

Manchester City Council Report for Information

Report to: Resources and Governance Scrutiny Committee – 11 October 2022

Subject: Our Town Hall Project – Progress Update

Report of: Deputy Chief Executive and City Treasurer

Summary

Previous reports to the Executive Committee and Resources and Governance Scrutiny Committee have provided regular progress reports on the refurbishment and partial restoration of the Town Hall and Albert Square under the Our Town Hall (OTH) project. This report provides Members with a further update on the progress with the project since the last report to Resources and Governance Scrutiny Committee in July 2021.

Recommendations

The Committee is recommended to note:

- The project has moved from a position of 74% cost surety in July 2021 (by value of packages procured) to 90% at end June 2022.
 - Following a very challenging period for construction more generally and specifically for a heritage project of this nature, the Date for Completion (25 June 2024) is under review following a series of delay claims from Works Package Contractors.
 - The project cost plan (for Construction) is reporting within budget, but there are significant risk pressures that have continued to build in the period since Notice to Proceed (NTP).
 - Excellent progress is being made with Social Value, with a number of the Project's Social Value KPIs having already been over-delivered.
 - The project has been recognized as an exemplar model of construction industry best practice that is delivering first rate quality, opportunities for the people of Manchester and is respectful of the environmental impact construction can have on neighbouring businesses.
 - Work is under way to develop the operating model for the building, including revenue costs.
-

Wards Affected: All

Environmental Impact Assessment - the impact of the issues addressed in this report on achieving the zero-carbon target for the city

Our Town Hall will significantly increase its energy efficiency through the refurbishment process.

Carbon emissions per person will be reduced through increasing the efficiency of the building services and increasing the use of the building. The operational phase of the project is predicted to emit between 20,223 and 22,303 T CO₂e between 2024 and 2038. The carbon emissions per person are reduced between 17% and 24% when compared to pre-refurbishment CO₂ emissions, and the energy consumption per head is reduced by up to 43%.

The construction phase of the project is forecast to emit 402 tonnes of CO₂. This number is significantly lower than a typical construction project of this scale, through the procurement of renewable electricity for the construction period and limiting the use of diesel powered equipment.

Our Manchester Strategy outcomes	Summary of how this report aligns to the OMS
A thriving and sustainable city: supporting a diverse and distinctive economy that creates jobs and opportunities	Manchester Town Hall refurbishment will provide the opportunity for a significant increase in employment within the building.
A highly skilled city: world class and home-grown talent sustaining the city's economic success	The refurbishment will provide new opportunities for young people and graduates, including apprenticeships and work placements.
A progressive and equitable city: making a positive contribution by unlocking the potential of our communities	<p>The refurbishment will increase the productivity and the efficiency of Council staff and support the development of an equitable city, taking advantage of new opportunities offered by devolution.</p> <p>There is also the opportunity through the co-location of public and private uses and new modern meetings rooms to promote collaboration and networking to strengthen the collaboration between organisations, businesses and residents, including the community and voluntary sector.</p>

A liveable and low carbon city: a destination of choice to live, visit, work	The refurbishment will contribute to sustainable economic growth by retaining employment within a central location. It will significantly enhance the Town Hall's energy efficiency and enable the incorporation of sustainable design features.
A connected city: world class infrastructure and connectivity to drive growth	The refurbishment will retain and improve public uses within an accessible city centre location, connected to residents and visitors by the City's expanding public transport network. The work will reinforce the City's role as the centre of public and private sector networks and meetings in the north, with connections through the Airport to support international events.

Contact Officers:

Name: Carol Culley
Position: City Treasurer
Telephone: 0161 234 3406
E-mail: carol.culley@manchester.gov.uk

Name: Paul Candelent
Position: Project Director
Telephone: 0161 234 1401
E-mail: paul.candelent@manchester.gov.uk

Name: Jared Allen
Position: Director of Capital Programmes
Telephone: 0161 234 5683
E-mail: jared.allen@manchester.gov.uk

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.

1. Report to Executive Committee – Town Hall Complex Strategy – 23 July 2008
2. Report to Executive Committee – Town Hall Complex Programme – Transforming Customer Experience – 11 February 2009
3. Report to Executive Committee – Town Hall and Albert Square Maintenance Programme – 1 October 2014
4. Report to Executive Committee – The Refurbishment of Manchester Town Hall and Albert Square: 'Our Town Hall' – 27 July 2016

