

**REPORT TO: POLICY & RESOURCES COMMITTEE – 26 JANUARY 2015**

**REPORT ON: CONSTRUCTION OF THE V&A MUSEUM OF DESIGN, DUNDEE**

**REPORT BY: DIRECTOR OF CITY DEVELOPMENT**

**REPORT NO: 21-2015**

## **1 PURPOSE OF REPORT**

1.1 To advise members of the outcome of the tendering process for the main construction contract for the V&A Museum of Design and to seek delegated authority for the Director of City Development, in consultation with the Chief Executive, Director of Corporate Services and Head of Democratic and Legal Services, to award the contract.

## **2 RECOMMENDATION**

2.1 It is recommended that the Committee;

2.1.1 note the position regarding the final cost for the construction of the project;

2.1.2 authorise officers to finalise the funding strategy to enable the project to proceed and to make appropriate allocations in the Council's Capital and Revenue Plans; and

2.1.3 delegate authority to the Director of City Development, in consultation with the Chief Executive, Director of Corporate Services and Head of Democratic and Legal Services, to accept the fixed price tender by BAM Construction Ltd at a total amount of £76.16m

## **3 FINANCIAL IMPLICATIONS**

3.1 In relation to the project costs detailed in Section 6 and the proposed funding detailed in Section 7, the Director of Corporate Services has confirmed that the City Council's contribution can be contained within the draft Capital Plan 2015-18 and the draft Revenue Budget for 2015-16.

## **4 BACKGROUND**

4.1 The opportunity to develop a Museum of Design within Dundee Waterfront in partnership with the world renowned Victoria and Albert Museum was first identified some seven years ago. This opportunity has since led to;

- the formation of a local delivery body, Design Dundee Ltd, made up of the founding partners of V&A, Dundee City Council, Scottish Enterprise, the University of Dundee and Abertay University; to lead and manage the project and the building's operation once constructed;
- the development of a mission for the new institution: that it will transform people's awareness of design, especially of their design heritage and inspire new opportunity, creativity and enterprise;
- the holding of an international architectural competition to design the building which was won, to public acclaim, by Kengo Kuma Associates;
- securing a long term agreement with the V&A to enable access to their extensive collections and exhibitions;
- the assembly of capital and revenue funding and in-kind commitments from the Scottish Government, Heritage Lottery Fund, Creative Scotland (Arts Lottery), private trusts, individuals and corporate supporters and from the local partners to the project, ensuring the project's long-term sustainability;
- Project Partner approval of a Business Plan for V&A Dundee, setting out the mission and vision for the new institution and its organisational, financial, curatorial,

learning, business innovation, partner and audience development plans up to and beyond its proposed opening; and

- the recruitment of high quality, expert staff to manage and operate the museum and a programme of local events in the run up to its opening.

All of this has been undertaken with the aim of having the main building complete by the end of 2017 to allow a reasonable period for fit-out, commissioning and exhibition preparation in order to achieve an opening date prior to June 2018.

