

APPENDIX 2

Workstyles 3 – Capital Investment and Revenue Implications

The Workstyles investment programme will be funded through a combination of capital receipts, contributions from the Asset Management Fund (AMF), existing capital maintenance funds, reserves and borrowing to fund the cost of works. Table 1 sets out the estimated costs for the options including building works, refurbishments and costs associated with acquiring new offices together with the ICT and EDRM investment, dilapidations costs associated with vacating leased buildings and the core project resources to enable delivery of the project. Any funding shortfalls will be met through borrowing with revenue savings associated with the scheme meeting the financing costs. The funding of each option is detailed in Table 1.

Table 1 - Capital Investment

Workstyles Phase 3	Option A	Option B	Option C
	£000	£000	£000
Hove Town Hall works	9,798	6,094	2,947
Kings House Investment	0	0	2,160
Portslade Town Hall	631	631	631
Montague House	408	408	408
Purchase & fit out new building	0	7,346	0
ICT & Workstyles investment	2,000	2,000	1,050
EDRM & Scanning Costs	1,500	1,500	0
Project resources & associated costs	1,482	1,482	0
Dilapidations & other capital costs	155	155	155
TOTAL EXPENDITURE	15,974	19,616	7,351
AMF Contribution	2,100	2,100	1,500
Capital Programme Funding	599	599	450
Specific Reserves	575	575	256
Borrowing	1,980	2,810	3,545
Kings House capital receipt (net)	9,120	9,120	0
Hove Town Hall capital receipt (net)	0	2,812	0
Other Capital Receipts (net)	1,600	1,600	1,600
TOTAL RESOURCES	15,974	19,616	7,351

Options A and B both require varying degrees of works to Hove Town Hall including conversion and refurbishment of offices and spaces and replacement of energy inefficient glazing heating and ventilation systems. Options A and B include works built into the timetable associated with maintenance to roofing, heating, fire risks and extension of the existing solar photovoltaic panels which would be met through existing maintenance and capital schemes. Option B requires the purchase or lease and fit out of a new office building the location of which has not yet been determined and the business case uses current market prices from existing sites of a suitable profile. Option C 'do nothing' includes costs associated with investment in building improvements at Hove Town Hall that would be required to keep the building operational and also estimated maintenance costs associated with Kings House should the building be retained.

ICT and workstyle investment includes the rollout of Citrix, data centre moves, cabling and new ICT equipment. The cost of Electronic Documents & Records Management (EDRM) implementation and associated back scanning work is included within the project and supports the business process improvements for all services; however it requires detailed work to quantify the exact cost. Some initial EDRM work has already been undertaken in areas such as Planning, HR and Finance. Project resourcing includes the core project resourcing for Project Management, ICT rollout and support functions for communication, engagement and service implementation.

The capital receipts from the disposal of Kings House, part of Hove Town Hall offices, the two Buckingham Road offices, subject to service delivery options that are currently being considered and Victoria Road offices (agreed at Cabinet March 2011) will provide a considerable contribution towards the funding of the project. The receipts less any disposal costs, will support the Workstyles project and the timing of the disposals of the properties will be crucial in indentifying cashflow shortfalls for the project. The properties have had full valuations and both Kings House and Hove Town Hall have had soft market testing undertaken. Some costs have been factored into the business case to allow for the offices to remain empty whilst being marketed, however, any significant delay in disposing of these buildings will incur additional costs to support the financing of the project as well as incurring ongoing running costs associated with security, maintenance and utilities at these sites.

The Asset Management Fund is a £1.0m annual corporate capital fund used to support property improvements. This fund forms part of the council's Capital Strategy and is funded through capital receipts. The fund has supported both phase 1 and phase 2 of the Workstyles projects.

Specific reserves have been set aside to assist with the cashflow funding of the Workstyles projects in particular supporting the project resourcing and dilapidations in connection with the vacated leased buildings.

Each option will deliver revenue savings as a result of the vacation of the leased buildings and freehold properties. The revenue implications of the project are detailed in Table 2 and reflect a full year effect of costs and savings after the project has been completed

Table 2 - Revenue Savings

Workstyles Phase 3	Option A	Option B	Option C
Full Year Effect	£000	£000	£000
Budget savings			
Accommodation savings - Kings House	514	514	0
Accommodation savings - Hove Town Hall	181	354	64
Accommodation savings - Other buildings	250	250	250
Financing Costs - borrowing	(158)	(222)	(280)
LESS: Increase in running costs	(85)	(122)	(100)
LESS: Running costs new building	0	(180)	0
Additional benefits			
Increase in Council Tax income	210	210	0
LESS: Reduction in retained Business Rates	(160)	(160)	0
Net Revenue Savings	752	644	(66)

In addition to savings identified above if Kings House is converted to residential use the council could receive up to £0.3m pa for six years in New Homes Bonus less any proportion of the grant redirected to the Local Enterprise Partnership (LEP).