5. Report to Executive Committee – The Refurbishment of Manchester Town Hall and Albert Square: ‘Our Town Hall’ – 16 November 2016
6. Report to Executive Committee – Capital Programme (Budget 2017/18 – 2021/22) – 11 January 2017
7. Report to Executive Committee – Manchester Town Hall and Albert Square: ‘Our Town Hall’ – 8 March 2017
8. Report to Resources and Governance Scrutiny Committee – Our Town Hall Social Value and Communications – 22 June 2017
9. Report to Resources and Governance Scrutiny Committee – ‘Our Town Hall’ – 7 September 2017
10. Report to Executive Committee – Manchester Town Hall and Albert Square: ‘Our Town Hall’ – 13 September 2017
11. Report to Resources and Governance Scrutiny Committee – Manchester Town Hall and Albert Square ‘Our Town Hall’ – 9 November 2017
12. Report to Resources and Governance Scrutiny Committee - Manchester Town Hall and Albert Square ‘Our Town Hall’ – 1 February 2018
13. Report to Resources and Governance Scrutiny Committee Ethical Procurement Sub Group – 22 February 2018
14. Report to Resources and Governance Scrutiny Committee – Our Town Hall Project – Budget Position Update – 24 May 2018
15. Report to Ethical Procurement and Contract Monitoring Sub-Group - 7 June 2018
16. Report to Council – 11 July 2018 – ‘Our Town Hall update’
17. Report to Resources and Governance Scrutiny Committee- 06 September 2018 - ‘Management Contractor Procurement.’
18. Report to Report to Resources and Governance Scrutiny Committee – 06 December 2018 – ‘Letting of the Management Contract’
19. Report to Executive Committee – 12 December 2018 – ‘Management Contractor Appointment’
20. Report to Ethical Procurement and Contract Monitoring Sub-Group – 31 July 2019
21. Report to Ethical Procurement and Contract Monitoring Sub-Group – 04 October 2019
22. Report to Report to Resources and Governance Scrutiny Committee – 24 February 2020 – ‘Notice to Proceed to into Construction.’
23. Report to Executive Committee – Capital Programme Update-Addendum to Capital Programme Update Report-Our Town Hall Project-Deferred Notice to Proceed into Construction – 03 July 2020.
24. Report to Resources and Governance Scrutiny Committee – 20 July 2021

1.0 Introduction and background

1.1 The report to Resources & Governance Scrutiny Committee in July 2021 reported that:

- Good progress was noted against the project's Social Value objectives. It was noted that the project was forecasting to achieve or exceed all of its objectives, and that the forecast Social Value ROI was £11.5m, which equates to 3.7% of the overall capital budget.
- The project was forecasting to budget on both Capital & Revenue, albeit a potential underspend on revenue exists.
- It was noted that the project was 40% through the construction works, and that the Date for Completion had been adjusted to 25 June 2024.
- Package procurement had delivered cost surety (by value of works packages procured) of 74%.
- The delay to the construction handover date had resulted from the further impact of Covid-19; the nesting falcons; the impact of Discovery on the critical path; delays with the completion of stage 4 design for some work packages; and the challenging market position leading to delays in appointing some Works Package Contractors as the initial tenders have been in excess of budget.

1.2 The current position is that:

- The project is making excellent progress against its Social Value objectives and has already exceeded a number of its KPI objectives. The project is forecast to deliver a Social Value ROI of £13.13m, which equates to 4.25% of the overall capital budget. A significant percentage of the project spend has been delivered in Manchester and opportunities for Manchester residents have been delivered through new jobs, training and development. See section 3 below for further details.
- With two years to operational launch of the building, work is underway to develop the detail of how the building will run, including revenue budgeting.
- Package procurement had advanced to 90% cost surety (by value of works packages procured) by end June 2022. We have 20 works packages still to procure, at a budget value of £28m.
- The project is 50% through the construction works, and the quality of the works is first rate. Albert Square has been opened temporarily to the public in order that the neighbouring hospitality businesses were able to benefit from increased traffic in the Square during the summer period. The response has been very positive. Please see appendix 1 for photographs of the works in progress.

- The project has been recognized by the Monitor for the Considerate Constructor's Scheme (CCS). CCS is a not-for-profit independent organisation founded to raise standards in construction and encourage best practice building. It has become the benchmark standard for the industry. Here is a quote from the Executive Summary of the report:

'The site continues to look exceptional, which is appropriate for a project that is determined to be a showcase for the construction industry in Manchester. The consideration for those affected by the works is exceptional and consultation with some of them has led to a refinement in the timing of the public realm works. Of particular note is the contribution to and engagement with the wider community. Despite the Covid-19 restrictions they have managed to realise a wealth of local employment opportunities and collaboration with colleges, universities and charities/community groups. The project demonstrates how environmental issues can still be a strong focus in the restoration of a listed building. From established safety systems, and those added to address Covid-19, to the ongoing drive to embed a culture of continuous improvement the site seems to be operating to the very highest standards. The standard of the facilities and the care and support for the workforce is also exemplary. The variety of on-site talks are a notable feature covering diversity issues, the appreciation of other people's skills and the promotion of a healthy lifestyle. As a visitor there is a strong sense of this being a team enjoying their involvement in this project.'

- The project has recorded an exceptional 1.6 million person hours without critical injury or incident, and has been the subject of a number of very positive media broadcasts in the period since NTP, all of which has put the project and the City Council in a very positive light. These have included Sky News in August 2021, Granada Reports in August 2021, The Manchester Evening News in July 2021 and June 2022, BBC Northwest Tonight in November 2021, and a TV documentary series entitled *Great British Landmark Fixers* in December 2021.
- The quality of work undertaken is extremely high, and has been recognized by both Historic England and the Victorian Society (both of whom are statutory consultees to the Local Planning Authority). Following visits in February, they recorded:
 - Historic England: *'Thank you so much for a fascinating and inspiring visit to the Town Hall yesterday. My mind is blown by the logistical planning that has gone into the programme.....never mind the skills and detailing of the programme. An exemplar project and great to be able to share....'*
 - The Victorian Society: *'It was a privilege to see the care and thoroughness which you and your colleagues are devoting to the project. Since the repair and restoration was first announced I have*

taken every opportunity to praise the City Council for committing the huge resource necessary to achieve first class conservation and renewal. To see the work under way is very gratifying. I arrived home on a high!

