

No 204

THE NATURAL HISTORY MUSEUM
AT AN EXTRAORDINARY MEETING ON
TUESDAY 25 APRIL 2006
AT 2.30 P.M.
AT THE NATURAL HISTORY MUSEUM

Present

TRUSTEES

Oliver Stocken (in the Chair)
Professor Dianne Edwards CBE FRS
Professor Alex Halliday FRS
Professor Michael Hassell CBE FRS
Ian Henderson CBE
Dame Judith Mayhew Jonas DBE
Sir David Omand GCB

In Attendance

Dr Michael Dixon	Director
Anna Cuss	PA to the Director (Minutes)
Sharon Ament	Director of Public Engagement
Paul Brereton	Director of Human Resources
Neil Greenwood	Director of Finance & Administration
David Sanders	Director of Estates
David Thorpe	Head of Audit & Assurance
Frances Windsor	Policy Advisor to the Director
Simon Dickson	Head of Development
Mike Fitton	DC2 Project Science Manager (representing Dr Richard Lane)
Kimberley Rayman	DC2 Programme Manager
Mr Richard Toy	DC2 Project Director
Nic Davison	Heery, International (project manager)
Rob Mathieson	Co-opted Member, DC2 Sub Committee
Dean Mills	Turner & Townsend (cost consultant)
Patricia Moore	Turner & Townsend (cost consultant)
Roy Simkin	Heery International (project manager)
Harvey Soning	Co-opted Member, DC2 Sub Committee

Apologies

TRUSTEES

Sir William Castell LVO
Professor Georgina Mace OBE FRS
Professor Jacquie McGlade
Professor Linda Partridge CBE FRS FRSE

Dr Richard Lane	Director of Science
Teresa Wild	Assistant Director of Public Engagement
Paul Lewis	Co-opted Member, DC2 Sub Committee
Steve McGuckin	Co-opted Member, DC2 Sub Committee

The Chairman introduced this Extraordinary meeting which would focus solely on Darwin Centre Phase Two, and welcomed additional attendees, particularly members of the Darwin Centre project team and of the Trustees' Sub Committee and external project consultants. He explained that the meeting would be in two parts, first an open session to allow Trustees to examine the project team and Museum senior staff on the proposals before them, and secondly a closed session, restricted to Trustees, so that they could take any necessary decisions on the way ahead.

Open session**949 DECLARATIONS OF INTEREST**

There were no declarations of interest.

950 INVESTMENT DECISION ON DARWIN CENTRE PHASE TWO (TP 06/13)

The Director prefaced the discussion by reporting that, since the last meeting, the Museum had taken part in a further OGC Gateway Review (Gate 0 - Strategic Assessment for the programme and Gate 3- for the construction project) held between 6-9 March 2006 and, at the request of Audit Committee, conducted a high spot audit review focusing on the financial aspects of the DC2 programme and providing assurance that the figures presented to Trustees on 2 February 2006 represented a reasonable and acceptable estimate of the total cost of the Programme. The recommendations and actions resulting from these two processes had been fully accounted for during the preparation of the papers for the meeting. He then invited Mr Greenwood to introduce paper TP 06/13.

Mr Greenwood stated that the Darwin Centre Phase Two project had reached a critical decision point – the letting of the main contract. A key outcome from the last Board meeting held on 2 February had been the need to address the cash flow management before any such decision was made, as well as further clarity on cost certainty on aligning expenditure to funding availability and establishing a deferred payment schedule with the contractor HBG (UK Ltd).

Whilst the attached papers provided the first and second of these requirements, Mr Greenwood reported that it had not been possible to establish a deferred payment schedule with HBG in order to assist with cashflow for seamless delivery of the entire programme. However, through negotiation, it had been possible to secure a deferred payment schedule to allow the main contract to be let and the full liability to be extinguished within the terms required by HBG. This would, however, mean that on the basis of current cashflow projections, the whole project would not be complete until 2010.

