

**Forestry Business Units
Value for Money Delivery
Plan**

June 08

**Chapelhall Workshop
Fixed Cost Review**

Chapelhall Workshop Fixed Cost Review

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Appendix 1 trading summary

Appendix 2 Chapelhall closure cost

Appendix 3 revised staffing

Appendix 4 cash flow analysis

1) Introduction

There is excess workshop capacity in MES and this is likely to increase over the next few years and a reduction of at least one site needs to be considered. The reduced requirement for workshops throughout MES has also caused a decline of internal work at Chapelhall. This is the main reason for trading losses at Chapelhall that have averaged £116,000 in financial years 2002/03 to 2007/08. A summarised trading result for each of these years and the budget and forecasts for 2008/09 to 2010/11 are given at appendix 1. There is also a requirement for significant investment in the building and yard at Chapelhall. These issues are considered in this review of Chapelhall workshop with the overall aim of providing a better quality and cheaper service than the private sector that will meet the requirements of MES now and in the future.

2) Background

Business Units set out the Businesswise strategy two years ago to identify areas with potential for savings. Part of this process was to expand on these efficiencies with firm action plans. Business Units also had to identify areas with potential for further efficiencies for the 2008/09 2010/11 Comprehensive Spending Review. In response to this the Director FBUs, launched the Value for Money Delivery Plan (VMDP) which included a review of fixed costs (buildings). The MES workshop structure was one of the areas identified as having potential for improvement.

3) Review process - review group

A working group consisting of the Head of MES (chairman), Central Services Engineer, and Workshop Manager Chapelhall prepared a review with the following terms of reference.

- a) Evaluate costs and benefits of closing Chapelhall workshop and allocating work to other locations in MES.
- b) Assess effects on staff and skills.
- c) Identify each of the functions both done and proposed to be done at Chapelhall and suggest alternative locations and methods of doing the work.
- d) Produce cash and trading analysis
- e) Consider benefits and drawbacks of separating management of Chapelhall's functions, with disposals remaining with the Central Services Engineer and other work coming under the Fleet Engineer's control.

4) Workshop capacity

Although at the outset this review was only required to consider Chapelhall Workshop the circumstances have changed and it now has to consider the current and predicted workshop capacity in MES as a whole. The DP review and an earlier review of harvesting machines in 2000 led to a reduction in harvesting machines and hence the requirement for workshops in Scotland. In financial year 2002/03 there were 46 harvesting machines in Scotland and this will reduce to 27 following implementation of the current DP Review. There was no reduction in workshop capacity in Scotland over the same period. There is also evidence of surplus workshop capacity in England and there are similar issues in Wales but this is being considered in a separate review. The Greenerways travel and transport targets aims to reduce vehicle CO2 emissions by 5% in each year, and while

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efforts will be made to achieve this by smaller more efficient vehicles it is likely to lead to a decline in vehicle numbers and hence a reduced requirement for workshops.

5) Review Process - MES Scotland LSC Sub Group

This review was submitted to the MES Scotland Local Staff Council at a meeting on 2 July 07, where it was decided to set up a Sub Group with the following terms of reference.

- a) Revisit options
- b) Develop financial assessments for all viable options
- c) Seek broader views on the likely impact for the Scottish On The Ground Project and assess the possible impact of any potential development opportunities for MES
- d) Seek broader views on possible re-allocation of the Chapelhall work; and any other viable options
- e) Update the report
- f) Make recommendations on next steps

The Sub Group met on 26 July 07 and 4 September 07 and the decisions and findings from these meetings were included in a further version of this report, which was submitted to the Sub Group in September 07. This coincided with the DP review and as the changes being proposed were dependent on the outcome of the DP review, the TUS suspended talks pending the outcome of their discussion with FE Scotland. This was lifted on 1 June 08 following changes to the DP review and the effect of these and other changes since September 07 have been included in this version of the report.

6) Staff cost of change

Relocation or redundancy costs for existing staff at Chapelhall as at November 08 are given at appendix 2. The estimates assume that mobile staff at PB5 will transfer. The Staff Handbook states that reimbursement of home removal expenses is at the Commission's discretion depending on the distance and difficulty of travel between the old and new stations. The following variables identify a risk of the staff cost of change being greater or less than the estimate.