- Despite a very challenging 18-month period, the contract date for completion of the construction works remains 25 June 2024. These challenges have included the further impact of Covid-19; the impact of Discovery on the critical path; delays with the completion of stage 4 design for some work packages; and the ongoing market conditions that have resulted in further delay in appointing Works Package Contractors, both as the result of some tenders exceeding budget and some contractors declining to tender. The impact of these challenges on the date for completion of the construction works is under review.
- The project is still reporting on budget on both Capital & Revenue, but as a result of these challenges, the risk envelope has increased significantly, and were 100% of all risks realized, the project would be likely to overrun budget by £17m. The financial risk is further detailed in section 9 below.
- A summary of the latest approved position, actual spend to date and forecast against the latest budget is illustrated in Table 1.

Table 1 – Current Capital and Revenue Budgets and Forecasts

OTH Budget	Budget	Total Spend to date to March 22	2022/23 Forecast	2023/24 Forecast	2024/25 Forecast	Total Forecast Spend
Budget	(£m)	(£m)	(£m)	(£m)	(£m)	(£m)
Construction (inc Contingency Plan)	258,046	80,552	70,571	79,170	27,753	258,046
MCC -Client & Professional	35,933	23,686	5,068	4,618	2,560	35,933
MCC Direct	1,616	456	-	-	1,160	1,616
Remaining Contingency	10,747				10,747	10,747
Total Capital	306,342	104,695	75,639	83,788	42,220	306,342
Revenue	18,622	11,685	1,623	2,481	2,584	18,372
Total Project Budget	324,964	116,379	77,262	86,269	44,804	324,714

2.0 Update on the Operating Model

2.1 With two years to operational launch of the building, work is underway to develop the detail of how the building will run, including revenue budgeting.

2.2 The following occupants are planned to be in the building when it reopens:

- Lower Ground – Facilities Management team for plant and security spaces. Curatorial space for management and storage of heritage assets. Cycle storage. Activity space for council staff (a facility like “The Garden” in the Town Hall Extension).

- Ground Floor – Visitor Experience team plus retail offer. Event reception spaces including retail café. Support space for the catering offer. Public meeting rooms and public toilet and welfare facilities
- First Floor – Catering and banqueting and support space. Registrars' ceremony space. Public meeting rooms.
- Second Floor – Executive members (Lloyd Street elevation) and SMT (Princess St elevation).
- Third Floor – Coroner's service including the non-jury court. The Lord Mayor and the Civic and Ceremonial Office.
- Fourth Floor – The Registrars Service (Princess St elevation) and Coroner's Jury Court and number 3 court (Lloyd Street elevation).
- Fifth Floor – Legal Services, Elections, Governance and Scrutiny.
- Sixth Floor – Legal Services, Elections, Governance and Scrutiny.

2.3 The relocation of Legal Services, Elections, and the Governance and Scrutiny Unit into the Town Hall will release approximately 1,200m² of space in the Town Hall Extension. Discussions are underway with NHS Partners about their future accommodation requirements, in the context of work to dispose of their leased accommodation at Parkway Business Centre, and a review of NHS use at 3 Piccadilly Place. This work is part of the overall asset review being undertaken as part of the Strategic Asset Management Plan.

2.4 The Visitor Experience workstream includes the delivery of a Visitor Centre and supplementary services that aims to open up the hidden heritage of the Town Hall, creating a digital archive and interpretation hub for the city's most iconic location. The project will connect with the city's diverse communities, encouraging them to share their stories and images to create a new narrative for the building. The project will address under-representation in the building's existing story and collections, including women and people from diverse ethnic backgrounds. The first stages of public consultation and engagement are underway to inform development of the design for the Visitor Experience.

2.5 Work is being carried out to understand the revenue implications. As part of the original Town Hall investment business case, and before closure of the building, revenue budgets were identified as part of the business case for overall investment requirements. These totalled c£800k, allowing for utilities, staffing and preventative and planned maintenance.

2.6 It is likely that the actual costs will be considerably higher. Issues being worked through include:

- The original 'front door' access model will be revisited for those visitors to the complex arriving to meet officers and members.
- The building security arrangements will be very different based on the first point of security being the perimeter to Albert Square rather than the Town Hall building.
- The fire risk assessment work is currently being undertaken and will inform the required staffing operating model.

- Higher operating costs for the new building management systems and a higher budget requirement (both revenue and AMP) based on the whole life cycle costs for the building.

2.7 The contract has now been let to Manchester Central for the operation of the Food & Beverage offer and use of the civic and event space. This has the potential to deliver additional income for the Council through the Manchester Central Guarantee and Profit Share. The relocation of the Mayoral suite back into the Town Hall will also release space in Central Library for commercial use.

