
**Manchester City Council
Report for Resolution**

Report to: Executive - 26 July 2017

Subject: Factory Manchester

Report of: Strategic Director, Development

Summary

The purpose of this report is to update Members on the continued progress in taking forward proposals for Factory Manchester and to seek the Executive's support for the following recommendations.

Recommendations

That the Executive:

1. Welcome the decision by Arts Council England to award an Arts Lottery capital grant of £7M to the Factory;
2. Welcome the announcement of the National Portfolio Organisation revenue grant of £9M each year from 2018/19 to 2021/22 plus continuation funding for the biannual festival of £730k per annum, totalling £38.16M in the period;
3. Recommend that Council approve an increase to the capital budget of £1.65M to support additional works to improve the appearance of the façade and to deliver an appropriately scaled orchestra pit, £1.6M will be underwritten from City Council resources (unsupported borrowing) with the balance being met from the additional £50k HMT grant. This will increase the total capital budget from £110M to £111.650M;
4. Recommend that Council approve an increase to the capital budget of £1.6M to be met from unsupported borrowing.
5. Delegate authority to the Chief Executive, City Treasurer and the City Solicitor in consultation with the Leader and the Executive Member for Finance and Human Resources, to finalise and complete the legal arrangements including the building contract and all other ancillary legal agreements, and to negotiate and complete all necessary contractual arrangements;
6. Note the intention to use an amended JCT management contract form to deliver the programme of works;
7. Note the progress made to date with the £5M fundraising target that will be raised by an external fundraising charitable trust;
8. Note the need to submit a new Planning application following amendments to the building envelope arising from the RIBA Stage 3 design development; and

9. Agree that the current level of funding for the Festival, at £1M per annum plus an additional £500k each Festival year, will need to continue from 2018/19 to 2020/21.

Wards Affected: City Centre

Manchester Strategy outcomes	Summary of the contribution to the strategy
<p>A thriving and sustainable city: supporting a diverse and distinctive economy that creates jobs and opportunities</p>	<p>The Factory Manchester will accelerate economic growth in the region by playing an integral part in helping Manchester and the North of England enhance and diversify its cultural infrastructure and attracting clusters of related creative industry activities and extra visitors to the city. It will also provide a genuine cultural counterbalance to London. The Council will be working with central government over the next 12 months to develop a Creative Enterprise Zone proposal to support and incentivise creative SME co-location, and maximise training and educational opportunities for the area.</p>
<p>A highly skilled city: world class and home grown talent sustaining the city's economic success</p>	<p>The Factory Manchester 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. New direct jobs to run and operate the venue will also be created. Following the approval of the Full Business Case by the Chief Secretary to the Treasury the full economic benefits are as follows (showing an improvement on the figures previously submitted to the Executive. Factory is expected to support up to 1,541 FTE jobs after year 10 and a present value of GVA over the assessment period of £867 million. Once deadweight, displacement and multipliers have been taken into account the combined net additional employment impacts are expected to increase to 1,996 FTE and GVA is expected to increase to £1,179million over the assessment period.</p> <p>The Factory will develop partnerships with the city's further and higher education institutions and will further support the city's drive for high calibre graduate talent retention through job creation. It will act as a UK leader in creative sector/HE/FE led training to expand access for Greater Manchester 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>The Factory 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 and in excess of 2,500 residential units, comprising apartments, live-work units and high rise living.</p> <p>The presence of Factory as a ‘cultural anchor ‘ has already had a catalytic effect in terms of reimagining the creative redevelopment of the MSI site and Upper and Lower Campfield Markets as a creative district.</p> <p>The Factory will lead to a younger, more culturally diverse audience, combined with expanded, adventurous older audiences.</p>
<p>A liveable and low carbon city: a destination of choice to live, visit, work</p>	<p>The Factory will benefit from excellent public transport connectivity, ensuring the site can be accessed by visitors.</p> <p>Sustainable design and development principles will be tested at planning application stage.</p> <p>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, underrepresented and disadvantaged groups.</p>
<p>A connected city: world class infrastructure and connectivity to drive growth</p>	<p>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.</p> <p>The development will be well served by new pedestrian walkways and cycle routes. This will include the replacement Prince’s Bridge scheme under construction, improved pedestrian connectivity as part of the St. John’s developments, and proposals by the Museum of Science and Industry, 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>

Full details are in the body of the report, along with any implications for

- Equal Opportunities Policy
 - Risk Management
 - Legal Considerations
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Financial Consequences – Revenue

The Council currently commits £1M per annum to the operation of Manchester International Festival with an additional £500K each Festival year. In order to secure the success of the Factory this level of funding will need to continue through 2018/19 to 2020/2, matching the Arts Council commitment.

