

REPORT HIGHLIGHTS

October 25, 2007

A REVIEW OF THE VANCOUVER CONVENTION CENTRE EXPANSION PROJECT: GOVERNANCE AND RISK MANAGEMENT

Introduction

The existing Vancouver Convention and Exhibition Centre opened in 1987, and by the mid-1990's was operating at capacity. In response, several replacement and expansion projects have been studied over the years. In February 2003, the British Columbia government announced the creation of the Vancouver Convention Centre Expansion Project (VCCEP) with a mandate to: design, construct, commission and own an expansion to the existing Vancouver Convention and Exhibition Centre; and to effectively manage the project's scope, budget, schedule and related activities to ensure delivery of the project on time and on budget.

Costs for the project have escalated over the last four years:

- The initial funding for the project was \$495 million based on contributions from the Government of Canada (\$202.5 million), Province of British Columbia (\$202.5 million), and Tourism Vancouver (\$90 million).
- The approved funding was increased to \$535 million when the Provincial and Federal governments each agreed to contribute an additional \$20 million to fund upgrades to the existing facility and a physical connector between the existing and new facility.
- In June 2004, the first VCCEP project budget of \$565 million was approved by Treasury Board.
- In July 2005 the project budget was revised to \$615 million.
- Through early 2007, while VCCEP negotiated a fixed price contract for the completion of the project, several interim funding approvals were provided: first to \$623.1 million, then to \$683.1 million, then to \$769.1 million.
- In July 2007, a new project budget of \$883.2 million was approved — this budget included a stipulated lump-sum contract with PCL Constructors Westcoast Inc.

Purpose of the review

In late February 2007, the then Acting Auditor General was asked by the VCCEP Board to review the project in light of continuing increases in the overall project budget.

We agreed to carry out a review to assess whether:

- the project's overall governance framework allowed for timely, informed decision-making;
- the project risks are being managed (in particular those related to escalating costs, including identifying the main reasons for the increases); and
- the project management framework in place followed generally accepted project management and procurement practices and was being applied.

Our Key Findings and Recommendations

Our key findings are as follows:

- Initial funding commitments were not based on detailed project budgets — the first cost-based budget approved by Treasury Board was \$565 million.
- Inflationary pressures and scope changes have made cost estimating for the project difficult.
- Having to complete the project within a short time frame (before the 2010 Olympic and Paralympic Winter Games) led to a procurement strategy that left VCCEP with all significant risks.
- VCCEP used appropriate governance and project management frameworks, but aspects of formal project reporting have been incomplete.
- VCCEP needs to manage several new risks between now and the end of the project.

We make one recommendation to the VCCEP board which focuses on the risks that will continue for the remainder of the project:

1. VCCEP should ensure that monthly project reports to key stakeholders include estimated costs to complete the project, rather than forecasts that only go to the approved project budget. They should also include details about the assumptions underlying such estimates, the status of significant risk factors being actively managed, and a range of cost estimates if assumptions were to vary from plan.

As with any project, there are lessons to be learned and shared. In that spirit, we also offer several observations for government to achieve better outcomes on future major capital construction projects:

1. Wherever possible, major capital projects should be sufficiently designed before construction contracts are tendered, to allow the effective use of contracts that transfer appropriate cost and schedule risk (for example, lump-sum or guaranteed maximum price contracts).
2. When circumstances (such as the fixed completion date for VCCEP) require the use of procurement strategies that do not transfer significant risks, project managers and central agencies of government should ensure contingencies and allowances are adequately funded, monitored on a regular basis and adjusted as necessary.
3. Government should ensure that at least one of the appointed Board members has independent expertise specifically related to the project being undertaken, so that the Board can effectively carry out its oversight role.

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