2.8 Work is underway to incorporate operating and revenue costs into the budget process. This report will update the Resource and Governance Scrutiny Committee on the further progress made since our last Social Value update in July 2021.

3.0 Social Value Update

3.1 Achieving economic and social value for Manchester has been a core project objective from the very start. To date there has been excellent progress made against the project KPIs and in the way in which social value has become embedded in the wider project team's day to day work. This report will update the Resource and Governance Scrutiny Committee on the further progress made since our last Social Value update July 2021.

3.2 As noted above, the project is currently forecast to deliver a Social Value ROI of £13.13m, which equates to 4.25% of the overall capital budget.

3.3 Progress against each of the project KPIs is noted below:

- Local Spend – 56.75% of the project spend has been in Manchester against a baseline target of 40%.
- Local Labour – 45% of the current project workforce is made up of Manchester residents against a baseline target of 30%.
- New Jobs Created – 237 jobs have been created across the Project Team of which over 40% have been filled by Manchester residents, against a baseline of 36 new jobs.
- New Apprenticeships – of a base target of 100, 75 apprenticeships have been delivered at level 2 and 3. Of these 68 have been filled by Manchester residents in supply chain roles and heritage trades on the project. Successful partnerships have continued with employment brokers to help fulfil available apprenticeship roles, these brokers include DWP, B2W, and ProcurePlus.
- New Higher-Level Apprenticeships – to date 48 higher level apprenticeships have been delivered on the project of a base target of 50. This includes the first cohort of PlanBEE apprentices from 2021-22,

with an additional 6 PlanBEE apprentices joining the project from September 2022.

- School Engagement – against a project target of 50, 156 sessions have been held in Manchester schools covering careers, employment, and STEM. Project staff have delivered these sessions to schools across the geographical breadth of the city to ensure inclusivity of access to the project.
- Work Experience – against a project target of 100, 110 placements provided for residents, school and college students including T-Level placements and Level 3 Architectural, Construction Engineering (ACE) Scholarship placements with the Manchester College. This includes bespoke work experience delivered to special educational needs students in Manchester schools.
- Higher Education Engagement – 35 research projects have to date been completed (100% of the project base target) including the annual Manchester School of Architecture Events programme.
- Volunteering – against a project target of 10,000 hours, 5,740 hours of voluntary time has been provided to support Manchester projects including Station South (Levenshulme), Longsight Youth Club, and Manchester Youth Zone

3.4 All contractors working on the project are asked to commit to paying the real living wage and avoid employing people on zero-hour contracts. The Council's Ethical Procurement Policy is embedded into the contract with Lendlease and is appropriately reflected throughout the project supply chain.

3.5 The project will continue to align project activity with specific training and skills for priority resident groups whilst continuing to challenge diversity in the construction industry and open up opportunities that are representative of our Manchester communities. Ways in which this is being done include:

- Incentive Opportunities – employers continue to take advantage of financial incentives linked to apprenticeships, allowing them to employ Manchester residents into apprenticeship roles.
- Manchester Adult Education Service – MAES staff now regularly attend monthly employment brokerage sessions on site, linking their clients to project employment opportunities. Employers on the project also regularly support MAES with employment related activity such as mock interviews.
- University Graduate Engagement – work with Manchester universities to maximise graduate retention in the city by offering industry insight and where possible on-site opportunities at a post-graduate level.

- STEM Podcasts Channel – OTH in collaboration with The Manchester STEM Hub has launched a project podcast channel linking career insights and heritage significance on a platform for young people in Manchester.

3.6 With a further £28m of works packages to procure, further opportunities remain to deliver more economic and social legacy for the people and businesses of Manchester.

4.0 Challenges which have emerged since Notice to Proceed (NTP)

4.1 Some of the challenges that have emerged since NTP were already apparent and were reported to Resources and Governance Scrutiny Committee in July 2021. This update report will look back to NTP and cover in greater detail the challenges still faced by the project and the responses taken by the project team to mitigate their impact.

4.2 At Council Executive in July 2020, the Our Town Hall (OTH) project received approval to issue the Notice to Proceed into the Construction stage of the project. It was noted that in the run-in to NTP, the project had incurred additional capital cost of £3.9m and delay from December 2023 to May 2024, as a result of COVID-19 and disruption caused by falcons nesting within the clock tower.

4.3 At NTP the value of the construction works was £214m and the date for completion of the Works was 14 May 2024. The overall budget was £324m. The level of procurement cost surety (by value of works procured) was 68%. The value of contingencies at NTP was £33.4m, and the risk profile was £49m. It was noted that were 100% of all risks were realised, the project would overspend by £4m. Since then there have been a number of additional challenges:

- Successive waves of COVID-19 continued to impact the construction industry and the project. By the end of 2020, this had accounted for an additional £302k of cost. By the end of 2021 this had increased to £866k.
- The project experienced a hardening of the market, characterised by Works Package Contractors that declined to tender, or excessively high tender returns. By the end of 2020, the value of procured Works Packages was already running £10m in excess of budget.
- Delays by the design team in producing the fully coordinated design, tender and construction level information in accordance with the standards set out in the Design Management Plan. By the end of 2020 the project had successfully achieved 70% cost certainty by value of packages procured (5% behind schedule) but was experiencing significant delays to the procurement of Works Packages. For example, by October 2020, 23 design packages were in delay, and the Management Contractor had identified a consequential delay on future Works Package procurement. By the end of 2021 the position had largely

been mitigated (see Section 5 below), but significant levels of discovery on site have interrupted the flow of routine design release as staff have been diverted to address the changes to design required due to the discovery issues.

