

B&NES Modern Libraries Programme

Financial Summary

Reliance Restricted

10 July 2017

The EY logo consists of the letters 'EY' in a bold, white, sans-serif font. A yellow triangle is positioned above the 'Y', pointing downwards towards the letters.

Building a better
working world



Financial Summary

As part of the Modern Libraries programme, five options have been considered for Bath Library Services.

Introduction

As part of the Modern Libraries programme, five options have been considered for Bath Library Services which are summarised below:

Options	Capital requirement	Cumulative annual savings- Whole programme					Cumulative annual savings- Bath only					Potential savings areas
Option 1 – do nothing- OSS remains at Lewis House and refresh of Library space at the Podium	Capital requirement = £0.651m This capital would be needed to refresh the Library space in order to bring some areas up to a higher standard of maintenance. All capital requirements are met by approved funding.	In order to achieve any savings, more staff savings will be required.					In order to achieve any savings, more staff savings will be required.					This option would place a high reliance on volunteers. The number of volunteers needed is not considered sustainable.
Option 2 – build new	Not fully assessed, estimated cost £2,400 square metre.	Not assessed					Not assessed					Time to acquire/remodel a new site is prohibitive within the savings timeframe.
Option 3 – integrate the Library into Lewis House	Capital cost = £7.138m <i>Funding sources</i> Provisionally approved Modern Libraries & Workplaces = £5.953m Identified balances (inclusive capital & s106 funds) = £0.773m Capital required in excess of approved funding = £0.412m		Savings	Borrowing costs	Rent	Net Saving		Savings	Borrowing costs	Rent	Net Saving	Rental income regeneration opportunities in the Podium. Staff savings through redesign of operating models.
		2017/18	£100k	(£143k)	£-	(£43k)	2017/18	£34k	(£141k)	£-	(£107k)	
		2018/19	£241k	(£364k)	£-	(£123k)	2018/19	£186k	(£361k)	£-	(£175k)	
		2019/20	£935k	(£364k)	£67k	£638k	2019/20	£527k	(£361k)	£67k	£233k	
		2020/21 onward	£935k	(£364k)	£161k	£732k	2020/21 onward	£527k	(£361k)	£161k	£327k	
Option 4 – integrate the One Stop Shop services into the Podium.	Capital cost = £3.580m <i>Funding sources</i> Provisionally approved Modern Libraries & Workplaces = £5.953m All capital requirements are met by approved funding.		Savings	Borrowing cost	Rent	Net Saving		Savings	Borrowing cost	Rent	Net Saving	Staff savings through redesign of operating models.
		2017/18	£100k	(£54k)	£-	£46k	2017/18	£34k	(£52k)	£-	(£18k)	
		2018/19	£241k	(£137k)	£-	£104k	2018/19	£186k	(£134k)	£-	£52k	
		2019/20	£935k	(£137k)	£-	£798k	2019/20	£527k	(£134k)	£-	£393k	
		2020/21 onward	£935k	(£137k)	£-	£798k	2020/21 onward	£527k	(£134k)	£-	£393k	
Option 5 – integrate Library and OSS into the Guildhall	Not assessed	Not assessed					Not assessed					Listed building with insufficient space, time and complexity to carry out structural or cosmetic changes prohibitive with the savings timeframe



Financial Summary

Options 1, 2 and 5 fail to meet the Council's threshold in one or both of the financial outcomes test. The option appraisal methodology has established option 4 as the best option although option 3 is potentially a good alternative.

Recommendation & Options appraisal

For this project we have performed the tasks, and relied on the data sources, as set out in the Transmittal Letter. Our analysis has been further informed by discussions with Management and a financial analysis of the data, including sensitivity analysis. We have agreed the data to the source documentation and re-performed appropriate calculations feeding into our options analysis. The option appraisal methodology has been agreed with management and this established option 4 as the best financial option, with option 3 as an alternative that would be suitable with some slight modifications.

Options 1, 2 and 5 fail to meet the Council's threshold in one or both of the financial or outcomes test. Option 3 is outside capital provision but as this is based on estimated costs only at this stage and meets the 3 other thresholds, it should be considered. Therefore, only options 3 and 4 are being taken forward for further analysis and consultation.