- 4.2 V&A Dundee will be the first ever purpose-built design museum in the UK outside London. It will make a national contribution, working in partnership to develop a greater focus and public awareness of the value of creative design. It will promote the understanding of our design heritage, showcase international design, and provide opportunities for our design talent. Fundamental to its vision will be fostering relationships between creative design, business and enterprise.
- 4.3 The work of the V&A Dundee team has already resulted in the beginnings of new educational and heritage partnerships with local and national museum and education bodies from across Scotland. Audience engagement projects have already taken place with communities across Dundee, building anticipation for the project and for an improved future for the city. From February 2015, V&A Dundee will embark on its first national project, using design to inspire creativity among communities across Scotland
- 4.4 The V&A Museum of Design will bring significant economic benefit to Dundee and Scotland, including 51 FTE direct jobs and 361 FTE indirect jobs; in the initial years post opening this rises to 628 FTE. The building works alone will generate 519 net job years in the construction sector including community benefit and apprentice opportunities. Overall the project's estimated contribution to the local and national economy is an added £11.6m per annum.
- 4.5 The Dundee Waterfront project currently estimates that 4,800 FTE jobs will be created as a result of the Central Waterfront development; these jobs will cover a multitude of employment sectors including hospitality, construction, financial, professional & administrative services and cultural sectors as well as further growth in Dundee's new emerging sectors of life sciences and digital media. These jobs will assist greatly in tackling unemployment throughout the city bringing increased social justice in our disadvantaged communities.
- 4.6 The prospect of V&A Dundee played a major role in the recent award to Dundee of the status of UNESCO City of Design. Extensive market research commissioned in 2013 projected that the new museum will generate in excess of 270,000 visitor engagements p.a. from year 3 onwards. While this research was concerned only with steady state operation to form the basis for prudent financial planning, it is likely that years 1 and 2 will see significantly greater numbers. These increased visitor numbers will help develop and support a variety of industries across the city region - leisure tourism, hospitality, retail, catering and creative industries. It is expected that an additional 500 rooms will be provided in new hotel developments as a result of this new world class visitor attraction.
- 4.7 The experience of other similar projects around the world indicates that they build civic pride, enhance educational performance, re-define geographical dynamics and encourage new confidence, resulting in new investment in the city, new jobs, the demand for new skills, greater graduate retention, raised aspirations amongst young people, more buoyant entrepreneurship and sustained economic growth.
- 4.8 The advent of the V&A in Dundee has already had a positive effect in attracting new investment, such as the new Malmaison Hotel and the proposed Sleeperz Hotel as part of the new Rail Station development. The level of developer and investor interest in Dundee

Waterfront is at an all time high with real prospects of new development taking place on the back of a start on site of the construction of the new museum. The first of these developer interests will be brought to Committee shortly seeking authority to enter into contractual commitments

## 5 PROGRAMME

- 5.1 The proposal is to commence construction works in March 2015 in order that the necessary preparatory works in the river can be completed prior to the seal pup season which runs from June to August. During this period, Scottish Natural Heritage will require an embargo on disruptive works in the river. If a March 2015 start is not achieved, then the construction contract will be delayed by at least a further 6 months with consequent impacts on the Museum's opening date and on inflation to the construction costs. These potential impacts would be serious in themselves, but of even greater concern is the effect any further delay could have on developer and investor confidence in the Waterfront Project and the rest of the city.
- 5.2 Assuming that the Council agrees to the recommendations in this report, such that a March 2015 site start is achieved, then it will be possible to complete the main building contract by December 2017. It is envisaged that the necessary fit out works, building commissioning and exhibition set-up can begin in advance of the main contract ending, thus enabling the museum to open prior to June 2018. Appendix 1 provides a proposed project timeline with key milestones.

## 6 TENDER PROCESS

- 6.1 The main contract for the construction of the building was put out to tender on 18 December 2013 to four short listed companies. During the tender period, two companies withdrew from the process and, therefore, two tenders were received on 22nd April 2014 from BAM Construction Ltd and Sir Robert McAlpine.
- 6.2 The Policy & Resources Committee resolved on 8th September 2014 (Article XIII refers) to appoint BAM Construction Ltd as the preferred main contractor for the construction of the V&A Museum project. This appointment was to allow officers to engage in discussions with the preferred contractor to refine their proposals and to finalise a fixed price tender for these works. These discussions have now concluded and a fixed price tender has been offered by BAM at a total of £76.16m for the construction of the project. In addition to the building construction, this price includes the associated landscaping works and various Waterfront Project works that need to be undertaken at the same time as the main contract.
- 6.3 The costs for the constituent elements of the BAM fixed price tender are as follows;

Main Building	£ 65.79m
Landscaping	£ 7.88m
Associated Infrastructure	£ 2.49m
<b>TOTAL</b>	<b>£ 76.16m</b>

The Landscaping costs are being funded separately by Scottish Enterprise and the Associated Infrastructure costs are funded directly by the Dundee Waterfront Project. The Main Building costs include a 5% construction contingency which will be held by the client and excluded from the tender award.

