

**Manchester City Council
Addendum for Information**

Report to: Executive – 3 July 2020

Subject: Capital Programme Update - Addendum to Capital Programme Update Report - Our Town Hall Project – Deferred Notice to Proceed into Construction

Report of: Deputy Chief Executive and City Treasurer

Summary

As previously reported a number of the Council's major capital projects have been either paused or adversely affected by the impact of Covid-19 and the high levels of construction inflation seen within Manchester. This has manifested itself in the need to pause projects alongside increased costs and programme delays. This report outlines the position for the Our Town Hall Project and the factors which have changed since February 2020 when the key decision was made, most noticeably the delay in completion date from December 2023 to May 2024.

It also sets out the intention to instruct Notice to Proceed. Whilst work has continued on site for the Our Town Hall project the move to Notice to Proceed and the formal instruction for the construction phase to progress.

Recommendations

Executive is recommended to note:

1. The project cost plan (for Construction) has been agreed with the Management Contractor in the terms described in this report.
 2. Subject to approval of the Deputy Chief Executive and City Treasurer to these terms, a Notice to Proceed will be issued to Lendlease and construction will commence on site in July 2020.
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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, and has stretching Social Value KPIs as a key deliverable.
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 meeting 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.

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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.

- Report to Executive Committee – Town Hall Complex Strategy – 23 July 2008
- Report to Executive Committee – Town Hall Complex Programme – Transforming Customer Experience – 11 February 2009
- Report to Executive Committee – Town Hall and Albert Square Maintenance Programme – 1 October 2014
- Report to Executive Committee – The Refurbishment of Manchester Town Hall and Albert Square: ‘Our Town Hall’ – 27 July 2016
- Report to Executive Committee – The Refurbishment of Manchester Town Hall and Albert Square: ‘Our Town Hall’ – 16 November 2016
- Report to Executive Committee – Capital Programme (Budget 2017/18 – 2021/22) – 11 January 2017 and 8 February 2017
- Report to Executive Committee – Manchester Town Hall and Albert Square: ‘Our Town Hall’ – 8 March 2017
- Report to Resources and Governance Scrutiny Committee – Our Town Hall Social Value and Communications – 22 June 2017
- Report to Resources and Governance Scrutiny Committee – ‘Our Town Hall’ – 7 September 2017
- Report to Executive Committee – Manchester Town Hall and Albert Square: ‘Our Town Hall’ – 13 September 2017
- Report to Resources and Governance Scrutiny Committee – Manchester Town Hall and Albert Square ‘Our Town Hall’ – 9 November 2017
- Report to Resources and Governance Scrutiny Committee - Manchester Town Hall and Albert Square ‘Our Town Hall’ – 1 February 2018
- Report to Resources and Governance Scrutiny Committee Ethical Procurement Sub Group – 22 February 2018
- Report to Resources and Governance Scrutiny Committee – Our Town Hall Project – Budget Position Update – 24 May 2018
- Report to Ethical Procurement and Contract Monitoring Sub Group - 7 June 2018
- Report to Council – 11 July 2018 – ‘Our Town Hall update’

- Report to Resources and Governance Scrutiny Committee- 06 September 2018 - 'Management Contractor Procurement.'
- Report to Report to Resources and Governance Scrutiny Committee – 06 December 2018 – 'Letting of the Management Contract'
- Report to Executive Committee – 12 December 2018 – 'Management Contractor Appointment'
- Report to Ethical Procurement and Contract Monitoring Sub Group – 31 July 2019
- Report to Ethical Procurement and Contract Monitoring Sub Group – 04 October 2019
- Report to Resources and Governance Scrutiny Committee - 24 February 2020

1. Introduction and Background

- 1.1 As previously reported a number of the Council's major capital projects have been either paused or adversely affected by the impact of Covid-19 and the high levels of construction inflation seen within Manchester. This has manifested itself in the need to pause projects alongside increased costs and programme delays. Whilst work has continued on site for the Our Town Hall project the move to Notice to Proceed and the formal instruction for the construction phase was further delayed.
- 1.2 The Deputy Chief Executive and City Treasurer, after consultation with the Town Hall Strategic Board chaired by the Deputy Leader of the Council, will now be progressing the Town Hall Project Notice to Proceed (NTP) to the Management Contractor. This report sets out the factors which have changed since February 2020 when the key decision was made, most noticeably the delay in completion date from December 2023 to May 2024.

2. The February 2020 Position

- 2.1 The recommendations and the decision to instruct NTP made in February 2020 were summarised in the report to Parts A and B reports to Resource and Governance Scrutiny Committee and Executive in February 2020.
- 2.2 The decision was based on the advice on the following:
 - Cost and the Contingency Plan, prepared by Faithful & Gould, the City's Quantity Surveyor.
 - Programme and Procurement, prepared by Lendlease, and validated by Mace, the City's Project Manager.
 - Current Risks and Opportunities, prepared by Mace, and costed by Faithful & Gould.
- 2.3 Throughout the run-in to NTP, extensive consultation took place between the Council, its professional advisors and the project Technical and Assurance Validation Panel.

3.0 The changes since February 2020

- 3.1 Following the report to February Executive the negotiations with the Management Contractor were scheduled to conclude to enable the instruction for NTP to be issued. Whilst the negotiations were being completed it was agreed to pause the NTP instruction. This was driven by a number of factors which potentially impacted on cost and programme included the nesting falcons in the clock tower, the discovery of asbestos in the kitchen bridge link, hazardous coal tar beneath the courtyard and the rescheduling of package procurement as the result of COVID-19. During this period, the project team worked with Lendlease to establish those Works Packages which could be sensibly and safely set back to work in the short term, and to review the procurement strategy up to and beyond the deferred date for NTP. On 25 June it was advised that the NTP should proceed.