Financial Consequences – Capital

The total capital project budget for the project is £110M.

Significant progress has been made since the last Executive report to secure the project funding envelope. £78.05M has been secured from Exchequer Funding following the approval of the 5-case business case in January 2017. MCC have committed up to £20M and agreed to underwrite the £5M fundraising gap. The project secured stage one approval for a £7M Arts Lottery Grant in June 2017.

A budget increase of £1.65M is requested, to be met from £1.6M Council resources and £50k additional external funds to match the final HMT funding awarded, in order to fulfil the design changes of the project as outlined in the main body of the report. This will be met from unsupported borrowing.

In January 2017, the Executive approved £4.45M funded from capital receipts to fund land acquisitions and public realm costs associated with the project and the wider site.

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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.

Factory Manchester

1. Factory Manchester Project Overview 31st May 2016
2. Report to The Executive 27 July 2016
3. Report to The Executive 11 January 2017

1.0 Introduction

- 1.1 This report sets out the progress in the development of the Factory project, a new arts venue set in the heart of the new St John's neighbourhood. Once completed, Factory will be a new and unique large scale venue and permanent home for Manchester International Festival (MIF): a building capable of making and presenting the broadest range of artforms and cultural experiences, including dance, theatre, music, opera, visual arts, popular culture, cross-artform works of scale, and innovative contemporary work incorporating multiple media and technologies.
- 1.2 This report provides Members with an update on project funding, design progress and changes, programme, title and contract arrangements. It also seeks to provide, project assurance and progress made with the development of Manchester International Festival as the eventual operator of the venue since the last Executive report in January 2017.
- 1.3 The key milestones in the development of the project for note are :-
- Groundbreaking ceremony - July 2017 during MIF 2017
 - Commencement of enabling works - 10 July 2017
 - IPA Gateway assurance review - July 2017
 - Target completion date for the main contract document - end September 2017
 - Completion of legal agreements with neighbouring occupiers Museum of Science and Industry and Network Rail - no later than September 2017
 - Completion of Headlease - September 2017
 - Invasive enabling works - end September 2017
 - Piling package let and start on site - Q1 2018
 - Completion - end Q1 2020
 - Venue operation and soft launch period - Q2-3 2020
 - Launch - September 2020

2.0 Project funding

- 2.1 Following the January Executive meeting, HMT signed off the 5-case business case and confirmed £78.05M total Exchequer Funding for the project. This funding is to be administered through Arts Council England (ACE) by way of a series of grant agreements to be entered into between the Council and ACE. Having already secured a development grant of £3.5M in 2015 and continuation grant of £7.1M in 2016, in March 2017, the third and final grant agreement with ACE to secure the residual £67.45M Exchequer funds was agreed and signed. In confirming the Exchequer funding, it should be noted that the Council received £50k higher than the anticipated £78M and the project budgets have been adjusted accordingly.
- 2.2 In October 2016, the Council submitted a stage one £7M application for an Arts Lottery grant to ACE. Our stage one application was successful and announced in June 2017. A further detailed submission of information in early

October will be required and the target completion of this Lottery grant agreement from ACE is planned for January 2018.

- 2.3 In order to assist with the fundraising by way of donations, MIF is establishing a charitable trust. The application is currently being considered by the Charities Commission. The Trust is to be chaired by Sir Howard Bernstein. Our funding and project partners have been reassured by Sir Howard's ongoing involvement in this key role for the project. The Trust is supported by recently appointed expertise in the fields of individual and corporate giving who believe that the fundraising targets are in line with a project of this size and are achievable.
 - 2.4 Once the trust has charitable status, it will begin a programme of applications to Trusts and Foundations alongside approaches to individuals and corporations.
 - 2.5 The project budget of £110m is now almost 95% fully funded which represents considerable progress at this relatively early stage in the project trajectory. The outstanding element is the £5M fundraising to be secured. This includes the MCC contribution of up to £20m approved at the January Executive meeting.
- 3.0 Update on project design**
- 3.1 The Factory scheme achieved planning and listed building consent in January 2017. The scheme comprises four main components: foyer; warehouse; theatre; and back of house towers (or supporting spaces). The basic project parameters remain unchanged.
 - 3.2 The planning and listed building consent were granted against the stage 3 design proposals which had been agreed in November 2016. As the cost consultants developed their response to the stage 3 designs, coupled with the buildability advice provided by Laing O'Rourke and the wider marketplace, it became increasingly clear that the complexity of parts of the design were attracting a significant cost premium that the project budget could not tolerate, as well as buildability challenges.
 - 3.3 As a consequence, following the positive planning announcements, a significant review of the scheme was undertaken. This review considered simplification and rescoping elements without losing the overall purpose and components of the project, nor its capacity to host exceptional artistic experiences across a broad range of art forms.
 - 3.4 The revised scheme has a simplified theatre with a less complex structure and volume. It has resulted in a more 'intimate' and balanced auditorium that follows the same principles as the original design albeit with a reduced capacity of 1,500 seats from 1,700. The supporting foyer and audience journey has improved through the simplification process. Externally the skin is still articulated and follows a similar aesthetic, made up of large inclined panels.