Savings are generated in connection with building running costs predominantly around business rates, rents and service charges, maintenance, cleaning, utilities and Carbon Reduction Commitments (CRC's). The introduction of new heating and lighting measures at Hove Town Hall will significantly benefit all three options. Additional revenue running costs will be required to varying degrees for each option in connection with the increased staff numbers in the remaining or new offices. Option C incurs costs for operating unoccupied floors at existing offices that could potentially remain vacant should the other options not be explored. Detailed costs, payback period on the corporate investment and the revenue savings associated with Option A are included in Tables 3 and 4.

The savings in Table 2 do not incorporate a financial assessment of the efficiency gains that could be expected from the property and technology investment in Options A and B. Although there are challenges in quantifying these and ensuring that they are cashable savings our research suggests other organisations across both public and private sector would expect to deliver a minimum of 10% additional productivity savings in this sort of scenario and some quote substantially higher figures. These would be additional to the savings identified above and would contribute to the council's overall budget savings target as described below. This would not be achievable under Option C and indeed additional inefficiencies could be created through part of the workforce and buildings not going through the Workstyles programme.

Table 3 - Capital Investment

Workstyles Phase 3 Option A	Development Period	Implementation Period				Operational Period		Total
	Year 1 2013/14	Year 2 2014/15	Year 3 2015/16	Year 4 2016/17	Year 5 2017/18	Year 6 2018/19		
	£000	£000	£000	£000	£000	£000		
Hove Town Hall works			8,165	1,633			9,798	
Portslade Town Hall		631					631	
Montague House		408					408	
ICT & Workstyles investment	595	696	696	13			2,000	
EDRM & Scanning Costs	450	525	525				1,500	
Project resource costs	115	644	619	104			1,482	
Dilapidations & other capital costs		155					155	
TOTAL EXPENDITURE	1,160	3,059	10,005	1,750	0	0	15,974	
AMF Contribution		700	700	700			2,100	
Capital Programme Funding		311	288				599	
Specific Reserves		575					575	
Borrowing	1,160	820					1,980	
Kings House capital receipt (net)			960	8,160			9,120	
Other Capital Receipts (net)		168	1,432				1,600	
TOTAL RESOURCES	1,160	2,574	3,380	8,860	0	0	15,974	
Investment cashflow (deficit)	0	(485)	(6,625)	7,110	0	0	0	

Table 4 - Revenue Savings

Workstyles Phase 3 Option A	Development Period	Implementation Period			Operational Period		
	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7
	2013/14 £000	2014/15 £000	2015/16 £000	2016/17 £000	2017/18 £000	2018/19 £000	2019/20 £000
Accommodation Budget savings							
Savings - Kings House		0	0	257	514	514	514
Savings - Hove Town Hall		0	0	0	181	181	181
Savings - Other buildings		112	224	250	250	250	250
LESS: Financing Costs - borrowing		(92)	(130)	(159)	(158)	(158)	(158)
LESS: Increase in running costs		(5)	(8)	(38)	(103)	(89)	(85)
Additional benefits							
Increase in Council Tax income					210	210	210
Loss of retained Business Rates					(160)	(160)	(160)
Net Revenue Savings		15	86	310	734	748	752

The total corporate investment of £5.254m has a payback period of 7.0 years (full year effect)

Significant efficiency benefits are expected to be realised through improved working environments, enhanced technology, changed working practices and improved management of activity and workflows that this investment will enable. Efficiencies are anticipated to be productivity increases such as reduced backlogs, improved customer response times, elimination of duplication, reduction in error rates and potentially reduced sickness, reduced staff turnover. They are estimated to be in the region of £2.6m pa based upon benchmarks for similar implementations. The productivity savings will assist the council to enable reducing service costs in future years and will provide valuable assistance to the financial challenges the council will face.

Additional financing benefits associated with this project may arise from the development options associated with the sites that are disposed of. This will include the New Homes Bonus (for a 6-year period), new council tax generated less any loss of business rates. These additional financial benefits may provide additional funding opportunities for the council and meet the challenging reductions in central government funding over the coming years.