	Option 1 – do nothing	Option 2 – New	Option 3 – Lewis House	Option 4 - Podium	Option 5 - Guildhall
Delivery of financial benefits	NO	NO	YES	YES	NO
Delivery of service outcomes	NO	YES	YES	YES	NO
Delivery within timescales	YES	NO	YES	YES	NO
Delivery within capital provision	YES	NO	NO	YES	N/A

Financial Summary- Bath only

Option 3 has higher remodelling and refurbishment costs resulting in capital required in excess of approved/provisionally approved funding of £362k. Capital costs for option 4 are covered by available funding

Capital budget comparison

Capital Summary	Option 3- Lewis House £'000	Option 4- Podium £'000
Capital Cost		
Remodelling and Refurb	(6,156)	(2,598)
Project Management Costs	(227)	(227)
Total Capital Costs	(6,382)	(2,825)
Funding		
Approved Funding	5,953	5,953
Other balances	67	-
Total Funding	6,020	5,953
Capital Funding Gap	(362)	-

This gap could potentially be bridged.

Capital costs are derived using standard rates.



Option 3 has higher remodelling and refurbishment costs resulting in capital required in excess of approved funding of £362,000.

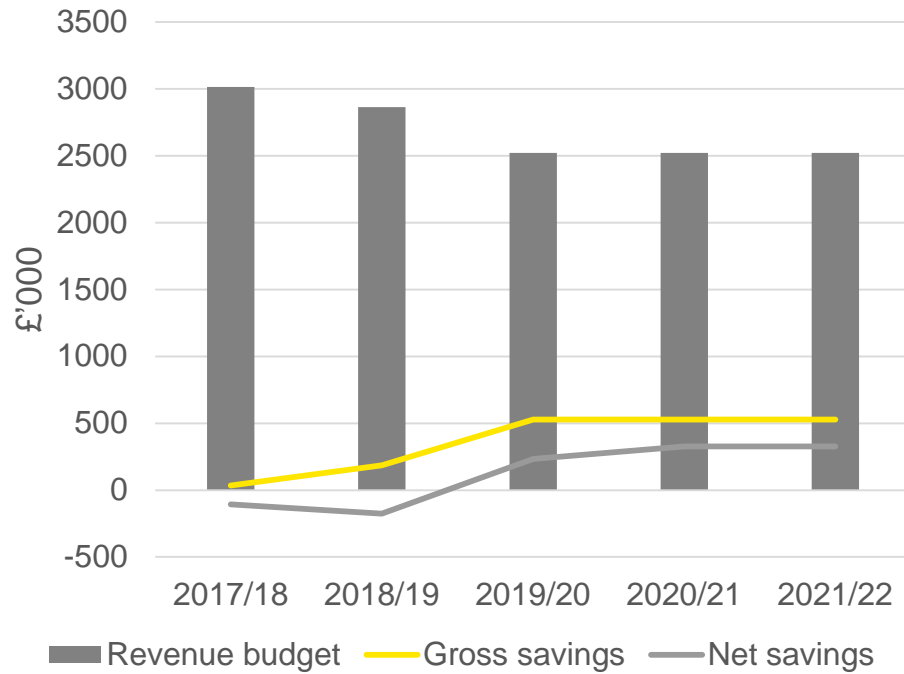


Financial Summary- Bath only

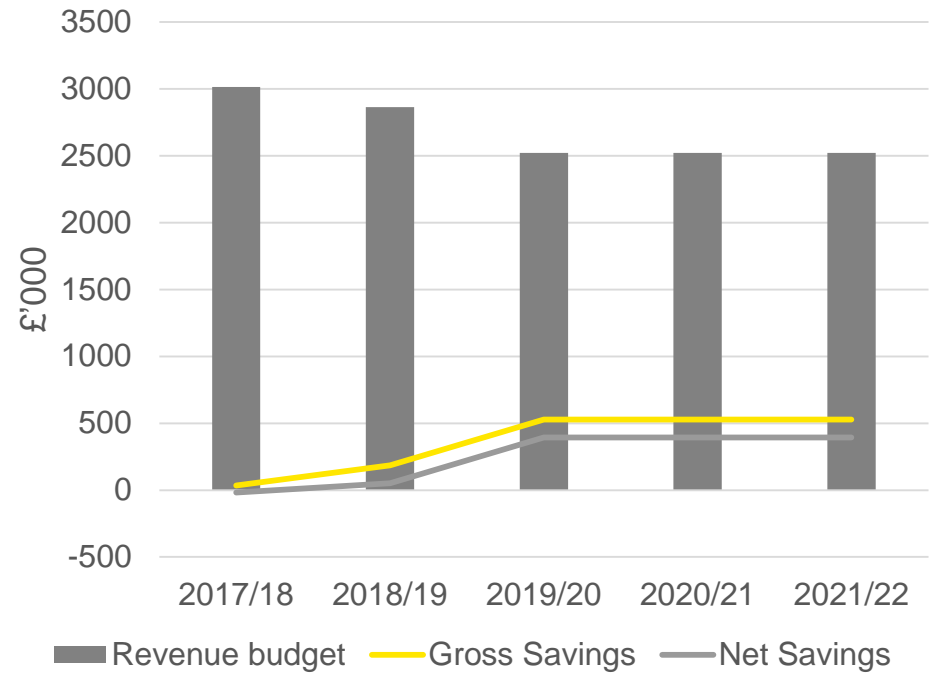
Option 4 achieves the revenue savings target. Option 3 could potentially achieve the target if more staff savings are made.