- 3.5 The revised theatre capacities have been tested against the business plan with no overall impact. The scheme has also been discussed and approved by the project partners and principal funders.
- 3.6 The simplification exercise also looked at the elevations to the warehouse. Based upon advice from the market, it became clear that the planned vertical glazed and concrete banded North and South elevations would compromise the acoustic performance of the venue, and the buildability and novelty of the design would lead to significant issues including an inability to warrant the overall construction design.
- 3.7 There remain two issues outstanding – facades and orchestra pit. The Factory Strategic Forum meeting (comprising members of the Executive and the project team) confirmed that to succeed, Factory must be a high quality, landmark building and the design must reflect this ambition. This has led to a revised scheme for the north and south elevations, that mirrors the intention of the planning design scheme without any associated acoustic or buildability issues that carries a significant cost exposure.
- 3.8 After testing with other venues and promoters, it was agreed that the orchestra pit must fit with the expectations of a venue of this size and quality and therefore the pit must increase from 50 to 80 player capacity. The revised orchestra pit is subject to intensive design review with an anticipated £0.3M cost premium.
- 3.9 After an intensive period of design and review, the Factory scheme will deliver to its core purpose and business plan. It is recommended that the overall project budget is increased by a further £1.65M to support the work to improve the external facades of the building and to deliver an appropriately scaled orchestra pit. This will increase the project budget from £110M to £111.65M, to be underwritten from £1.6M City Council resources and £50k additional external HMT grant funds.
- 3.10 Given the agreed changes to the scheme, a revised planning application will be required. This will be submitted in September 2017 with an anticipated decision in November 2017. The site enabling works are covered by the pre-existing planning permission and this revised application will not impact on the overall progress of the project.

4.0 Timetable

- 4.1 The need to review and redesign elements of the scheme to achieve a balanced cost plan, the requirement for a new planning application; and the ongoing Ordsall Chord works delaying availability of part of the site until late August 2017 has led to some amendments to the overall programme.
- 4.2 We have broken ground during MIF 2017 which marks the commencement of the enabling works and the start of the construction process. The more

invasive demolition packages will start in September 2017 leading through to the first packages of new construction set to commence early in the new year.

- 4.3 The target completion programme anticipates the venue being operational in September 2020 which is preceded by an intensive 5-6 months period of testing, fit-out and soft launch events.

5.0 Progress with title and legal issues

- 5.1 Good progress is being made to complete the necessary legal agreements with both adjacent occupiers Network Rail (NR) and Museum of Science (MSI).
- 5.2 September 2017 will see the completion of a number of key strands of work :
- The completion of the building contract.
 - The completion of the headlease and any outstanding landownership issues with adjacent occupiers Network Rail and Museum of Science and Industry.
 - The registration of the security over the main grant award.
 - Lodging of the revised planning application.
- 5.3 Heads of terms have been agreed with MSI and revised title documents and ancillary agreements are due to be completed by early August. These agreements will rationalise the ownership and obligations relating to the listed viaduct and arches structures at the rear of the Factory site.
- 5.4 Heads of Terms and draft agreements are close to completion between the Council and NR to release the portion of the Factory site currently being used as a building compound by the team constructing the Ordsall Chord rail infrastructure bridge. Once completed this agreement will see NR surrender their lease over the site early to facilitate the construction of the Factory. It will also see a responsibility and associated funding for carrying out landscaping works transferred from NR to the Council to ensure that public realm surrounding Factory is delivered by a single entity at a time that is appropriate to the completion programme. These agreements will be completed in time for the site handover at the end of August 2017.
- 5.5 The main construction contract is also significantly advanced. Laing O'Rourke were procured using the North West Construction Hub on a two-stage appointment in August 2016. They are currently supporting the project under a detailed Pre-Construction Services Agreement (PCSA). The current PCSA will end in September 2017 when we anticipate signing the main contract.
- 5.6 After a detailed procurement review, the Factory team took the decision to procure the works under an amended JCT Management Contract form. Acknowledging that this form transfers a greater risk to the contracting authority, it is anticipated that the contract will deliver both time and cost benefits allowing us to manage the design and construction programme in tandem, market test and award sequential packages of work, control project

contingency and eliminating any risk premiums being charged back by the contractor.

