

Manchester City Council Report for Resolution

Report to: Resources and Governance Scrutiny Committee – 11 October 2022
Executive – 19 October 2022

Subject: Factory International

Report of: Deputy Chief Executive and City Treasurer and Strategic Director, (Growth and Development)

Summary

The purpose of this report is to update Members on progress with the delivery of The Factory Arts Centre, progress with the redevelopment of St John's and the preparations for the opening of the building.

Recommendations

The Resources and Governance Scrutiny Committee is recommended to:

1. Note and comment on the report and endorse the recommendations being made to the Executive.

The Executive is recommended to:

1. Note progress with the delivery of Factory International, the wider economic, cultural and social benefits to Manchester and the significant programme of social value commitments.
2. Recommend to Council to approve a Capital Budget increase for Factory International of £25.2m funded by:
 - £10m from the Council's capital scheme inflation provision
 - £15.2m to be met from borrowing

This will increase the total capital budget for the construction of Factory International from £185.6m to £210.8m

3. Recommend to Council to underwrite the £7.8m increased costs of Furniture, Fixtures and Equipment (FFE) of Factory International from capital receipts and note that the venue will not be able to operate without this investment to enable the equipment to be in place.
4. Agree the funding for Furniture, Fixtures and Equipment (FFE) is to be paid to Manchester International Festival (MIF) as a grant that will be drawn down as costs are incurred. £500k of which will be retained as a contingency to cover any further unforeseen costs.

5. Note the long-term relationship with Factory International and the ability to recover a significant proportion of the borrowing costs from naming rights income.
6. Note the progress made by MIF to prepare the organisation to operate Factory International, including recruitment, business planning, artistic programme development and social value benefits, in the lead up to MIF23.
7. Note progress in the development of employment, training and education opportunities and creative engagement programmes as part of Factory International’s skills development programme.

Wards Affected: Deansgate

Our Manchester Strategy outcomes	Summary of how this report aligns to the OMS
<p>A thriving and sustainable city: supporting a diverse and distinctive economy that creates jobs and opportunities</p>	<p>By supporting a diverse and distinctive economy and attracting clusters of related creative industry activities, Factory International will create jobs and opportunities, accelerate economic growth in the region and play an integral part in helping Manchester and the North enhance and diversify its cultural infrastructure and the visitor economy. The Council will develop a Creative Enterprise district proposal (through the Greater Manchester Trailblazer/ Investment Zone) to support and incentivise creative SME co-location and maximise training and educational opportunities in the area. The first phase of Enterprise City has been established, together with 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. A Levelling Up grant of £17.5m has been awarded, to enable the refurbishment of the Upper and Lower Campfield Markets buildings as an extension of the Bonded Warehouse Tech Hub.</p>
<p>A highly skilled city: world class and home-grown talent sustaining the city’s economic success</p>	<p>Through world class and home-grown talent sustaining the city’s economic success, 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.</p>

	<p>New direct jobs of 168 FTE staff and 176 FTE venue and performance related jobs (344 FTEs in total) will work within the venue each year. Furthermore, Factory will support a clustering impact resulting from the venue accelerating the city's role as a centre for creativity, attracting both producers and specialist supply chain companies keen to locate in the local economy. After year 10, Factory international is expected to support over 1,500 FTE jobs as a result of these clustering effects driven by Factory, and up to £1.1bn will be added to Manchester's economy. Factory International has levered £106.5m new Exchequer investment into Manchester. Factory International 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>Making a positive contribution by unlocking the potential of our communities, Factory International 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. The presence of Factory International 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. 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>As a destination of choice to live, visit and work, The Factory will benefit from excellent public transport connectivity, ensuring the site can be easily accessed by visitors. In a non-</p>

	<p>festival year, The Factory will attract 850,000 visitors per annum with 650,000 drawn from within the Greater Manchester area. In a festival year the total will increase to 1.15m visitors as additional audiences of 300,000 will attend performances across the city. It is anticipated that 755,000 will be drawn from the Greater Manchester area and 245,000 visitors from elsewhere. Sustainable design and development principles are embedded into the scheme. 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.</p>
<p>A connected city: world class infrastructure and connectivity to drive growth</p>	<p>Through world class infrastructure and connectivity to drive growth, 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. 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>

Financial Consequences - Revenue

There are no direct revenue consequences arising from this report. The additional regeneration of the St John's area, of which Factory International is a key anchor, will generate an additional £830k per annum in business rates in 2022/23 which is projected to increase and is contributing directly to the Council's revenue budget. The Council will continue to press for a Creative Enterprise Zone as part of the Greater Manchester Trailblazer /Investment Zone discussions to secure these benefits for the longer term and support the funding of Factory International.

Financial Consequences – Capital

The recommendations in this report are to secure the completion of Factory International and its longer-term success. The report outlines the significant direct, economic and social value benefits that are being secured.

Management Contracting has been used for this large-scale specialist project in which the works have been constructed by a number of different works contractors. The report outlines the extremely challenging circumstances that the project is being delivered in with unprecedented levels of inflation, market pressures, workforce shortages and supply chain disruption. This has significantly impacted on the construction timescales costs and fit out costs for the building. It should be noted that the Council is currently engaged in negotiations with the management contractor to conclude the costs of the remaining works. However, in the current climate, total cost surety is only likely to be reached when all the packages are procured, and the project is nearing completion.

The report includes a capital budget increase for Factory International of £25.2m funded by £10m from the Council's capital scheme inflation provision which is already included in the Capital Budget and £15.2m to be underwritten from borrowing.