- a) There may be resignations or other staff reductions
- b) Staff may be relocated to other jobs
- c) Redundancy costs are based on identified individuals, but others may volunteer
- d) Change may take place before or after the planned change date of 1 July 09

There will be further meetings of management and TUS to review options for individual members of staff if it is decided to go ahead with the transfer.

7) Sale of Chapelhall

Estates Branch instructed Bell Ingram Chartered Surveyors to undertake an evaluation of Chapelhall. They submitted a report in January 2008 with an estimate of £850,000 based on its current condition for industrial use. Some of the land may be contaminated or unstable, which would reduce the sale price. They went on to say that subject to the area being zoned for residential use, it would have a value in the range £2,200,000 to £2,700,000. While it is made clear in the report that the area is currently zoned for industrial use there has been some interest in the Chapelhall site and adjoining land for

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residential development. There has been an approach from Land Locator on behalf of Wimpey and there was a neighbour notification in May 08 from Keppie Planning and Urban Design Ltd on behalf of Thomas Mitchell Homes for a proposed residential development on adjoining land. The valuation of £850,000 is used in the cash flow analysis at appendix 4 pending further information on its potential for residential use.

8) Condition

The workshop was built in 1960 with an extension to the workshop, offices and canteen added about 1970. The perimeter fence has had numerous temporary repairs and is in need of replacement. There have been frequent breaches of the perimeter fence, the most recent involved vandalism that resulted in the total loss of a forwarder by fire and extensive damage to another. As a result the site is now considered unsuitable for machine sales. The surface of the yard has become broken and will need resurfacing. The outlying area would benefit from landscaping. The main workshop building is generally in fair condition, but the wiring and fittings need replacement. The office and canteen extension needs either extensive refurbishment or replacement. The yard repair is estimated to cost £85,000 and while it was not practical to get quotations for the other repairs and work, a complete refurbishment is unlikely to cost less than £200,000 and this is used in the financial appraisal.

9) Workload

Most of the work at Chapelhall can be summarised in the following categories.

- a) New vehicle preparation. Conversion of vehicles for specialist work, fitting towbars, pre-issue checks, and provision of a 'turnkey' vehicle service.
- b) Disposals. Optimise disposal income by preparing machines, vehicles and equipment for sale.
- c) Other work. Welding repairs and fabrication, miscellaneous machine and vehicle repairs, assembly of stress laminated timber bridges

All categories are done for internal (FC) and external (private sector) clients. The work requires specialised staff skills with relatively low investment in tools and equipment. It is readily transferable to other locations with suitable infrastructure.

10) Transfer of work to other locations

- a) New vehicle preparation and other work

Inver Workshops is identified as being most suitable for new vehicle preparation and for the other welding, repair work and assembly of stress laminated timber bridges currently done at Chapelhall. Apart from vehicle preparation, this work is mostly for clients in Scotland. Other workshops could do some of this work if the transport cost to Inver outweighed the benefits of it being done centrally. This will only apply to small jobs and it does not diminish the case for centralising the work at Inver.

Inver recently lost its harvesting fleet, (the last forwarder will leave at the end of 2008/09) with a corresponding reduction of three posts, Foreman, Storeman and Mobile Mechanic. The remaining Mobile Mechanic will continue to use Inver as a base and store and for occasional workshop jobs.

Inver is near a trunk road and there is space in the yard but it will be necessary to construct a secure compound to park new vehicles. Existing buildings and equipment will

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need some investment to improve their condition and make them suitable for their new role.

b) Disposals

Major machines will mostly be sold at the supporting workshop, but some will be sold by tender sales at specified workshops. Bellingham is the most suitable site for tender sales in Wales and England and Inver for tender sales in Scotland. Most vehicles are leased by contract hire and are sold by the contract hire companies, but vehicles are now being funded by operating lease and they will be sold by Central Services when they start to come up for replacement in 2012/13. As with major machines most of the sales will be at the supporting workshop. Local auctions and Internet selling (ebay) will be used for sundry sales depending on circumstances.

