



Democratic Services

# **Scrutiny Management Committee**

**TUESDAY 26 JULY 2016**

**7.00 pm**

## **FUTURE WORKING PROGRAMME REPORT**



**FUTURE WORKING PROGRAMME AND ASSOCIATED WORKS**

Responsible Cabinet Member: Councillor Middleton (Cabinet member for Resources and Innovation)

Report Sponsor: Tim Hannam (Corporate Director – Resources)

Author and contact: Nicole Jones (Service Director [Finance and Resources]) Tel: 01908 252079  
Kamran Rashid (Capital Programme Director) Tel: 01908 253375

**Executive Summary:**

The Future Working Programme (FWP) has two key drivers :

- The primary driver, a reduction in our accommodation costs through reducing, in short, our city centre buildings from two to one ;
- the secondary driver, delivering change in the culture and day to day operations of the Council by ending outdated working practices, through delivering a modern working approach across all service areas This modern working approach will be delivered primarily through a better use of technology, leading to more efficient, productive and cost effective working practices.

In July 2015, a decision was taken to invest £5.8m in FWP to deliver financial benefits and more modern practices for the Council.

Since July 2015, three major changes have impacted on the project these are:

1. The urgent and unexpected need to replace the Air Cooling System to meet statutory health and safety requirements.
2. The pace of expansion of UCMK has been slower than anticipated.
3. The referendum decision on leaving Europe has caused some uncertainty in market conditions which has impacted on the property market.

In light of these recent major changes, the current options available to the Council about the future of FWP are as follows:

- a) Spend £10.8m on the implementation of FWP, including replacing the Air Cooling System and refurbishment, allowing MKC to reduce its city centre and wider accommodation needs. This will deliver £1.1m per year of savings (potentially up to £1.8m of savings per year if the whole of Saxon Court can be leased as originally intended). The payback period is 11 years, or 7 years if Saxon is fully utilised.
- b) Close the programme down, having spent the costs of delivering the programme to date of £2.2m and do the minimum of work at Civic to make it legally compliant by urgently replacing the Air Cooling system at a cost of £4.0m. This would give a total cost of £6.2m for replacing the Air Cooling System and the programme to-date. The only benefit from this investment would be a maximum saving of £0.5m per year. This would take 13 years to pay back the investment cost. It is also likely over this period additional maintenance costs will be incurred at both Civic Offices and Saxon Court, as both properties will need to be maintained at minimum standards.

It is absolutely critical in these austere times that the Council minimises its costs and maximises consequential benefits from its capital programmes. As part of this process a rigorous and independent cost review has been undertaken across the totality of the refurbishment project. This rigorous review has identified a potential cost reduction compared to the initial forecast of £0.5m. This cost reduction is based on a Feasibility Budget and would be realised once the refurbishment work has been completed, as it will be held as a contingency in the interim period. The Council has appointed an independent advisor to challenge costs throughout the build, as delivering the project at minimum cost to the Council is critical.

Speaking more broadly than FWP, since the decision in July 2015, work on property rationalisation across the council property portfolio (SMART property project) has been progressing. This has identified potential disposals of £1m which are currently going through the Council's decision making process. Furthermore there are a number of other sites in the pipeline, destined to be taken through appropriate consultation processes, which could release in excess of a further £3m of value, of which £1m represent potential house building sites. This broader property rationalisation work would be impacted if FWP were to be closed down, as it is through the FWP project that alternative accommodation is being found for staff presently based in these soon to be rationalised sites.

The smarter working programme has delivered a significant number of wider benefits to-date. These include:

- Enabling staff to work flexibly, delivering a reduction in the need for accommodation space in Central Milton Keynes. Not only does this benefit our staff, by reducing travel time and costs, but also reduces pressure on city centre car parking.
- Delivering modern working practices, including access to the Council's network remotely through a secure web based portal.
- Delivering a new soft phone technology which enables the Council's telephone network to be delivered through mobile telephones.
- The implementation of IPad and other mobile devices, reducing the need for printing and allowing staff and councillors to work flexibly and more efficiently.
- The ability to respond to peaks in demand from our residents by allowing remote working outside of normal office hours, which is particularly important in delivering the council plan' priority of ensuring customer services is at the heart of everything we do.
- Improving the range of communication mediums we are able to use, by adding functionality around text messaging and social media. This is especially advantageous in improving contact with our younger residents who heavily prefer social media as their communication medium.

## 1. **Background and Previous Decisions**

- 1.1 On 21<sup>st</sup> July 2015 the Procurement and Commissioning Committee approved investment to deliver the refurbishment of Civic Offices to enable; an increased density of accommodation; rationalisation of property stock and more modern working practices delivering more productive, cost effective and efficient day to day operations by the council workforce.
- 1.2 The detailed preparations for this project identified the urgent need to undertake remedial works on the cool air system within the Civic Offices, which had not been anticipated as part of the project. These changes are needed ensure the Council complies with health and safety at work regulations. A delegated decision on 5<sup>th</sup> July 2016 committed the Council to addressing this issue as a priority.
- 1.3 The Council passed a motion on 23<sup>rd</sup> March 2016 which asked the Scrutiny Management Committee to undertake a full review of the Future Working Programme.

## 2. **Introduction**

- 2.1 The Future Working Programme (FWP) has two key drivers:
  - The primary driver, a reduction in our accommodation costs through reducing, in short, our city centre buildings from two to one ;
  - the secondary driver, delivering change in the culture and day to day operations of the Council by ending outdated working practices, through delivering a modern working approach across all service areas This modern working approach will be delivered primarily through a better use of technology, leading to more efficient, productive and cost effective working practices.
- 2.2 Cost reductions to the Council will be achieved through:
  - a) Reducing accommodation requirements and delivering the majority of services from a central site;
  - b) Enabling the Council to lease space in Saxon Court, Civic Offices and other sites;
  - c) The disposal of surplus land and property; and
  - d) Reducing facilities management costs; improving energy efficiency and reducing off site storage costs.
- 2.3 The broader secondary goal at the heart of the FWP, namely delivering a modern working approach across all service areas, is also significant for the Council. This comprises challenging and reshaping current processes and procedures, particularly by using new technology to improve productivity, customer focus and reduced accommodation needs. There have been some significant achievements as a result of this programme, which are outlined in further detail at section 4. This modern working approach will deliver more efficient, productive and cost effective working practices that are already widespread across other areas of business.

