

**Manchester City Council
Report for Information**

Report to: Resources and Governance Scrutiny Committee – 18 June 2019

Subject: Update on Major Capital Projects

Report of: The City Treasurer (Deputy Chief Executive)
The Strategic Director (Development)
The Head of City Centre Growth & Regeneration Team
The Director of Capital Programmes
The Head of Work and Skills

Summary

This report provides an update to the Committee on the progress of four capital projects against the agreed costs, specifically The Factory, Manchester College, Central Retail Park and Life Sciences Development.

Recommendations

The Committee is asked to note this report.

Wards Affected: All

Alignment to the Our Manchester Strategy Outcomes (if applicable):

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	The capital projects within this report contribute to various areas of the economy including investment in major regeneration activities, environmental and cultural services.
A highly skilled city: world class and home grown talent sustaining the city's economic success	Capital projects provide opportunities for the construction industry to bid for schemes that could provide employment opportunities at least for the duration of contracts.
A progressive and equitable city: making a positive contribution by unlocking the potential of our communities	The capital projects within this report include investment in major regeneration activities, the environment, and cultural services, all of which contribute towards the strategy.
A liveable and low carbon city: a destination of choice to live, visit, work	Investment in all areas of the capital programme contributes towards this community strategy, notably the investment in environmental and major regeneration programmes.

A connected city: world class infrastructure and connectivity to drive growth	Through investment in ICT and the City's infrastructure of road networks and other travel routes.
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Background documents (available for public inspection): None

1.0 Introduction

1.1 The City Council's capital programme is wide and varied in terms of the types of projects delivered and the manner of delivery. Elsewhere on the agenda is an update on the wider programme following financial year end for 2018/19, and the Committee has asked for more specific updates on certain major projects within the capital budget. It is recognised that these projects are at varying stages of development and delivery and this report provides an update on the progress against planned funding for four projects, namely:

- The Factory;
- Manchester College;
- Central Retail Park; and
- Life Sciences Development.

1.2 The content is intended to support a discussion on each of the projects outlined and relevant officers will be in attendance.

2.0 Background

2.1 All capital projects must go through a governance process before they are granted approval to spend. The process is designed around a business case which should capture the strategic fit and economic value of a project alongside an evidence-based forecast of costs, benefits, and delivery methods which should include a timescale. The business case should also indicate the potential risks facing the project, including risks to delivery. It is on this basis that a scheme is approved and included within the Council's capital budget.

2.2 For most projects approval is given whilst the scheme is in design, and therefore costs can change as, for example, the design develops, the scope of a scheme changes, site conditions vary from those assumed, or in response to design challenges.

2.3 This means that capital budgets are regularly reviewed to ensure that the costs of schemes remain within approved limits, that the profile of spend remains valid, and that the assumed funding is available. The profile of spending and funding are then built into the Council's capital financing model.

3.0 The Factory

3.1 The Factory project will create a new type of venue that can commission, produce and present a wide range of opera, dance, theatre, visual arts and popular culture for a much wider audience than any other traditional venue. The Factory scheme has clear cultural, economic, education and social benefits for the city and wider region, and will support growth, creating new jobs and opportunities in the City.

3.2 The original budget was established at Executive in December 2015, with the main funding being approved in July 2016. In January 2017, a £4.5m budget

increase was approved for public realm and an additional increase of £1.1m for the costs of the orchestra pit and £1.6m for elevational enhancements.

- 3.3 In November 2018, a capital budget increase of £19.0m was approved, funded by capital receipts, as well as a budget virement of £1.3m from Strategic Acquisitions to fund the lease from the Science and Industry Museum and the freehold interests from Manchester Quays Limited, and £4.3m from the Sustaining Key Initiatives budget to fund the loan to Manchester Quays Riverside Limited.
- 3.4 In total, the project currently has capital expenditure approval to spend of £138.6m, of which £10.6m is Development Grant funding, and £67.5m is grant funding from the Arts Council England. The Capital Programme Outturn 2018/19 report also requests a £0.8m transfer from the non-recurring revenue receipt to Capital.
- 3.5 The current status of the project is that main works commenced in January 2019, following planning and listed building consents in July 2018 and formal Notice to Proceed under the management contract, signed in December 2018.
- 3.6 The project is currently in week 21 of construction against a 132-week programme, with all foundation works complete and the steel frame for the towers behind the warehouse being assembled on site, together with the precast concrete lift shafts to service the towers now erected. These works together with the truck lift walls to accommodate the change in levels from street level to the warehouse show good progress on site being made. Committed project spend is £41.1m to date and there is a forecast spend of £44.2m in 2019/20.
- 3.7 A number of key work packages have been awarded to date in line with the agreed programme. Further works packages will continue to be procured through 2019/20.