Revenue budget comparison

Option 3 – Lewis House - revenue budget



Option 4 – Podium - revenue budget



Both options result in gross cumulative savings of £527k per annum from 2019/20 onwards.

Option 3 generates net cumulative savings of £327k in 2020/21 as opposed to option 4 which generates £393k.

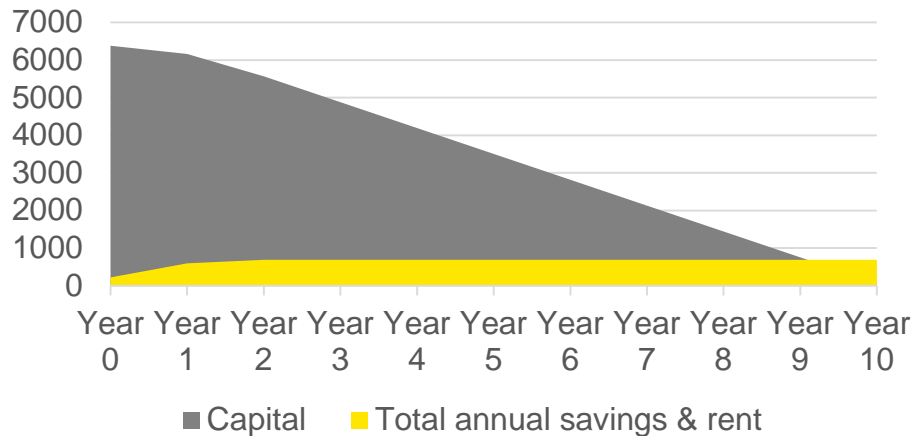


Financial Summary- Bath only

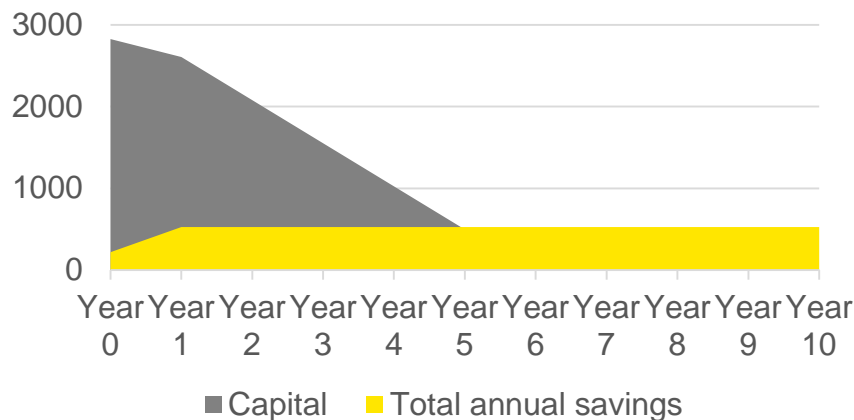
Option 3 has a longer savings payback period than option 4 (9.1 years compared with 4.9 years) this is due to a higher capital requirement and financing costs.

Savings payback period

Option 3 – Lewis House – savings payback period



Option 4 - Podium – savings payback period



Assumptions/Observations:

- ▶ The simple payback period has been calculated from the date of practical completion of the works (2019/20:Year 1), and is before cost of capital and without discounting. Cost of capital is nevertheless allowed for in the reported net revenue savings and the IRR calculation;
- ▶ Option 3 total capital costs of £6.4m;
- ▶ Cumulative savings of £527k per annum are maintained from 2019/20;
- ▶ Commercial rental income of £161k per annum commences part way through 2019/20;
- ▶ Option 3 has a longer savings payback period than option 4 due to the higher capital requirement– albeit this is partially offset by the forecast rental income;
- ▶ Payback period of 9.1 years;
- ▶ Internal rate of return* of 2% over an estimated 30 year savings period.