- The project has experienced significant cost increases on a number of Works Packages that were subject to post-contract scope validation. These are packages, such as the external stone repairs, for which the final scope was dependent on access from the scaffold and opening up by the works package contractor. By the end of June 2022 this had accounted for an additional £4.8m of cost.

4.4 As outlined above, in the period since NTP the project has been beset by a number of challenges to both cost and programme. For 18 months, the project team has been in mitigation mode, dealing with the further impact of the pandemic, market pressures, including inflation, the extent of discovery on site since the commencement of the construction works, and the stacking effect of delays with the production of tender design. The response to these challenges is set out in Section 5 below.

5.0 Response to the Challenges

5.1 A Project Health Check Report in October 2020 noted that the project was at risk of further time and cost overrun at levels beyond that approved at NTP. It was agreed with Strategic Board to set a Recovery Plan to tackle the challenges which had emerged since NTP.

6.0 The Recovery Plan 2020-21

6.1 The outcome of the Recovery Plan (RP) was reported to Strategic Board on 07 April 2021. At that time, the project had procured circa 70% by value of the Contract Works, and was carrying circa £8m of change costs, the majority associated with package interface/scope issues, design errors/delays and the impact of COVID. The extent of client change was nominal, demonstrating that the Council had largely stuck to its Project Brief.

6.2 The RP was the outcome of 6 months of intensive work by the project team. It addressed 4 key workstreams across 13 sub-headings of activity which had the largest potential impact on cost and programme.

6.3 The RP set out to re-boot the project programme, works package procurement strategy and the risk management plan. It set out a risk mitigation plan and updated the 'likely worse-case' risk envelope. Our commercial TAV (Technical Assurance and Validation advisor), Turner and Townsend, reviewed the commercial drivers and their comments and recommendations were aligned to the steps being taken in the Recovery Plan. Those steps included:

6.4 **Programme review:** The key points noted from the programme review were a 4-week delay on the overall completion date (from 14 May 2024 to 25

June 2024), and a 19-week delay to the Sectional Completion of Albert Square (from 20 October to 15 March 2024). In addition, it was noted that:

- The updated programme had 40% less total float built in across the programme than in the contract programme. This reduction on total float had no direct impact on the critical path, but reduced the time available within the programme to respond to unforeseen risks (such as discovery or value engineering that might be required where tenders were returned in excess of budget).
- A number of workshops had taken place to explore potential delay mitigation. Had the team not worked assiduously to mitigate the impact of the fullest extent of delay, the completion date would have been September 2024, three months later than the updated Accepted Programme.
- The ability of the design team to hit design delivery dates had been and remained a significant risk. Additional resource had been engaged within the team, and Mace provided planning resource to assist Purcell (architect and lead designer) with its resource planning and management.

6.5 **Package procurement review:** the project team reviewed opportunities to move packages away from the Critical Path by, for example, breaking tender packages down to feed the procurement process in order to mitigate the risk of further programme delay. At the same time, the procurement strategy was revisited for each of the unbought packages based on risk-criticality (scale, value, complexity and so on). The outcomes of the procurement review were:

- To fast-track packages through procurement where this could be done without introducing additional commercial risk, for example plaster removal.
- To re-sequence the delivery of packages to take pressure off the design release dates by moving the package away from the Critical Path, for example the dry-lining works package.
- To review the packaging strategy where the market was unable to provide a cost-effective offer. For example, the withdrawal of the stone repair bidders from the process and the consequent commercial pressures at tender had presented a potential 40% cost overrun and the need to achieve a saving of £2m. However, limited capacity within the supply chain had constrained the ability to buy best value. The team re-worked the lotting strategy for the package to enable us to push back elements of the package and buy time to either re-tender later lots or enable incumbent contractors to take on additional work.

- It was noted that the team would continue to review the risk-criticality of unbought packages, to optimise the level of design completion pre-tender rather than necessarily waiting for 100% design completion.

6.6 **Risk Review:** the conclusion of the RP was an unmitigated risk profile of between £46m and £74m. The risk probability was modelled using Monte Carlo simulation, a powerful computer model that runs 10,000 simulations. When factored for probability, the range was £9m to £36m. To that end, the factored risk profile was broadly similar to that at NTP.