### 3. **Accommodation Programme**

- 3.1 The accommodation element of the project has the highest investment requirement. Quite rightly, given the austere times faced by the council, this aspect of the project has been the focus of most challenge. This report seeks to deal with the full breadth of this aspect of the Accommodation programme. In summary this report addresses the following:

Initial Financial Case

Updated Financial Case

Additional Benefits

Build Programme

External Review

Risks and Issues

Next Steps/Implementation plans

Link to SMART property

Alternative options

Statutory minimum

*Initial Financial Case*

- 3.2 The initial financial business case for the FWP programme reflected ongoing revenue savings of £1.5m per year, once the whole of Saxon Court had been leased externally. This produced an investment rate of return of 7.3% and a payback period within the 9<sup>th</sup> year. The details are shown in Appendix 1.

- 3.3 This assessment was based on the benefits of releasing Saxon Court, in line with the expansion plans of UCMK. In practice, UCMK expansion plans have not progressed as quickly as was promised to the Council, which restricts the potential short term options for the building. There remains however the potential to lease the remainder of the building to other tenants whether from the private, public or third sector. Over a longer timescale there may be alternative uses for the building and the site at the rear owned by MKDP.

*Updated Financial Case*

- 3.4 There have been three major changes in circumstances which may impact on the financial business case, since the decision in July 2015. These are:
- The outcome of the referendum recommending an exit to Europe impacting on general economic growth and more specifically property development;
  - A slower than expected expansion than was promised by UCMK;
  - The urgent need to replace the Air Cooling system in Civic offices to be legally compliant.

- 3.5 The referendum outcome on the European Union membership and subsequent economic and political uncertainty has impacted on the property market overall. However, locally there is a more mixed view on investment. Milton Keynes is still an appealing destination due to its prime location on North/South and East/West transport links, strong local economy, history of growth and availability of land. While Brexit may have a short-term impact on the attractiveness and options for Saxon Court, in the medium-term there are likely to be some opportunities.
- 3.6 As outlined above, UCMK has not expanded as was promised in the Cabinet' endorsed Memorandum of Understanding This means the income expected from Saxon Court is forecast to be less than expected. The intention, given this, is to market the spare capacity in Saxon Court on short-term lets to deliver income for the Council. There is office accommodation available in Central Milton Keynes, but Saxon Court is still well located. Although it is recognised the rent will be modest, due to the current condition of the building. The intention would be to appoint commercial agents to seek tenants for the available accommodation at a competitive rent to minimise void levels and rent free periods which are generally sought on new lettings. The revised cashflow, referred to in 3.8 below, assumes no additional income is received. Any new income would therefore improve the pay back period.
- 3.7 The Council merely moving out of Saxon Court, even were the space not let to other organisations, would still deliver cost savings of £0.3m pa. These are revenue savings (such as heating/ water) and will reduce the administrative overheads for the Council. The other major change is the urgent need to replace the Air Cooling System to meet health and safety legal requirements. This is a statutory requirement and would need to be delivered regardless of the wider refurbishment programme. This adds substantial costs to the works.
- 3.8 Based on the changes outlined above a revised cashflow analysis has been produced and this is set out in Appendix 2. The key changes that have been included in the model are:
- The delay to investment in the major refurbishment project
  - The additional cost of the urgent Air Cooling works
  - The opportunity to lease newly available space in the refurbished Civic Offices
  - The reduction in income from leasing at Saxon due to UCMK not expanding as was promised
- Each of the changes is dealt with in more detail in this section:
- 3.9 Overall the revised financial business case for the FWP programme now reflects ongoing revenue savings of £1.1m per year, based on the current lettings in Saxon Court. This produces an investment rate of return of 10.1% and a payback period within the 11<sup>th</sup> year. These are the revised base case figures.
- 3.10 If the Council were to fully secure the additional opportunities above the base case for leasing the additional space released by the programme in Saxon Court, this would produce even greater benefits from revenue savings of £1.8m per year and an investment rate of return of 17.7% and a payback period within the 7<sup>th</sup> year. The cashflow in respect of this scenario is shown at Appendix 2.

- 3.11 If the Council meets only the minimum statutory requirements in terms of delivering the urgent works to the air-cooling system, and does not make the changes to Civic to allow the expansion in the number of staff that can be accommodated, then Saxon Court will continue to be needed to meet the Council's operational needs. The consequences of this would be that the opportunities to lease further parts of the building or re-develop the site could not happen, or the Council would have to seek alternative additional office accommodation. As a minimum this option (as shown in Appendix 3) would have a payback period, created from current lettings in Saxon Court, of 13 years, and would only generate savings of £0.45m pa, as the remainder of the spare capacity in Saxon Court would be required for MKC staff.

*Additional benefits*

- 3.12 Since the initial decision, further work has been undertaken through the SMART property project to consider the remainder of the Council's property stock. This has identified other opportunities to release sites and at least two services which need to be relocated. If the refreshed Civic building met the needs of these services (which are not simply office facilities) then there could be capital receipts from property released of c£1m. Further design work needs to be undertaken on the refurbished building to determine if it can meet these service needs.
- 3.13 Alternatively, the spare capacity available in the refurbished Civic offices could be let to partner organisations, it is currently estimated this could generate c£0.3m pa for rent and service charges.
- 3.14 More detailed work has also identified additional savings in facilities management costs as a result of MKC operating from a single Central Milton Keynes office. This has resulted in a small increase to the operational savings compared to the July 2015 position.

*Build Programme*

- 3.15 The Council originally outlined the scope of the works in Civic and the requirements from a refit of the building to support the decision to procure the redesign in July 2015. This work included visiting other sites; reviewing the space requirements; considering meeting room and customer facilities; engaging with services on non-standard requirements and working on the ICT requirements.
- 3.16 The procurement process then used the SCAPE framework to develop these ideas further including working with the contractor's (Willmott Dixon) architect on the designs for the refreshed building and working out how best to use the available space to meet the Council's requirements. During the detailed development of proposals the Air Cooling system was inspected in more detail, identifying additional costs from the scheme (see appendix 4 for more detail).



