

## **EAST AYRSHIRE COUNCIL**

**CABINET – 10 MARCH 2010**

### **CROSSROADS PRIMARY SCHOOL CONSULTATION**

#### **Joint Report by the Executive Director of Educational and Social Services and the Executive Head of Finance and Asset Management**

#### **1. INTRODUCTION**

- 1.1** The purpose of this report is to inform Cabinet of a revision to the Net Present Value calculation for the 5 options which were considered during the Options Appraisal exercise on the future of Crossroads Primary School and were subsequently contained within the Proposal Document which has been issued for public consultation.
- 1.2** Further this report seeks Cabinet approval to extend the consultation period from 19 March 2010 to Friday 26 March 2010. This will allow officers to present the revised Net Present Value costings to interested stakeholders and provide a sufficient time period for them to make appropriate representation on the amended Proposal Document.

#### **2. BACKGROUND**

- 2.1** Cabinet considered a report on 24 February 2010 on the implications of the Schools (Consultation) (Scotland) Act 2010 (hereinafter referred to as “the 2010 Act”) and its impact on the current consultation exercise on the future of education provision at Crossroads Primary School. At the meeting Cabinet were advised of the process through which inaccuracies or omissions would be addressed.
- 2.2** Early in the consultation period comments were received which expressed concern about the methodology used when calculating the Net Present Value cost of each of the 5 options which had been agreed for consultation.

#### **3. OPTION APPRAISAL**

- 3.1** It is the case that option appraisal of long term capital investment in the public sector is not an exact science. At all stages professional and/or political judgement is required to be exercised particularly in this case where there are clear impacts upon educational benefits and emotive issues which can not be quantified in numbers. The preferred option can not therefore be wholly based on the financial impact. In addition it is important to recognise that the estimation needs to be proportionate and as a result the detail of the figures in such a model are always capable of further refinement and enhancement.

### **3.2 Discounting**

Discounting used in calculating Net Present Value Costs is a technique used to compare costs that occur in different time periods. It is a separate concept from inflation and is based on the principle that, generally, people prefer to receive goods and services now rather than later. Costs therefore should be expressed at today's prices unless particular prices are expected to increase at a significantly higher or lower rate than general inflation in which case an allowance for this relative price change should be included.

The discount rate used is the Social Time Preference Rate calculated by the UK Treasury at 3.5%.

### **3.3 Change in GAE**

Detailed work has been done to refine the calculation of the impact on grant of the reduction in GAE from the reduced number of pupils in small rural schools, including the subsequent impact on the grant floor calculation which works in the opposite direction. The outcome is that, based on the Green Book for Grant Aided Expenditure 2008 to 2011 (The Green Book), which used the 2007 pupil census, the actual grant level would fall by £0.132m (in the event that the decision be taken to close Crossroads PS) as opposed to the figure of £0.117m used in the original calculation. The Scottish Government has advised however that using the 2009 census figures, the reduction would be £0.126m although this takes no account of any subsequent opposite impact on the grant floor. The actual impact will be based on the 2010 census which is likely to be different again. This illustrates the fact that there is an impact on our share of grant from what happens in other council areas and any estimate used for the Financial Assessment is very likely to be different from the actual.

As indicated above it is not appropriate to include inflation unless there is a view that particular costs or income will be subject to significantly higher or lower rates of inflation. It can be seen from the Green Book however that in fact no inflation has been applied to the secondary indicator for the number of pupils in small rural schools since 2008 and that the total GAE has remained at £902,523 for 2008/09, 2009/10 and 2010/11. Scottish Government officials have confirmed that there are no plans to apply inflationary increases to this GAE element for the next Spending Review.

### **3.4 Changes in Staffing Costs**

A review of the staff savings which were previously identified has been undertaken and resulted in increased savings of approximately £1,400 on the original costings. This additional revenue saving results from the transfer of savings from teacher's absence cover of approximately £900 which was previously allocated against the supplies and services into employee savings and a review of the clerical support costs which has resulted in an increased saving of approximately £500 to reflect the updated average salaries used in the 2010/11 budget setting exercise for clerical staff.