Underwrite the £7.8m increased costs of the fit out of Factory International from capital receipts to provide the vital equipment required for the venue to successfully open and operate. This revised FFE budget includes an appropriate level of contingency and will be paid to MIF as a grant that will be drawn down at appropriate intervals, as costs are incurred.

The above can be contained within the existing revenue budget for capital financing and is within the planned and authorised borrowing limit for the Council. However, there is an opportunity cost of using the funding for Factory International.

Of particular importance is the long-term relationship with Factory International on the funding raising and naming rights income. The principles of a 70/30 split for naming rights income have been established (net of fulfilment costs) which will both repay the MCC capital investment and also secure the longer-term financial stability of Factory International.

The development of the adjacent Riverside site by Select and Allied London will see the repayment of the temporary £4.3m loan.

Contact Officers:

Name: Pat Bartoli
Position: Head of City Centre Growth and Regeneration
Telephone: 0161 234 3329
E-mail: p.bartoli@manchester.gov.uk

Name: Carol Culley
Position: Deputy Chief Executive and City Treasurer
Telephone: 07717 54578
E-mail: carol.culley@manchester.gov.uk

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

Name: Tom Wilkinson
Position: Deputy City Treasurer
Telephone: 07714 769347
E-mail: tom.wilkinson@manchester.gov.uk

Name: Dave Carty
Position: Development Manager
Telephone: 0161 234 5908
E-mail: d.carty@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.

The Factory

- Report to The Executive 29 July 2015 – The Factory Manchester
- Factory Manchester Project Overview 31st May 2016
- Report to The Executive 26 July 2016 – Updated Draft St. John’s Strategic Regeneration Framework and Factory Manchester
- Report to The Executive 11 January 2017 – Updated Draft St. John’s Strategic Regeneration Framework and Factory Manchester
- Report to The Executive 26 July 2017 – Factory Manchester
- Report to The Executive 21 March 2018 – St. John’s Proposals including Factory Manchester
- Report to The Executive 30 May 2018 – Capital Programme – Proposed Increases
- Report to The Resources and Governance Scrutiny Committee 8 November and to The Executive 14 November 2018 - The Factory
- Report to The Resources and Governance Scrutiny Committee 20th July 2021 – The Factory, St. John’s – Delivery Update

St John’s

- Draft Quay Street and Water Street Development Framework February 2012
- Report to the Executive 14 March 2012 – ITV/Quay Street Regeneration Framework
- Report to the Executive 29 October 2014 – ITV/Quay Street Regeneration Framework
- Draft St Johns, Manchester Strategic Regeneration Framework October 2014

- Report to The Executive 13 February 2015 – ITV/Quay Street (St. John's) Regeneration Framework Consultation
- St Johns Strategic Regeneration Framework February 2015
- St. John's Strategic Regeneration Framework Update November 2016

1.0. Introduction

- 1.1. Factory International is nearing completion, and there is considerable excitement about the venue. The recent launch has further boosted Factory International's profile, with an exciting programme of events planned, building on the international festival in 2021, and placing Factory International firmly on the map at the heart of the St John's regeneration area. The city is already seeing the direct benefits from St John's, with Enterprise City and the cultural activities provided by the studios playing a major part in the area's evolution.
- 1.2. This report provides an update on progress with delivering Factory International, 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.
- 1.3. Factory International has levered £106.05m of new public funding into Manchester made up of £78.05m HM Treasury investment, and £7m Arts Lottery and £21m Kickstart Capital from the Cultural Recovery Fund, all administered by Arts Council England and money that would not have otherwise been available for the cultural sector or the region.
- 1.4. The creative industries are the fastest growing sector in Manchester and the creation of Factory International will sustain and grow this vital sector even further. Factory International will strengthen Manchester's reputation as a nationally and internationally important centre for culture and creativity – building on a reputation which has seen it recognised as the second largest creative city in Europe after London. Up to £1.1bn will be added to Manchester's economy after 10 years of operation, capturing the benefits associated with direct employment and visitor spend, productivity, dynamic clustering, social value and amenity value.

2.0. The St John's Quarter

- 2.1. Factory International is at the heart of the St. John's Quarter and revives the site of the former Granada TV Studios making a major contribution to the regeneration of this part of the city. The economic benefits of Factory International are broadly measured in three categories:-
 - audience/visitor economy,
 - clustering and
 - direct employment.
- 2.2. Visitors to Factory International in a non-festival year 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. In a festival year, the total will increase to an estimated 1.15m visitors as additional audiences of 300,000 will attend events across the city. It is anticipated that 755,000 visitors will be drawn from the Greater Manchester area and 245,000 from elsewhere. After year 10, Factory International is expected to support over 1,500 FTE jobs

as a result of these clustering effects, and up to £1.1bn will be added to Manchester's economy.