- 3.17 The Willmott Dixon proposals are based upon their high level assessment of the scope and specification needs and therefore these will be refined as the Council develops its detailed requirements in consultation with the contractor.
- 3.18 The initial Feasibility Budget for works including the urgent work to replace the Air Cooling System, resulted in an estimated cost of approximately £8.8m. This excluded any client contingency, and is before the detailed procurement processes in the supply chain have been carried out.
- 3.19 A list of potential engineering savings of approximately £0.3m was developed which could be implemented to reduce the total down to £8.5m
- 3.20 However, the Feasibility Budget did exclude cost allowances for items of work that may be required. These requirements will be informed in the detailed design stage. The items included:-
- Asbestos surveys
  - CCTV modifications
  - Door Access control modifications
- 3.21 As noted in paragraph 3.14 above, the contractor's figures also exclude client contingency sum. For this type of project a normal level of contingency would be 5% of the project budget i.e. £0.4m. This is dealt with in paragraph 3.24 and 3.26.

*External independent Review to deliver cost savings*

- 3.22 The Council is currently facing significant financial challenges and it is critical that costs are minimised from this project, weighed against the need to realise its strategy of reducing property costs and creating new income. These cost reduction and additional income are both key to the Council achieving financial sustainability in the medium term. As a result a number of measures have been taken to independently assess and challenge costs, these processes will also continue throughout the project. These include;
- (a) Appointing an external independent cost assessor to work on the Council's behalf.
  - (b) Obtaining from the cost assessor, a review of the Feasibility Budget.
  - (c) Instructing a cost assessor to strenuously challenge and review contractor spend on behalf of the Council and provide advice to the Council throughout the implementation plan.
  - (d) Completing initial value engineering to reduce specifications.
  - (e) Reviewing the procurement approach for fixtures and fittings to agree (with the advice of the cost assessor) the most cost effective procurement route as the project progresses.
  - (f) Balancing the specification for fixtures and fittings with the whole life maintenance and running costs.
  - (g) Undertaking an independent review of the urgent Air Cooling System replacement requirements to ensure these works are required.

- 3.23 The Council has recently appointed a cost assessor – Gleeds - to strenuously review the Feasibility Budget and proposals provided by the contractor. This role will continue throughout the build programme to challenge the contractor and advise the Council on the delivery of the scheme to minimise cost.
- 3.24 Gleeds have only recently been appointed, but have nevertheless successfully completed a high level review of the contractor’s Feasibility Budget from a cost perspective only.
- 3.25 Utilising benchmark comparisons, Gleeds have identified that the Feasibility Budget could be reduced by £0.5m, a revised total cost of £8.3m before value engineering savings are included.
- 3.26 However Gleeds have advised that a further allowance of £0.2m is required for items excluded from the Feasibility Budget. The detailed design stages of the project will determine if these are required.
- 3.27 When the Willmott Dixon value engineering savings are also taken into account then the revised Feasibility Budget reduces to £8.2m. This means that there is scope for a client contingency within the budget of £0.2m, compared to the, Gleeds recommended client contingency of 5% (£0.4m). An overall summary of the project costs is set in the table below:

	<b>Contractor (£m)</b>	<b>Cost Assessor Review (£m)</b>	<b>Difference (£m)</b>
Initial cost estimate	8.8	8.3	-0.5m
Items omitted from initial cost price		0.2	0.2
Value engineering	-0.3	-0.3	0.0
Contingency		0.4	0.4
<b>Total Cost estimate</b>	<b>8.5</b>	<b>8.6</b>	<b>0.1</b>

- 3.28 The table shows a potential cost reduction from the cost assessors review of £0.5m. This benefit is based on a review against the Feasibility Budget and would be realised once the refurbishment work has been completed. Further work on the detailed design, costs and implementation approach will be completed ahead of commencement, with a view of minimising costs, however any initial savings will be set aside in the contingency reserve until such times as the risks have been formalised or dealt with.

*Risks and Issues*

- 3.29 There are still a number of risks as with any major refurbishment project. These include:

- (a) Delays and unexpected costs
  - (b) Scope creep
  - (c) Inflationary costs
  - (d) Impact on workforce, particularly unexpected disruption arising from the construction process.
- 3.30 The project will be closely managed through both the client and contractor team to minimise these issues. The cost assessor will continue to advise the Council and regular engagement will take place with in-house teams to minimise issues with staff present in the remainder of the building.
- 3.31 The SCAPE framework is based completely on collaborative working with open access to review and interrogate the competitive tendering of the sub-contractors packages for the major items of work. This process will be undertaken by the cost assessors appointed by the Council's Capital Development Team.
- 3.32 Once the tender price is agreed, the cost risk for the scheme will transfer to the contractors however, any unforeseen risks such as asbestos will remain with the Council.
- 3.33 Delays in confirming the project will increase the inflation risk. Building inflation is currently running at around 4%. However, there may be some further impacts from Brexit, on items such as construction costs and material prices, which at this point cannot be quantified.
- 3.34 The other major risk is leasing the additional capacity in Saxon and Civic. Again there is uncertainty in the market from Brexit in terms of growth and overall economic conditions.
- 3.35 One of the risks with a refurbishment compared to that of a new build is the risk of finding asbestos. The Council is required by Health and Safety regulations to maintain a register of buildings that may contain asbestos materials. For Civic Offices an asbestos survey was undertaken a specialist consultant in 2006, which was quite extensive.
- 3.36 It is worth noting that the contractor has a strong record of delivering as the SCAPE framework partner. They are currently working with the Capital Development Team on a programme of schools for completion in August/September, four expansions and five new build schools, a total programme budget of £72m, with a current forecast underspend of £0.5m.
- 3.37 The findings of this survey indicated that whilst asbestos was present it appears to be limited to certain areas that are identified in the report. The report suggests that the majority of the areas are asbestos free but as a full destructive survey was not undertaken for obvious reasons there does remain an element of risk that will need to be identified and managed.
- 3.38 The contractor will develop a strategy which will allow the Council to manage this issue moving forward so that the Council are able to exert control before any decisions are taken that may incur additional cost. The Gleeds revised Budget figures did include an allowance for surveys and relatively minor asbestos removal.