6.7 The Recovery Plan was signed off by Strategic Board in April 2021 as the basis for the ongoing management of the project. The Board noted that the work done in developing the Recovery Plan was a robust response to the challenges experienced to date and those anticipated may arise. At that point, the outturn value of the construction works was forecast at £234m and the date for completion of the Works was 25 June 2024. The level of procurement cost surety (by value of works procured) was 70%. It was noted that if 100% of all risks were realised, the project outturn cost would be £333m, an overspend of £9m. When factored using Monte Carlo simulation, this would adjust to an outturn cost at £72k under budget, or £324m.

6.8 Strategic Board noted that the project still had 3 years to run and 45 packages to buy. Design risk, scope/interface risk and programme risk were all risks over which the project team had control and influence and would remain the primary focus of the project team. Third party risk comprised COVID-19, potential Planning concerns on any cost reduction initiatives, market volatility and post Brexit inflation.

6.9 Strategic Board was updated on progress with the Recovery Plan on a monthly basis throughout 2021. These updates were used as the basis of the report to Resource and Governance Scrutiny Committee in July 2021.

6.10 At the Strategic Board in December 2021, it was reported that the date for completion was under further threat, running at potentially 47 days in delay (to August 2024), and the potential forecast outturn cost was £15m (factored) over the outturn cost reported in the Recovery Plan.

7.0 **Background to the Mitigation Action Plan (MAP)**

7.1 During the second half of 2021, the project continued to experience delays with procurement (arising principally from market appetite to tender, design delay and design change made necessary by discovery) and forecast costs continued to rise closer towards the worse-case factored risk.

7.2 Throughout this period, the project team engaged in several further initiatives to mitigate challenges to cost and programme. For example:

- Bees roof light: the team worked collaboratively to break out of the programme the critical path elements such that the steel frame could be

progressed in advance of the glazing system which will be affixed to it. This had a programme benefit of 3 weeks.

- The project achieved approval to the spray plaster finish that had been sourced as an alternative to traditional float plaster, with significant cost and time savings of £1.8m, and 6 weeks respectively.

- 7.3 The challenges from market conditions (inflation, capacity and appetite to tender) showed no signs of abating, and the project was experiencing tender declines on a number of critical Works Packages. This adverse commercial outlook was exacerbated throughout 2021 by the instruction issued by the Construction Leadership Council that all Tier 1 construction sites in England should continue to operate within COVID management guidelines. Furthermore, as the construction industry bounced back from the pandemic, and in common with much of the industry, the OTH project suffered from a spate of staff resignations, which exacerbated the pressure on design delivery.
- 7.4 Between March and September 2021, the project had been subject to circa £17m of change from the agreed budget, of which £11m was drawn from project contingencies. The balance comprised the transfer of budget between works packages.
- 7.5 During October 2021, the Quantity Surveyor reported that the project had dipped into a position where there was a £500k over-spend on the construction contingency, assuming that all Early Warnings¹ were to materialise. By December 2021, the team had re-built the contingency pot to £2.7m through a series of reviews to finalise budget instructions and Early Warnings. Nevertheless, it was clear that the project had encountered a degree of unexpected volatility that looked set to continue for the short to medium term.
- 7.6 By December 2021 the project had achieved £5.2m of the potential Route to Affordability Savings, with a remaining £7.8m being explored. However, the savings achieved had been offset by other tender overruns. The position within each of the three tranches was as follows:

RTA	Target	Realised to Date	Remaining Opportunities
RTA 1	6,372,243	4,624,693	1,747,550
RTA 2	2,168,250	575,052	1,593,198
RTA 3	4,500,000	0	4,500,000
Total	13,040,493	5,199,745	7,840,748

- 7.7 In December 2021, it was agreed with Strategic Board to develop a Mitigation Action Plan (MAP) to address the heightened concerns with cost, programme and risk. The MAP was devised as a means of addressing the underlying causes of unexpected change, and where possible, replenishing contingency.

¹ Early Warning Notices (EWNs) are a mechanism within the Management Contract for any party to raise a notice of a potential impact on scope of work, cost or programme.

7.8 The MAP addressed the key drivers of cost and programme, in terms of what we do, how we do it and the capacity within the team to do it successfully. The measures that formed the MAP comprised commercial reviews, programme opportunities and resource capacity reviews. This would build upon the Recovery Plan, updated to take account of the changing circumstances post-pandemic.

8.0 The Mitigation Action Plan 2021-22

8.1 The project re-engaged with Turner & Townsend (the Commercial post-holder on our Technical and Assurance Validation Panel) to work alongside the commercial review in a technical challenge capacity. Part of their brief was to challenge the team to find ways of addressing the market challenges that were likely to face arise in the procurement of the remaining works packages.

8.2 A Commercial Support Group (CSG) was established to lead the MAP reviews. In summary, the focus of the reviews was on the following:

- Cleanse the backlog of early warnings and budget instructions, agree those which can be closed, agree the final accounts for works packages completed, for those which might release monies back into contingency.
- Detailed review of the risk registers, challenging all risk allowances for monies that can be released back into contingency.
- Review Gap and Inflation allowances package by package.
- Test again for further Value Engineering opportunities.
- Review programme opportunities, such as the re-sequencing of fit out works (potential saving on critical time lost of up to 6 weeks) and the resequencing of the Bees Landing rooflight works.
- Better Buying Plan: updating the package procurement strategies developed in early 2019 to reflect the current conditions. All unbought packages were reviewed to consider:
 - Procurement form: single-source, single stage, full or partial design?
 - Procurement timelines: Determining the optimum balance between waiting to tender until the optimum level of design maturity is achieved versus the cost of programme delay.
 - Market engagement on packages not yet bought: for example, consider samples where this can aid levels of quality being bought and tailoring engagement to the characteristics of each individual package (complexity, supply chain capacity and supply chain appetite).

