



Resources and Governance Scrutiny Committee

Date: Thursday, 8 November 2018

Time: 2.00 pm

Venue: Council Ante Chamber, Level 2, Town Hall Extension

This is a **Revised Agenda** containing an amended version of agenda item 5 (The Factory Project) which was originally published on the supplementary agenda.

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Membership of the Resources and Governance Scrutiny Committee

Councillors - Russell (Chair), Ahmed Ali, Andrews, Barrett, Clay, Davies, Lanchbury, Kilpatrick, R Moore, B Priest, Rowles, A Simcock, Watson and S Wheeler

Revised Agenda

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This is the Executive report which updates Members on the progress with the delivery of The Factory Arts Centre, including the terms for the Notice to Proceed to construction of the main works under the executed Management Contract for the delivery of The Factory and progress with the redevelopment of St John's.

Information about the Committee

Scrutiny Committees represent the interests of local people about important issues that affect them. They look at how the decisions, policies and services of the Council and other key public agencies impact on the city and its residents. Scrutiny Committees do not take decisions but can make recommendations to decision-makers about how they are delivering the Manchester Strategy, an agreed vision for a better Manchester that is shared by public agencies across the city.

The Economy Scrutiny Committee has responsibility for looking at how the city's economy is growing and how Manchester people are benefiting from the growth.

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Further Information

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This revised agenda was issued on **Monday 1 November 2018** by the Governance and Scrutiny Support Unit, Manchester City Council, Level 3, Town Hall Extension (Mount Street Elevation), Manchester M60 2LA

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**Manchester City Council
Report for Resolution**

Report to: Resources and Governance Scrutiny Committee – 8 November 2018
The Executive – 14 November 2018

Subject: The Factory

Report of: Strategic Director, Development
City Treasurer

Summary

The purpose of this report is to update Members on: progress with the delivery of The Factory Arts Centre, including the terms for the Notice to Proceed to construction of the main works under the executed Management Contract for the delivery of The Factory; and progress with the redevelopment of St John's.

Recommendations

The Executive is recommended to:

1. Note progress with the delivery of The Factory, including preparation for the issuing of the Notice to Proceed, which will commence the process to deliver the major construction works; and a significant programme of social value commitments.
2. Recommend to the Council to approve a Capital Budget increase of £18.97M, funded by Capital Receipts. This will increase the total capital budget for the construction of The Factory from £111.65M to £130.62M.
3. Recommend to the Council a Capital Budget virement from the Strategic Acquisitions Capital Budget of £1.286M, to cover additional land assembly costs, associated with the acquisition of and securing timely access to the Factory site.
4. Recommend to the Council a Capital Budget virement of £4.3M from the Sustaining Key Initiatives Capital Budget for the loan facility to Manchester Quays Riverside Limited, on commercial terms. This will accommodate the changes to the structure of the loan reported to The Executive on the 30th May 2018 in the '*Capital Programme – Proposed Increases*' report which means £4.3m will be repaid after the construction project has completed. The virement will be for the period until the loan is repaid in the form of a capital receipt which will be ringfenced to the Sustaining Key initiatives budget. As such this is a timing issue and not an increase in the cost of the project.
5. Note the progress made by Manchester International Festival to prepare the organisation to operate The Factory, including recruitment, business planning,

artistic programme development and social value benefits, in the lead up to MIF19.

6. Note the intention to make the next formal submission of the updated business plan to Arts Council England in December 2019.
7. Note progress in the development of employment, training and education opportunities and creative engagement programmes as part of The Factory's skills development programme.

The Council is recommended to:

1. Approve the Capital Budget increase of £18.97M, funded by Capital Receipts. This will increase the total project capital budget from £111.65M to £130.62M.
2. Approve a virement of £1.286M, from the Strategic Acquisitions Capital Budget to cover the additional land assembly costs associated with the acquisition of land needed to secure the timely access to the Factory site.
3. Approve a virement of £4.3M from the Sustaining Key Initiatives fund for the loan facility to Manchester Quays Riverside Limited, on commercial terms. The intention is to transfer the loan to the Factory Capital Budget until it is repaid, and is not a budget increase. The repayment of the loan will be a Capital Receipt which will be ringfenced to the Sustaining Key initiatives budget

Wards Affected: Deansgate

Manchester Strategy outcomes	Summary of the contribution to the strategy
A thriving and sustainable city: supporting a diverse and distinctive economy that creates jobs and opportunities	<p>The Factory will accelerate economic growth in the region by playing an integral part in helping Manchester and the North of England enhance and diversify its cultural infrastructure by attracting clusters of related creative industry activities and enhance the visitor economy.</p> <p>The Council will develop a Creative Enterprise district proposal to support and incentivise creative SME co-location, and maximise training and educational opportunities in the area. The first phase will relate to Enterprise City and the creation of a Tech Hub in the Bonded Warehouse. Enterprise City is an integral element of St. John's creating a new cluster of innovative city centre workspaces that support the growth of the City's economy.</p>