- 2.3. Factory International has already been the catalyst for a major cultural and creative investment. Set in the heart of a major new mixed development of residential and office /cultural space, a new cluster of innovative city centre workspaces and content production studios are being created. Enterprise City has the potential to accommodate some 17,000 jobs in businesses from new start-ups to corporates. At its heart will be the cultural campus created with the combined attractions of Factory International (850,000 visitors per annum) and the Science and Industry Museum (500,000 visitors) being physically linked together. The wider St. John's area including Enterprise City will attract over 32,000 visitors a day visiting the offices, residential developments, new food and beverage offers and hotels.
- 2.4. Allied London's long-term partnership with Aviva Investors to create Enterprise City is valued at in excess of £500m and will secure the long-term future for this new city centre neighbourhood. Anchor tenants include global tech company Booking.com (won in competition with other major European Cities) Cloud Imperium Games, the bringing together of the five WPP agencies under one roof together with The Farm, a major postproduction house. The Allied London film studios campus continues to be successful. The Bonded Warehouse, now operating as a new Tech Hub, hosts the northern HQ of Tech Nation, the Government backed network for tech entrepreneurs (establishing its new Northern HQ in the building) as well as other considerable interest in the office and networking space available.
- 2.5. 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.
- 2.6. Whilst developments in the area are predominately for commercial purposes the two residential towers now under construction will provide 765 apartments and a total of 1,676 bedspaces and over 21,500 sq feet of co-working space with each tower containing two, three or four bedroomed co-living apartments, 131 affordable tenures, and towers 1 and 2 have 180 studio apartments available on short term lets.
- 2.7. Factory International itself will create a world-class performance space and provide a permanent home for Manchester International Festival in an all-year-round venue with a rich blend of ticketed and free events inside the building and the surrounding public spaces. 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. It has attracted significant government investment, almost unique outside of London and the Southeast and has been designed by one of the world's leading architects, OMA. It will be their first major public building in the UK, enhancing Manchester as a destination for world class architecture. The MIF Pre Factory Events including the launch of the Virtual Factory

attracted considerable excitement and the 2021 festival reached 2,662,244 people (compared with 302,161 in 2019) – 1,462,244 in person and 1,200,000 online. The post MIF21 evaluation indicates that 29% of attendees came from Manchester.

- 2.8 The development of the adjacent Riverside site by Select and Allied London will see the repayment of the temporary £4.3m loan. The new co-living tower development is now under construction and a planning application for a low-rise food and beverage development is expected to be submitted shortly.
- 2.9 The creative industries are the fastest growing sector in Manchester, making an annual contribution to the city's economy of around £1.4bn. The Council is seeking Cultural Enterprise Zone designation for the St Johns creative quarter through the Greater Manchester Trailblazer Investment Zone. This would be centred around Factory International and enable the Council to capture the benefits of its investment into the cultural sector for reinvestment. This would support the ambition to ensure that Factory International is financially sustainable in the longer term and provide an additional guarantee that any additional cash flow support would be repaid. Since 2018 the growth in business rates generated within the zone totals £327k which will grow to £830k in 2022/23. Under the 100% business rates growth retention pilot the additional income has been retained in Manchester and is supporting the Council's revenue budget. Discussions with Government continue as part of the announced devolution acceleration negotiations.

3.0. Work and Skills and Social Value

- 3.1. Central to the vision is a focus on providing training and skills for future generations of creative talent through The Factory Academy (TFA). TFA was launched by MIF in 2018, in partnership with a consortium of cultural organisations in the city. MIF has led on the development of the Greater Manchester Cultural Skills and Training Consortium - a group of 25 employers working collaboratively across the cultural sector on programmes such as Traineeships and Apprenticeships. This has supported the appointment of a cohort of apprentices in technical theatre across Greater Manchester organisations and MIF has ensured the continuation of these apprenticeships through lockdown.
- 3.2. For the Academic year 2021/22 The Factory Academy has:
 - Engaged 250+ students through course delivery, The Factory Academy Presents and Managing Creative Projects: Next Level
 - Engaged 500+ students with The Factory Academy courses since its inception in October 2018
 - Filled 40+ roles at MIF with TFA alumni (comprised of internships, traineeships, apprenticeships, Kickstart roles, FOH, freelance, fixed term roles and performing)
- 3.3. As a result:

- 50% of Kickstart eligible students who studied with TFA went into Kickstart roles
 - 65% of Factory Academy Participants, who provided diversity and inclusion data, report a characteristic which is under-represented and/or being from a low socio-economic background Employment and Further Study
 - To date at least 60% of all Factory Academy Alumni are employed or have moved onto higher education.
- 3.4. Factory International has already begun delivering creative education programmes to hundreds of young people aged 9-14 across Greater Manchester (225 to date) with a focus on social and emotional learning, teamwork, leadership and resilience. These creative programmes will be integrated into the curriculum for future year groups with the learnings and resources made available to schools and youth centers.
- 3.5. Factory Futures will be launched in Oct 2022, which will see 10,000 young people reached over the next five years with support in accessing careers in the creative industries. Opportunities will range from open days to full apprenticeships. The programme responded directly to the impact of the COVID-19 pandemic on youth unemployment aligning with the Government's Kickstart scheme. It includes a five-year pre-employment training programme for 1,400 young people, who are unemployed or on Universal Credit. Factory Futures 15 is a 15-day Academy linked to an opportunity with DNG Production and Events crew company. The course is aimed at helping people in Manchester to access employment in the city's live events industry. Students will learn about out about key technical skills, gain hands on experience and ultimately paid employment in this industry. New courses that are currently being developed by the team are aligned to developing skills in, freelance work, producing and leadership.
- 3.6. In line with other key cultural institutions in Manchester, Factory International 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 MIF21, attracting more diverse participants and broadening the reach of the Festival across Manchester's communities.
- 3.7. Resources from the City's Work and Skills team have been seconded to support the development of a comprehensive programme of social value benefits from Factory International construction project, working in partnership with agencies across the city. This involves the design team, the contractor, work package contractors and the Manchester International Festival working together to deliver a package of social value benefits which will continue to be delivered after the opening of Factory International. The collaborative working on social value across all phases of a project is unique and provides an opportunity to ensure outcomes are maximized to benefit Manchester residents.
- 3.8. Analysis by CLES shows that 87% of construction spend is within GM and 23% of that within Manchester. This represents c£100m of investment within GM. Whilst the Manchester figure could appear low it reflects the complex and

specialist work required and it is believed the project has done well to secure 87% within GM. The table below summarises the social value achieved on the project to June 2021.