c) On the Ground

The MES Scotland Local Staff Council Sub Group asked the On the Ground Steering Group if there was any possibility of a joint operation with other Government partners in Scotland. This included improving utilisation of Chapelhall by sharing with a partner or transfer of Chapelhall's operations to a partner's nearby workshop. A suitable partner has yet to be found.

d) Territory Workshops

The option of closing Chapelhall and distributing the work among existing Territory Workshops is considered but discounted. Chapelhall workshop has specialist equipment and the staff have unique skills and these would need to be replicated in many other locations if this option was used. It would be difficult to manage and control the work when distributed among territory workshops. The central workshop has a single management structure with clearly defined responsibilities and this would be diluted if the work were distributed among territory workshops. The principal role of territory workshops is to support the existing fleet and there will inevitably be circumstances where this will take priority over all other work, including that for central services. This would result in inefficiencies, uncertainty over delivery dates and increased costs. While the overall staff numbers would be the same as the central workshop option, there would be more need for relocations and increased potential for redundancy. Weighed against this is that territory workshops would probably be able to accommodate the increase in workload without the need for capital investment in the building or yard. The saving in accommodation cost would be about £24,000 per year, which is relatively small and is outweighed by the risk of inefficiency and dilution of control.

e) Other options

Sharing the work between Santon Downham and Inver was considered but was discounted following further consultation with managers and announcement of the Scotland DP Review. Management and accounting would have been more complicated. Harvesting machine reductions in Scotland are likely to result in surplus staff and buildings at Inver. While there is enough capacity in the building at Santon Downham, there are no surplus staff and recruitment would be required.

11) Management

Vehicle conversions and other work currently done by Central Services will be managed by the Fleet Support Manager at PB4 who will continue to report to the Fleet Engineer at PB3 as currently happens. The Fleet Engineer will set standards and have financial responsibility for Central Services Work. The Fleet Support Manger will plan and

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implement the work and be responsible for day to day operations and for meeting financial and performance measures.

Responsibility for disposals will transfer to the Central Services Engineer at PB3 when the user returns the asset to the territory workshops. The Central Services Engineer will influence repair decisions with the machine in the last year of its life. Having the pre-sale repairs done at the support workshop will lead to better repair decisions on old machines.

12) Inver Workshop

The approximate development cost of Inver Workshop is estimated to be £280,000. This figure was produced for planning purposes and a project team that is working to the Forestry Commission Scotland's project approval and monitoring procedures is refining it. The team members and supporting staff are:

- a) Champion: Michael Ansell, Director FBUs
- b) Sponsor: Jeffrey Livingston, Head of MES
- c) Manager: Iain Fleming, Fleet Engineer
- d) Members: Tommy Groat, Workshop Manager Chapelhall, Peter Clark ALA Aberfoyle.

The Team will second others as required, including a building surveyor, someone from FCE and someone to advise on sustainability. They will use the Microsoft Project Management tool to assist with planning and to communicate progress to others.

The Team engaged property consultants CDK Galbraith to provide a specification and estimated cost for the project. They submitted proposals but the cost at £400,000 was prohibitive and a revised option is being developed.

The feasibility of installing a shared (Forest District and MES) wood fuelled heating system will be explored but the cost associated with the Forest District will not be included in this evaluation.

13) Valuation of costs and benefits

Appendix 2 includes staff cost of change and an estimate of the set-up costs at Inver. The estimated staff numbers for Central Services operations at Inver are given at appendix 3. The costs and the estimated income are used to produce a discounted cash flow analysis over 25 years at appendix 4. This is based on Government advice for financial appraisals (Green Book).

14) Other Options

- a) Rental of an alternative site near Chapelhall.

Recent comparisons indicated that this would not be economic. It was difficult to get suitable premises with sufficient yard space and headroom. The workshop area requirement is 660m² (the current area of Chapelhall workshop only is 1764m²). A typical annual accommodation cost would be £100,000 based on the current rate for similar buildings in the Chapelhall area and this would not be affordable with the current and predicted workloads. It does not compare favourably with the option of transferring the work to existing workshops in the FC and it is not being pursued further.