<p>A highly skilled city: world class and home-grown talent sustaining the city's economic success</p>	<p>The Factory will make a direct contribution to the growth of creative industries, improve talent retention in the North, and reduce the dependency on London as the provider of creative industries training and employment. New direct jobs to run and operate the venue will also be created. Factory is expected to support over 1,500 FTE jobs after year 10 and add up to £1.1billion to Manchester's economy.</p> <p>The Factory has levered £85.05M new Exchequer investment into Manchester. ,</p> <p>The Factory is leading on a consortium approach to training and skills, developing partnerships with the city's Cultural, Further and Higher Education (FE/HE) Institutions and will further support the city's drive for high calibre graduate talent retention through job creation programmes. It will act as a UK leader in the creative sector/FE/HE led training to expand access for Manchester's young people into creative jobs.</p>
<p>A progressive and equitable city: making a positive contribution by unlocking the potential of our communities</p>	<p>The Factory and wider St. John's development will create a vibrant new neighbourhood based around the former ITV: Granada Studios site. The intention is to encourage independent, niche and creative uses and businesses with new office, cultural, workspace and leisure development with residential units.</p> <p>The presence of The Factory as a 'cultural anchor' has already had a catalytic effect in terms of reimagining the creative redevelopment of the Science and Industry Museum site and the Upper and Lower Campfield Markets as a creative district.</p> <p>The Factory will build new diverse younger audiences from within Manchester and beyond, combined with expanded, more mature established arts audiences.</p>
<p>A liveable and low carbon city: a destination of choice to live, visit, work</p>	<p>The Factory will benefit from excellent public transport connectivity, ensuring the site can be easily accessed by visitors. The Factory will attract 850,000 visitors per annum with 650,000 drawn from within the Greater Manchester area.</p> <p>Sustainable design and development principles are embedded into the scheme.</p>

	The benefits of cultural investment are much broader than the direct impact of expenditure by visitors, with cultural activities making an important contribution to community engagement and initiatives targeted at young people, older people, under-represented and disadvantaged groups.
A connected city: world class infrastructure and connectivity to drive growth	<p>The Factory will benefit from strong public transport links with both rail and Metrolink stations and with access to a choice of multi-storey car parks for visitors.</p> <p>The development will be well served by new pedestrian walkways and cycle routes. This will include the recently completed replacement Prince's Bridge scheme, improved pedestrian connectivity as part of the St. John's developments, and proposals by the Science and Industry Museum, which will provide residents with improved linkages to surrounding neighbourhoods and city centre districts. New public spaces and connections are proposed, which will significantly improve the environment of this part of the city centre.</p>

Full details are in the body of the report, along with any implications for

- Equal Opportunities Policy
- Risk Management
- Legal Considerations

Financial Consequences - Revenue

There are no further revenue consequences arising from this report.

Financial Consequences – Capital

The existing total Capital Budget for The Factory construction is £111.65M. This report is requesting a budget increase of £18.97M, funded by capital receipts to provide a total capital budget of £130.62M. The reasons for this increase are set out in the report.

Good progress has been made since the last report to Executive in March 2018 in finalising the design, and the contractor has undertaken procurement of several main trade packages. RIBA Stage 4a (detailed design) is due to complete in the next two months, with the remaining works packages progressively put to market between now and September 2019. Procurement of speciality stage engineering and theatre fit out packages will take place in the latter part of 2019 to ensure that the required equipment is bought at the best price. This activity has been considered in arriving at the revised capital project budget.

£78.05M has been secured from the Treasury, following the approval of the 5-case business case in January 2017.

The project secured stage one approval for a £7M Arts Lottery Grant in June 2017. The stage two application was submitted in July and the drawdown of this funding will be considered by the January 2019 ACE Council Meeting. This will increase the combined Exchequer funded and Lottery investment to £85.05M.

A fundraising committee has been established, chaired by Sir Howard Bernstein and made up of influencers from Manchester and beyond, with a target of raising £5M to support capital costs. The fundraising activity will escalate once significant construction activity is underway, to help inspire investment in this transformational project. Fundraised income will be captured in the later stages of the project cashflow.

The Council has previously committed £21.6M to the capital costs of the project. A further contribution of £18.97M is requested, to be met from capital receipts. The revised total capital budget for the project is £130.62M.

Further capital costs of £1.286M have been incurred to acquire both the 999-year lease from the Science and Industry Museum and the freehold interests from Manchester Quays Limited (an Allied London Company). These include a premium and associated fee paid to the Museum and legal fees relating to acquiring the freehold interest, masterplan consultant costs, development delivery agreement milestone payment, payment to Network Rail for a construction lease, and compensation to a car park operator for providing early vacation of the riverside site. The additional costs will be met from a virement from the Strategic Acquisitions Capital Budget.

On 30 May 2018, the Executive approved a loan of £5.1M to Manchester Quays Riverside Limited on market terms, in order to acquire the Riverside site from Castlefield Properties (an ITV subsidiary). The loan was approved as part of the arrangements to secure the freehold and necessary access to allow for the efficient construction and operation of Factory and was to be funded from The Factory capital budget as any loan over 12 months is treated as capital expenditure.