- 3.39 As it is critical that the costs of the project are minimised once approval for the scheme is confirmed the Council will undertake additional work with the contractor and Gleeds to further challenge cost and identify project savings. This will include reviewing issues such as phasing and general working arrangements, with the aim of reducing the delivery period and therefore costs. Feedback is also consistently that the procurement of work packages will reduce estimated costs. Based on Gleeds advice and the existence of some contingency, this report supports continuing with the project within the existing Budget of £5.8m for the refurbishment and £2.6m for the Air Cooling system.

#### *The Next Steps/ Plans for Implementation*

- 3.40 Under the SCAPE Framework once an acceptable feasibility proposal and Budget has been established with the contractor, a detailed proposal and financial offer is developed, works are then to undertake in line with the agreed and accepted proposals.
- 3.41 The detailed proposal stage will ensure that the work packages are competitively procured from subcontractors and suppliers, thereby securing value for money
- 3.42 The parties to the Contract will be MKC and Willmott Dixon Construction, Gleeds who will provide commercial and contractual advice to the Council as necessary in order to ensure that Willmott Dixon fulfil their obligations.

#### *Links to SMART Property*

- 3.43 Alongside FWP the Council has been working on its general accommodation, including surveying buildings to determine their repair and maintenance needs; bringing together budgets and contracts for properties and determining their suitability for future service delivery. As part of this work a number of properties and sites have been identified as being available for disposal or have been transferred to the HRA to convert into housing (as an example see delegated decision on 26<sup>th</sup> July 2016). There are a number of other sites coming forward through this process which will be subject to consultation and decisions as appropriate. This work has identified disposals of £1m which are currently going through the Council's decision making process. Furthermore there are a number of sites in the pipeline which will need to be taken through appropriate consultation process which could release in excess of £3m of value of which £1m are potential housing sites. This work will continue to rationalise property and land.
- 3.44 Part of the work on suitability and stock condition has identified two services which need to be located elsewhere. Their specific needs are currently being considered to see if Civic Offices would be suitable. This could potentially release property for the Council to dispose of.

#### *Alternative Options*

##### *Moving Location*

- 3.45 The Council could consider moving locations rather than investing in Civic Offices. However, there would be a need to maintain a customer services presence in Central Milton Keynes, in order to support vulnerable people including people in crisis, homeless people and young people in care. Transport networks are designed to reach Central Milton Keynes, and residents the Council tends to support would have difficulty in reaching an out of town location to address issues such as Housing Benefits,

Homelessness, Housing tenancies. The Council has tried to offer some of these services in alternative localities but this creates an increase in the running costs for the Council and the demand has been relatively low, albeit demand would increase if a Civic Centre location was not available. The increase in running costs would be as a result of additional management staff to support locations; less flexibility in use of staff resource and additional property costs.

- 3.46 There would also be a choice for the Council about whether public meetings were accommodated in an alternative locality; again this may impact on accessibility for those who use public transport to attend.
- 3.47 The Council does not own suitable Central accommodation which would be sufficient for a stand-alone customer service presence. If suitable modern property needed to be leased this would cost approximately £15 / ft<sup>2</sup>. This compares with Saxon Court and Civic offices being valued unrefurbished at £8 /ft<sup>2</sup> before incentives such as a rent free period. In addition to release the Civic building the public meeting facilities would need to be accommodated elsewhere, either as an alteration to a revised location or in a new build.
- 3.48 The construction cost of a new property excluding the land price, fees and other usual costs would approximately be £160 / ft<sup>2</sup> depending on design, layout and specification. An approximate cost for building an office two-thirds of the size of Civic would be c£15.4m. This compares to a cost of c£100/ft<sup>2</sup> for refurbishment of Civic including the Air Cooling works. If the Council has to lease property then this would create additional revenue costs compared to the current position of owning Civic.
- 3.49 The value of Civic offices has previously been considered, the current estimate is £11.5m assuming a useable office building with vacant possession. The value would need to be assessed for other uses in the event of a sale such as redevelopment for residential and or a mixed use scheme. However, this would create two sites the Council needs to sell/ lease in the centre of Milton Keynes, both in need of refurbishment.
- 3.50 Depending on the alternative use of the site, there may be an economic impact on Central Milton Keynes if Council employees were relocated, there may also be an impact on the attractiveness of the Council as an employer, depending on the location chosen.

#### Statutory Minimum

- 3.51 The alternative is for the Council to remain in Saxon and Civic, as is currently the case. This would mean the urgent works on the Air Cooling system would need to be completed at a cost of £4m, but there would not be the cost savings forecast from leasing parts of the building or from releasing Saxon Court in its entirety. There would also be some abortive costs for the work completed on the scheme to date; these are estimated to be £0.9m and the costs of temporary accommodation of £1.3m. A total of £6.2m. The only benefit to the Council at present would be the leasing out of some of Saxon Court to UCMK and other organisations, as is currently the case.
- 3.52 Appendix 3 shows the costs of only completing the statutory requirements to urgently replace the Air Cooling System. The payback period for this option, created from current lettings in Saxon Court, would be 13 years. However, this option would also only generate savings of £0.45m pa, as the remainder of the spare capacity in Saxon Court would be required for MKC staff.

- 3.53 It should also be noted that an unrefurbished Civic Offices would require additional maintenance to be carried out, although costs have not been included in this model. The extent of costs additions have not been identified but if the building itself has not had any major investment or improvement since it was opened. There are a number of areas which will need repairing and improving to ensure that basic standards are met. The costs of this work are not known at present, but this should be taken into account when making the decision about the current investment programme.
- 3.54 The choice of doing only the minimum would also leave the Council with an outdated building, which will be increasingly unappealing for staff, which may impact on recruitment and retention; the wider benefits from delivering modern working practices and improving efficiency from new ways of working may also be impacted or lost.