Apprenticeships		Employment & Pre-Employment Opportunities		Education and Career Support Opportunities		Community Activities	
Committed	Achieved	Committed	Achieved	Committed	Achieved	Committed	Achieved
50	39	50	178	60	255	60	48

3.9. Significant progress has been made between the start of construction and 2021. As noted in the table above these included:

- 63 education activities, engaging over 5000 local young people: inclusive of collaborative 'STEAM' engagement with MIF and the Science and Industry Museum bespoke to Factory International.
- 56 work experience placements for local people; including 'The Factory Challenge' week, an innovative programme for 25 Manchester pupils providing learning/insight into the project and a work experience week with Manchester Adult Education Learners.
- Over 1000 volunteering hours from LOR and supply chain given to Manchester charities and specialist community investment projects including SIM Station Building project, Castlefield Forum Roman Gardens improvements, Doodle of Ducie Street Homeless Mural and Lifeshare Renovation project.
- 16 new employment opportunities for local people on the construction programme
- 30 local apprentices employed on the construction programme.

3.10. From June 2021 the targets for the constructors were refocused, in consultation with the Council's Work and Skills colleagues, to align the project in helping address some of the key initiatives for work and skills in the locality following the pandemic.

3.11. To date these have resulted in:

- 11 new apprentices of which 8 are Manchester residents and 3 GM.
- 4 Manchester residents on the Kickstart programme
- 9 new jobs, 7 for Manchester residents and 2 for GM residents.

3.12. These metrics will continue to be monitored throughout construction and into Factory operations.

4.0. Factory International Project Update

4.1. Factory International has attracted significant government investment, almost unique outside of London and the Southeast, including £106.5m of government funding alongside £9m per annum of Arts Council England revenue funding to ensure the success of the facility. 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 and proved to be inadequate to fund a project of this complexity and scale. The original budget was £111.6m, (£114m including the public realm construction costs).

5.0. Land Acquisition

- 5.1. There is a separate budget to acquire the 999-year lease from the Science and Industry Museum and the freehold interests from Manchester Quays Limited. It also included a loan of £5.1m on market terms to secure the Riverside site for Factory International and the construction compound. £800,000 has been repaid in line with the agreement. The balance of £4.3M is repayable on 10th August 2023. The repayment will be used to support the cashflow for The Factory until it can be released to support capital expenditure on other projects.

6.0. Factory International

- 6.1. The approved budget for Factory International and associated St Johns public realm works is shown below.

	Costs £m
Pre-construction costs	0.4
Construction	152.3
Professional fees	24.8
Client costs	8.1
Total Construction Costs	185.6
Public Realm	5.6
Total Factory Budget	191.2

	Funding Approved £m
HMT, administered by ACE	78.1
ACE Lottery funding	7.00
ACE Kickstarter	21.00
MCC Capital	55.4
External Funding	24.1
Total	185.6
Public Realm (MCC)	5.6
Total	191.2

- 6.2. *Public Realm*

6.2.1. The £5.6m for public realm works in the St Johns Quarter includes the undercroft of Factory International, finishes to Water Street within the site boundaries and all works to Factory Square including the river frontage, providing an appropriate setting for Factory International. This is projected to deliver to budget.

6.3. *Construction Project – Background*

6.3.1. The Management Contract with Laing O'Rourke for the construction of Factory International was executed in June 2018 and 'Notice to Proceed' which marks the end of the pre-construction phase and the start of the main works, was issued in December 2018. The Management Contract balances 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.

6.3.2. At Notice to Proceed a further contribution of £18.97m was requested. This was met from capital receipts, bringing the capital budget for the project to £130.6m. At this time consideration was given to reducing the size of the building to achieve the previous budget. However, this would have further delayed the opening date, and would have fundamentally undermined and devalued the integrity and concept of what Factory International will be. It was determined that the loss of benefit would have far outweighed the cost saving.

6.3.3. At this stage the key Steelwork and Mechanical, Electrical and Public Health (MEP) work packages had been tendered, with the design and sequencing of the remaining works sufficiently complete for the cost consultant to apply market rates. The additional £18.97m covered:

- £5.5m for inflation (then running at 3% and forecast to reduce to 2.5% in 2018 and 1.5% in 2019) and Brexit risks.
- £3m to support the outline programme
- £4.5m to meet planning standards for acoustics
- £3.2m for agreed scope changes and abnormalities
- £1.15m to strengthen the client-side team.

6.3.4. The Council took responsibility for the project in late summer 2018, moving the majority of project control and management away from Allied London. As the design has been developed, the Council made specific interventions to ensure the project is suitably resourced to deliver the project with a strengthening of the client team and design capabilities. This included a full-time project lead. The budget included a £5.8m contingency which was deemed tight but sufficient if there were no unforeseen events.

6.3.5. A further £10m was approved to meet inflation costs (then running at between 4% and 7% depending on the project) as part of the 3 June 2020 report to the Executive.

