

## FIFE COUNCIL

Madras College Local  
Development Group  
06 May 2009  
Agenda Item No. 4

### **BUSINESS CASE - COST BENEFIT ANALYSIS**

#### **1.0 Purpose**

- 1.1 The purpose of this report is to explain the cost benefit analysis tool used to evaluate the various options for possible investment in the schools forming part of the School Estate Development Programme

#### **2.0 Background**

- 2.1 As one of a number of major investment work streams, within the proposed Council Capital Investment Programme, proposals in relation to the School Estate Development Programme were considered by the Policy Finance and Asset Management Committee on 12 June 2008, as follows:

- New primary school serving eastern Dunfermline
- Replacement for Madras College, St Andrews
- Replacement for Dunfermline High School
- New secondary school for Kirkcaldy
- Refurbishment or replacement of Auchmuty High School, Glenrothes
- Replacement for Burntisland Primary School

At current prices, the capital cost of the Programme is estimated at £126m. An indicative 10 year Programme is annexed (Appendix 1)

- 2.2 The individual proposals all form part of the School Estate Management Plan approved by Education and Children's Services Committee on 22 May 2008. That plan seeks to ensure relevant investment is concentrated on having a school estate that is of the right size, fit for purpose and suitably located within its communities.
- 2.3 Delivery of the Programme is the responsibility of the School Estate Development Programme Board, chaired by the Executive Director, Education. The Board provides leadership and direction of the Programme and brings together senior officers from Education, Community Services, Finance and Procurement, Development Services and Asset and Facilities Management.
- 2.4 The work of the School Estate Development Programme Board is supported by a Programme Team drawn from across Council Services and, in turn, supported by a Programme Office.

### **3.0 Options to be Considered**

3.1 To assist the consideration of possible investment options for Madras College cost benefit analyses are being prepared.

3.2 Options to be appraised in the Madras College Business Case comprise:-

- Status Quo
- Refurbish and extend at Kilrymont
- Refurbish and extend at South Street
- New build at Kilrymont
- New build at another location

### **4.0 How the Cost Benefit Analysis Spreadsheet Works**

4.1 Cost benefit analysis (or CBA) is a widely used technique for deciding whether to make a change. In its simplest form you simply add up the value of the benefits of a course of action, and then subtract the costs associated with it. Costs are either one-off, or may be on-going. The technique allows for the identification of an option, or options, from a number of possible options, which may be worthy of further investigation.

4.2 In many instances it is not always easy or practical to assign a financial value to the perceived benefits. One form of CBA that has been used previously is one whereby a points value, rather than a financial value, is assigned to the benefits, and a comparison then made (for each option) between total points and total identified costs.

4.3 This variation of the technique was used to inform the investment decision taken in respect of Greyfriars RC Primary School (Appendix 2).

4.4 All relevant options are assessed against pre-determined weighted evaluation criteria and a score applied based on the following categorisation:

Score	Criteria
1	Bad – does not support service delivery
2	Poor – major problems – not operating optimally
3	Satisfactory – performs well – minor problems
4	Good – performs well – operates efficiently and effectively

4.5 Using this particular methodology, each option achieves a score out of 100.

4.6 The costs of each option are then estimated, and such costs comprise:

- Capital costs
- Opportunity Costs. This is a term used to mean *the cost of something in terms of an opportunity foregone* (and the benefits that could have been generated by that opportunity) or, *the most valuable foregone alternative*. Normally, this entails the value of the land and buildings used by a particular option.
- Lifecycle costs over 30 years. The resultant end total is then divided by 30 in order to arrive at an average annual figure.
- Premises and other revenue costs associated with providing services within the schools over 30 years. Again, the resultant end total is divided by 30 to arrive at an average annual figure.

4.7 The column 'Total Revenue Costs' is the sum of the life-cycle costs and the other revenue costs.

4.8 As its name implies, the PV column contains a formula in the relevant cells which takes the totals from the capital expenditure column, the opportunity costs column, and the total revenue costs column and adjusts the figures back to a *present value* by using an appropriate discount rate. For a 30 year period, a discount rate of 3.5% is recommended by the 'Green Book' (a best practice guide issued by HM Treasury).

4.9 The end result which is shown in the column headed 'CBA' is arrived at by dividing the sum in the PV column by the figure in the Total Benefits column. All other things being equal, the option which gives the lowest 'cost per benefit point' would be the option which would be recommended for further action.

## 5.0 Next Steps

5.1 The key business case tasks are detailed in Appendix 3

## 6.0 Recommendation

6.1 The Group is asked to note the content of this report

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