herbert working in partnership. Discussions have started with Coventry Cathedral about joint work on the theme of peace and reconciliation and research using the archive resources of the City Archives and the Cathedral Archives. Building on past projects, joint educational work with the Cathedral and the Belgrade Theatre is being explored.

#### 5.5 Property Implications

The property implications are generally referred to in the body of the report.

The project will deliver a striking landmark building on an important site adjacent to the Cathedral and completing the southern edge of the square, all of which will significantly enhance the cityscape.

The project involves the demolition of both Mandela House and the Tourist Information Centre. Both buildings have been vacated for some time in anticipation of the project being implemented.

Temporary accommodation has been made available offsite, to which staff and some services have decanted to allow construction to proceed. This will be released when the new accommodation in the Herbert is completed and available for use.

All areas of the existing building are dealt with by the Phase 3 refurbishment which, whilst retaining the existing external fabric, will address all currently foreseeable internal repair issues and considerably update the internal condition and servicing of the existing building.

#### 5.6 Risk Management

The principal risks associated with the scheme are:

- The Herbert Trust fails to secure re-financing of the £3M loan to meet its obligations to the Alan Edward Higgs Charity or to meet the ongoing servicing costs of the new loan from within its overall expenditure envelope. This will be considered as part of the development of a robust business plan for a Herbert Trust.
- The conditions set by the external funders are not met and the Council does not receive funding or has to repay funding already received. The project will be closely monitored to ensure that all the conditions are met.
- The Heritage Lottery Fund Phase 3 funding is not secured leaving the City Council to fund the shortfall from its own resources. The scheme has already received a Stage 1 pass and the grant for the Herbert Phase 3 is ring-fenced within the budgets of the Heritage Lottery Fund. The Heritage Lottery Fund has received answers to all of its queries, the most significant of which related to move to Trust Status, and has been very supportive of the scheme. In addition, there is a contract in place with the Heritage Lottery Fund for Phase 2 funding and to satisfactorily complete the Herbert redevelopment and achieve the desired heritage outcomes, Phase 3 is the essential final component.

- The cost of the scheme exceeds the allocated budget. Appropriate project management systems are in place to ensure that the risk of overspend against the project is minimised.
- The outputs required for ERDF funding for the Phases 2 and 3 grants will not be met. The jobs outputs will be created using the facilities created by the Phase 1 project in conjunction with the creative work involved in the second and third phases of the project. The Phase 1 ERDF project – Creative Coventry – has successfully met the outputs required to meet the ERDF grant for that phase of the redevelopment. Similar project management arrangements will be put into place as in the Phase 1 project to ensure that outputs are successfully met. A prompt start on site is needed to ensure that attractions outputs are delivered on schedule. Regular reports to funders and to the Project Board for both the outputs required by the Phase 2 grant and the separate and additional outputs required by the Phase 3 grant will pick up at an early stage any variations from targets to enable corrective action to be taken.

A risk register has been established by the project team to consider the construction related risks arising from the project. This concludes in a total risk allowance of £417,500. The Risk Register is regularly reviewed and updated by the Project Team and the Project Board (see 6.1 and 6.2 below) to reflect the status of the project. Contingency monies are included in the proposed project expenditure figures that are commensurate both with the foreseeable construction and other risks attached to the project.

## 5.7 Sustainable Development

The project will undertake environmental improvements to the building and the landscape adjoining University Square. The proposals involve making the building more energy efficient, including upgrading the plant for the building and improving environmental conditions in both galleries and archive and museum storage areas.

## 6 Monitoring

### 6.1 Project Management and Project team meetings

In view of the value, complexity and high profile nature of the project, external professional project management consultants have been appointed. They convene regular monthly meetings of the Project Team comprising officers of the City Council and representatives of the design team, the cost consultants and the construction company. A monthly report is produced including an updated development cost report and report which shows progress against the master programme. A robust change management procedure is in place to control changes to the scheme which result in additional or reduced costs, which come out of or go into contingencies in the project budget.

### 6.2 Project Board

A Project Board has been set up for the project in accordance with the City Council's Programme and Project Management Toolkit. Membership of the Board includes officers of the City Development, Community Services and Finance and IT directorate, the external project manager, the Leader and Deputy Leader of the City Council and the Cabinet Members for Culture, Leisure and Libraries and Urban Regeneration and Regional Planning. Regular reports on the progress of the project, including cost updates and variations, will be taken to the Project Board which will also be the body which takes major decisions affecting the project that require urgent action.

### 6.3 Reports to external funders

As part of the conditions attached to each of the external grants, financial and output reports need to be submitted on a regular basis. Systems for monitoring ERDF outputs were set up for the Phase 1 project and will be reactivated. All grant claims are checked and require to be countersigned by the appropriate Lead Accountant before being submitted to the funding body.

## 7 Timescale and expected outcomes

7.1 The construction work on Phases 2 and 3 is expected to start on site in July 2006 with the construction being completed in January 2008, and the exhibition fit out then having been commenced and completed by mid 2008.

	Yes	No
<b>Key Decision</b>	√	
<b>Scrutiny Consideration</b> (if yes, which Scrutiny meeting and date)		√
<b>Council Consideration</b> (if yes, date of Council meeting)	√ 27 <sup>th</sup> June 2006	



List of background papers

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Papers open to Public Inspection

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**Location**