Part of the £5.1M loan identified above (£800,000) is repayable in this financial year and will be met from the Factory budget. As the balance of £4.3M is repayable either on the 1st anniversary after completion of the Factory or 5 years after the date of the Agreement (10th August 2023), whichever is the earlier. This will be met through a virement from the Sustaining Key Initiatives Capital Budget. The funding is required until the loan is repaid at which point the capital receipt will be ringfenced to the Sustaining Key Initiatives budget. As such it is not an increase in the overall capital budget required to deliver the project.

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Background documents (available for public inspection):

The following documents disclose important facts on which the report is based and have been relied upon in preparing the report. Copies of the background documents are available up to 4 years after the date of the meeting. If you would like a copy, please contact one of the Contact Officers above.

The Factory

1. Report to The Executive 29 July 2015 – The Factory Manchester
2. Factory Manchester Project Overview 31st May 2016
3. Report to The Executive 26 July 2016 – Updated Draft St. John’s Strategic Regeneration Framework and Factory Manchester
4. Report to The Executive 11 January 2017 – Updated Draft St. John’s Strategic Regeneration Framework and Factory Manchester
5. Report to The Executive 26 July 2017 – Factory Manchester
6. Report to The Executive 21 March 2018 – St. John’s Proposals including Factory Manchester
7. Report to The Executive 30 May 2018 – Capital Programme – Proposed Increases

St John's

1. Draft Quay Street and Water Street Development Framework February 2012
2. Report to the Executive 14 March 2012 – ITV/Quay Street Regeneration Framework
3. Report to the Executive 29 October 2014 – ITV/Quay Street Regeneration Framework
4. Draft St Johns, Manchester Strategic Regeneration Framework October 2014
5. Report to The Executive 13 February 2015 – ITV/Quay Street (St. John's) Regeneration Framework Consultation
6. St Johns Strategic Regeneration Framework February 2015
7. St. John's Strategic Regeneration Framework Update November 2016

1.0 Background

- 1.1 This report provides an update on progress with delivering The Factory, including the capital cost of the building, social value benefits and the role of Manchester International Festival. The report also provides an update on delivering the St John's regeneration area.
- 1.2 Located next to the Science and Industry Museum and in the centre of the new St. John's neighbourhood being developed by Allied London, The Factory will be the catalyst for a major cultural, creative and technological hub and make a significant contribution to the success of the ongoing regeneration of this part of the city centre. A cultural campus will be created with the combined attractions of The Factory (850,000 visitors per annum) and the Science and Industry Museum (500,000 visitors) physically linked together, set in the heart of a new cluster of innovative city centre workspaces and content production studios.
- 1.3 The Factory project will create a world-class performance space in the heart of Manchester and provide the anchor to the St John's development, building on the city's strengths and long history as a centre for culture, creativity, producing cutting edge artistic endeavor. It will provide a permanent home for Manchester International Festival (MIF) in an all year-round venue with a rich blend of ticketed and free events inside the building and the surrounding public spaces.
- 1.4 The Factory has attracted significant government investment, almost unique outside of London and the South East. An investment of £40.57M funded from capital receipts will lever £85.05M of government funding to Manchester alongside £9m per annum of Arts Council England revenue funding to ensure the success of the facility.

2.0 St John's Update

- 2.1 The Factory, and the decision to locate it within the St. John's regeneration area, was to act not only as a key economic and cultural driver for the City-region, but also to create the catalyst for the regeneration of this part of the city. Significant progress has been made with the redevelopment of St. John's since the report to the Executive in March 2018. Allied London has recently announced a long-term partnership with Aviva Investors to create Enterprise City. The funding partnership, which values the project in excess of £500M, will secure the long-term future for this new city centre neighbourhood.
- 2.2 Allied London have made significant progress to attract businesses to the development, well in advance of construction activity commencing. Global tech company Booking.com will be one of the key anchor tenants for Enterprise City after taking 222,000 sq. ft. at the planned Manchester Goods Yard development. Manchester was in competition with other European Cities for this investment. Along with fit-out of the offices and additional staff, Booking.com will commit a £100M investment in this site over 10 years. The

offices will be the e-commerce company's global headquarters for its ground transport division. Manchester Booking.com will consolidate its four existing city centre sites – home to more than 1,500 employees into the new building; it has created 75 new jobs this year and is looking to hire a further 200 over the next few months. Enterprise City has the capacity to accommodate over 5,000 jobs and Booking.com now has the room to expand its operations year on year in this new business district. The wider St. John's will also provide a further 1,000 jobs in retail, leisure and hotel developments together with new homes and 13 acres of new public realm in this new city centre neighbourhood, adjacent to the business-led district of Spinningfields.

