

Resources and Governance Scrutiny Committee

Minutes of the meeting held on Thursday, 20 July 2023

Present:

Councillor Simcock (Chair) – in the Chair
Councillors Brickell, Connolly, Davies, Kilpatrick, Lanchbury and Wheeler

Also present:

Councillor Rahman, Statutory Deputy Leader
Councillor Akbar, Executive Member for Finance and Resources

Apologies: Councillors Andrews and Evans

RGSC/23/35 Interests

Councillors Connolly and Wheeler declared a personal interest in items 8 and 12 - MCC Housing Services & Equans contract extension – and would remain in the meeting for the duration of discussions.

RGSC/23/36 Minutes

Members received and considered the minutes of the previous meeting. It was requested that the minutes be amended under minute number RGSC/23/31 to include a statement made by the Executive Member for Finance and Resources that the Council should see progress in the use of insourcing as a delivery model within 3 years.

Decision:

That the minutes of the previous meeting, held on 22 June 2023, be approved as a correct record subject to the amendment as detailed above.

RGSC/23/37 Review of Development Agreements

The committee considered a report of the Director of Strategic Housing and Development and the Head of Development and Investment Estate which outlined the Council's use of development agreements along with the governance arrangements in relation to the negotiation, management and monitoring of development and associated agreements over Council land and buildings.

Key points and themes within the report included:

- Providing an introduction and background;
- Non-standardisation of approach within agreements in place;
- The Council's formal corporate Joint Venture arrangements;
- Overage and performance-related profit, with PwC commissioned to undertake a peer review of overage arrangements;

- How due diligence was undertaken, including the use of a checklist and form for developing Joint Ventures and agreements; and
- The best practice principles of overage.

Key points and queries that arose from the committee's discussions included:

- What was meant by 'reputational factors', and whether the Council would reject a tender on these grounds;
- How reputational factors would be taken into consideration in regard to Joint Ventures;
- Noting the peer review of overage arrangements being undertaken by PwC, and querying who the Council's peers were;
- Whether ethical considerations were taken into account when awarding contracts; and
- Whether Joint Ventures were subject to procurement regulations and non-commercial matters.

The Head of Development and Investment Estate explained that the Development team worked closely with colleagues across the Council through the Best Value Working Group and the due diligence process to review, enhance and bolster governance arrangements within Development. He also stated that a dashboard in relation to development agreements and overages would be included within the Annual Property Report, which was listed on the Committee's work programme for a future meeting.

In response to queries around what was meant by 'reputational factors', the Head of Development and Investment Estate stated that this referred to the ability and track record of a company and how they consulted and worked with local communities.

The Director of Development stated that Manchester was an investable city, with significant interest in opportunities to collaborate with the Council. He explained that there were a series of measures and de-risking opportunities to ensure the Council works with the right partners who could deliver on economic outputs, such as new homes, new skills and investment.

The Head of Development and Investment Estate reiterated the Council's focus on outputs within development agreements and explained that delivery milestones were contained within each contractual framework. Checks and balances were also undertaken to examine the nature of an organisation, their corporate structure and their income streams through a procurement exercise, development agreement or land transaction. A framework had been developed in collaboration with Corporate Governance to ensure assurance prior to entering into an agreement with a tender.

The Head of Development and Investment Estate explained that PwC were a multi-disciplinary organisation with significant experience in management, contracts and finance. He stated that PwC had experience in working with a number of local authorities and organisations and were skilled in the area of the review. The review included undertaking a forensic review of some of the development agreements which the Council already had in place and would report back to the Council.

The Deputy Chief Executive and City Treasurer stated that the Council placed great importance on due diligence when considering Joint Ventures. This included best consideration for land procurement or transactions and ensuring that this was transparent.

In response to a member's query regarding ethical considerations, the Executive Member for Finance and Resources highlighted that there was not a 'one-size-fits-all' approach to awarding contracts. He stated that each Joint Venture would be awarded on their own merit and that any future risk would be mitigated against.

The City Solicitor reiterated that each Joint Venture would be awarded on individual merit. There were a variety of factors which could be taken into account when considering a Joint Venture and this could include some political and ethical factors, although these could not be explicitly listed.

Decision:

That the report be noted.

RGSC/23/38 Our Town Hall Project - Progress Update

The committee considered a report of the Deputy Chief Executive and City Treasurer which provided an update on the progress of the refurbishment and partial restoration of the Town Hall and Albert Square under the Our Town Hall (OTH) project.

Key points and themes within the report included:

- Providing an introduction and background to the OTH project;
- Providing an update on the operating model and social value;
- Progress against key performance indicators (KPIs);
- Challenges experienced since the Notice to Proceed (NTP);
- The current financial position, noting that the project team had extensively sought opportunities to reduce cost pressures;
- The programme end date would not be confirmed until January 2024 when the position would be clearer; and
- The project was seeking additional funding of £29m to fund works until the end of December.

