

Manchester City Council Report for Information

Report to: Resources and Governance Scrutiny Committee – 20 July 2023
Executive – 26 July 2023

Subject: Our Town Hall Project – Progress Update

Report of: Deputy Chief Executive and City Treasurer

Summary

Previous reports to the Executive and the 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 October 2022.

Recommendations

- (1) The Resources and Governance Scrutiny Committee is recommended to:
 - note the progress made, and
 - endorse the recommendation(s) to the Executive
 - (2) The Executive is requested to recommend to the Council a capital budget increase of £29.0m for the project, funded by borrowing.
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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.

Financial Consequences – Revenue

The capital financing costs associated with the increased capital budget will be funded from existing capital financing budgets.

Financial Consequences – Capital

The proposals in this report will increase the Council's capital budget by £29.0m, and funding this through borrowing will increase the Council's capital financing requirement by the same amount.

Contact Officers:

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

Name: Paul Candellent
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
25. Report to Resources and Governance Scrutiny Committee – 11 October 2022

1.0 Introduction and background

1.1 The report to Resources and Governance Scrutiny Committee in October 2022 reported that:

- Excellent progress had been made against the project's Social Value objectives and had already exceeded many of its Social Value KPI Objectives.
- Whilst the project was forecasting to budget on both Capital and Revenue, as the result of significant challenges the risks had increased significantly and the project would be likely to overrun budget by at least £17m.
- The project was 50% through the construction works and it was clear that the project completion date would be delayed as a result of a number of significant challenges including 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 which had impacted the ability to procure work packages. The impact of these challenges was still under review.
- Albert Square had been opened temporarily to the public with a very positive response.
- Package procurement had delivered cost surety (by value of works packages procured) of 90%, with 20 works packages still to procure, at a budget value of £28m.

1.2 The current position is that:

- Excellent progress continues to be made with Social Value, with 57% of the project spend within Manchester (baseline target 40%) and 47% of the workforce being Manchester residents (baseline target 30%) and a social value ROI of £14.6m.
- The work to develop the detail of how the building will run is picking up pace, including revenue planning and operational strategies.
- Package procurement has advanced to 96% cost surety (by value of works packages procured) by end April 2023. The works packages still to procure are budgeted at £17m.
- The project is 60% through the existing programme for the construction works, and the quality of the works continues to exceed expectations.
- The exceptional safety performance of the project has been maintained, with the number of person hours without critical injury or incident now at 2.25 million hours to end April 2023.
- The quality of work undertaken and the project's approach to the planning and execution of the works has been the subject of an extremely complimentary note of thanks from the Palace of Westminster Restoration & Renewal (R&R) team following an engagement visit to the project in March 2023. To quote from the note of thanks:

Palace of Westminster: *'...the project was amazing and the OTH team should be proud, as you are creating a great legacy for the people of Manchester. ...we were all leaving with valuable learning points and finally, the opportunity has been motivational. The R&R programme is lengthy,*

with site work being years away. It was therefore highly beneficial for us to visit a vision of our future, an experience we would share with colleagues.

As you know, such was our interest in OTH, we were determined to overcome two sets of transport strikes to visit. I am aware the interest is shared at the highest governance level of the R&R programme, such that I may be in contact about a very high levelfurther visit to OTH.'

A visit of the Oversight Board for the R&R project took place on 30 June 2023.

- The contract date for completion of the construction works remains 25 June 2024. However, as a result of the ongoing challenges to the programme, the completion date will need to be updated to realistically reflect the latest position. In the meantime, it is now clear that the delays caused by Covid-19 and discovery will be significant and without any mitigation could add two years of delay.
- The cost of delay and hyper-inflation on the project is set out later in the report and the impact is significant.
- There has been significant further discovery since Resource and Governance Scrutiny Committee in October. The risks of further discovery will reduce after January 2024, when the roof works will be complete. For that reason, it is not proposed to fix a completion date until these works are completed. The intention is to seek additional funding for the period until December 2023, at which point the position will be further reviewed.