- 5.7 Detailed Heads of Terms and draft contract documents are currently being negotiated between the parties and will see the appointment of the Management Contractor with a fixed management fee and a performance related incentive that binds them to achieving a target budget cost. The target date for executing the agreed form of contract is September 2017 and we are recommending that the responsibility for completing the contract is delegated to allow the documents to be completed at the necessary point. This will see the commitment of up to £94.9M in construction expenditure covering pre-construction services, construction, contingency and inflationary allowances.

6.0 Gateway review

- 6.1 As the Exchequer funding of £78.05M is more than the HMT £50M threshold, Factory qualifies as a major project and is subject to period review under the HMT Integrated Project Authority Gateway process. The capital scheme received a high level of assurance under the Gateway 3 Investment Decision process in November 2016. This paved the way for the approval of the 5 case Business Case by the Chief Secretary of the Treasury in early 2017.
- 6.2 Given the changes to the scheme and the progress made in procuring the main contract works, a second Gateway 3 review is currently being undertaken between 17-19th July. The aim of this review is to provide assurance over the management of the project and contract readiness ahead of the execution of the main construction contract, as well as a review of the overall project progress including the development of the operator.

7.0 Ongoing MIF journey and progress made

- 7.1 On January 12th 2017 Manchester International Festival was publicly confirmed as the future operator of Factory. All parties recognise that whilst the concept of the Factory is based around the production and artistic capability of the Festival, the organisation needs to grow and adapt to take on the running of the venue. Organisational re-design and transition planning for MIF is now underway and this will accelerate after this year's festival. The work is currently planned by the Project Director together with the Executive team and additional expert consultancy. From September, this work will be clearly owned and driven forward by the MIF Board, CEO and Executive team.
- 7.2 The first important step in the change programme for MIF, was the renewal and expansion of the Board. Recruitment began shortly after the January announcement for new board members. The first round of recruitment has been completed and 6 new trustees approved. Given that some board members retire this summer this will take the board to 14 initially. A further round of recruitment in late summer will take the full complement to a maximum of 17.

The new trustees approved so far are:

- Sir Howard Bernstein (Ex CEO MCC, Senior leader with considerable expertise in regeneration, large projects and fundraising)
- Malcolm Press (Vice Chancellor of Manchester Metropolitan University, with specific skills and training expertise)
- Jamil Khalil (CEO Wake let with digital and entrepreneurship expertise)
- Kathryn Wright (MD Stonewall, Finance and Audit expert)
- Richard Bell (Managing Partner for Deloitte in the North West - Finance & Audit expert)
- Lemn Sissay (Practicing artist and Chancellor of University of Manchester)

The areas to be addressed in the next round are further senior arts leadership, large scale venue management, brand communications and youth representation. Board members are being inducted as part of this year's festival and invited to the Factory events. The board is advised to establish a Factory sub-group to give additional assistance to the Executive during the organisational redesign. A major Board away day is planned for September 27th to consider and inform the upcoming transition, business plan etc.

- 7.3 Strategic HR advice has been sought to design the Executive structure. An Associate Artistic Director was appointed early to the senior team, to develop Factory's artistic programme. Following a review of the Executive tier, a Chief Operating Officer role will now also be recruited. Reporting to the CEO, the COO will take on many of the new responsibilities associated with major venue management and operating a business with a £35m annual turnover. The responsibilities of the current Executives will also be expanded and reshaped, as appropriate for running a year-round cultural proposition of this scale as well as a successful city-wide biennial festival. Each Executive will need to take responsibility for the evolution of their specific area overseen by the CEO to ensure overall coherence, ownership of and adherence to the key tenets of the business plan.
- 7.4 A major refresh of the business plan for Factory has been conducted. While this remains a live document, it is important to note at this point that the previous hypothetical artistic programme is now being built into a real early programme, with many artists and artistic companies expressing interest in working and presenting in Factory. This gives confidence in the overall business model with this more granular and real understanding of how the building will be used enabling the further development of other aspects like the commercial and artistic hires programme, the food and beverage offer and the staffing model. Additional changes include the impacts of the revised theatre capacity, revised opening date, early draw down from the first year's NPO funding allocation of a £750k development grant, revised inflation assumptions, apprenticeship levy etc. The external public funders, including HMT, have approved current progress.
- 7.5 Alongside the artistic programme, Factory has major objectives to galvanise skills, training and education for the creative skills sector. The plans span well beyond the commitment to 15 apprentices pa in the business plan. Factory affords the opportunity to use the physical and public profile of this extraordinary development in the UK's cultural ecology in the heart of