- 6.4 In addition to the main building construction cost, provision is needed for professional fees, fixtures and fittings and a client contingency allowance; therefore, the total costs for the building project are;

Main Building Contract	£ 65.79m
Fixtures, Furniture & Equipment	£ 4.80m
Professional Fees	£ 7.72m
Client Contingency	£ 1.80m
<b>TOTAL BUILDING COST</b>	<b>£ 80.11m</b>

- 6.5 The previously approved budget for the construction of the V&A building is £49m; the fixed price tender received is therefore £31.11m above the approved budget. Officers have worked with the design team and the preferred contractor to explore the potential to reduce these costs by amending the design of the building, its construction methodology and its location on the site. While it has been identified that some £6.5m of value engineering savings could potentially be achieved, the consequent impacts on the overall quality of the building and its relationship with its waterfront setting are regarded as being so severe and detrimental that it is not recommended that these be pursued further. This conclusion has also been heavily influenced by the unacceptable consequent further delays to the project resulting in increasing cost pressures due to future construction cost inflation and the risk that the project would be unable to proceed.

- 6.6 The project partners have concluded that their strongly preferred course of action is to press ahead with the original design as tendered and to seek additional funding to cover its associated cost. This decision has the full backing of the V&A and all of the founding and independent directors on the Board of Design Dundee Ltd.

- 6.7 While it has been concluded that the potential value engineering savings which have been explored should not be pursued, there are some other minor opportunities for savings which can be pursued during the contract period. Any such savings yielded will remain within the project budget until practical completion at which time they will be shared on a 70:30 basis between the client and the contractor. This will incentivise the main contractor to identify and deliver savings during the construction period.

## 7 PROPOSED FUNDING ARRANGEMENT

- 7.1 As at 15 January 2015, the following capital funding has been secured for the construction of the project;

Scottish Government	£ 15.00m
Dundee Waterfront Project (Site Formation)	£ 4.00m
Heritage Lottery Fund	£ 8.00m
Creative Scotland	£ 4.50m
Private Fundraising	£ 8.40m
<b>TOTAL FUNDS SECURED</b>	<b>£ 39.90m</b>

- 7.2 Further Private Fundraising is anticipated to secure an additional £6.6m towards the capital costs of the project. The Scottish Government has been asked to contribute further capital funding and a further £4.5m is being sought from the Heritage Lottery Fund. The HLF are meeting on 27 January 2015 to decide on this additional contribution.

- 7.3 The City Council is in detailed discussions with the Scottish Government about the creation of a Growth Accelerator Model (GAM) Fund for the Dundee Waterfront Project and the first investment from this fund is to be allocated to the V&A Project (see Section 8). The remaining £6.5m of necessary funding can be accommodated within the City Council's Capital Programme for 2015-18.

7.4 The additional funds which have been secured or are being sought for the construction of the project are therefore;

Further Private Fundraising	£ 6.60m
Heritage Lottery Fund	£ 4.50m
Scottish Government GAM and Capital Funding	£ 22.61m
Dundee City Council	£ 6.50m
<b>TOTAL ADDITIONAL FUNDS</b>	<b>£ 40.21m</b>

The exact balance between capital grant and GAM funding will be the subject of detailed discussions and agreement with the Scottish Government.

7.5 Therefore, a total of £80.11m can be secured to cover the construction of the V&A Museum of Design building including all fixtures & fittings, professional fees and contingencies. This figure excludes the costs of the Landscaping around the building and the Associated Infrastructure Works which are (and always have been) funded separately by Scottish Enterprise and the Waterfront Project respectively.

7.6 In order to make a timely start to the construction works so that the building is delivered on time and is not affected by further inflationary pressures, the City Council will need to let the main construction contract prior to all of the above funds being finally received as it is likely that funding contributions will be phased over the construction period. The capital spend on this contract is spread over four financial years (2014-18) and the Director of Corporate Services has confirmed that the Council has sufficient capacity to manage this spend profile without impacting on Council services.