Assumptions/Observations:

- ▶ The simple payback period has been calculated from the date of practical completion of the works (2019/20:Year 1), and is before cost of capital and without discounting. Cost of capital is nevertheless allowed for in the reported net revenue savings and the IRR calculation;
- ▶ Option 4 total capital costs of £2.8m;
- ▶ Cumulative savings of £527k per annum are maintained from 2019/20;
- ▶ Option 4 savings payback period is 4.2 years sooner than option 3 due to the lower initial capital requirement;
- ▶ Payback period of 4.9 years;
- ▶ Internal rate of return* of 11% over an estimated 30 year savings period.

* Internal rate of return (IRR) is the interest rate at which the net present value of all the cash flows (both positive and negative) from a project or investment equal zero. If this exceeds the organisations required rate of return the Project is desirable.



Financial Summary- Modern Libraries Programme

Option 3 has significantly higher capital costs due to the remodelling works required to Lewis House to accommodate the Library area and to the Podium to create commercial space. Option 3 results in capital required in excess of approved and provisionally approved funding of £412k

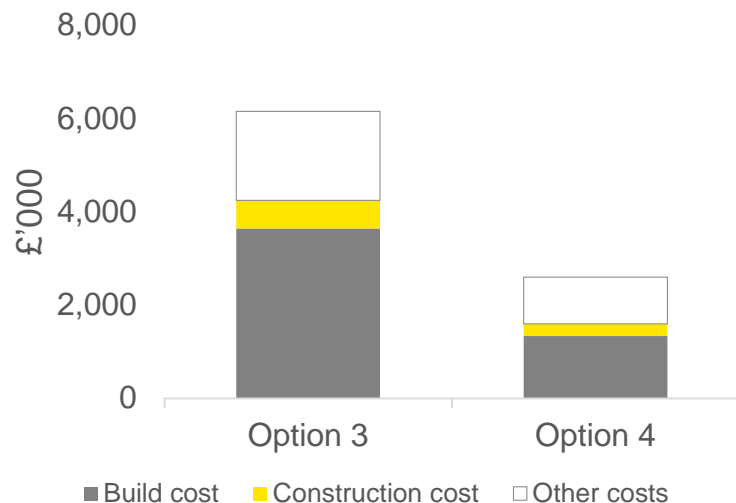
Capital budget comparison

	Option 3- Lewis House £'000	Option 4- Podium £'000
Capital Costs	(7,138)	(3,580)
Total Funding	6,726	6,726
Capital Funding Gap	(412)	-
Total Build Cost	(6,156)	(2,598)
Capital Requirement	(5,706)	(2,149)

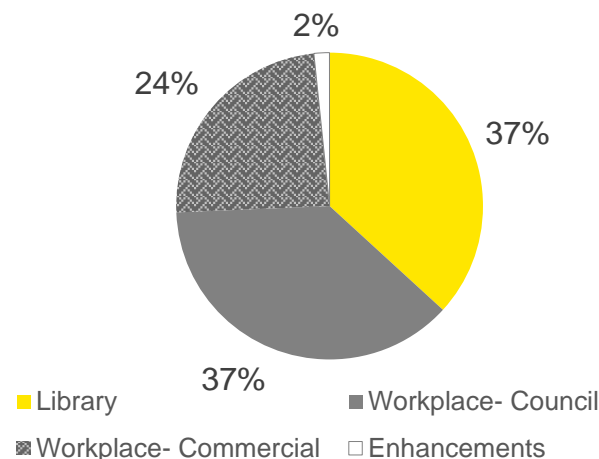
Option 3 has significantly higher capital costs as a result of higher build costs. This is due to the following:

- ▶ The extent of the work required to create staff and commercial office space in the Podium given the intensity of use;
- ▶ The scale of new furniture and equipment required to fit out Lewis House which is spatially very different to the Podium;
- ▶ The more complex staff and library decant requirements to allow works to progress;
- ▶ 61% (37% Council workplace & 24% Commercial workplace) of Option 3 build cost relates to workplace compared to 24% for option 4.