#### 4. **Smart Working**

- 4.1 The Smart working programme is key to releasing accommodation space, alongside the refurbishment of the building. This programme enables staff to work flexibly from different locations, reducing travel time and reducing the need for central accommodation. However, the programme has a wider focus to create more significant culture change improving efficiency and productivity, through redesigning working practices and making the best use of technology. The increase in customer focus and productivity will be achieved by:
- Ensuring clarity on expected outcomes and managing by results rather than by presence, developing a trust based culture.
  - Challenging assumptions of necessity around traditional ways of working (e.g. Why are we doing *this* (at all)? Why are we doing this *here*? Why are we doing it *in this way*? Why are we doing it *at this time*?)
  - Enabling work to take place in the most effective locations and at the most effective times through replacing paper, office based processes with mobile, digital solutions.
  - Reducing the time, cost and environmental impact of travel through removing the need for staff to travel to and from the office throughout the day for administration.
  - Developing highly collaborative and dynamic teams with improved connectivity and communication.
  - Minimising our accommodation requirements through enabling staff to work more flexibly from different locations, including in the community and at home. This will result in an overall 6:10 desk ratio with flexibility to accommodate the needs of different services. A highly mobile team, for example, may need fewer desk positions than average but the ability to access to collaborative break out spaces.
  - Supporting the move to a more flexible workforce, in line with the changing nature of local government and increasing equality and diversity, by enabling people with disabilities or caring responsibilities to work in places and at times more suitable to them.
  
  - Improving information security through destroying or digitising paper records, reducing the need for paper storage, reducing transaction costs and ensuring compliance with the Data Protection Act 1998, Freedom of Information Act 2000 and Environment Information Regulations 2004.

### *Progress to Date*

- 4.2 The programme has worked across the Council to raise awareness of the scheme, there has been some significant progress in ICT capability including:
- The ability to access the network through VM Ware remotely, through a web based portal. This has enabled over 1100 staff to work remotely and has facilitated the early stages of the LGSS partnership.
  - The implementation of a soft phone application, which enables the Council's telephone network to be delivered through mobile telephones. This allows customers and colleagues to contact individuals on their work contact number regardless of their location.
  - The implementation of iPads and other mobile devices, which reduce the need for printing and enable staff to work flexibly including on the move.
- 4.3 The staff based on the first floor at Saxon Court, moved into MK Central and adopted the principles of the Smart working programme. This included reducing the volume of records held, moving to electronic processes, reducing space requirements and working from different locations.
- 4.4 Some examples of process change and improvement include:
- Trialling the use of iPads rather than paper bundles with the Family Court in Milton Keynes
  - Scanning invoices, improving record keeping and reducing the need for storage. Albeit, this is an interim measure ahead of the new ERP system, which will include a supplier portal.
  - Staff working in other offices and locations, including those of LGSS partners to maximise efficiency and productivity.
- 4.5 The new Smart working principles are now being applied to Civic and Saxon offices to enable the most efficient phasing of the accommodation refurbishment programme and to ensure the lease at MK Central does not need to be extended. To begin this process, three teams have volunteered as fast track exemplars, demonstrating smarter ways of working. These are the Corporate Parenting Team, Private Sector Housing and Home Ownership Team and Customer Service Team. These teams have been working positively to implement changes and will play a key role in supporting wider rollout through the organisation.
- 4.6 Within Corporate Parenting, social workers and personal advisers have been proactive in identifying changes that will enhance communication with young people in care such as smarter use of text messaging and social media messaging to ensure that valuable time is not spent on re-keying and administration where it could be better spent working directly with young people.
- 4.7 The Private Sector Housing and Home Ownership Team have reduced their accommodation requirements to below the 6:10 ratio through enabling staff to work remotely in a context of management by results. Clear performance benchmarks are in place for all members of the team to ensure productivity can be effectively monitored and improved enabling customers to receive a faster and more efficient service.
- 4.8 Within Customer Service remote access to information systems and telephony has enabled the service to respond effectively to an unprecedented peak in demand during June 2016, resulting from a combination of high volumes of contact regarding the EU referendum, local flooding issues and business as usual contact which saw enquiries

increase by over 200% compared to last year. The resilience of the service was increased through staff being more able to work outside of core hours including in the evenings and at weekends to respond to customer enquiries ensuring the Council's customer service standards were maintained.

### *Benefits*

- 4.9 Productivity and process benefits and resulting savings are being determined as work with individual teams is undertaken. These benefits will be incorporated into the medium term financial plan, either to support teams meeting the impact of increased demand or to enable cost reductions.
- 4.10 The impact of implementing a 6:10 desk ratio, means based on current staff located at Civic, MK Central and Saxon there will be some spare capacity in the refurbished building. At present discussions are ongoing with teams in alternative locations to determine if their needs can be met in the refurbished building. If so this will reduce the costs of alternative buildings and create a benefit from the property released. The benefit may be a sale, lease or redevelopment. These options are currently being considered.
- 4.11 The additional capacity available at Civic could also be utilised by partners to create an income stream for the Council. This approach could also encourage closer integration and deliver benefits to customers. For example other Councils have co-located services such as debt and benefits advisory services and health partners. This approach also aligns with discussions of greater responsibilities transferring to local government as part of the Business Rates Retention proposals.
- 4.12 The move away from paper processes will reduce external storage and recovery costs and will reduce the risks to the Council when responding to statutory requests for information. As an example the amount of storage required in MK Central was less than a fifth of that required in Saxon/ Civic for those teams relocating.
- 4.13 The further benefit is the improved information governance arrangements arising out of the changes made to data storage overall:
- Less data being stored
  - Unnecessary data destroyed
  - Electronic storage in more accessible formats
  - Minimal paper filing (reduced to essential data)

### *Alternative Options*

- 4.14 The Council has the choice not to implement this programme, but this would result in ways of working remaining unchanged, there would be no support available to ensure processes are redesigned incorporating the most effective technology, and the space requirement would not reduce, eliminating the potential use of the remaining space.

### *Risks and Issues*

- 4.15 There are a number of risks and issues with this programme, which will be managed through use of the programme board and project management methodology, these include:
- The capacity and capability of teams and identify process improvements and implement changes
  - ICT change capacity



- Negative impact on service delivery, caused by insufficient management of change
- Benefits of the space capacity in Civic are not achieved

## 5. Implementation Plan

5.1 In terms of the Accommodation Programme, once approval to proceed has been given the following initial steps need to be undertaken:-

- Arrange an asbestos survey through the contractors to establish the levels of possible contamination and risk.
- Consolidation of the client's budget and programme with the technical teams.
- Full day's workshop inclusion of all key stake holders to establish a full project execution plan that includes a live programme and the updated client requirements and strategy, this would also include the strategy for the social values that would benefit the local communities.
- Immediate placement for the design work for the new Air Cooling System installation which is the key to stabilising, and reducing the further risk of increased inflation costs.
- Authorising the contractor to go immediately out to tender for the time critical packages.