7.7 The Council is reliant on all of the above additional funding sources being finally confirmed and has, therefore, carried out the following risk management measures;

- secured agreement from the Scottish Government to prioritise joint working on the development of a GAM proposal for Dundee Waterfront, to be submitted to Scottish Government for early consideration;
- will await the agreement of the HLF to their additional funding prior to a contract being let; and
- received reassurance from Dundee Museum Foundation regarding the achievement of their remaining private funding target.

7.8 One of the defining characteristics of the V&A project to date has been the strong partnership working between the city council, the Scottish Government, national agencies and the Dundee Partnership. All of those involved have shared a joint commitment to secure a 'step change' turnkey project for Dundee, and a major new cultural offer for Scotland. This positive approach has continued as discussions take place to finalise the funding package for the V&A in Dundee.

## 8 GAM FUNDING

8.1 An innovative new funding model, the Growth Accelerator Model (GAM), has recently been agreed between Edinburgh City Council and the Scottish Government to enable £61m of infrastructure investment to be made in the development of the St. James Quarter in Edinburgh City Centre. The Government has invited other City Councils to bring forward similar proposals to unlock and accelerate regeneration and growth in their areas.

8.2 GAM schemes are being developed as a partnership funding arrangement between the Scottish Government and Local Authorities. GAM funding is based on prudential borrowing funds being invested in enabling infrastructure within a defined regeneration area, with the benefits and outcomes delivered through this infrastructure reflected in an annual payment from Scottish Government, subject to agreed targets and measures being met.

- 8.3 The main targets are likely to relate to the levels of future uplift of Non Domestic Rates (NDR) and Job Creation within the GAM area; therefore, there is a risk that if these targets are not met, the level of Government support could be reduced correspondingly. In the case of the Central Waterfront, these risks would be mitigated by the fact that the baseline levels for both targets would be zero due to the area being completely vacant of development at present, but care would need to be taken in determining the growth targets for NDR and jobs.
- 8.4 We have agreed with the Scottish Government to prioritise joint working with the Council on the development of a GAM proposal for Dundee Waterfront, to be submitted to the Scottish Government for early consideration. Subject to approval of this report, officers will enter into detailed discussions with officials from the Scottish Government to refine and agree the case for the new Fund which will look to invest in approved growth projects in the defined area and the first such investment proposed will be allocated towards the construction cost of the V&A Museum of Design, Dundee.

## **9 PROJECT DELIVERY & ASSURANCE**

- 9.1 Following advice received from Scottish Government in June 2014 as part of their Gateway Review process for major capital projects, the governance arrangements for the V&A project have been amended to further strengthen the membership of the Board of Design Dundee Ltd and their Building Sub Committee which oversees the delivery of the building's construction. This includes experienced private sector representation, senior representation from the Government's own Procurement Team and from the consultant Project Managers to assist in the successful delivery of the project.
- 9.2 A preliminary examination has been undertaken of the potential reasons for the current significant cost overrun above the original project budget and the initial indications focus on;
- the highly complex nature of the building's structure, particularly the unusual extent of temporary works necessary to construct the external walls in advance of the roof structure;
  - the unprecedented levels of construction inflation impacting on the tender process, which are much higher than any regional inflation indices would suggest; and
  - the unexpectedly low level of market interest from main contractors which reflected the risk levels associated with such a complicated and unique project.
- 9.3 These factors were recognised to some extent within the project's risk register and were partially reflected in the Pre Tender Estimate received from the project cost consultants. Nevertheless, it is the intention of the Council's Chief Executive to carry out a full review of the background to this situation so that lessons may be learned for future projects. A report on the findings of this review will be brought to the Policy & Resources Committee in due course.
- 9.4 With regard to any future risks of possible further cost escalation, it should be noted that the Council has secured a fully fixed price tender from BAM Construction Ltd for the delivery of the building. This puts the risk of future cost increases during the construction period wholly with the main contractor other than where they are due to extraordinary events or client changes. A rigorous 'Change Control' process has been put in place to prevent changes to the building other than where these can be fully justified and funded from available project resources. Furthermore, a 5% Construction Contingency has been retained to deal with any extraordinary events and a further £1.8m has been kept back as a Client Contingency to deal with any other unforeseen costs. Regular progress reports will be provided to the Council during the construction period.