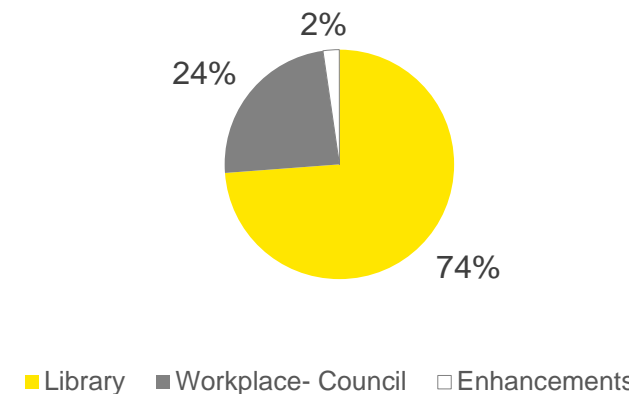
Build Cost Comparison



Option 3 – Lewis House - Build Costs



Option 4 – Podium - Build Costs



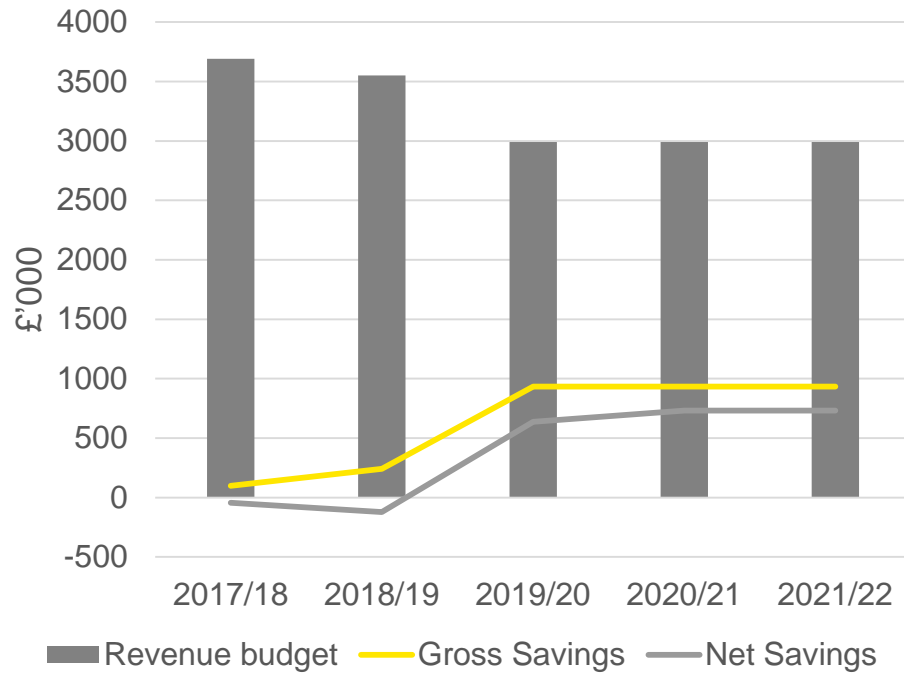


Financial Summary- Modern Libraries Programme

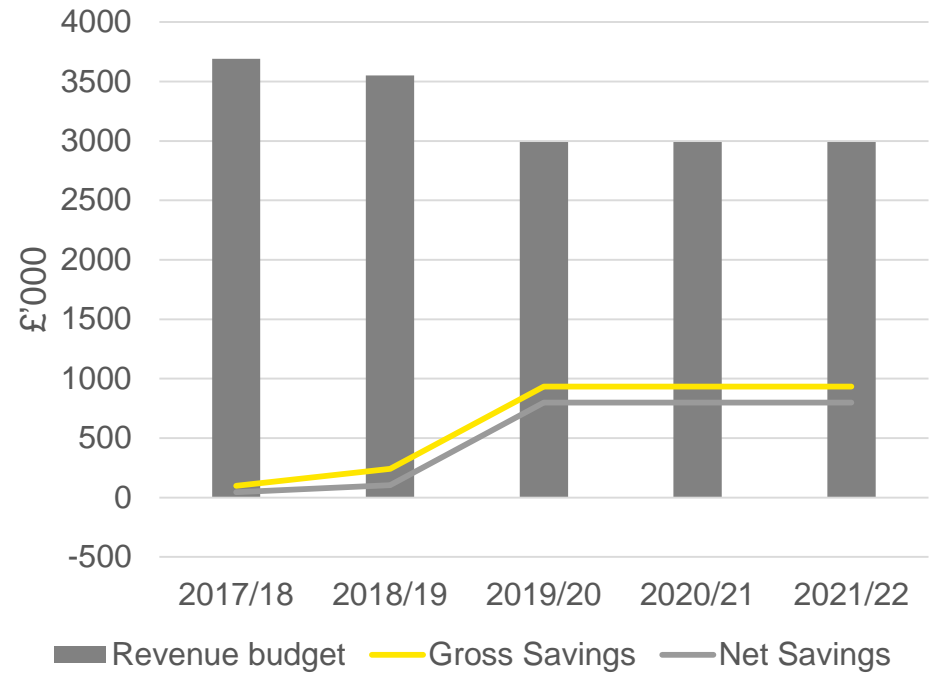
Option 4 achieves the revenue savings target. Option 3 could potentially achieve the target if more staff savings are made.