- 2.3 The Farm has also recently taken 25,000 sq. ft. at Allied London's ABC Buildings, part of the wider Enterprise City development. The Farm are already in occupation following completion of works, with the rest of the building's refurbishment due to complete in early 2019. The Farm facility, initially employing 25 staff, will be the first major post production house to open in the city centre since 2014 and will change the creative industries landscape in the city. Together these two initial lettings at Enterprise City reflect the significant opportunity being developed with a focus on the tech, digital and creative sector and content production, which is assisted by and will be enriched from, the proximity to The Factory.
- 2.4 Since the closure of the former ITV /Granda studio block in the summer, ALL Studios (an Allied London company) has refined its refurbishment programme to retain the studios and film and tv production on the site. In the three studios not undergoing refurbishment, ALL Studios is currently hosting Peaky Blinders' Season 5, after successful hires to Dragons Den and Netflix production 'Wanderlust' earlier in the year. Five production companies have recently joined the wider ALL Studios campus, taking offices in the Bonded Warehouse since September. Clearly, the retention and development at St. John's of a significant and growing studio offer aligns closely with the creative ambition of The Factory.
- 2.5 Allied London soft launched the newly-refurbished Bonded Warehouse in September and have around 20 tech companies taking space in the three available floors of the building. This new Tech Hub located adjacent to The Factory is providing 80,000 sq. ft for SME's and will be supported by a DCMS £2M grant for the fit out of Level 3, providing 15,000 sq ft of office and networking space capable of accommodating 350 people. Tech Nation, the Government backed network for tech entrepreneurs, has established its new Northern HQ in the building and will be a delivery partner alongside ALL Work & Social for the Level 3 co-working space. Leisure tenants will shortly commence fit out on the lower floors.
- 2.6 Since obtaining a planning consent for 1,400 residential units, Allied London has been looking for a development partner for the Trinity Islands development to ensure that the sites are developed as a key area relating to St John's and Castlefield. Renaker has now acquired the sites and has a proven track record as a residential developer and contractor in Manchester.

3.0 The Factory Project Update

- 3.1 The report on the Economic and Social Impact on Culture in October 2016, considered by the Communities and Equalities Scrutiny Committee, noted the key role that the cultural sector plays in the economy of Manchester. From permanent attractions to annual and one-off events, the sector generates a range of economic and social impacts as well as making a significant contribution to place-making activities that increase the attractiveness of the city as a place to live and visit. The impact of the cultural sector extends well beyond economic benefits and includes a range of social and regeneration impacts that reflect the diversity of engagement activities that are offered by the venues.
- 3.2 The Factory will build upon this trajectory of success and is designed to add to rather than duplicate existing provision, driving increased audience numbers and increasing the overall attractiveness of the city as a cultural destination. At 143,161 square feet, there is no other venue that can deliver the scale and ambition of production possibilities in the UK, and this nationally significant facility will fill a major gap in the city-wide cultural strategy.
- 3.3 In line with other key cultural institutions in Manchester, The Factory commits to increasing the positive social impact of culture in the city. A significant strand of creative and community engagement was a key success of MIF17, attracting more diverse participants and broadening the reach of the Festival across Manchester's communities. Through MIF19 and beyond, a year-round engagement programme will increasingly focus on The Factory helping to build a community of interest. Once the venue is up and running, this programme of significant interactions will continue, augmented by reduced ticket prices, co-creation of artistic programme and community focused productions all aimed at drawing local resident participation.
- 3.4 The Factory economic benefits are broadly measured in 3 main categories – audience/visitor economy, clustering and direct employment.
- Visitors to The Factory are anticipated to be on average 850,000 per year with 650,000 drawn from within the Greater Manchester area and 200,000 visitors from elsewhere. These external visitors will bring an additional £10.8M GVA per annum to the city.
 - The Factory will be at the heart of St. John's, which will specifically cater for creative and media businesses. This critical mass of a major producing venue and a new development with its own cultural dynamism, opens up the opportunity for a significant clustering effect. At the heart of its operation, Factory is collaborative. Staffed by a core team of approximately 150 staff, its operation relies upon supplementing this team with expertise to deliver as each production or performance demands. Over time, this will attract the co-location of sympathetic business and individuals to supply and support the Factory programme, within the context of a new creative-led neighbourhood.

- The Factory also has an important role in developing the skilled practitioners for the future. Taking the lead in a city-wide consortium, The Factory will establish training and development opportunities to provide pathways to employment and provide transformational opportunities for Manchester residents to gain skills, qualifications and ultimately a career in the creative industries.

- 3.5 These factors – helping to anchor a creative neighbourhood, delivering work through a changing pool of expertise and helping to grow the future industry practitioners – will enhance and deepen the strength of the creative and media sector in the City. The analysis shows that over a ten-year period, the net inward investment will support c1,500 full-time equivalent jobs and the total net GVA impact is estimated to be over £1.1bn from Factory employment and expenditure, additional visitors to the City and the clustering of creative industries. These projections have been thoroughly tested with the project's funding partners The Treasury and DCMS and found to be robust.
- 3.6 The Business Case for The Factory sets out specific objectives on learning and skills on which Factory's long-term success will be judged. The Factory will have a significant catalytic effect on the ability and opportunities for the city's young people in particular to pursue a career in the creative sector, in part responding to the current and projected skills shortages. The programmes will encourage learning at many different levels, incorporating education and training activities with participants learning side by side with the very best artists from around the world. In consortium with partners from across Greater Manchester, including publically funded and commercial partners as well as Further and Higher Education institutions, The Factory will form a new Centre for creative excellence, training the next generation of technicians, producers, marketers, and creatives for future roles in the performing arts and live events industries.