### **3.5 Changes in Property, Transport and Supplies & Services Savings**

As indicated in the previous paragraph there has been a reduction of £900 in the Supplies & Services savings from the delegated school budgets due to the allocation

of budget savings in teacher's absence cover being transferred against staff savings. The overall effect of this treatment on the net school budget savings is nil, however, recording this saving against staff more accurately reflects the true position.

### 3.6 Investment in Loudoun Academy PE Facilities

The value which should be included in the assessment is the change in costs, either up or down, as a result of an option being implemented. Costs which would not change are therefore not taken into account.

The use of the funding released, if the repairs to Crossroads Primary are not carried out, is not part of the Proposal set out in paragraph 2.1 of the Proposal Document. The PE facilities at Loudoun Academy are in need of refurbishment and funding will require to be identified for this in the near future. The reference to this at paragraph 6.5 simply indicates that the funding released from Crossroads Primary would be diverted to that scheme to allow it to proceed at an early date. It is incorrect therefore to suggest that it should be included as part of the costs of closing the school as this does not represent additional costs for the council as a result of selecting option 5. If funding is not released from Crossroads Primary, the project still needs to go ahead and will be included in the Capital Programme.

### 3.7 Effect of Refinement to Option Appraisal

Using the higher level of grant reduction (£0.132m) and incorporating the revised savings figures (Staffing savings +£1,400, Supplies savings -£900) brings out a new NPV for Option 5 of £454,299, an increase of £252,192.

If the more up to date GAE reduction of £0.126m is used the increase would be reduced to £147,637.

3.8 Table 1 (below) compares the original Net Present Value (NPV) costs against the revised values.

**TABLE 1 : NET PRESENT VALUE COSTS**

| OPTION |  | ORIGINAL NPV COSTS (as reported to Cabinet on 16 December 2009) | REVISED NPV COSTS |
|--------|--|---|-------------------|
| 1      | Refurbishment to existing standards  | £1,180,253  | £1,180,253        |
| 2      | Refurbish and upgrade facilities   | £1,868,034  | £1,868,034        |
| 3      | New build on existing site   | £2,487,044  | £2,487,044        |
| 4      | Close existing building and locate as a separate educational establishment at Galston Primary School | £2,384,122  | £2,645,510        |
| 5      | Cease education provision at Crossroads Primary and integrate within Galston Primary                 | £202,107  | £454,299          |

- 3.9** It is evident from the table (above) that the NPV score for both option 4 and 5 have been increased by the amendments resulting from the change in GAE treatment. Table 2 (below) highlights the impact of these changes to the overall scores.

**TABLE 2 : OVERALL OPTION APPRAISAL SCORES**

| OPTION |  | ORIGINAL SCORE<br>(as reported to Cabinet on 16 Dec 2009) |                     |                        |      | REVISED SCORE   |                     |                       |          |
|--------|--|---|---------------------|------------------------|------|-----------------|---------------------|-----------------------|----------|
|        |  | FINANCIAL SCORE   | NON-FINANCIAL SCORE | ORIGINAL OVERALL SCORE | RANK | FINANCIAL SCORE | NON-FINANCIAL SCORE | REVISED OVERALL SCORE | RANK     |
| 1      | Refurbishment to existing standards  | 8.56  | 36.00               | 44.56                  | 4    | 19.25           | 36.00               | <b>55.25</b>          | <b>2</b> |
| 2      | Refurbish and upgrade facilities   | 5.41  | 41.50               | 46.91                  | 3    | 12.16           | 41.50               | <b>53.66</b>          | <b>4</b> |
| 3      | New build on existing site   | 4.06  | 45.50               | 49.56                  | 2    | 9.13            | 45.50               | <b>54.63</b>          | <b>3</b> |
| 4      | Close existing building and locate as a separate educational establishment at Galston Primary School | 4.24  | 38.50               | 42.74                  | 5    | 8.59            | 38.50               | <b>47.09</b>          | <b>5</b> |
| 5      | Cease education provision at Crossroads Primary and integrate within Galston Primary                 | 50.00   | 44.00               | 94.00                  | 1    | 50.00           | 44.00               | <b>94.00</b>          | <b>1</b> |

- 3.5** Even after reviewing the NPV scores for each option, this does not alter the fact that Option 5 continues to represent best value when compared against all other options. In this respect, the outcome of the Options Appraisal exercise continues to support the Council's preferred option for consultation purposes.