Revenue budget comparison

Option 3 – Lewis House - revenue budget



Option 4 – Podium - revenue budget



Both options result in gross cumulative savings of £935k from 2019/20 onwards.

Option 3 generates net cumulative savings of £732k in 2020/21 as opposed to option 4 which generates £798k.



Financial Summary- Modern Libraries Programme

Cumulative annual savings total £935k and are made up of 70% staff costs, 24% central management costs and 6% building costs. Cumulative annual savings relate to both options 3 and 4 and cover all Libraries and Customer Services.

Savings

	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000	2020/21 £'000
Staff costs	66	202	654	654	654
Building costs	-	5	57	57	57
Central Management costs	34	34	224	224	224
Total	100	241	935	935	935

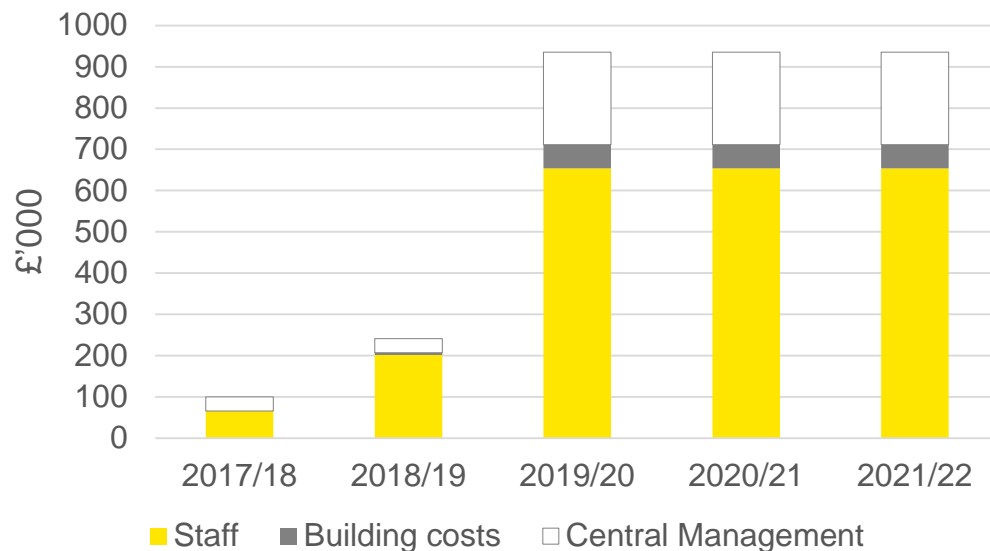
It is assumed that the savings achieved will be the same for both options 3 (Lewis House) and 4 (Podium) as both benefit from the same integrated working pattern.

No figure for mobile libraries included within savings as the new community approach could deliver additional savings which are not yet quantified.

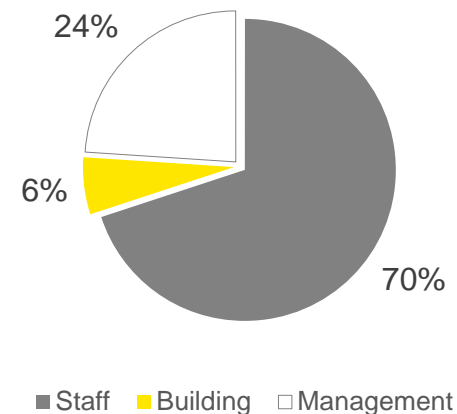
No projections have been made beyond the initial programme. It is assumed that a static state will be maintained once the benefits of the programme have been realised. Longer term changes or developments have not been forecast.

In Keynsham, Library and OSS services now share the same space however the operation has not been fully integrated and as such savings have not been fully realised in this respect although some staff have been lost and not replaced.