4.0 The Factory Project - Social Value Benefits

- 4.1 A Factory Work and Skills Board and a Social Value Operations Group have been established to support and monitor the delivery of social value commitments across the Factory project and align areas of collaboration across design, construction and operational use of The Factory. This kind of collaborative working on social value across all phases of a project is unique and provides a real opportunity to ensure outcomes are maximized to benefit Manchester residents. The Factory will provide a catalyst for the cultural sector to collaborate and deliver specialist training and apprenticeships. Early priorities are the launch of a GM cultural employer skills consortium and programme board to oversee development of a 'Training Academy' and to develop a paid summer internship programme for students and a new graduate programme.
- 4.2 Resources from the City's Work and Skills team have been seconded to support this work, working in partnership with agencies across the city. As part

of the social value commitments, the contractor, work package contractors and design team will work with MIF to deliver:

- Apprenticeships – 65 individuals including - 15 MIF Factory Academy apprentices and 50 through the contractor and work package contractors;
- Direct workforce recruitment targeted at Manchester residents, the recruitment process is now in place through the `Aspire` agency;
- Training programmes for long term unemployed, 'hard to reach' residents and Manchester based graduates;
- Volunteering programmes delivered jointly by the contractor, design team and MIF including supporting community initiatives across Manchester – discussions involving the contractor and MIF underway to support local initiatives with the Castlefield Forum ;
- STEAM based education opportunities for 850 Manchester school age and other young people in partnership with MIF and Science and Industry Museum, this includes a programme of 60 activities throughout the construction phase;
- Work experience opportunities for 450 individuals throughout the construction and operational phases of the project, providing an insight into the range of careers and skills involved in the project – from construction to the arts ;
- Homelessness and Age Friendly projects, Manchester has a well established Homelessness Partnership including a Charter which has been developed by people with personal insight, public and private sector organisations, faith groups and charities. MIF and the contractor will sign up to the Charter and shape their support with assistance from the City's City Centre Regeneration Team's strategic lead to bring expertise and indepth knowledge of the issues ; and
- Creative engagement community programmes, including artists commissions during the construction phase.

5.0 The Factory Project - Site Acquisition and Assembly

- 5.1 On 30th May 2018, the Executive approved a loan of £5.1M to MQL on market terms, to secure the Riverside site for the Factory and the construction compound. This land was subject to an option to purchase from Castlefield Estates (an ITV company). The acquisition of the Riverside site was required both for the building of the new theatre element of the project, and to secure the freehold and necessary access and construction compound area for the efficient construction and operation of Factory.
- 5.2 Part of the £5.1M loan (£800,000) is repayable in this financial year. The balance of £4.3M is repayable on the 1st anniversary after completion of the Factory, or 5 years after the date of the Agreement (10th August 2023). The repayment of the loan will be used to support future capital expenditure on other projects.

- 5.3 To support this acquisition, the Executive is asked to approval an increase to the Factory Capital Budget by £4.3M via a virement from the Sustaining Key Initiatives Capital Budget for the loan facility to MQL Riverside Limited, provided on commercial terms. This will accommodate changes to the structure of the loan agreed in May. The loan will transfer to the Factory Capital Budget until it is repaid, and is not a budget increase. The repayment of the loan will be a Capital Receipt and will be used to support future capital expenditure on other projects.
- 5.4 In January 2017, the Council approved an increase to the Capital Budget of £4.45M to fund land assembly costs and public realm works for The Factory. The Council also received income of £4.3M to partially offset these costs through the disposal of land interests within St Johns to Allied London.
- 5.5 Since approval of the £4.45 M to fund both the land assembly and public realm costs, further additional land related costs of £1.286M have been incurred by the Council. These relate to acquisition of both the 999-year lease from the Science and Industry Museum and the freehold interests from Manchester Quays Limited (an Allied London Company). These include: a premium and associated fee paid to the Museum and the legal fees relating to acquiring the freehold interest; masterplan consultant costs; a Development Delivery Agreement (DDA) milestone payment; payment to Network Rail for a construction lease; and compensation to a car park operator for providing early vacation of the Riverside site. The additional land assembly costs will be met from a virement from the Strategic Acquisitions Capital Budget.

6.0 The Factory Project - Update on the Capital Project

- 6.1 The Factory report to the Executive in March 2018 confirmed that officers were seeking delegated approval to complete the Management Contract with Laing O'Rourke. This has now been executed and this report covers the next key milestone under the contract 'Notice to Proceed' which marks the end of the pre-construction phase and the commencement of the main works.
- 6.2 The March 2018 report also confirmed that officers were seeking delegated approval to complete the varied land agreements to secure a combined freehold and 999-year leasehold interest over The Factory site. The main agreements have now been completed with the final components to be concluded this month with Network Rail for the transfer of the new Prince's Bridge and the former Hampson Street Land which will form a new adopted highway for pedestrians and cyclists adjacent to The Factory development. There was also a commitment to report back to Executive once the detailed work to review the design and construction programme had been completed and before the Notice to Proceed is issued. It was always recognised that this may require some changes to the capital budget, and it was agreed a report would be bought back to Executive in the Autumn once the detailed work had been completed and an accurate assessment of the budget requirement could be made.