Mr Greenwood then summarised the three options which were available to the Museum at this point in time. He stressed that the analysis of the pros and cons of each option was fully supported by the Director and senior staff of the Museum:

1. Cancel the project
Cancellation of the project would mean repaying a significant portion of the expenditure to date to funders, as well as additional termination costs to make good. Whilst this expenditure could probably be accommodated, the termination of the project would leave the Museum with no prospect of addressing the mission critical aspects which DC2 set out to achieve such as providing the standard of conditions for science work and lab spaces which one would expect of a world leading institution and increasing public engagement with our science. Not least, the Museum would damage relationships with key funders and stakeholders beyond repair as well as its own reputation.
2. Delay the project with a view to securing more funds earlier than is currently projected
Whilst the project could be delayed while additional funds were identified and secured earlier than currently projected, the Museum would still need to address a cashflow shortfall by mid-2008 if the project were to proceed seamlessly. Delay would also increase the contract price and consultancy fees, and with a market already experiencing the effects of build up to the Olympics in 2012, this situation would probably worsen. In addition, renegotiation of the funding agreements with key funders could be problematic.
3. Proceed with letting the main contract in the knowledge that the contract obligation could be met, but that there was a funding gap which would need to be addressed by mid-2008 in order to allow the project to be delivered seamlessly
It was possible that the main contract could be let. This was the preferred option of the Museum's DC2 Programme Board, in that it demonstrated that the main contract commitment could be met, the risk of further increases in project costs were reduced and an earlier completion date for the whole project was more likely in spite of recognised cashflow difficulties.

Based on the information provided in the paper and appendices, the Chairman then asked for a brief synopsis of the current sign-off stage for key elements of the project and invited members of the Board to question executive staff, consultants and member of the Trustees' sub-committee on any matters arising which required further clarification.

Science

Mr Fitton assured the Board that the proposed fit out for Science was fit for purpose and that no further value engineering options were available at this point. He also confirmed, in response to questions on the quality of the fit out, that the implications for the Museum's research departments of not proceeding with the project were significant, since collections would remain in unsatisfactory conditions, science work and lab spaces would not be developed to the standard befitting a world leading scientific institution and there would be limited public engagement with science. All of these aspects were critical to achieving the Museum's future goals.

Mr Fitton, in response to a question on the current location of the collections, commented that they were now housed in conditions which were probably better than those in which they had been previously located and added that a delay to their relocation to DC2 in order to manage cashflow would not be damaging.

Public Offer

Ms Ament confirmed that whilst the planning of the public offer was not as far advanced as the science fit-out, the public offer design brief had been signed off and the exhibition designers selected, with a view to appointment in the coming weeks. Ms Ament emphasised the importance of the DC2 public offer as part of the Museum's strategic aspirations. The public offer would satisfy, in particular, the aim to provide visitors with topical science communication and interaction with scientists and the collections. Trustees noted that the public offer element, as a coherent package, could be deferred to aid cashflow.

Construction project

Mr Henderson, as Chair of the Trustees' Sub-Committee, gave an overview of the construction project and costs thus far. He confirmed that value engineering was at capacity and stressed that in order to maintain quality and programme, no further savings should now be considered. Given that deferral was the only other realistic option, he strongly recommended, on behalf of the Sub Committee, that the Board agree the option of letting the contract.

The Board raised questions on a number of issues:

- Trustees sought further information on the cladding package, which was partly responsible for a recent increase in the construction cost forecast, and received confirmation that further savings of any significance were unlikely to be forthcoming, largely due to the limited number of suppliers able to deliver this specialist work. In addition, extending negotiations could result in the loss of the Museum's manufacturing slot for the package and consequently further delay and add cost.
- In terms of other significant costs, it was confirmed that the potential for steel price increases relating to the number of projects due for completion by 2012 had been taken into account.
- Trustees also sought clarification on the level of risk to which the Museum might be exposed by the final contract sum. They received assurance that the Museum would achieve 80% cost certainty by the proposed signature date. In considering what 'cost certainty' meant, it was noted, for example, that sub-contractor insolvency would not have contractual implications for the Museum, but it would be normal for the construction contractor to seek to protect their own position in these circumstances.
- Mr Soning reminded the Board that avoiding client change would be an important component of ensuring delivery on budget.
- Trustees were concerned about the unexpected discovery of asbestos beneath the slab of the old Entomology building and whilst confirmation was given that the existing contamination had been dealt with, there was no absolute guarantee that further asbestos would not be found in the remaining 15% of this preparatory work. For this reason, the necessary adjustments had been made to the risk and contingency allowance.