5.2 A start on site is anticipated for November 2016 with completion of works by summer 2017.

5.3 In terms of the Smart working programme, the fast track exemplar work with Corporate Parenting, Private Sector Housing and Home Ownership and Customer Service is planned to complete by September 2016 and lessons learnt will inform the wider organisational rollout to commence in September 2016 which will incorporate culture change processes, training, working practices and technology changes.

## 6. Conclusions

6.1 The Council is facing a number of difficult and challenging decisions to reach financial stability over the next few years. It is likely, due to the savings history already delivered, that all of these decisions will have elements of risk and challenges. However, while these have been changes which affect this project, the rationale of reducing costs and increasing income to deliver savings whilst not impacting on vulnerable residents, remains the same.

6.2 Delivering this project will cost £10.8m, but the savings potential is considerably greater than the alternative do minimum solution of spending £6.2m, which creates little benefit. The first option will deliver annual ongoing revenue savings of £1.1m and up to £1.8m per year, resulting in an investment rate of return of 10.1% and a payback period within the 11<sup>th</sup> year. Whilst the latter option would have a rate of return of 6.9% and would only generate savings of £0.45m pa.

6.3 The appointment of external independent cost advisors has already delivered a potential benefit to the programme of £0.5m.

6.4 Whilst spending £10.8m on this scheme reflects a significant investment, providing the project management, independent advice and clear message of minimising costs and marketing sites to create income, the scheme still represents the best option for the Council and the scheme should preferably be progressed as early as possible to minimise inflation risks running at 4% pa.

Background Papers:

- Background Papers – Procurement and Commissioning Committee, Approval to Use SCAPE contract for Future Working Programme, refurbishment of Civic Offices (21<sup>st</sup> July 2015):  
[Procurement and Commissioning - 21 July 2015](#)
- Delegated Decision (5<sup>th</sup> July) Replacement of Air Cooling System in Civic Offices  
[Delegated Decisions - 5 July 2016](#)

## Original Financial Business Case for FWP (July 2015)

## Appendix 1

### Payback Period for total costs of Future Working Programme

	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
Annual Cashable Benefit	£199,277	£429,250	£543,882	£868,926	£1,017,922	£1,151,852	£1,158,674	£1,165,585	£1,172,586	£1,212,685
Add back reduced running costs	£0	£0	£0	£260,851	£260,851	£306,064	£306,064	£306,064	£306,064	£306,064
Total annual cashable benefit	£199,277	£429,250	£543,882	£1,129,777	£1,278,773	£1,457,916	£1,464,738	£1,471,649	£1,478,650	£1,518,749
<b>Cumulative benefit</b>	<b>£199,277</b>	<b>£628,527</b>	<b>£1,172,409</b>	<b>£2,302,186</b>	<b>£3,580,959</b>	<b>£5,038,875</b>	<b>£6,503,613</b>	<b>£7,975,262</b>	<b>£9,453,912</b>	<b>£10,972,661</b>

### Investment Rate of Return for total cost of Future Working Programme

	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
Total Investment Refurbishment of Civic Offices		£3,700,000	£2,100,000							
Total costs of Temporary Accommodation		£846,420	£553,580							
Programme Management	£251,040	£277,000	£207,250							
Other Associated Costs	£125,398	£131,925	£0	£260,851	£260,851	£306,064	£306,064	£306,064	£306,064	£306,064
Reduced expenditure	£0	£0	£0	£868,926	£1,017,922	£1,151,852	£1,158,674	£1,165,585	£1,172,586	£1,212,685
Income	£199,277	£429,250	£543,882	£868,926	£1,017,922	£1,151,852	£1,158,674	£1,165,585	£1,172,586	£1,212,685
Cashflow impact	<b>£177,161</b>	<b>£4,526,095</b>	<b>£2,316,948</b>	<b>-£1,129,777</b>	<b>-£1,278,773</b>	<b>-£1,457,916</b>	<b>-£1,464,738</b>	<b>-£1,471,649</b>	<b>-£1,478,650</b>	<b>-£1,518,749</b>
Cumulative impact	<b>£177,161</b>	<b>£4,703,256</b>	<b>£7,020,204</b>	<b>£5,890,427</b>	<b>£4,611,654</b>	<b>£3,153,738</b>	<b>£1,689,000</b>	<b>£217,351</b>	<b>-£1,261,299</b>	<b>-£2,780,048</b>

Investment rate of return

7.31%

Pay back period is therefore with the 9th year (2022)

### Programme Cost Breakdown

Civic Office Works	£5,800,000
Temporary Accommodation	£1,400,000
Programme Management	£735,290
Other Associated Costs	£257,323
<b>£8,192,613</b>	



Revised Financial Business Case for FWP (July 2016)

Appendix 2

Investment Rate of Return for total cost of Future Working Programme - leasing Civic capacity