- 6.3 It should be noted that the original budget was set in 2015, based on benchmark costs, to secure the government funding package. This was prior to any detailed site investigations or design work. The Factory team have undertaken a thorough review of all project costs and potential risks to bring to light any issues that may impact on programme or cost during the construction phase. The review has concluded that to deliver the vision and long-term benefits to Manchester and the wider cultural ecology, the project costs need to increase. A solution has now been achieved which is deliverable and has been robustly stress tested. This section of the report updates on the work that has been carried out and the subsequent financial position.
- 6.4 Since March, significant progress has been made to confirm the project.
- A revised planning and listed building consent was granted in July 2018 for the current scheme.
 - With the conclusion of the land deals in August, early works packages have commenced on site to demolish existing peripheral structures, instigate necessary road closures, general site clearance, service diversions and sewer amendments. These preparatory works will protect the overall programme and ensure a clean start with the main construction works at the beginning of 2019.
 - As confirmed in the March report, the Council has significantly increased the client-side management team, to ensure that the governance, delivery and partnership capabilities are sufficient to meet the needs of the coming construction phase.
 - Given the level of their investment, representatives of the government funders (Treasury, Cabinet Office, DCMS and Arts Council England) hold a monthly oversight meeting to review the project's progress and conduct annual in-depth 'Gateway reviews' to provide further assurance over the project's progress and management. The next Gateway review will take place between 19th-21st November to review the programme and project governance which will provide an additional layer of assurance over the revised management arrangements.
- 6.5 The project is being delivered under a Management Contract. This contract form offers the optimum balance between quality, risk management and value for money in the procurement strategy. Under this contract form, the works are tendered in work packages by the Management Contractor. The Management Contractor was appointed early in the design process so that their experience could be utilised to improve the cost and buildability of the project as it developed, advise on the packaging of the works and the removal of risks of scope or any interface gaps between the works packages. This approach has included the early appointment of key contractors using Pre-Construction Service Agreements to obtain further industry input into the design, remove/re-engineer components where appropriate and obtain higher cost certainty.

- 6.6 The Factory is a unique building that has no direct precedents and its uniqueness and ambition to be a world-class performance space involve a complex design and delivery process. Learning from the experience of many other cultural construction projects where significant overspends have been identified part way through construction, the combined Factory team has undertaken a robust review of all elements of the building to ensure that any potential issues are identified and tackled now at the design stage rather than further down the line when any required changes would be much costlier to implement. This has included a work package by package review, focusing on both the critical, high value packages and the more complex specialist construction components. Prudent allowances have been made against each package using tendered (actual) prices or known market costs and an allocation of informed contingency based on the detailed review process. This prudent approach has led to the early identification of an increase in overall costs but a higher degree of certainty around cost and programme.
- 6.7 During this review period serious consideration was given by the Strategic Board to reducing the size of the building as a way to achieve the previous budget. This would have further delayed the opening date, and the amount of shrinkage required would have fundamentally undermined and devalued the integrity and concept of what the Factory will be. It was determined that the loss of benefit would have far outweighed the cost saving.
- 6.8 To date over 90% cost certainty has been reached. This is achieved through a combination of work packages being tendered, particularly the key Steelwork and Mechanical, Electrical and Public Health (MEP) and a robust analysis of the remaining works (design and sequencing) so that the cost consultant can properly apply market rates. This extensive analysis of the design, essential for such a unique project, has reduced the risk of having to deal with emerging design issues during the construction period. Given the unique nature and complexity of the venue and the fact the original budget was determined in 2015, this has resulted in an increase to the capital budget. The main reasons for this are set out below.
- 6.9 As the original budget was set in 2015, it does not take into account the higher rates of construction inflation experienced since then. Our consultants advise this has been running at approximately 3% per annum. Land values in the City have also risen significantly during this period. There is a degree of uncertainty in the construction market arising out of Brexit, this has caused risks in particular packages where components are bought from Europe (Facades, MEP) and the aim for these particular works packages is buy now and eliminate further uncertainty. In contrast, the speciality stage engineering and theatre packages are being tendered later to avoid sub-contractors adding Brexit related premiums at this stage. The increase in inflation has added £5.5M to the construction costs of the project.
- 6.10 The original project budget did not take into account the longer design and construction periods necessitated by the complexity of the design, the unique challenges posed by the site and the need to resolve these before commencing permanent works. As reported, the Factory is scheduled to

enable the venue to play a major role in the 2021 rather than the 2019 Festival. The longer design and construction period required has added £3M to the original budget.