Cumulative Annual Savings



Cumulative annual savings



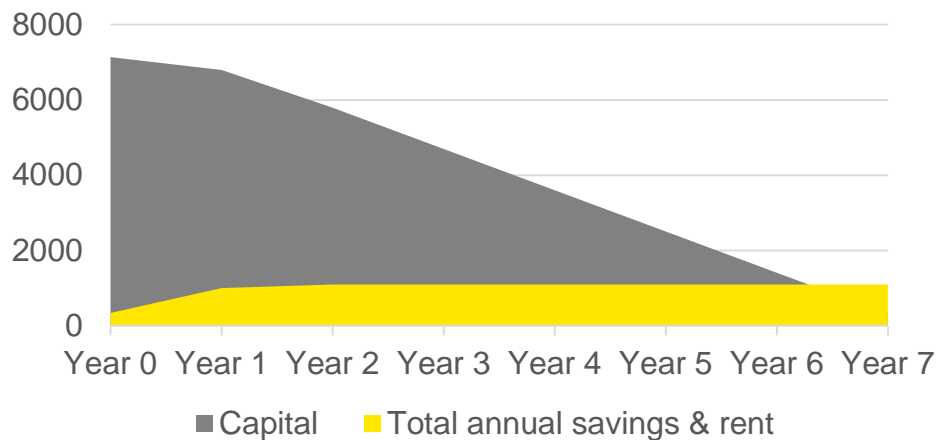


Financial Summary- Modern Libraries Programme

Option 3 has a longer savings payback period than option 4 (6.3 years compared with 3.5 years) this is due to a higher capital requirement and financing costs.

Savings payback period

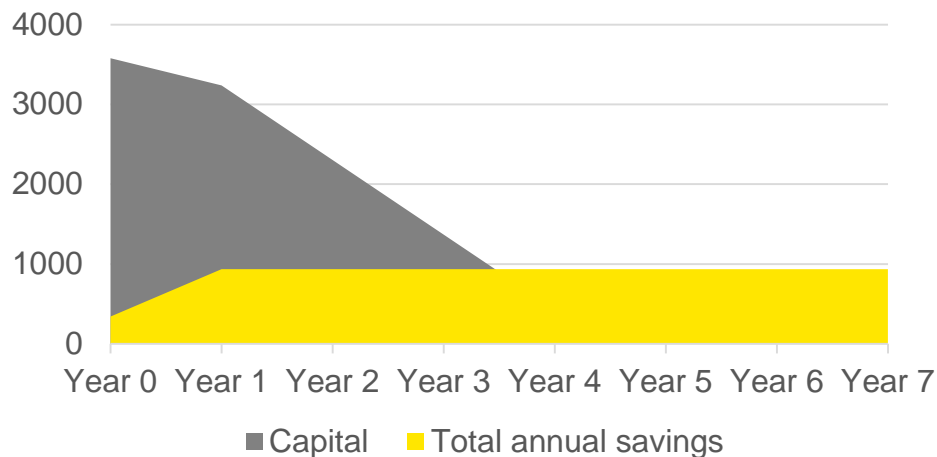
Option 3 – Lewis House – savings payback period



Assumptions/Observations:

- ▶ The simple payback period has been calculated from the date of practical completion of the works (2019/20:Year 1), and is before cost of capital and without discounting. Cost of capital is nevertheless allowed for in the reported net revenue savings and the IRR calculation;
- ▶ Option 3 total capital costs of £7.1m;
- ▶ Cumulative savings of £935k per annum are maintained from 2019/20;
- ▶ Commercial rental income of £161k per annum commences part way through 2019/20;
- ▶ Option 3 has a longer savings payback period than option 4 due to the higher capital requirement– albeit this is partially offset by the forecast rental income;
- ▶ Payback period of 6.3 years;
- ▶ Internal rate of return* of 7% over an estimated 30 year savings period.

Option 4 - Podium – savings payback period



Assumptions/Observations:

- ▶ The simple payback period has been calculated from the date of practical completion of the works (2019/20:Year 1), and is before cost of capital and without discounting. Cost of capital is nevertheless allowed for in the reported net revenue savings and the IRR calculation;
- ▶ Option 4 total capital costs of £3.6m;
- ▶ Cumulative savings of £935k per annum are maintained from 2019/20;
- ▶ Option 4 savings payback period is 2.8 years sooner than option 3 due to the lower initial capital requirement;
- ▶ Payback period of 3.5 years;
- ▶ Internal rate of return* of 16% over an estimated 30 year savings period.

* Internal rate of return (IRR) is the interest rate at which the net present value of all the cash flows (both positive and negative) from a project or investment equal zero. If this exceeds the organisations required rate of return the Project is desirable.



Appendices

Disclaimer

This report was prepared on the instructions of Bath and North East Somerset Council solely for the purpose of evaluating the status of the Modern Libraries Programme and should not be relied upon for any other purpose.