- A series of bandwidth reviews to identify areas where the project team might benefit from additional or in some cases different resource to address the challenges being experienced. This included the Council core project team.

8.3 Turner & Townsend were heavily involved in conducting independent reviews with the QS team. Buttress Architects were engaged to do the same for Purcell (architect and lead designer). They found the support already provided by Mace to support Purcell in developing a robust design programme had been effective, and that Purcell was now in a much stronger position to deliver. The recent spate of resignations had been a significant challenge and was the principal reason why design had continued to slip. Buttress felt that there was not much to be gained from further interrogation, providing that Purcell is able to retain its staff.

8.4 It was acknowledged that staff flight remained a significant risk to the project given the shortage of technical staff in the industry and that recruiters were paying top salaries for good people. This remains a very real concern, given the demand for highly skilled staff to manage the complexities of OTH during the construction period.

9.0 Progress to date

9.1 The outcomes of the Mitigation Action Plan were presented at Strategic Board 05 April 2022. This included the outcomes of the work undertaken to interrogate the risk register and the ways in which the project could procure with better surety of cost for the remaining 26 works packages (which have a value of £37m).

9.3 Cost surety is supported by effective procurement approaches, robust management of risk and the use of Budget Instructions to avoid delays to work underway as solutions are developed to discovery. Since January 2022 the following progress on activities to improve cost surety has been made:

9.3.1 Budget Instructions: At the start of January 2022 there were 366 budget instructions totalling £6.6m. £3m has been reviewed (£1.6m agreed / £1.4m requiring further information) and the project team is working to close out the £1.4m requiring further information. Close out dates have been confirmed by Lendlease for all other remaining budget instructions.

9.3.2 Risk: at the start of January 2022 there was £18m of risk within the Construction Risk Register, which reduced to £14.5m in February following the risk reviews where items over £100k were revisited and action plans put in place. However, during March 2022, construction risk increased to £15m, which is symptomatic of the expected volatility during the current period of intense market instability. The project expects to continue to see movements in risk through 2022 as design, procurement and key building interventions are progressed.

9.3.3 Better Buying Plan: the Commercial Support Group have batched all the remaining packages by urgency, value and complexity. These have been through better buying workshops and health checked. The urgent and immediate packages now all have action plans and the remainder are with Lendlease to draft the delivery plan. All plans are signed off at the Executive Procurement Group. Weekly project procurement meetings will monitor and report progress against the buying plans.

9.3.4 To illustrate the above, Strategic Board was presented with a case study on Existing Heritage Joinery (EHJ), which faced specific challenges around design, complexity, market appetite and affordability, with tender returns that were £5m over budget. The procurement process was stalled to allow the project team time to develop a Better Buying Plan, which delivered an initial reduction against the overspend of £1.7m. The impact on critical path has been mitigated through re-allocation of some of the early works to incumbent Works Contractors, allowing more time for procurement of less critical elements. Lessons learned from EHJ are being applied across other unbought packages, in particular the way in which large and complex works information is issued to bidders.

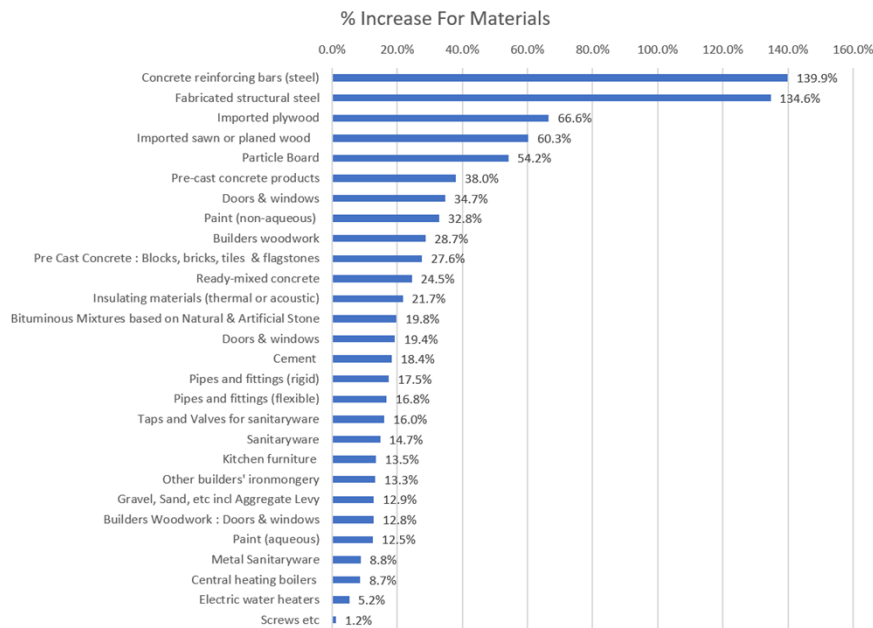
Programme position

9.4 The current accepted date for completion of the construction works remains 25 June 2024. However, this date will be subject to further delay. The extent of this delay is under review and will be determined following assessment of several delay claims received from contractors and of the opportunities that may exist to further mitigate the impact of delays already incurred. In the meantime, the project team will continue to closely monitor the progress of the critical path activities and continue to seek opportunities to mitigate programme risk through the MAP measures outlined above.