- b) Outsourcing

The recent transfer of vehicle conversion work to Chapelhall has successfully improved the quality of work and communication of detailed requirements with customers. Vehicles are currently mostly financed by contract hire, which includes a management element. In

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future they will be financed by operating lease, where the lessor (owner) requires that the lessee (FC) is responsibility for asset management. There are savings in lease costs, which is partly offset by increased management costs. The net benefit is £50,000 per year, which accumulates to £250,000 or 8% of the budget at year 5. Outsourcing would require a return to contract hire, and this benefit would be lost.

15) Conclusion and recommendation

The cash flow and trading analyses at appendices 1 and 4 demonstrate an economic case for the closure of Chapelhall and the relocation of work to Inver (Inver option). The improved trading performance in 2007/08 has reduced the trading advantage from that indicated at the early stages of this review. Set against this is the increase in surplus workshop capacity in MES, but particularly in Scotland. The Inver option will provide the basis for an effective management structure and it will maintain the high standard of work currently done at Chapelhall.

16) Next steps

- a) Communicate the latest developments in this review to staff at Chapelhall and Inver
- b) Submit this report with the conclusions of the MES Scotland Local Staff Council for endorsement

MES Scotland Local Staff Council
Chapelhall Sub Group
30 June 08

	Salaries ENI Superan	Admin Cash	Ops Cash	VME	Admin Internal Charges	Ops Internal Charges	Deprec'	Forest District Cost	Cash	Internal Income	Total Income	Net Cost
2002-03 result Chapelhall	£227	£53	£189	£24	£24	£5	£13	£535	-£274	-£139	-£413	£122
2003-04 result Chapelhall	£201	£50	£262	£9	£183	£3	£2	£710	-£252	-£242	-£494	£216
2004-05 result Chapelhall	£224	£37	£235	£6	£85	£2	£16	£605	-£320	-£202	-£522	£83
2005-06 result Chapelhall	£253	£34	£371	£6	£62	£4	£18	£748	-£539	-£99	-£638	£110
2006-07 result Chapelhall	£237	£54	£190	£7	£31	£10	£17	£546	-£303	-£95	-£398	£148
2007-08 result Chapelhall	£257	£31	£267	£18	£3	£26	£17	£619	-£523	-£80	-£603	£16
2008-09 budget Chapelhall	£245	£120	£280	£7	£37	£4	£20	£713	-£429	-£221	-£650	£63
2008-09 forecast Chapelhall*	£245	£42	£274	£18	£3	£27	£26	£635	-£539	-£82	-£621	£14
2009-10 forecast Chapelhall*	£254	£43	£281	£19	£3	£27	£43	£669	-£555	-£85	-£640	£30
2010-11 forecast Chapelhall*	£262	£44	£288	£19	£3	£28	£44	£688	-£571	-£87	-£659	£29
*assumes £200 capital investment in yard and building												
2008-09 forecast Inver	£245	£21	£274	£9	£3	£27	£29	£607	-£539	-£82	-£621	-£14
2009-10 forecast Inver	£254	£21	£281	£9	£3	£27	£30	£625	-£555	-£85	-£640	-£15
2010-11 forecast Inver	£262	£22	£288	£10	£3	£28	£31	£643	-£571	-£87	-£659	-£16

Central Services - Fixed Cost Review 2007
All financial figures in £000

	transfer/ redundancy
yr 1 staff costs	£89
set up costs	£280
total cost of change	£369

Staff requirements Inver									
Grade	Pay Band 5 foreman	Pay Band 6a mobile mech	Pay Band 6b workshop mech	Pay Band 6b Stores	Pay Band 7 Apprentice	Pay Band 7 Cleaner	Pay Band 4 Wshop Mgr	Pay Band 3 CS Engineer	Total
FTE Budget	1.00	2.00	2.00	1.00	1.00	0.40	0.50	1.00	8.90

	year 1	year 2	year 3	year 4	year 5	year 6	year 7	year 8	year 9	yrs 10 to 25
transfer or redundancy	£89									
other cost of change	£280									
Inver costs	£607	£607	£607	£607	£607	£607	£607	£607	£607	£607
savings from exit of Chapelhall	-£635	-£635	-£635	-£635	-£635	-£635	-£635	-£635	-£635	-£635
income from sale of Chapelhall	-£850									
total	-£508	-£27	-£27	-£27	-£27	-£27	-£27	-£27	-£27	-£27
discount factor	3.5%									
net present value over 25 years	-£913									