2.0 Update on the Operating Model

- 2.1 A separate workstream is underway to develop the operating model for the building. The Deputy City Treasurer is leading the work to develop the business plan that sets out the costs to operate the town hall and civic quarter alongside the commercial opportunities. This work will be aligned with the Council's budget process.
- 2.2 Progress has been made with the design of the Visitor Experience (VE), following extensive consultation with Manchester residents and community groups in order that their stories and images can create a new narrative for the building. The project is addressing under-representation in the building's existing story and collections, including women and people from diverse ethnic backgrounds. The procurement of the VE fit out will commence in Summer 2023.

3.0 Social Value Update

- 3.1 The future of cities like Manchester is inextricably tied to being a great place to live. Those cities with a high quality of life will benefit the people already living in them and will attract greater numbers of talented people to be part of their future, which in turn attracts investment and jobs.

3.2 The project brief for OTH recognized the part that could be played by the Town Hall and Albert Square in improving the quality of the City's Civic Quarter: they had the potential to be the most important elements in terms of heritage and symbolic significance. By restoring and celebrating this iconic heritage asset, and significantly improving the quality of the public square at the heart of the city, this project will contribute to the quality of life for all. It will drive footfall into the city centre which in turn will spill out into wider economic benefit for the people and businesses of Manchester.

3.3 Achieving economic and social value for Manchester remains a core project objective and excellent progress has been made. The project is currently forecast to deliver a Social Value ROI of £14.61m, which equates to 4.74% of the overall capital budget. This compares to 4.25% in October 2022.

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

- Local Spend – 57.25% of the project spend has been in Manchester against a baseline target of 40%. This compares to 56.75% in October 2022.
- Local Labour – 47% of the current project workforce is made up of Manchester residents against a baseline target of 30%. This compares to 45% in October 2022.
- New Jobs Created – 254 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. This compares to 237 jobs in October 2022.
- New Apprenticeships – of a base target of 100, 93 apprenticeships have been delivered at level 2 and 3. Of these 86 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. This compares to 75 level 2 and 3 apprentices in October 2022.
- New Higher-Level Apprenticeships – to date 54 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. This compares to 48 higher level apprenticeships in October 2022.
- School Engagement – against a project target of 50, 201 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. This compares to 156 higher level apprenticeships in October 2022.
- Work Experience – against a project target of 100, 304 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. This compares to 110 placements in October 2022.

- Higher Education Engagement – 40 research projects have to date been completed (100% of the project base target) including the annual Manchester School of Architecture Events programme. This compares to 35 research projects in October 2022.
- Volunteering – against a project target of 10,000 hours, 5,740 hours of voluntary time has been provided to support Manchester. This includes the continued support of 422 Manchester, as well as the support of neighbourhood led community projects including Greek Street Gardens in Ardwick. This compares to 5,740 volunteering hours in October 2022.

3.5 All contractors working on the project continue to pay a minimum of the Real Living Wage and avoid offering zero-hour contracts. The Council's Ethical Procurement Policy is embedded into the contract with the Management Contractor and is appropriately reflected throughout the project supply chain.

3.6 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 opportunities that are representative of our Manchester communities. Ways in which this is being done include:

- Apprenticeship incentivisation – Employers continue to take advantage of grants and financial incentives linked to apprenticeships, including government grants and additional industry incentives provided by the Construction Industry Training Board.
- Work Placements – Lendlease and the Design Team consultants continue to offer regular work experience to school aged residents, with a particular focus on students who would otherwise be at risk of having no placement. Employers continue to collaborate with school careers leads as well as engaging with BW3 (Business Working with Wythenshawe) to identify appropriate students to support. To date 304 Work Experience Placements have been provided for residents and school and college students (including T-Level placements). Ways in which this has been achieved include:
 - Virtual Work Experience - during the pandemic, as a result of the many restrictions, the project adapted by delivering virtual work experience sessions to school aged students. Each working group member (employer) contributed to the sessions by hosting the students virtually, providing them with real-world work-related tasks and insight into their area of professionalism and expertise.
 - Work Placements – OTH employers engaged with North Ridge which is a special educational needs & disability school to deliver tailored work experience activities to students. This provided SEND students with the opportunity to experience industry specific challenges through STEM (science, technology, engineering and mathematics) activities, as well as engaging in 'work readiness' activities that were fully aligned to the five 'Skills for Life.'
 - Level 3 Architectural, Construction, Engineering (ACE) Scholarship placements with the Manchester College, creating a pathway to higher level apprenticeships on the project.