- 6.11 The former Granada Studios site has been subject to restricted access for over 50 years with incomplete records covering the changes in use over that period. During the design and enabling phases, the ground investigation surveys have unearthed significant unforeseen elements below ground that have led to more complex, expensive structural and foundation solutions. These have included finding previously unknown structures, fibre optic cables, gas and electricity supplies. Site strip has allowed for further ground investigations which identified existing foundations which required work around and break out; altogether these have added approximately £0.5M to the previous allowances for these works.
- 6.12 The large volume of The Factory performance spaces must perform to a very high acoustic standard. The high flexibility allowing MIF to use separate or combined spaces in a number of configurations, with different performances or set preparation/rehearsals in adjacent areas of the building necessitates high acoustic performance from internal components as well as the building envelope. The envelope has to perform to a very high standard to protect the events happening inside the building from noise generated by the surrounding environment, which includes a live roadway running under the building and the neighbouring Ordsall Chord railway line. The high acoustic performance must also ensure that there is no noise breakout from the events within the building that could affect the neighbouring St Johns developments and the Science and Industry Museum. At the time the original budget was set the detailed acoustic solution was not in place. The detailed design and construction sequencing necessary to fully satisfy these requirements has added a further £4.5M to the cost of the project.
- 6.13 Whilst the Management Contract form has enabled better value to be achieved through the purchase of the work packages, it has also necessitated the strengthening of the client side and design team to ensure the project delivers successfully. The significant amount of additional work during the design phase, described above, has resulted in additional resources and prolongation of design activities. The changes in scope has added an additional c£2.7m to the cost with a further £975k for specific additional work required for the design of the internal and external acoustic arrangements. Finally, the Council has made a decision to strengthen the client team for the duration of the project which will cost approximately £750k with a further £400k to ensure robust on site supervision over the life of the project.
- 6.14 At the time of writing negotiations are being finalised with some of the major works package contractors, particularly the largest one which is the steel frame. This is subject to global demand for steel and cost pressures, as is the MEP works package. Negotiations for both of these and other early works packages are due to complete in November, at which point the project will have purchased over 45% of the works by value.

- 6.15 The above factors have led to an increased capital budget requirement of £130.62M. This budget includes a contingency of £5.8M for items which are either unforeseen or cannot be accurately quantified until all works package negotiations have been completed. This is deemed reasonable and prudent for a project of this scale. It is recommended that the budget increase is funded from capital receipts generated from the Council's estate.

7.0 Manchester International Festival (MIF) Update

- 7.1 As outlined earlier in this report, The Factory will provide a permanent home for Manchester International Festival (MIF). Building upon their expertise in delivering high profile complex productions, the organisation is expanding to deliver new audiences, community engagement, fundraising, financial management, artistic planning, production and technical capabilities to support the ambitious programme. This will ensure that the requisite skills are in place to operate a major venue.
- 7.2 A successful bid to Arts Council England (ACE) completed in early 2018, as part of their National Portfolio Organisation funding, has seen the MIF grant increase by £9M per annum from April 2018. This additional revenue funding was negotiated by MCC with the Treasury as part of the overall Factory project. MIF now ranks amongst the top ten most significantly funded arts organisations in the ACE portfolio. The funding increase is in place for a minimum of three years and will fund the development and transition of the organisation from a biennial Festival to the operator of a year-round venue. MIF will deliver its next Festival of world-class contemporary art in July 2019. In the period since the last report, MIF has also significantly grown the capacity of its Board, adding nationally regarded arts leaders, experienced venue managers, enhanced legal and financial capability and a young person's representative to an already well-respected Board structure.
- 7.3 The business plan for the operation of The Factory is a live document that projects forward for a 5-year period covering the pre-Factory and operational phases. The current version of the plan was approved in January 2018 and updated June 2018 by the City Council and ACE. Both funders now receive biannual updates, with the next iteration due for consideration in December 2018. The City Council has confirmed that it will continue its funding of MIF of £2.5M for each two-year cycle 2017-2019 and 2019-2021.
- 7.4 A programme of high-profile events outside the Festival cycle has been planned with the first of these 'pre-Factory events' launching in Mayfield Depot in October 2018, to critical acclaim (The Times - 4 Stars "Evokes the ghosts of the entire 20th century... Another impressive landmark piece from MIF"). These events are designed to test the business plan assumptions and staffing models, raise awareness for the future venue and provide an important platform for engaging new audiences, supporters and partners. Reflecting the broad range of The Factory artistic programme, the Autumn 2018 programme includes a world premier by renowned international director Heiner Goebbels

co-commissioned by 14-18 NOW and Artangel, as well as music events created with the Warehouse Project which will welcome under-18 attendees. Ticket sales for the music events have been particularly strong, with tickets for two of the three artists selling out within two weeks of going on sale. Pre-Factory events will also feature in the 2019 Festival and a significant programme of events is planned for 2020, including works in and around the construction site.

- 7.5 MIF is in discussions with potential artists for the 2020 programme and the opening programme of The Factory. Work is also underway to establish MIF's handover and fit out needs to ensure these are aligned with the close out programme of the construction project.
- 7.6 Work is underway to define and deliver the skills and training programme, with specific test approaches planned within the 2019 Festival. MIF is actively supporting the project-wide social value commitments, which sees a coordinated approach to engagement, employment activities and apprenticeships across the design team, contractor and eventual operator.
- 7.7 Whilst MIF continues to support and advise on the development of the Factory project, attention is now focused upon the 2019 Festival with the first events involving Idris Elba, Yoko Ono and Skepta.