- 3.2 The decision to instruct NTP commits the City to the construction phase of the project. At that point the project will move from the current position, where circa £18m of value of the works has been placed, into the full commitment to the Construction phase costs. This will commit the council to a further £196m, or £214m in total. This remains within the total project cost as that in the key decision taken in February to enter into NTP.
- 3.3 The principles that underpinned the decision to instruct NTP, and which were endorsed by the Technical and Assurance Validation advisors, in February 2020 remain in place. This includes a robust Design Management Plan which will continue to capture all gaps, errors and coordination issues and track them through to resolution, aligned with the procurement programme.

Programme

- 3.4 Due to the factors outlined above the revised dates for completion are now 14 May 2024 for the Town Hall and 20 October 2023 for Albert Square (previously December 2023 and the beginning of October). The 10 weeks float period remains within the programme which provides a high degree of surety the revised date will be achieved. The delays to programme completion have added additional pressure in two areas principally:
- Capital costs of £3.9m, comprising the response to the COVID-19 pandemic (as previously reported) and the concurrent impact of the peregrine falcons nesting on the Clock Tower of the Town Hall. This falls within the overall allowances for risk in the budget approved in the key decision in February 2020.
 - Revenue budgets impacted by the delay, including lease extensions. The delayed completion of the Town Hall (to May 2024) could attract additional costs of up to £2.7m if the Council's use of office accommodation cannot be rationalised to allow an earlier exit from the decant space. Opportunities to mitigate these potential losses will be reviewed as part of the ongoing Estates rationalisation strategy.
- 3.5 Programme completion has been subject to an intensive period of critical challenge by a specialist planning engineer brought in from Mace to interrogate the Lendlease programme. Working collaboratively with the Lendlease planning team, improvements have been made, and a list of opportunities for further potential improvement have been identified. Lendlease has a contractual obligation to review these further opportunities with us on an open book basis in the period beyond NTP.

Cost

- 3.6 The cost plan is £214m, compared to £208m in February 2020. The increase is largely due to the allocation of known risks from the contingency plan.
- 3.7 At the point in February 2020 when the decision to instruct NTP was made, 60% cost surety was reported with £17m of work packages with orders placed

and £134m which had been procured. This included procurement of 65% of the high criticality/high risk packages. The delay to NTP has meant the position has not significantly changed but the ability to continue to let those package that have been able to work in COVID-safe way, has meant that in June 2020 the level of package surety has increased to 68% with £18m of works packages committed and £136m procured.

- 3.8 Whilst on the face of it, the planned level of surety has been maintained, the heightened risk of contractors walking away or seeking to renegotiate terms due to concerns about COVID, remains right up until the point that contracts are executed. Early instruction of NTP and thereafter placement of Works Package Contracts will address this risk. Once this has been done the level of surety achieved by the end of February will be restored.
- 3.9 Further allowances have been made in the contingency, increasing it from £23.5m to £33.4m to allow for the capital costs of COVID-19, programme prolongation and a greater allowance for volatile tender returns. This has been funded from within the overall project budget.
- 3.10 As the project is further developed there has been a reduction in the risk profile from £56m to £49m, including adjustments made against the design and buying risk for packages now procured. If all risks are 100% realised, there will be an overspend of £4m. However, Route to Affordability savings agreed and not yet built into the programme total £2.6m and if all risks are realised then further areas have been identified which can be descoped totalling £2.5m. The latter will need to be considered in light of the impact on the value and amenity they add to the city and its residents. There is also a potential benefit of £350k a month if the programme opportunities can be achieved.
- 3.11 The project team's approach to the sensitivity of project risks, has been to workshop and RAG rate each of the Work Packages in the Contingency Plan, and to apply a likelihood factor to each risk within the Residual Risk Register. The team still considers it extremely unlikely that all of the risk and contingency events will be 100% realised. The total value of remaining contingencies equates to 20% of the value of construction. Whilst not underestimating the potential threat of discovery during the construction stage, this is considered a healthy level of contingency for a project at commencement of construction with very detailed levels of design information.
- 3.12 The cost plan and all of the changes outlined above are contained within the project budget of £305.2m. The key decision in February was the approval for the remaining balance of £243.5m for which approvals had not previously been sought and remains unchanged. However it should be noted that the position reached at NTP in June 2020 is contingent on the assumption the supply chain post COVID-19 has been able to recover levels of productivity by end October 2020. Further waves or a recurrence of levels of infection would undermine this assumption and further impact programme and therefore cost. This is an unknown level of risk, which is not factored into cost, programme or risk reported here.

4.0 The contract with the Management Contractor

- 4.1 All of the contract issues have now been satisfactorily resolved and the Deed of Variation to the contract agreed. The Council has been advised by Faithful & Gould, Eversheds and Mace during this process. The changes reflect the risk of potential further COVID incidents. It is worth noting that the Contract requires the management contractor to use its best endeavours to prevent delay and further delay. This is a very strong obligation (characterised by Eversheds as the next step down from an absolute obligation), so gives the Contract Administrator a strong position from which to challenge. The Management Contractor's pre-construction fee has increased by circa £1.35m in the period since February. This is the cost of the 12 week extended pre-construction period.
- 4.2 In summary, it is considered that the position reached with the management contractor represents an equitable position, and that where concessions have been made by the Council, these are the best outcome that could reasonably be achieved in light of COVID risk and the positions being adopted by contractors across the industry.

5.0 Conclusion

- 5.1 It has therefore been concluded that it is now appropriate to instruct Notice to Proceed and that to delay further will place additional risks on the project. The overall level of risk has increased slightly since February due to the factors outlined in the report but it is believed that the project will still be delivered within the overall construction budget.