	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
		year 1	year 2	year 2	year 3	year 4	year 5	year 6	year 7	year 8	year 9	year 10	year 11	year 12
Total Investment Refurbishment of Civic Offices			£3,700,000	£2,100,000										
Additional cost of Air Cooling			£2,329,000	£307,000										
Total costs of Temporary Accommodation	£38,487	£698,119	£553,580		£310,851	£310,851	£310,851	£310,851	£310,851	£310,851	£310,851	£310,851	£310,851	£310,851
Programme Management	£157,423	£594,262	£95,000		£450,000	£450,000	£450,000	£450,000	£450,000	£450,000	£450,000	£450,000	£450,000	£450,000
Other Associated Costs	£0	£0	£100,000	£155,742	£15,000	£15,000	£15,000	£15,000	£15,000	£15,000	£15,000	£15,000	£15,000	£15,000
Reduced expenditure at Saxon (MKC exiting)	£199,277	£429,250	£450,000	£450,000	£330,000	£330,000	£330,000	£330,000	£330,000	£330,000	£330,000	£330,000	£330,000	£330,000
Income - current leases on Saxon Court														
Energy efficiency benefits at Civic														
Additional income from leasing capacity at Civic														
Cashflow impact	<b>-£3,366</b>	<b>£863,131</b>	<b>£6,327,580</b>	<b>£1,786,891</b>	<b>-£1,105,851</b>	<b>-£1,105,851</b>	<b>-£1,105,851</b>	<b>-£1,105,851</b>	<b>-£1,105,851</b>	<b>-£1,105,851</b>	<b>-£1,105,851</b>	<b>-£1,105,851</b>	<b>-£1,105,851</b>	<b>-£1,105,851</b>
Cumulative cashflow	<b>-£3,366</b>	<b>£859,765</b>	<b>£7,187,345</b>	<b>£8,974,235</b>	<b>£7,868,384</b>	<b>£6,762,533</b>	<b>£5,656,682</b>	<b>£4,550,831</b>	<b>£3,444,980</b>	<b>£2,339,129</b>	<b>£1,233,278</b>	<b>£127,427</b>	<b>-£1,105,851</b>	<b>-£2,084,275</b>

Investment rate of return 10.05%

Pay back period is therefore with the 11th year from the beginning of the major Civic investment (2016)  
The investment period has been delayed for a year, compared to the original proposal

Investment Rate of Return for total cost of Future Working Programme - leasing Civic capacity and all available space at Saxon Court

	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
		year 1	year 2	year 2	year 3	year 4	year 5	year 6	year 7	year 8	year 9	year 10	year 11	year 12
Total Investment Refurbishment of Civic Offices			£3,700,000	£2,100,000										
Additional cost of Air Cooling			£2,329,000	£307,000										
Total costs of Temporary Accommodation	£38,487	£698,119	£553,580		£310,851	£310,851	£310,851	£310,851	£310,851	£310,851	£310,851	£310,851	£310,851	£310,851
Programme Management	£157,423	£594,262	£95,000		£450,000	£450,000	£450,000	£450,000	£450,000	£450,000	£450,000	£450,000	£450,000	£450,000
Other Associated Costs	£0	£0	£100,000	£155,742	£15,000	£15,000	£15,000	£15,000	£15,000	£15,000	£15,000	£15,000	£15,000	£15,000
Reduced expenditure at Saxon (MKC exiting)	£199,277	£429,250	£450,000	£450,000	£330,000	£330,000	£330,000	£330,000	£330,000	£330,000	£330,000	£330,000	£330,000	£330,000
Income - current leases on Saxon Court														
Income - additional leases at Saxon Court														
Energy efficiency benefits at Civic														
Additional income from leasing capacity at Civic														
Cashflow impact	<b>-£3,366</b>	<b>£863,131</b>	<b>£6,327,580</b>	<b>£1,367,965</b>	<b>-£1,673,773</b>	<b>-£1,807,703</b>	<b>-£1,814,525</b>	<b>-£1,821,436</b>	<b>-£1,828,437</b>	<b>-£1,868,536</b>	<b>-£1,868,536</b>	<b>-£1,868,536</b>	<b>-£1,868,536</b>	<b>-£1,868,536</b>
Cumulative cashflow	<b>-£3,366</b>	<b>£859,765</b>	<b>£7,187,345</b>	<b>£8,555,309</b>	<b>£6,881,536</b>	<b>£5,073,833</b>	<b>£3,259,308</b>	<b>£1,437,872</b>	<b>-£390,565</b>	<b>-£2,259,101</b>	<b>-£4,127,637</b>	<b>-£5,996,173</b>	<b>-£7,864,709</b>	<b>-£9,733,245</b>

Investment rate of return 17.73%

Pay back period is therefore with the 7th year from the beginning of the major Civic investment (2016)  
The investment period has been delayed for a year, compared to the original proposal

**Investment Rate of Return for total cost of Future Working Programme - Releasing alternative MKC accommodation**

	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
		year 1	year 1	year 2	year 3	year 4	year 5	year 6	year 7	year 8	year 9	year 10	year 11	year 12
Total Investment Refurbishment of Civic Offices			£3,700,000	£2,100,000	£310,851	£310,851	£310,851	£310,851	£310,851	£310,851	£310,851	£310,851	£310,851	£310,851
Additional cost of Air Cooling			£2,329,000	£307,000	£900,000	£28,000	£28,000	£28,000	£28,000	£28,000	£28,000	£28,000	£28,000	£28,000
Total costs of Temporary Accommodation	£38,487	£698,119	£553,580	£100,000	£28,000	£28,000	£28,000	£28,000	£28,000	£28,000	£28,000	£28,000	£28,000	£28,000
Programme Management	£157,423	£594,262	£95,000	£155,742	£15,000	£15,000	£15,000	£15,000	£15,000	£15,000	£15,000	£15,000	£15,000	£15,000
Other Associated Costs	£0	£0	£0	£310,851	£450,000	£450,000	£450,000	£450,000	£450,000	£450,000	£450,000	£450,000	£450,000	£450,000
Reduced expenditure at Saxon (MKC exiting)				£1,703,851	£1,703,851	£1,703,851	£1,703,851	£1,703,851	£1,703,851	£1,703,851	£1,703,851	£1,703,851	£1,703,851	£1,703,851
Releasing other MKC property - capital receipt				£1,658,891	£1,658,891	£1,658,891	£1,658,891	£1,658,891	£1,658,891	£1,658,891	£1,658,891	£1,658,891	£1,658,891	£1,658,891
Releasing other MKC property - running costs				£450,000	£450,000	£450,000	£450,000	£450,000	£450,000	£450,000	£450,000	£450,000	£450,000	£450,000
Energy efficiency benefits at Civic				£1,187,345	£1,187,345	£1,187,345	£1,187,345	£1,187,345	£1,187,345	£1,187,345	£1,187,345	£1,187,345	£1,187,345	£1,187,345
Income - current leases on Saxon Court	£199,277	£429,250	£450,000	£450,000	£450,000	£450,000	£450,000	£450,000	£450,000	£450,000	£450,000	£450,000	£450,000	£450,000
Cashflow impact	<b>-£3,366</b>	<b>£863,131</b>	<b>£6,327,580</b>	<b>£1,658,891</b>	<b>-£1,703,851</b>	<b>-£803,851</b>	<b>-£803,851</b>	<b>-£803,851</b>	<b>-£803,851</b>	<b>-£803,851</b>	<b>-£803,851</b>	<b>-£803,851</b>	<b>-£803,851</b>	<b>-£803,851</b>
Cumulative cashflow	<b>-£3,366</b>	<b>£859,765</b>	<b>£7,187,345</b>	<b>£8,846,235</b>	<b>£7,142,384</b>	<b>£6,338,533</b>	<b>£5,534,682</b>	<b>£4,730,831</b>	<b>£3,926,980</b>	<b>£3,123,129</b>	<b>£2,319,278</b>	<b>£1,515,427</b>	<b>£711,576</b>	<b>-£92,275</b>