6.3.6. On 6 October 2020 a further report was bought to Resources and Governance Scrutiny and Executive. An additional £45m was allocated to the project:

- £23.2m for the impact COVID-19 with unavoidable and irretrievable additional costs linked to the pandemic – circa £11.5m of direct impacts and associated Covid contingency allowances of £2.75m. The indirect impacts of Covid-19 were largely responsible for £8.87m additional prolongation costs.
- £8.6m predominately for acoustic façade protection and changes in fire legislation post Grenfell.
- £3m for additional project management and design co-ordination costs including the detailed architect to support the work of OMA. They have been critical in ensuring the work packages have the level of detail required for the UK construction market.
- £10.1m contingency

6.3.7. The increase was funded from:

- £21m ACE Cultural Capital Kickstart Fund to support capital projects impacted by covid-19
- £19m sponsorship funding (bringing the total target to £24m)
- £5m from MCC who are actively seeking long term funding through an Enterprise Zone.

6.3.8. At that point, of the 39 work packages, six had been completed (£3.9m) and seven were on site to the value of £52.5m. A further 12 work packages (worth c£34m) had been tendered with a further 14 packages, worth £24.1m, at the pre-tender stage. The programme was based on beneficial occupation in October 2022, completion of the building late December 2022 and completion of commissioning in February 2022. The total approved capital budget is currently £185.6m.

7.0. **Construction Project – Position at October 2022**

7.1. As at October 2022, very positive progress is being maintained on site. All the detailed design work has been completed and the static completion dates are now instructed. Of the work packages, £50.3m have gone through the final account stage, £58.8m have been procured at fixed lump sum, £16.3m are provisional sums and £3.3m is yet to be procured.

7.2. However, the external environment has remained and continues to be extremely challenging, particularly with the conflict in Ukraine which has disrupted the supply chain and contributed to unprecedented levels of inflation. The shortages in the labour market have also had an impact. The latest statistics from the Department for Business, Energy and Industrial Strategy (BEIS) for June 2022 showed an overall increase of 26.4% in prices for 'all work' (new housing, other new work, and repairs and maintenance) compared to June 2021, and a 1.3% increase since the previous month. In particular, the price for concrete reinforcement bars is up 58.2%, fabricated structural steel is up by 46.3% and pre-cast concrete products are up by

28.3% compared to prices seen in June 2021. While material prices continue to increase month on month, the rate of increase of total prices appears to have slowed slightly. Covid-19 restrictions have remained for the construction industry throughout the whole period, which has continued to impact on productivity. It is not yet known what impact the mini budget will have on the construction industry, but it is likely to increase costs further with inflationary pressures and rising costs of finance.

- 7.3. The complexity of the project and the challenges of design co-ordination on the steel structure have also continued to impact on cost, with the most material issue being changes required to accommodate the final requirements for the Mechanical and Electrics work package (MEP) where further work has been required to ensure that the structure and acoustic treatments are aligned to the MEP installations.
- 7.4. The project has been very tightly managed, and it is worth noting the value engineering and strive targets have been exceeded, contributing £2.1m back to the Factory International budget. The project team can also demonstrate a further £5m of cost mitigation or avoidance.
- 7.5. The project team have worked hard to preserve the programme completion dates.
 - Beneficial occupation is still enabled for October with the detailed commissioning and fit out plans being finalised.
 - The final completion of the building or static completion of the building will now be substantially complete in January rather than December. The remaining works to the foyer, final finishes and seating will then be installed completing in March.
 - The commissioning timescales have now moved from completing in February to March, with planned acceleration works to ensure this date is achieved. The final testing and sign off to conclude in June 2023.
- 7.6. Taking all of the above into account, before the application of contingencies and risk allowances and additional value engineering, the project is facing gross cost pressures of c£38.5m. and a net pressure of £19.7m. Note this does not allow for any acceleration works required.
- 7.7. The cost pressures include:
 - £1.5m direct impact of the continued covid-19 restrictions
 - £9.1m (£2.9m inflation + £6.2m) inflation, market and programme pressures to date
 - £16.5m scope gap, design co-ordination and unforeseen events including the requirement for further additional steel and massing to protect the acoustic integrity of the building. Further fire safety measures, additional maintenance access and operator systems support were also introduced to meet performance requirements. Lighting, security and containment had provisional sum allowances in the works package resulting in the final design increasing costs. It is normal for a project of this scale to see a

large volume of minor changes, some construction scope gaps and design co-ordination issues, and risk allowances are made to cover these.

- £8.4m for additional programme costs including prolongation costs, additional storage costs for materials, impact of hyperinflation particularly on steelwork and increases to provisional sum allowances for MEP revised programme and associated inflation and prelims for the movement in static completion dates and extension of the commissioning period.
- £3m - client-side costs – which largely relate to the need to retain the full detailed design architect team for a longer period.

7.8. The above is offset by £16.7m of risk allowances and contingencies and the additional £2.1m strive achieved. However, the budget did not allow for the exceptional levels of inflation and supply chain challenges that are still being experienced. The complexity of the design and residual design co-ordination issues that have been addressed means that there was no scope in the contingencies and risk allowances to absorb the impact of market issues and inflation or the changes to programme dates.

7.9. As demonstrated above the client-side team have been successful in achieving value engineering and strive savings in extremely difficult circumstances and the investment in the client-side team has more than paid for itself. The budget increase allows for the retention of the client-side team including the detailed design architects. This will ensure the continued tight grip on the project and that any residual design issues can be addressed straight away without damaging the critical path.

7.10. The total forecast outturn position is a shortfall of £19.7m excluding the acceleration works, additional contingencies and risks.