## 10 COMMUNITY BENEFITS

10.1 As part of the tender assessment process, all submissions were scored as to the extent to which they met the Community Benefits requirements set out in the tender documentation. The tender submitted by BAM Construction Ltd was the best received and contained very satisfactory commitments in the following areas;

- Local Supplier Contract spend
- Supplier Development
- Support to Local Labour
- New Start Employment Opportunities
- Apprentice - project initiated
- Existing apprentices
- Vacancy Sharing
- Work Experience
- Awareness raising/Curriculum Support Activities
- Donation of materials

10.2 In direct response to further questioning regarding their commitments in these areas, BAM have stated that they offer pay and benefits to all of their employees that exceeds the Living Wage, are committed to co-operating and maintaining good relationships with trade unions wherever they operate, are committed to creating local employment opportunities in the communities where they work and they are committed to providing and promoting training opportunities to all staff and apprentices.

10.3 Furthermore, as a result of the Council's previous concerns over contractors' previous involvement in Blacklisting practices, BAM have stated categorically that BAM Construction in Scotland did not use the services of The Consulting Association nor engage in any activities relating to blacklisting. They have, however, confirmed that BAM Construction in other parts of the UK used the referral services of TCA to a very limited degree and all such usage ceased completely in 1998 when the UK Data Protection Act was passed. The company has accounted for this, apologised, put appropriate procedures and training in place to prevent any such occurrence in the future, and has given a public commitment to compensate fairly anyone who can show they have suffered any detriment because of BAM's historical involvement with the TCA.

10.4 Senior representatives from BAM Construction Ltd will be in attendance when this report is considered by Committee in order to answer any questions which members may wish to put and to respond to any further reassurances which are sought relating to their commitments to Community Benefits and the fair treatment of staff.

## 11 CONCLUSION

11.1 The V&A Museum of Design presents a unique and major opportunity for the city of Dundee, the contribution it will make to realising the Council's ambitions and strategies for the city are hugely significant and its completion and opening in 2018 will represent the culmination of much determined effort over a ten year period by the Council and its partners. This project is the lynchpin for the future regeneration of Dundee Waterfront and for the associated job creation opportunities.

11.2 The final cost of the project has increased significantly above that which was originally estimated, nevertheless an additional funding package can be delivered to enable the project to proceed as programmed and to the quality and standard expected by the citizens of Dundee and beyond.

**12 POLICY IMPLICATIONS**

- 12.1 This Report has been screened for any policy implications in respect of Sustainability, Strategic Environmental Assessment, Anti-Poverty, Equality Impact Assessment and Risk Management. There are no major adverse issues, but there are considerable major positive contributions towards key Council policies; these relate mainly to the delivery of a highly sustainable new public building, to job creation in the city and to a direct contribution to anti-poverty outcomes within the city. A revised Risk Register is being developed in order to manage and mitigate any remaining risks during the construction period.

**13 CONSULTATIONS**

- 13.1 The Chief Executive, the Director of Corporate Services and Head of Democratic and Legal Services have been consulted and are in agreement with the contents of this report.

**14 BACKGROUND PAPERS**

- 14.1 None

Mike Galloway  
Director of City Development

MPG/MS

5 January 2015

Dundee City Council  
Dundee House  
Dundee

**APPENDIX ONE****Proposed Construction Timeline**

Tender considered by P&R Committee	26/01/15
Sign Main Construction Contract	February 2015
Construction commences	March 2015
Coffer dam complete	June 2015
Substructure complete	November 2015
Superstructure complete	February 2017
Roof complete	July 2017
Main Construction complete	December 2017