4.0 Manchester College

- 4.1 The City Council is providing loan finance to the LTE Group/ Manchester College to support the next stage of the organisation's expansion, specifically the implementation of its estates strategy. It was approved in principle by Executive in July 2018, and awarded full approval in December 2018, when it was added to the Capital Programme. The budget added was £27.6m, to be funded from prudential borrowing.
- 4.2 Legal agreements are now in place and £17.6m was advanced to the College in 2018/19, with a further £10.0m intended to be drawn down in 2019-20.
- 4.3 The college has been progressing a number of workstreams to promote the project. In particular, they have now appointed the principal professional team to support the City Centre development. Designs for the City Centre Campus are currently progressing towards RIBA Stage 3 and the College team is preparing to submit a planning application in late June, early July 2019, with

an anticipated start on site for January 2020. The proposals for the refurbishment of and development at the Openshaw Campus are at RIBA Stage 2 with work ongoing to ensure that the design is within budget and meets user needs. As Openshaw is an existing campus, the demolition of one of the blocks will take place over the summer to minimise disruption to students. The start on site for Openshaw is also anticipated to be January 2020.

- 4.4 Discussions with the local planning authority have been had on both schemes to aid the design development process.
- 4.5 In respect of the funding package to support the development, initial discussions with potential debt providers have been positive and cost of debt is in line with the financial model assumptions. Formal offers of funding from lenders are expected imminently and the Heads of Terms from a preferred lender is a trigger for the City Council's loan drawdown. At this stage, we anticipate that the College will provide the information required to draw down the City Council's loan in July.

5.0 Central Retail Park

- 5.1 The programme of investment which forms the Eastern Gateway is for land acquisition on the eastern side of the City, to bring forward regeneration schemes which are either Council led or developed with a commercial partner. The total budget added to the Capital Programme was £47.6m in January 2017, to be funded from prudential borrowing.
- 5.2 In September 2017 Executive approved the acquisition of Central Retail Park on Great Ancoats Street as part of the Eastern Gateway programme, and to transfer £2.0m of the capital budget to revenue to cover the holding costs for the site.
- 5.3 Central Retail Park was acquired in 2018. Following a competitive tender process, the site was handed over to demolition contractors in January 2019. The demolition was recently completed in May 2019 with the site handed back to the Council shortly after. The cost of the demolition works was in line with budget expectations notwithstanding the presence of CFCs within certain of the cladding materials which added to the cost of disposing of these panels.
- 5.4 With the demolition complete physical activity on the site this year will be concentrated on undertaking focussed site investigation works to support the emerging masterplan for future development proposals. To facilitate this a budget of c.£150k has been rolled forward into 2019/20. The remainder of the capital budget relating to the remediation of the site prior to the development works commencing has been moved forward to 2020/21.
- 5.5 A masterplan for the future development of the site has been instigated with masterplanning architects recently appointed. A report outlining the outcomes of the masterplanning work, along with the commercial plan and delivery proposals will be brought to a meeting of the Executive in the Autumn.

- 5.6 In the interim parts of the site will be brought forward for temporary uses to support development activity in the Eastern Gateway, with potential site compounds for those construction companies delivering developments within Ancoats and New Islington, along with the primary compound associated with the Gt Ancoats Street highway improvement scheme. Meanwhile uses are being considered, however as access to the site will be affected by the Great Ancoats Street highway scheme, these discussions are ongoing alongside the project teams delivering those works.
- 5.7 In respect of governance an internal officer Eastern Gateway Board has recently been established to have full oversight on the various development, infrastructure and place-making projects in this locality. This is chaired by the Strategic Director, Development and has representation from a number of services with the Directorate along with capital programmes, legal, finance, policy and highways teams.

6.0 Life Sciences Development

- 6.1 The BioMedical programme is an investment to support research in the life science sub-sectors of Health and Medical Technologies - encompassing precision medicine, digital health, and diagnostics. The programme provides a strong platform for the development of an innovation cluster within the region's growing knowledge economy.
- 6.2 The project aims to make a substantive contribution to: improving health outcomes for Manchester residents; developing personalised precision medicine for residents and patients; providing a range of high quality employment opportunities; and addressing the intents of the Industrial Strategy and Life Science.
- 6.3 A £21.3m budget was approved by Executive in July 2018 and subsequently added to the Capital Programme, split as per the following:
- £4.0m to buy a 19.9% equity stake in the business, funded through borrowing;
 - £7.3m to provide a loan facility to the new vehicle to support the contract development and financial requirements, funded through borrowing and;
 - £10.0m grant funding to be provided to the new vehicle should BEIS not provide grant funding for industrial research and development, also funded by borrowing.
- 6.4 The Executive also approved that Greater Manchester Life Sciences Enterprise Zone (EZ) business rate proceeds be used to meet the borrowing including MRP and interest for the above loan up to the maximum cost of £23.4m. When the loan is repaid a sum equivalent to the business rates will be return to the EZ.
- 6.5 In 2018/19, the £4.0m equity stake was purchased, and £0.5m of the loan facility was passported to the new vehicle. The current forecasts show spend of £8.0m in 2019/20, £6.1m in 2020/21 and £2.7m in 2021/22.

7.0 Conclusion

- 7.1 The projects included within this report are within the approved Capital Programme and are at a relatively early stage of delivery. Each has a governance structure in place which oversees the progress of the project against agreed plans including budget, outcomes and timescale whilst addressing risk.
- 7.2 These projects form a significant investment in the City by the Council and progress will be reported as part of the regular quarterly capital monitoring reports to Executive.

8.0 Recommendations

- 8.1 The recommendations appear at the front of this report.