7.11. In order to ensure that the project can complete to programme and to mitigate any other unforeseen discovery issues, a programme of acceleration works will be required which necessitate an increase in resources, including for example to facilitate some Saturday working and double shifts. A further sum of £4m is required to make allowance for any acceleration, contingency and risk costs. This brings the additional budget requirement to £25.2m.

7.12. It should be noted that the Council is currently engaged in negotiations with the management contractor to conclude the costs of the remaining works. However, in the current climate, total cost surety is only likely to be reached when all the packages are procured, and the project is nearing completion.

8.0. Fit Out of The Factory

8.1. The MIF business plan included £5m to cover the fit-out costs of the project. In 2020 this was increased to £6m to include the rigging, sound system and ICT network, using cost estimates at that time. The cost of these items has increased substantially and stands at £3.6m rather than at the £1m estimated. The final recommended schedule for all of the FFE required has now been completed and subject to considerable due diligence from a range of third-party specialists with a total cost requirement of £13.8m - a combined increase

of £7.8m. This includes the impact of inflation, £1m fitting and installation costs and £700k contingency and an allowance for inflation.

- 8.2. The fit out is essential to the opening of the building. The opportunity for MIF to fund the increased costs has been explored. Like all arts organisations MIF are facing significant cost pressures from pay and inflation and there is not scope within the business plan to fund the majority of the additional costs without threatening the viability of MIF and the Council have been asked to underwrite them.
- 8.3. The Council have undertaken a due diligence exercise on the FFE costs with support from an experienced Technical Director. Whilst there could be a couple of minor queries no issues that are material to the specification or scope have been identified. The grid and trussing are essential to the utilisation of the performance space and the scale of the building does require a lot of supporting winches and truss. The sound and lighting scope and room fit out scopes have also been confirmed as reasonable. Options to hire equipment on a show-by-show basis and hence reduce the fit-out costs would significantly impact the business plan and be difficult to make work in practice. Particularly with the planned use of the space for rehearsals and event creation and music events. Finally, it is worth noting that unlike an arts operator moving to a new building MIF are not moving from an existing venue and hence have less legacy kit to apply which again increases the cost.
- 8.4. With high inflation and longer than usual lead in periods for ordering equipment it is essential that orders can be placed promptly.

9.0. Funding of the capital and FFE cost pressures.

- 9.1. The recommendations in this report are to secure the completion of The Factory project and its longer-term success. The report outlines the significant direct, economic and social value benefits that are being secured. Under the contract and the conditions for the KickStart funding the Council are required to underwrite any further increases in construction costs.
- 9.2. Given the exceptional circumstances and that external factors have driven a significant proportion of the cost increases for the construction project and for the FFE, discussions have been held with government officials at the Factory Oversight Group about potential sources of funding.
- 9.3. The report outlines the extremely challenging circumstances that the project is being delivered in with unprecedented levels of inflation, workforce shortages and supply chain disruption. This has significantly impacted on the construction and fit out costs for the building. In order to ensure successful completion, the increased costs of £25.2m for the construction project will be funded from £10m from the Council's capital scheme inflation provision which is already included in the Capital Budget and £15.2m to be underwritten from borrowing.

- 9.4. The £7.8m increased costs of the fit out of Factory International includes £500k provision for further unforeseen costs and will also be underwritten from capital receipts as the venue will not be able to operate without this investment. It is proposed that the funding is provided to MIF to be drawn down as costs are incurred with £500k of the funding to be retained as a contingency to cover any further unforeseen costs.
- 9.5. The above can be contained from within the planned Council borrowing and will not increase revenue borrowing costs. However, there is an opportunity cost of using the funding for Factory International. Of particular importance is the long-term relationship with Factory International on the funding raising and naming rights income. The principles of a 70/30 split for naming rights income have been established (net of fulfilment costs) as set out below, which will both repay the MCC capital investment and also secure the longer-term financial stability of Factory International.
- 9.6. The additional regeneration of the St John's Quarter, of which Factory International is the anchor, will generate an additional £830k per annum in business rates in 2022/23 which is projected to increase. The Council will continue to press for an Enterprise Zone as part of the Greater Manchester Trailblazer /Investment Zone discussions to secure these benefits for the longer term and support the funding of Factory International.
- 9.7. This is a long-term proposition that will enable the Council to gain the benefits from its investment and ultimately the repayment of the capital expenditure.

10.0. Fundraising Strategy

- 10.1. The existing fundraising and commercial sponsorship target for Factory International is £24.17m.
- 10.2. Considerable work has been carried out to raise the profile of Factory International and develop opportunities to maximise the commercial funding potential. A detailed plan has been developed to secure external funds through a variety of strategic approaches, extending across the breadth of the fundraising landscape. For the fundraising target of £24.17m, MIF originally engaged commercial data scientists Nielsen to undertake a thorough evaluation of the fundraising targets for Factory who then modelled a five-year campaign from 2021 and has evaluated the available inventory to support projected income targets for commercial sponsorship and philanthropic support. Nielsen were confident the income projections are achievable.
- 10.3. The campaign is delivered via three **concurrent strategic principles**, which are fundamental to securing support at the highest levels:
1. Creating an integrated and coordinated approach to philanthropic fundraising and commercial naming rights, sponsorship and revenue fundraising;