Investment rate of return 7.59%

Pay back period is therefore with the 12th year from the beginning of the major Civic investment (2016)  
The investment period has been delayed for a year, compared to the original proposal

Revised Financial Business Case for FWP (July 2016)

Appendix 3

Investment Rate of Return for Air Cooling Essential Works Only

	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
			year 1	year 2	year 3	year 4	year 5	year 6	year 7	year 8	year 9	year 10	year 11	year 12
Additional cost of Air Cooling			£4,010,000											
Total costs of Temporary Accommodation	£38,487	£698,119	£553,580											
Programme Management	£157,423	£594,262	£95,000											
Other Associated Costs			£100,000											
Income - current leases on Saxon Court	£199,277	£429,250	£450,000	£450,000	£450,000	£450,000	£450,000	£450,000	£450,000	£450,000	£450,000	£450,000	£450,000	£450,000
Cashflow impact	<b>-£3,366</b>	<b>£863,131</b>	<b>£4,308,560</b>	<b>-£450,000</b>	<b>-£450,000</b>	<b>-£450,000</b>	<b>-£450,000</b>	<b>-£450,000</b>	<b>-£450,000</b>	<b>-£450,000</b>	<b>-£450,000</b>	<b>-£450,000</b>	<b>-£450,000</b>	<b>-£450,000</b>
Cumulative cashflow	<b>-£3,366</b>	<b>£859,765</b>	<b>£5,168,345</b>	<b>£4,718,345</b>	<b>£4,268,345</b>	<b>£3,818,345</b>	<b>£3,368,345</b>	<b>£2,918,345</b>	<b>£2,468,345</b>	<b>£2,018,345</b>	<b>£1,568,345</b>	<b>£1,118,345</b>	<b>£668,345</b>	<b>£218,345</b>

Investment rate of return 6.86%

Pay back period is therefore with the 13th year from the investment in the Air Cooling System

**Programme Cost Breakdown**

Air Cooling Works at Civic	£4,010,000
Temporary Accommodation	£1,251,699
Programme Management	£735,290
Other Associated Costs	£257,323
	<b><u>£6,254,312</u></b>





### *Air Cooling Requirements*

- 1.1 The Council had commissioned a report into the quality of the Air Cooling System as part of its standard maintenance requirements in 2014. This report concluded the system was adequate, as this was not an intrusive survey and only commented on the operational aspects. Although it was noted that the existing system had already exceeded its current life span even though it is still working following a full and extensive design and visual /practical inspection. The original programme scope placed reliance on this report. However, the due diligence work for the FWP programme completed an additional review, identifying issues with the current system.
- 1.2 The Cool Air System relies on ductwork to control the flow of air through the building. The survey work undertaken as part of preparations for the Civic Office refurbishment identified that the existing ductwork is made from a fibre board material. This is a very old system, not widely used and not robust meaning it cannot be easily cleaned internally without severe, costly damage.
- 1.3 It is a legal requirement that mechanical ventilation systems such as the air condition system are cleaned and are in an efficient state, in efficient working order and in good repair. The problem with the duct work prevents the cleaning taking place.
- 1.4 In order to ensure that it is in compliance with Health and Safety legislation, replacement with new galvanised steel ductwork would appear to be the practical, robust and cost effective option, allowing full cleaning and minimising any risk of actions against the Council.
- 1.5 The Council also obtained independent survey and recommendation. This assessment confirmed that the system needed replacement as it currently did not meet the requirements of Health and Safety legislation and placed the Council at risk of committing an offence if it was left as is. The independent survey also considered the alternative of changing the building to allow for natural ventilation, but the professional judgement was the cost of the structural works required would exceed the cost of replacing the air cooling system. This survey looked at the options for types of air cooling systems, to ensure the specification of the replacement was the most cost effective.
- 1.6 Part of the survey ahead of the refurbishment works also reviewed the plant room. The findings showed that the plant was replaced in 2003. At this point in time, the current equipment has an estimated 7 years of economic life remaining. For this reason it would make sense to retain the existing equipment but to make provision in the Capital Programme from 2017/18 onwards for the cost of replacement. This would cost an estimated £0.16m pa.
- 1.7 Following the survey works and subsequent independent professional

advice, the Council is duty bound in accordance with Health and Safety legislation to take steps to address this issue. The two alternatives for completing this work are:

- 1) To complete this work as part of the wider Civic refurbishment programme, this means that some of the necessary ceiling replacements and lighting changes are already accommodated in the project. This means undertaking this work alongside the refurbishment work in Civic Offices will cost £2.6m.
- 2) To complete this work as a stand-alone project, independent of the refurbishment project would cost £4.0m. This would also disrupt staff in the same way as a major refurbishment programme.

*Benefits of Replacement Ductwork & Controls*

1.8 Whilst the replacement ductwork is an issue of scope change there are obvious benefits which should be taken into account in assessing the investment decision. These include the following;

- 1) The system will be provide a far better degree of performance and control which will afford the occupants of the refurnished space higher degrees of comfort which will aid efficiency of work through improved environment.
- 2) The Council's energy use and ability to control energy costs will be much improved through improved life cycle requirements and actual performance being more reflective of needs.
- 3) Bearing in mind the likelihood of rising energy costs over the next 25 years then an approach which improves energy efficiency and reduces running costs is sensible.