Funding

(i) Museum funding

Mr Greenwood commented that the Museum contribution to funding was based on the balanced budget presented to Trustees in February 2006 and that income increases and expense savings would be sought to offset the identified cashflow issue.

(ii) Impact on internal operations

Mr Greenwood outlined the current situation with regard to the Museum's contribution to the funding of the project. In response to questions from the Board on how the Museum would balance the need to provide its own contribution to the project with the need to consider the implications for existing operations, Mr Greenwood confirmed that the Museum's capital programme group had prioritised the provisional capital allocations to allow the Museum to meet statutory requirements, particularly in terms of health and safety, fire protection and security. Some other projects would inevitably be deferred, but reinstatement of capital budgets in future years when cashflow was improved would be given priority.

Mr Greenwood reminded Trustees that DC2 itself represented the Museum's biggest investment in public offer and science facilities in living memory.

(iii) Funding from external sources

It was agreed that key external stakeholders for DC2, such as the Heritage Lottery Fund (HLF) and the Wellcome Trust, to whom the Museum had contractual obligations, should be updated on the current position, along with the Department for Culture, Media and Sport (DCMS).

Mr Dickson outlined the current position with regard to fundraising for DC2, including both received and pledged monies, and future plans to extend the Museum's efforts to raise further funds for the project. Trustees noted that proceeding with the project at this stage could increase opportunities for attracting funds by providing a clearer vision with which to engage prospective funders, particularly in relation to the cocoon, which offered the potential for naming rights.

The Board agreed that it was important to balance the value of benefits for future donors with those offered to current funders.

(iv) Major contributors

Mr Dickson also outlined the current relationship with existing major contributors to the project and how these might develop in the future. The potential for negotiating in kind sponsorship from the corporate sector was also being considered. This might apply particularly to areas of high technology.

[This section to be made available in December 2009]

Closed session

Trustees then met in closed session, with the Director, to make a final decision on whether to proceed with letting the main contract for Darwin Centre Phase Two.

Given the analysis of the options which had gone before and the responses to detailed questioning on all aspects of the project, the Board agreed that the cancellation or deferment of the project were not viable alternatives.

Therefore, subject to assurances from those present that the Museum had carried out due diligence to a sufficient level to satisfy both legal and public accountability requirements, it was agreed to proceed with the option of letting the main contract. In order to set this option in motion, the following actions would be taken:

1. Agree and sign final contract with the main contractor as soon as possible. *[This section to be made available in December 2009]*
- 2.
3. Communicate the decision taken to proceed and likely implications to major stakeholders, primarily the Heritage Lottery Fund, The Wellcome Trust and the sponsoring body, DCMS
4. Provide further supporting documents to Trustee Board on 9 May confirming next steps, primarily:
 - clarification of Appendix 3 on project cashflow
 - draft communications plan for external and internal stakeholders
 - a route map for how the Museum would meet the cash shortfall in the worst case scenario presented, establishing dates by which the Museum would need to have detailed plans for the fit out of science and public offer spaces.

In conclusion, the Chairman recorded his thanks to all those who had provided input into the preparation for the meeting and expressed the Board's pleasure in making this decision to proceed with such an important landmark in the Museum's development.

951 ANY OTHER BUSINESS

There was no other business.

952 DATE OF NEXT MEETING

Thursday 9 May 2006 at 0930 at the Natural History Museum.