2. Developing a research informed strategy to target the highest 6 figure and 7 figure philanthropic prospects who combine capacity with propensity for supporting the Arts or a major venue in the Northwest;
 3. Implementing an extensive ethics process that will ensure any associated sponsors fully align with the Council and Factory International's brand values. Factory Trust has been established to advance education and the arts for public benefit with a focus on activities taking place within and connected to Factory International. The Factory Trust leads on the fundraising activities which underpin the capital needs of Factory International and wider strategic efforts to ensure it is accessible to all. A fundraising team is in place and to date the team have successfully raised £2m, with a further £150k secured and a further £888k contribution to skills and training. It is understood that there are c20 prioritised prospects of which 11 are capable of securing a seven-figure fit. Phasing of philanthropic giving will be weighted in advance of opening but will also cascade over a number of years.
- 10.4. For the delivery of the commercial sponsorship and the headline venue naming rights partner, and secondary commercial sponsorships, a specialist agency has been appointed by MIF in consultation with the Council. Overall, there is a minimum £24.17m capital fundraising target.
 - 10.5. With regard to the fundraising agreements and the naming rights agreements for Factory International, MIF will act as the Council's agent. The key commercial deal driver is to ensure the brand is delivered well to ensure longevity of partnership and long-term revenue to support the capital funding and the financial sustainability of MIF. An in principal agreement has been reached that there will be a 70/30 split of revenue (net of fulfilment costs) until the capital costs and fit out costs are met. It is recognised that these will be long term relationships and it is important to get the right balance between protecting the Council's interests, ensuring the sponsors receive good value for money from the relationship and that the financial position of MIF is secured.
 - 10.6. Active discussions are happening with potential naming rights sponsors and a range of other commercial opportunities are being pursued.
 - 10.7. Through the above measures, MIF are confident they will secure the commercial and philanthropic opportunities necessary to support Factory International.

11.0. Operation of The Factory

- 11.1. Critical to the success of the venue will be the readiness of MIF to successfully operate the venue through a sustainable business plan that delivers the project's creative, social and cultural vision.
- 11.2. Factory International is acutely aware of the cost-of-living crisis affecting residents and cultural venues across the UK. This challenge places increased

importance on the organisation's strategy to make Factory International truly accessible for all audiences, and Factory International are working hard to develop programmes and initiatives that help to deliver this vision.

- 11.3. To avoid large unbudgeted costs in the future, Factory International will also commit to an annual sinking fund contribution of £253k in order to ensure the venue's critical items are kept in full working order throughout the duration of the lease. The Council will match this contribution. For MIF this will be held as a ringfenced reserve. For the Council this will be held as part of the AMP reserve.
- 11.4. All assumptions within this business plan are based on a timeline of practical completion in June 2023 and opening of the venue to audiences via a soft launch in late June 2023.
- 11.5. To support the opening of Factory International the agreements outlined in the section of the report below are being established.

12.0. Contractual Arrangements

- 12.1. To support the opening of Factory International the following key agreements are in place or will be in place (together with other ancillary arrangements) prior to its opening. These include:
 - *Collaboration Agreement between MIF and the Council.* This sets out the principles of collaboration in respect of the delivery and operation of Factory International.
 - *Agreement for lease and lease.* This sets out the detailed terms of MIFs occupation of Factory for a period of 30 years.
 - *Management Agreement.* The Council previously agreed to the payment of £1.5m per annum for a period of 10 years. The payment is in consideration of MIF operating and managing the venue and achieving various cultural KPIs
 - *Funding Agreement between ACE and MIF.* This provides for the payment of £9.8m per annum funding from Arts Council England and other government grants.
 - *Sponsorship Agreements between the identified Sponsor(s) and the Council* to govern the sponsorship arrangements and payment of fees in consideration of naming rights and other benefits, for example, tickets.
 - *Sponsorship Back to Back Agreements between the Council and MIF.* MIF is committed to supporting the Council to meet its obligations under all Sponsorship arrangements and individual funding targets to be achieved.
 - *Agency Agreement between the Council and MIF.* This will govern the relationship in respect of identifying a sponsor(s), fundraising arrangements, the initial target to be achieved including providing a net £24.17m of funding towards the project capital costs along with £7.8m for fit out costs and further contributions towards capital. This will be a long term relationship that will enable a significant proportion of the Council's capital to be repaid alongside ensuring financial sustainability for MIF.

12.2. Finally, The Factory Trust has been established with a focus on activities taking place within and connected to Factory International and it will support fundraising activities connected to Factory International and will lead on such fundraising activities which underpin the capital needs of Factory International and wider strategic efforts to ensure the venue is accessible to all.

13.0. Manchester International Festival Update

13.1. Factory International will provide a permanent home for Manchester International Festival. 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.

13.2. Factory International will bring jobs, skills, training and creative opportunities as a major employer for the area. Approximately 142 new permanent jobs have already been created for Factory International since 2018. There will be over 150 permanent roles at Factory International, with more than 300 additional members working across Front of House, Technical, Production and Ticketing teams. Factory International will also continue to provide significant employment opportunities for freelancers - engaging with approximately 2,000 freelancers when running the biennial festival and year-round.

14.0. Factory International Programme

14.1. Factory International will be programmed and operated by the team behind the world-famous Manchester International Festival (MIF), commissioning and presenting a year-round programme of original creative work, music and special events by leading artists from across the world. MIF will continue to take place every two years, bringing new work to venues and found spaces across Greater Manchester, working with the region's cultural organisations.