- STEM Podcasts Channel – OTH in collaboration with The Manchester STEM Hub continues to deliver podcast episodes that provide residents with insight into industry skills and routes into careers within heritage trades.
- 3.7 Additional social value and local benefit will continue to be delivered through works remaining to be procured, as well as through the continued work with all employers across the project.
- 3.8 See appendix 1 to this paper for case studies demonstrating some of the ways our social value legacy is making a difference in our city.
- 4.0 Update on the challenges which have emerged since Notice to Proceed (NTP)**
- 4.1 Our Town Hall is the largest heritage project on a Grade 1 listed building in living memory and will be surpassed in scale and complexity only by the Palace of Westminster. Lengthy pre-construction periods are typical of heritage projects to allow for the detailed investigative survey work necessary to understand the nature of the original building construction and the condition of the building. This, and the specialist nature of the many artisan trades for which there is no precedent cost data on which to base the budget for those trades, has made it difficult to accurately predict costs and inflation. This is particularly the case since the project has spanned more than one economic cycle.
- 4.2 At Resource and Governance Scrutiny Committee in October 2022, it was noted that whilst still reporting to budget and programme, the OTH project had faced an extremely challenging 18-month period with intense pressures on cost and programme. These challenges 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). When added to the project-specific challenges of design complexity, market appetite and discovery, these contributed to a situation in which there had not been a single month since Notice to Proceed (NTP) in which the project had been in ‘steady state.’
- 4.3 The project team continues to work hard to deliver within budget and in a stable economic environment it is highly likely that the project could have been delivered within budget. However, the project will be delayed due to the combination of the external factors and the extent of discovery uncovered. The biggest risk to the budget is now the cost of delay. For every month of delay, the project incurs additional costs of circa £1m to £1.5m, depending on the point in the programme at which the delay occurs.
- 4.4 At the same time, the hyper-inflation experienced by the project in the post-Pandemic period has been significant and remains a risk to all packages yet to be procured, and to those packages that are subject to changes arising from discovery.

- 4.5 Project procurement is 95% complete as at the end of April 2023, of which 89% has progressed to contract, with 6% in the process of final review or contract execution. This 6% in progress includes £5m of heritage joinery, £3m of new joinery and £1.2m of security screen installations.
- 4.6 The residual 5% of procurement is made up of 13 packages at an NTP value of £17m. There are two packages that make up 47% of the remaining procurement risk, specialist decoration, and decorations. These high value packages are all planned to be procured by end July 2023. The remainder of procurement will be bought progressively to the end of 2023.
- 4.7 There is an improving level of confidence that the residual procurement risk (value still to buy) is less than £10m for the period beyond July 2023.
- 4.8 The main known risks to the programme are the impact of discovery, closing out of the remaining design works and the completion of work package procurement. In order to ensure that design works can be completed there are now 25 Full Time Equivalent design personnel engaged by the architect on the project (March 23), an increase of 16 on the number that the architect originally planned for at construction stage to manage the design risks.
- 4.9 Further discovery will remain a risk until all unexposed workfaces are opened up for inspection. The delays that have been experienced with the works at roof level over the last 6 months (chimneys, guttering, rainwater pipes, asbestos, high level stone validation, rotten timber) are likely to remain a risk until the last section of roof has been closed up. Limitations on the sourcing of cast iron is a real challenge for the guttering and rainwater systems. These works are planned to have been fully exposed by November 2023. Similarly, the last of the Builder's Works penetrations and certification of fire protected elements, will remain a risk until December 2023.
- 4.10 It is therefore difficult to give any degree of confidence on the final cost and programme dates until these higher risk works are completed. Given the risks outlined above, it is proposed to split the request for additional funding into two parts: part one will be additional funding sufficient to cover all financial commitments to the end of 2023. This funding request is set out in this report. Part two will be in January 2024, by which time the project will have much better surety on the risks.