Key points and queries that arose from the committee's discussions included:

- What mechanisms were in place to ensure that higher costs were not a profit-making opportunity for contractors and suppliers;
- Whether any of the challenges and discoveries, such as out-of-true lifts, could have been foreseen earlier in the project;
- What the budget position would look like in January 2024;
- Whether officers would still recommend the same level of borrowing for the project, given the current position;
- The time at which officers became aware of delays, and how this was communicated to members and residents;

- Whether there were any financial implications affecting Lend Lease;
- If any cost mitigation measures were in place to reduce the need for additional funding;
- The impact of rising interest rates;
- How the building will be operated and when more information could be provided on this;
- Whether there was any certainty on the completion date for the project; and
- Whether a definitive completion date and final revenue budget would be available at the next update.

In opening the item, the Chair explained that he and some committee members had recently visited the Town Hall, which they found useful and were impressed by the enthusiasm of officers working on the project.

The Statutory Deputy Leader stated that the Council had a duty to preserve the Town Hall for future generations as a symbol of democracy and civic pride and that the House of Commons Restoration Team recently visited the site.

The Project Director stated that this was the largest heritage project in the country and acknowledged that this posed unique challenges.

In response to a query regarding what mechanisms were in place to ensure that higher costs were not a profit-making opportunity for contractors and suppliers, the Project Director stated that this was traditionally undertaken through competitive tension, which ensured a supply chain that was motivated and had capacity to undertake work. He noted, however, that there was a reduced appetite within the supply chain since the Covid-19 pandemic due to perception of risk and staff shortages. Members were advised that a significant number of tenders had withdrawn toward the end of the tender process, which reduced the competitive tension and meant that some contracts had to be awarded to the most expensive tender.

The Project Director explained that problems with lifts were unknown prior to works beginning and required major engineering exercises. He explained that a contingency plan had been developed and broken down by individual packages to identify the appropriate levels of risk in design, procurement and buying, construction and discovery.

The Deputy Chief Executive and City Treasurer highlighted that the last report to the committee predicted a budget increase of £17m to address emerging pressures. She stated that there had been a concentrated period of work and officers were near to fully understanding the challenges posed by the building. She reiterated the commitment to keeping members and the public informed on progress.

In response to a query regarding whether officers would still recommend the same level of borrowing for the project, given the current position, the Deputy Chief Executive and City Treasurer stated that the Council created a significant reserve to address the capital financing costs of both Our Town Hall and Factory International. She also explained that prior to the project, two floors in the Town Hall were out of

use and there were issues with stonework and heating, and that key considerations had been taken into account.

The Project Director explained that there was a significant contingency of £49m at Notice to Proceed stage and the risks of discovery were recognised. He stated, however, that the Council could not have foreseen the impacts of hyperinflation, market pressures, redesign and delay claims. He advised that the project team had been working hard since Notice to Proceed (NTP) to mitigate overrun costs and programme.

With regards to a query around the financial implications affecting Lend Lease, members were advised that the Council's contract with Lend Lease governed how they would be rewarded and how they must perform. It was stated that the Council was currently in receipt of delay claims amounting to £25m and some of these claims had been submitted by Lend Lease. These would be assessed and would be awarded if found to meet the contractual terms.

The Deputy Chief Executive and City Treasurer also expressed the Council's commitment for the Town Hall to be open and accessible to residents and the wider public, highlighting the Visitor Centre that would form part of the building. She stated that work was underway to develop a large Civic Quarter and further information would be provided as part of the budget process for 2024/25. Members were also advised that officers were examining the costs of running the estate to ensure sustainability in the future.

The Project Director explained that the biggest risk currently facing the project was further delay. He stated that there was still £10m-worth of works packages to procure, which would remove inflationary risk to procurement by the end of 2023. There remained risks around discovery and having to reorder materials at higher prices.

In response to a question on interest rates, it was explained that high interest rates had implications for the Council's borrowing costs but it was stated that the Council did not borrow for individual projects but to meet the overall capital cash flow requirements. Significant work had been undertaken to examine the impact of this for future capital programmes but the financing reserve for the Our Town Hall project to meet financing charges was sufficient to cover interest rate increases and to not increase pressure on the revenue budget.

The Chair expressed his hope that there would be a definitive cost and completion date for the project at the next update to the committee in early 2024, to which the Project Director explained that the hiatus of risk would have passed by then which could provide a clearer position.

Decision:

That the committee

1. notes the progress made, and
2. endorses the recommendation to the Executive.

RGSC/23/39 MCC Housing Services and Equans Contract Extension (PART A)

The committee considered a report of the Deputy Chief Executive and City Treasurer and the Director of Housing Services, which sought the committee's endorsement to extend the Council's contract with Equans to provide housing repairs and maintenance services to the Council's housing stock for a further 3 years.

Key points and themes within the report included:

- An overview of and background to the Council's contract with Equans;
- The fundamental deliverables of the contract;
- Performance of the contract, with most performance indicators being met across repairs and compliance;
- The delivery model assessment being undertaken for future delivery, assessing whether to continue to outsource in the longer-term or to bring the service in-house; and
- The role of the Housing Advisory Board.