#### **4 LEGAL / POLICY IMPLICATIONS**

- 4.1** The amendments to the Proposal Document will ensure that the Council continues to fully comply with the 2010 Act, and the Council recognises that respondents will need sufficient time to consider the changes to the Net Present Value costings. In accordance with the terms of the 2010 Act it is also proposed that the consultation period is extended by one week to 26 March 2010.
- 4.2** An updated Proposal Document has been attached as Appendix A of this report, with alterations to the table and text within Section 8.1 highlighted in bold text.

#### **5 FINANCIAL IMPLICATIONS**

- 5.1** The financial implications of changes to NPV costs are as set out in section 3 (above). As detailed in paragraph 3.5 (above) the alteration to the Net Present Values of options 4 and 5 do not impact on which option represents best value to the Council.

## **6 HUMAN RESOURCE IMPLICATIONS**

6.1 There are no human resource implications associated with this report.

## **7 COMMUNITY PLAN IMPLICATIONS**

7.1 This report will assist the Council in meeting the promoting lifelong learning aspects of the Community Plan.

## **8. RISK MANAGEMENT IMPLICATIONS**

8.1 Under Section 5 of the new Act the Council is obliged to consider any inaccuracies or omissions which are raised by respondents. Amending the Proposal Document, taking account of the new information which has been submitted, and extending the consultation period by 1 week will allow the Council to fulfil its legal obligations under the 2010 Act.

## **9. RECOMMENDATIONS**

9.1 Cabinet is asked to :-

- (i) Note the changes made to Section 8.1 of the Proposal Document and agree that this amended document is distributed to all interested stakeholders;
- (ii) Affirm that after amendments to the Net Present Value costings, option 5 continues to represent best value to the Council;
- (iii) Agree to an extension of 1 week to the consultation period to allow respondents sufficient time to consider this new information; and
- (iv) Otherwise note the contents of this report.

Alex McPhee  
Executive Head of Finance and  
Asset Management

Graham Short  
Executive Director of Educational  
and Social Services

EC/MM  
3 March 2010

### **LIST OF BACKGROUND PAPERS**

Cabinet Report – 16 December 2009 (Agenda Item 2E)  
Cabinet Report – 13 January 2010 (Agenda Item 1E)  
Cabinet Report – 24 February 2010 (Agenda Item 1E)  
Schools (Consultation) (Scotland) Act 2010

Members wishing further information should contact Euan Couperwhite, Head of Resources, Tel: (01563) 576090.

**IMPLEMENTATION OFFICER : EUAN COUPERWHITE**

## 8. FINANCIAL IMPLICATIONS

- 8.1 The financial implications of this proposal were contained within the Option Appraisal report which was presented to Cabinet on 16 December 2009. In summary, as stated in para 4.1.3 of this report the net present costs of the 5 options are detailed below.

| <b>OPTION</b>   | <b>NET PRESENT<br/>VAL<br/>UE</b> |
|---|-----------------------------------|
| 1 – Refurbishment to existing standards   | £1,180,253                        |
| 2 – Refurbish and upgrade facilities  | £1,868,034                        |
| 3 – New build on existing site  | £2,487,044                        |
| 4 – Close existing building and locate as a separate educational establishment in accommodation at Galston primary School | <b>£2,645,510</b>                 |
| 5 – Cease education provision at Crossroads primary and integrate within Galston Primary                                  | <b>£454,299</b>                   |

**These changes to the Net Present Values of Options 4 and 5 reflect information which has been received in relation to the treatment of Grant Aided Expenditure (GAE) and the resulting impact on grant. Officers of the Council used the information submitted by a respondent to re-visit the actual financial effect in consultation with Scottish Government officers. The impact of this revision has been to change the reduction in the Council's entitlement to GAE which in turn affects the level of government grant support for small schools as a result of either closing Crossroads Primary School or moving it to Galston Primary School as a separate entity.**

- 8.2 Within the Net Present Value (NPV) calculations are capital costs associated with the initial construction works of each option, on-going maintenance and additional revenue costs or resulting savings accruing from each option.
- 8.3 It is envisaged that the existing building on the Crossroads Primary site will be demolished. This will minimise security costs and also minimise the risks associated with vacant buildings.