5.0 Current Financial Position

- 5.1 At NTP the total construction budget, including fees and client-side costs was £305.17m. The budget contained £49.2m of project contingencies, split between construction (£21.2m), gap (£8.7m), inflation (£15.1m) and MCC Contingency (£4.1m).
- 5.2 As outlined in section 4 above the pressures on the project, and hence the calls against contingencies, have been significant. The main issues are outlined below:

- 5.2.1 Covid-19 and nesting falcons have added almost £5m to the project by July 2023 due to the resultant impact on productivity. There are also hidden costs through inflated tender prices and market appetite which will have further elevated the true cost of Covid-19. The project has secured £668k from the Covid-19 Recovery Fund which will be added to the project budget as part of the approvals in this report.
- 5.2.2 The impact of the hardening of the market, driven by the impact of Covid-19 and Brexit, rising costs and supply chain challenges has been clearly seen in the number of Works Package Contractors that declined to tender, or excessively high tender returns. It has been difficult to find contractors with both the heritage skills and the capacity to take on a project of this scale. Despite rigorous procurement and cost control processes, to the end of 2022, the value of procured Works Packages is running £22m in excess of budget provision.
- 5.2.3 The historic nature of the building means that significant levels of discovery on site continue to interrupt the flow of routine design release as staff are diverted to address the changes to design required due to the discovery issues. Examples include the installation of the lifts within parts of the building which proved to be out of true (or wonky), huge variations in the design of ducting, voids and flues and significant issues with the stonework, timbers and cast-iron works in the roof. It is estimated the impact is in the region of £7m.
- 5.2.4 There have been 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. To March 2023, this has accounted for an additional £3.2m of cost.
- 5.2.5 The impact of inflation has been significant. At NTP the allowance for inflation was circa £15m. It was reported to Resource and Governance Scrutiny Committee in October 2022 that in the period between NTP and June 2022, material prices had increased by 44.1%. The Quantity Surveyor has assessed the impact of inflation on all categories of change across the project from NTP to July 2025 at £36m.
- 5.3 The project team has worked hard to deliver within budget. The project has been extensively seeking opportunities to reduce pressure on cost, including value engineering, and has delivered £10.241m to date, but at this stage in the project the scope for value engineering has now ended. In addition, the percentage of changes that are due to client scope changes is only 2.74% which is remarkable for a project of this duration and nature. It is highly likely that in a stable economic environment, the project would have delivered within budget. However, for the reasons described above, the project will require additional funding.
- 5.4 The current position is that the NTP contingency allowances of £13m are forecast to be committed by end August 2023, although committed spend

will still be within the NTP budget envelope. Additional funding of £29m is required to maintain progress with the construction works to end December 2023 (part-one funding). This report is therefore seeking approval to increase the budget by that amount to complete this phase of work.

- 5.5 By this time the extent of the main discovery risks will be known and there will be much greater certainty about cost and timescales. The budget risks at this point will largely be influenced by the programme and the planned completion dates for the work. A request for further funding will be made in January 2024 (part-two funding).

6.0 Current programme position

- 6.1 Projecting the impact of Covid-19 and discovery with no mitigation would add 24 months to the programme. However, the team is working hard to mitigate this delay and deliver the project as early as is practical. To that end, Lendlease led the wider professional team through a process of risk assessment which comprised challenging of project activity durations and a review of levels of uncertainty.
- 6.2 The remaining programme risks are largely associated with discovery (particularly in the roof), ensuring fire compliance, MEP services distribution, works contractor performance and stone validation. There is a potential these could further impact on design co-ordination as well as cost and programme. Risks are tracked and reported at monthly progress meetings. These risks are largely associated with the current peak activity period of construction through to December 2023, after which there will be greater surety of cost and programme. For these reasons it is not proposed to confirm the programme end date until January 2024 when the position will be much clearer.

7.0 Summary and Next Steps

- 7.1 It is clear that, were it not for the extraordinary and unpredictable challenges outlined in this report, it is likely that the contingency budgets would have been sufficient to fund the majority of discovery and associated delays.
- 7.2 At this stage, the project is seeking additional funding of £29m to fund the works until the end of December. There is a risk that completion will be significantly delayed and post December the biggest remaining cost pressure on the project is linked to programme delay. The position will be much clearer in January 2024, and it is therefore proposed to review the position on target dates for completion and cost and further budget approvals will also be sought at that stage.