14.2. The new venue will offer audiences the opportunity to enjoy the broadest range of art forms and cultural experiences year-round and in a new world-class facility - including dance, theatre, music, visual arts, spoken word, popular culture and innovative contemporary work incorporating multiple media and technologies. It will also add to the city's thriving music scene, presenting over 80 gigs of all genres year-round.

14.3. The official opening production will be *Free Your Mind*, a large-scale immersive performance based on The Matrix films presented across the building's ultra-flexible spaces. This dramatic retelling through dance, music and visual effects will bring together the visceral movement of choreographer **Kenrick 'H2O' Sandy MBE** with a powerful score from renowned composer **Michael 'Mikey J' Asante MBE** (co-founders and artistic directors of the Olivier award-winning Boy Blue), world-leading designer **Es Devlin's** immense stage sculptures and the work of the acclaimed writer **Sabrina Mahfouz** – all directed by **Danny Boyle**. Using spectacular visual effects, a cast of professional dancers and hundreds of Manchester participants will recreate

some of the film's most iconic scenes, provoking visions of an alternative future. (18 October -5 November 2023)

- 14.4. Before the official opening, the new venue will form the centerpiece of the 2023 Manchester International Festival (which will return across the city from 29 June to 16 July) with a blockbuster art show in its main warehouse space. *You, Me and the Balloons* is a major exhibition celebrating three decades of **Yayoi Kusama's** spectacular inflatable sculptures, shown together for the first time. Created especially for Factory International, this will be the Japanese artist's largest ever immersive environment, featuring works that are over ten metres tall - including giant dolls, spectacular tendrilled landscapes and a vast constellation of polka-dot spheres. (29 June – 29 August 2023).
- 14.5. Following *Free Your Mind*, a wide range of music, circus, art and fashion will fill the building and its outdoor spaces during *The Welcome*, a nine-day programme developed by Greater Manchester residents. Building on Manchester International Festival's strong history of working with local people to choose and programme artists and events, *The Community* decision making will be at the heart of the organisation from the outset with *The Welcome*, a series of free events entirely chosen and curated by a group of Greater Manchester residents aged 17 to 70, which builds on MIF's substantial history of community co-curation. A mix of music, circus, public art and fashion will take over the building's spaces, introducing audiences to different parts of the building and providing a space for people to meet, experiment and play. (11-19 November 2023).
- 14.6. Reflecting Factory International's commitment to ensuring access to the widest possible audiences, 5000 tickets will be available for *Free Your Mind* at £10 or less as part of an affordable pricing strategy that will see discounted tickets for Manchester communities across its year-round programme.

15.0. Artist Development

- 15.1. Factory International will be a training ground for the next generation of creators from Manchester, the North of England and around the world. Building on MIF's track record of commissioning artists to be bold, take risks and make new work, Factory International will support hundreds of emerging and mid-career artists each year. The focus will be on creating opportunities for artists from the North of England, particularly those most underrepresented in the sector, to develop work at scale, to be interdisciplinary and support the development of new international networks to export talent from the region.
- 15.2. New programmes of work for artists from Greater Manchester and the North include a new annual Factory International Fellowship (building on the Festival's Creative Fellowship) which will offer six artists from the north within the first ten years of their career the opportunity to shadow the creation of major new work at Factory International and the festival, providing bursaries and dedicated artistic support. Artist Takeover will be a new Factory International programme dedicated to showcasing new and exciting artists from Greater Manchester and the North of England.

16.0. Creative Engagement

- 16.1. Inspiring local communities is central to the vision for Factory International, and a creative engagement strategy will be delivered that will focus on the following workstreams;
1. **Community building** - pioneering new ways of connecting, building trust and creating life-changing opportunities with communities across Manchester and Greater Manchester.
 2. **World Class participatory engagement** - residents across Manchester will be offered the opportunity to work alongside some of the world's leading artists in flagship commissions for both the Festival and The Factory.
 3. **Agency** - Factory International will be opened with *The Factory Welcome*, created with, by and for the people of Manchester
 4. **Artist Development** - We will grow our links, opportunity and impact for artists from Greater Manchester and the North.
 5. **Children and Young People Cultural Enrichment** - relationships with the education and youth sectors will continue to be developed establishing new year-round activity with schools, colleges, the city's three universities and youth support groups
 6. **Volunteering** - MIF's commitment to a successful and rewarding volunteer programme will be embraced – scoping out in 2022/23 year-round opportunities at The Factory
- 16.2. With regards to early years education, Factory International has already begun delivering creative education programmes to hundreds of young people aged 9-14 across Greater Manchester with a focus around social and emotional learning, teamwork, leadership and resilience. These creative programmes will be integrated into the curriculum for future year groups with the learnings and resources made available to schools and youth centres.
- 16.3. Factory International is a member of MADE, Manchester's Cultural Education Partnership, a collaboration between culture and education organisations from across Manchester, including art galleries, museums, theatres, schools, colleges, which helps deliver a creative curriculum, enhancing learning and developing skills in creativity (engaging over 5000 young people in 2022).

17.0. Environmental sustainability

- 17.1. Factory International will be on a committed path towards zero-carbon activity by 2025, using operational data from 2023-2024 as a benchmark. Factory International will operate a 'Zero Waste to Landfill' policy, and work towards a circular economy approach to materials – seeking to reuse wherever possible.
- 17.2. In 2010, MIF helped to set up the Manchester Arts Sustainability Team (MAST), a citywide alliance to tackle sustainability issues in the cultural sector. The network, which Factory International helps facilitate, has expanded across

the region as GMAST which provides leadership and guidance to drive collective action to support our region becoming carbon neutral by 2038.