The Executive Member for Housing and Development explained that the contract applied to the Council's housing stock in the city centre and North Manchester and that this was a vital service which affected thousands of residents. He stated that the proposal was to extend the current contract for three years from April 2024, with an additional break clause each year to allow the Council to assess alternative delivery models, such as insourcing, and to ensure best value and quality of service.

In response to a comment by a member that the Housing Advisory Board had not yet met to discuss the proposal, the Executive Member clarified that the Board had been established for over a year and met every 2 months. He noted that the Board would meet that evening to discuss the proposal and that there had been preliminary discussions already.

Members noted that a Part B report on the proposal was listed further on the agenda and would reserve their comments for discussion under that item.

Decision:

That the Part A report be noted.

RGSC/23/40 Overview Report

The committee received a report of the Governance and Scrutiny Support Unit which provided details of key decisions that fell within the Committee's remit and items for information previously requested by the Committee. The report also included the Committee's work programme, which the Committee was asked to amend as appropriate and agree.

Decision:

That the report be noted and the work programme agreed.

Factory International Progress Update (PART A)

The committee considered a report of the Deputy Chief Executive and City Treasurer and the Strategic Director (Development) which provided an update on the delivery of Aviva Studios including progress with the construction programme; the evolution of Factory International; the success of the recent MIF23 festival; and the conclusion of the naming rights agreement with Aviva for Aviva Studios.

Key points and themes within the report included:

- Providing an introduction to the project;
- The benefits already being felt by the works;
- The social value provided by The Factory Academy and Factory Futures;
- The social value created through the construction works;
- Progress and key performance indicators;
- The position of the project at July 2023;
- The fundraising strategy;
- That the naming rights had been awarded to Aviva and would be called Aviva Studios; and
- Contractual arrangements.

Key points and queries that arose from the committee's discussions included:

- Why the most recent report to the Committee in October 2022 was not listed within the background documents;
- Reiterating a previous request that any future requests for increased funding include a breakdown of all funding increases over the project's lifespan;
- Whether any costs were charged to architects as a result of design challenges;
- If delays due to water damage caused by inclement weather could have been avoided;
- Noting the importance of engaging with local businesses, particularly small enterprises, and querying how this would be undertaken; and
- Welcoming the community and social value work.

The Statutory Deputy Leader introduced the item and stated that the delivery of Aviva Studios had brought in more than £106m of new money into Manchester and would result in an additional £1.1bn in the economy over a period of time. It would also create over 1500 jobs and would serve as a catalyst for investment into the cultural sector. He highlighted that Lonely Planet had named Manchester one of the top 30 destinations to visit and Time Out named The Factory as one of the best things to visit in 2023. He stated that positive feedback had been received from residents and the cultural sector.

The Deputy Chief Executive and City Treasurer apologised for the most recent report not being included in the list of background documents and explained that this had been done in error. She also committed to providing a full history of the funding increase within the final account at a future meeting, to which members requested this be provided sooner.

In response to a query regarding design challenges, the Director of Capital Programmes explained that two design architect firms had been commissioned to ensure the acoustic capacity and fire safety of the building. He stated that the cost of this had been borne by the Council and that this was necessary to ensure the integrity of the building.

The Director of Capital Programmes explained that inclement weather also described the cold snap experienced at the beginning of the year, which led to water damage as a result of condensation. He stated that discussions were ongoing regarding the management of works as part of the commercial considerations.

The Director of City Centre Growth and Infrastructure provided assurances that the development would have a positive impact on local businesses and the Council would engage with these as Aviva Studios became embedded within the city. She also highlighted that twelve food and beverage venues were planned for St John's to support the area.

The Deputy Chief Executive and City Treasurer also wished to place on record the Council's excitement to work and partner with Aviva on this project.

Decision:

That the committee

1. notes the report, and
2. endorses the recommendations being made to the Executive.

RGSC/23/42 Exclusion of Press and Public

Decision:

That the press and public be excluded during consideration of the following item which involved consideration of exempt information relating to the financial or business affairs of particular persons and public interest in maintaining the exemption outweighed the public interest in disclosing the information.

RGSC/23/43 Factory International Progress Update (PART B)

The committee considered a confidential report of the Deputy Chief Executive and City Treasurer and the Strategic Director (Development), which update on the fundraising for the construction project and the conclusion of the naming rights agreement with Aviva for Aviva Studios, supplementary to item 5.

The committee discussed and queried a number of issues and points within the report.

Decision:

That the committee

1. notes the report, and
2. endorses the recommendations being made to the Executive.

RGSC/23/44 MCC Housing Services and Equans Contract Extension (PART B)

The committee considered a confidential report of the Deputy Chief Executive and City Treasurer and the Director of Housing Services, which detailed the key considerations accounted for in recommending extending the contract for housing repairs and maintenance for up to three years.

The committee discussed and queried a number of issues and points within the report.

Decision:

That the committee does not endorse the recommendation to extend the MCC Housing Services contract with Equans up to a maximum of three years.