In carrying out our work and preparing our report, we have worked solely on the instructions of Bath and North East Somerset Council and for its purposes only. In preparing our report we did not and could not take into account issues relevant to any third parties. Any use such third parties may choose to make of our report is entirely at their own risk and we shall have no responsibility whatsoever in relation to any such use.

to the fullest extent permitted by law, EY and any EY Firm accept no responsibility or liability to them, whether in contract, tort (including negligence) or otherwise in respect of any use they may make of the report or the information contained within it, which is entirely at their own risk, and shall not be liable to them in respect of any loss, damage or expense which is caused by their reliance upon the report or the information contained within it.

The UK firm Ernst & Young LLP is a limited liability partnership registered in England and Wales with registered number OC300001 and is a member firm of Ernst & Young Global Limited. A list of members' names is available for inspection at 1 More London Place, London SE1 2AF, the firm's principal place of business and registered office. Ernst & Young LLP is a multi-disciplinary practice and is authorised and regulated by the Institute of Chartered Accountants in England and Wales, the Solicitors Regulation Authority and other regulators. Further details can be found at <http://www.ey.com/UK/en/Home/Legal>.



EY LLP
The Paragon
Counterslip
Bristol
Avon
BS1 6BX
Tel: 0117 981 2050
Fax: 0117 981 2051
www.ey.com/uk

Direct line: +44 (0)141 226 9095
Email: pmilne1@uk.ey.com

Reliance Restricted

Attn: Andrew Pate
Workplaces 18/Modern Libraries Programme Manager
Bath and North East Somerset Council
Lewis House
Manvers Street
Bath, BA1 1JG

10 July 2017

Dear Sirs

Modern Libraries Programme status review

In accordance with the terms and conditions set out in our Framework Agreement, dated July 2016, and our agreed scope of works, this report sets out our conclusions in relation to the review of the status of the Modern Libraries Programme .

Purpose of our report and restrictions on its use

This report was prepared on your instructions solely for the purpose of evaluating the status of the Modern Libraries Programme and should not be relied upon for any other purpose. We understand that our report will be used to support the Council's Cabinet consideration of the Modern Libraries Programme and that non confidential information in this report will be made available to the general public to read. We consent to this use.

In carrying out our work and preparing our report, we have worked solely on the instructions of Bath and North East Somerset Council and for its purposes only.

Our report may not have considered issues relevant to any third parties. Any use such third parties may choose to make of our report is entirely at their own risk and we shall have no responsibility whatsoever in relation to any such use.

Scope of our work

Our work in connection with this project is of a different nature to that of an audit. Our report to you is based on inquiries of, and discussions with Council personnel. During this project we have performed financial analysis to compare the options under review and have carried out the following work:

- ▶ Review of capital and revenue budgets and anticipated savings for options – the capital budget includes costs estimates provided by a Quantity Surveyor advising the Council
- ▶ Calculation of the payback period and IRR for the options in terms of initial capital investment and on-going savings
- ▶ Performed a sensitivity analysis of key assumptions



EY LLP
The Paragon
Counterslip
Bristol
Avon
BS1 6BX
Tel: 0117 981 2050
Fax: 0117 981 2051
www.ey.com/uk

Direct line: +44 (0)141 226 9095
Email: pmilne1@uk.ey.com

Continued

We did not comment on the operational risks associated with the proposed options.

The information contained in this report has been based on the Modern Library Programme draft business case. During the course of our work, we have also reviewed budgets, estimates, savings and finance calculations prepared by Council officers for each of the options under consideration.

All the information we have received is the responsibility of the Council. We have not sought to establish the reliability of the information given to us except as specifically stated in this Report. As part of this work we have reviewed the estimates and inputs used and conclude that outputs provided appear reasonable.

If you would like to clarify any aspect of this review or discuss other related matters then please do not hesitate to contact us.

Yours faithfully

Philip Milne
Partner
Transaction Advisory Services
Ernst & Young LLP

The UK firm Ernst & Young LLP is a limited liability partnership registered in England and Wales with registered number OC300001 and is a member firm of Ernst & Young Global Limited. A list of members' names is available for inspection at 1 More London Place, London SE1 2AF, the firm's principal place of business and registered office. Ernst & Young LLP is a multi-disciplinary practice and is authorised and regulated by the Institute of Chartered Accountants in England and Wales, the Solicitors Regulation Authority and other regulators. Further details can be found at <http://www.ey.com/UK/en/Home/Legal>.

EY | Assurance | Tax | Transactions | Advisory

About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit ey.com.

Ernst & Young LLP is a client-serving member firm of Ernst & Young Global Limited operating in the US.

© 2016 Ernst & Young LLP.
All Rights Reserved.