Financial position- Capital Budget

9.5 The project is reporting to budget, but the budget is remains under significant pressure. As noted above, the main pressures relate to: pricing pressures. Inflationary pressures show no immediate sign of abating, and the current trends are likely to become exacerbated in the immediate to medium term, with challenges around labour and material shortages for steels/metals, plaster, stone, timber, energy prices driving up costs and future uncertainty in relation to Ukraine and energy prices. For example:

- Steel suppliers are electing to produce only types of steel that carry the highest margins, leading to further pressures the availability of materials. In the period since NTP to June 2022, overall material prices across the construction industry have increased by 44.1% (Department for Business Energy and Industrial Strategy). The graph below shows the percentage increase in material prices in the same period.



- The Construction Products Association published its Construction Industry Forecast in May 2022. This noted that, *'the main immediate impact of the war in Ukraine for construction products will be the knock-on from rising energy prices and commodity shortages. Soaring energy costs will have to be passed on and lead to sharp rises in the cost of energy-intensive products. This will affect both imported products such as aluminium and steel and locally sourced products such as bricks and cement.'*
- The Quantity Surveyor has updated the inflation forecast at £5.6m. This is split between inflation already included in costs (at £3.4m) and further potential inflation captured as risk (at £2.2m). Inflation has impacted the project in a number of ways, from package budgets being outgrown at tender stage, to suppliers uplifting material supply prices.

- 9.6 COVID-19: updated guidance on workplace risk has now been received by Lendlease from the Construction Leadership Council and further details will be confirmed in due course. Monies already secured from the COVID-19 Recovery Fund have not yet been credited to the budget and are not included in any of the numbers reported here. This is likely to be circa £500k.
- 9.7 Further programme risk: the reported costs include a factored risk allowance for further prolongation of £5.2m.
- 9.8 All budget and programme risks are carefully monitored. Risk is reported as unfactored risk (which is the gross risk assuming 100% of all risk is 100% realised) and factored risk (which is all risk weighted for probability). The weighting is applied using a sophisticated computer model known as Monte Carlo Simulation. It is highly unlikely that all of the risks will materialise. The

forecast costs to complete if the unfactored value of 100% of risk is realised, will lead to an overspend of £31.4m. When factored for a more likely position using Monte Carlo Simulation, the overspend reduces to £17m.

- 9.9 A range of potential cost saving opportunities in the order of £3.8m are available through value engineering. If successfully delivered, these would reduce the factored overspend to £13.2m.
- 9.10 The project team is working hard to deliver within budget and it is highly likely that this would be achievable in a stable economic environment. However, given the additional risks of inflation and market volatility more generally, there is a risk that the project will overspend, although work is being carried out to contain this.
- 9.11 As the project team establishes better certainty on the level of any potential overspend, and the extent to which this can be covered within the existing inflation provision, a budget increase will be requested. This may be funded from the inflation contingency budget within the current approved capital programme, provided it has sufficient budget at the time the request is made. In the meantime, whilst the Capital Monitoring Report will continue to show the Our Town Hall project forecasting to spend to budget, the risks and potential overspend position will be detailed within the report.

10.0 Summary and Next Steps:

- 10.1 The Our Town Hall project is continuing to deliver exceptional standards of quality construction and social value for the people and businesses of Manchester.
- 10.2 However, the project has experienced intense pressures on cost and programme, to the extent that the project team has been operating in a constant mode of risk mitigation. These challenges have included significant disruptions from 'uncontrollable' elements such as nesting falcons, COVID-19, extraordinary levels of inflation and unprecedented pressure on the supply chain (labour and materials availability). There has not been a single month since NTP in which the project has been in 'steady state.'
- 10.3 In this environment, the project team has worked tirelessly to mitigate these challenges, with activity which has covered all of the 'hard' control metrics (such as programme, procurement cost and risk) in parallel with 'soft' issues around resource capacity and performance initiatives. Where appropriate, members of the TAV panel have been engaged to interrogate these challenges and the responses delivered to address them. Without all of this hard work the cost and programme position would be significantly worse.
- 10.4 The budget and programme are under constant review, but it is likely that the project will be subject to further volatility for another several months, notably until we have completed the physical interventions into the building and have procured the remaining 20 works packages. At that point, the

principle drivers of cost and delay (design, procurement and discovery) will be substantially behind us.

- 10.5 Notwithstanding these challenges, the project is delivering a significant Social Value legacy for the city and the team now actively planning for the re-occupation of the building following completion of the construction works. This will include the improved access for Manchester residents.