Manchester, to help further stimulate interest in the arts in a new generation, from any socio-economic background, and provide new connections and pathways into the sector. A senior colleague has joined from the Arts Council for 12 months to drive the work in this area. Given the partnering approach that will be taken by Factory, she has immediately engaged in discussions with colleagues from cultural and education institutions and the Council with the aim of bringing forward concrete plans in the early autumn, including proposals for how these wider plans will be financially supported through accessing appropriate funding streams as well as targeted fundraising.

- 7.6 Beyond the £5m capital fundraising target for the project, the business plan assumes an additional £1.7m revenue fundraising pa on top of the existing MIF baseline. The Factory Trust will in time support aspects of the revenue fundraising which will be drawn from a broad range of sources including Trusts and Foundations, individual and corporate donors, membership schemes and sponsorship opportunities.
- 7.7 In June, as part of its NPO announcements, ACE confirmed the additional £9M revenue funding for Factory for the period 2018-2022, alongside the continuation funding for the biennial festival of £730k per annum. This totals £38.16M for the four year period. The first two years have been confirmed and the remaining two years are subject to the NPO process. This marks another major step forward in the project's evolution.

8.0 Contributing to the Manchester Strategy

(a) A thriving and sustainable city

- 8.1 Factory will accelerate economic growth in the region by playing an integral part in helping Manchester and the North of England enhance and diversify its cultural infrastructure and attracting clusters of related activities and extra visitors to the city, the scale and potential of development within St. Johns area will provide a major focus for new investment in the city and the growth of jobs.

(b) A highly skilled city

- 8.2 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. Factory Manchester will develop partnerships with the cities leading higher education institutions and will further support the city's drive for high calibre graduate talent retention through job creation.

(c) A progressive and equitable city

- 8.3 The wider St. John's development will create a new neighbourhood which will encourage independent, niche and creative uses and businesses with new office, cultural, workspace and leisure development and in excess of 2,500 residential units, comprising apartments, live-work units and high rise living.

Factory will attract a younger, more culturally diverse audience, combined with expanded, adventurous older audiences

(d) A livable and low carbon city

- 8.4 Cultural activities make an important contribution to community engagement and initiatives will be targeted at young people, underrepresented and disadvantaged groups. Sustainable design features will be incorporated into the developed design.

(e) A connected city

- 8.5 Factory will benefit from strong public transport links with both rail and Metrolink stations and a choice of multi-storey car parks for visitors. The development will be well served by new pedestrian walkways and cycle routes including the replacement Princes Bridge scheme. New public spaces and connections are proposed, which will significantly improve the environment of this part of the city centre.

9.0 Key Policies and Considerations

(a) Equal Opportunities

- 9.1 Factory will over a decade help create net inward investments of up to 1,500 full-time equivalent jobs and an additional £1.1bn GVA. A significant employment and training programme will be developed to support local residents.

(b) Risk Management

- 9.2 Risk management is a key consideration in the procurement process and the Project Board has developed an active Risk Register which will be fully monitored and managed throughout the delivery of the Factory development.

(c) Legal Considerations

- 9.3 The Council is to enter into/renegeotiate a number of property arrangements with a number of parties in order to assist in the delivery of Factory.

The Council is to procure a major building project as direct employer, and the Council will be entering into a building contract and ancillary contractual arrangements.

The majority of funding for Factory will be provided by ACE and this is set out in an agreement between ACE and the Council, the terms of which will be flowed down to the intended lessee of Factory. A charge over the Council lease will be registered for a period of 25 years to protect the majority investment. A further charge will be registered over the sublease with the operator for a period of 25 years mirroring the headlease provisions.

10.0 Conclusion

- 10.1 In conclusion, the Factory Manchester project will transform the artistic landscape, not just of the city but the wider region. It would build upon an existing diverse range of outstanding cultural facilities but crucially provide the essential platform for delivering all year round MIF-type events which will extend significantly the artistic output of the city, re-balance the cultural life of the UK, and create new pathways for work and skills development. The uniqueness of the facility and its high profile national position demands a building of the highest quality design.

11.0 Recommendations

- 11.1 Recommendations can be found at the front of this report.