8.0 Concluding Remarks

- 8.1 This report has outlined the progress to date in the development of the St John's neighbourhood, the catalytic role that The Factory Project is playing in helping to create this new neighbourhood but importantly the employment impacts anticipated with 150 core jobs created and c1,500 FTE jobs supported after year 10 in the creative sector. The Factory Project and the transformation of St John's is offering the strategic opportunity to create and attract over 6,000 jobs to the city with new tech, digital and creative businesses attracted by the facilities, the high quality public realm and the wider place-making benefits being developed in St John's.
- 8.2 At the centre of St. John's, The Factory will transform the artistic landscape not just of the city but of Greater Manchester and the wider North. It will build upon an existing diverse range of outstanding cultural facilities, but crucially provide the platform for delivering all year-round MIF-type events which will significantly extend the artistic output of the city and create new pathways for work and skills development.
- 8.3 A Factory Work and Skills Board and a Social Value Operations Group have been established to support and monitor the social value commitments. Resources from the City's Work and Skills team have been seconded to support the development of a comprehensive programme of social value benefits working in partnership with agencies across the city. This involves the design team, the contractor, work package contractors and the Manchester International Festival (MIF) working together to deliver a co-ordinated and

developing package of social value benefits which will continue to be delivered after the opening of The Factory.

- 8.4 The Factory project is now at the point of committing to major construction in early 2019. In the run up to this commitment, the delivery team have focused on securing best value, cost and programme certainty through the procurement of the work packages. This has led to a requirement for a capital budget increase of £18.97M for the project. As part of this increase a contingency to respond to substantially reduced risks across the life of the project, additional time pressures and future cost growth has been included.

9.0 Recommendations

- 9.1 Recommendations can be found at the front of this report.

10.0 Contributing to the Manchester Strategy

(a) A thriving and sustainable city

- 10.1 The Factory will accelerate economic growth in the region by playing an integral part in helping Manchester and the North of England enhance and diversify its cultural infrastructure and attracting clusters of related activities and extra visitors to the city, the scale and potential of development within St. Johns area will provide a major focus for new investment in the city and the growth of jobs.

(b) A highly skilled city

- 10.2 The Factory will make a direct contribution to the growth of creative industries, improve talent retention in the North, and reduce the dependency on London as the provider of creative industries training and employment. The Factory will develop partnerships with the cities leading higher education institutions and will further support the city's drive for high calibre graduate talent retention through job creation. The development of new enterprise floorspace will provide for the growth of new businesses within the city centre and contribute to developing a highly skilled enterprise business sector.

(c) A progressive and equitable city

- 10.3 The wider St. John's development will create a new neighbourhood which will encourage independent, niche and creative uses and businesses with new office, cultural, workspace and leisure development and in excess of 2,000 residential units, comprising apartments, live-work units and high rise living. The Factory will attract a younger, more culturally diverse audience, combined with expanded, more established arts audiences

(d) A liveable and low carbon city

- 10.4 Cultural activities make an important contribution to community engagement and initiatives will be targeted at young people, underrepresented and disadvantaged groups.

(e) A connected city

- 10.5 St. John's will benefit from strong public transport links with both rail and Metrolink stations and a choice of multi-storey car parks for visitors. The development will be well served by new pedestrian walkways and cycle routes including the replacement Princes Bridge scheme. New public spaces and connections are proposed, which will significantly improve the environment of this part of the city centre.

11.0 Key Policies and Considerations

(a) Equal Opportunities

- 11.1 The Factory will over a decade help create net inward investments of 1,439 full-time equivalent jobs and an additional £1.1bn GVA. A significant employment and training programme will be developed to support local residents. The wider St. John's developments will provide significant private sector employment opportunities and 2,000 residential units, comprising apartments, live – work units and high rise living.

(b) Risk Management

- 11.2 Risk management is a key consideration in the procurement process for The Factory and the governance structure monitors an active Risk Register and risk reporting regime which will continue throughout the life of the project.

(c) Legal Considerations

- 11.3 The Council has completed a range of property arrangements with a number of parties in order to assist in the delivery of The Factory and wider St. John's developments, the final components of which, comprising the Hampson Street Land and Princes Bridge transfers, are to be completed shortly.
- 11.4 The Council will procure a major building project as direct employer, and the Council has entered into a building contract and ancillary contractual arrangements. Negotiations in respect of Notice to Proceed, the formal contractual mechanism which confirms commitment to deliver the major construction works, are expected to conclude within the next few weeks, at which point the Management Contractor will be authorised to enter into contracts for the Work Packages.
- 11.5 The funding for The Factory is provided by the Treasury through DCMS and administered by ACE, an Arts Lottery grant (final decision pending),

contributions from the Council approved in July 2017 and fundraising. An agreement is in place between ACE and the Council, the terms of which will be flowed down to MIF, the intended lessee of The Factory.

- 11.6 The legal team will continue to provide support and advice to the project to ensure delivery of the project.

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