

# Financial Appraisal Report – Schools Capital Programme – Shenstone Lodge School, Brades Lodge extension

Date Issued: 24th August 2023

**Contents:**

- 1. Executive Summary**
- 2. Issues Arising**

## Report to Cabinet

### 1 Executive Summary

#### Introduction

Children & Education Services are seeking approval for a capital project to provide an additional 20-30 school places for children with special educational needs, at Brades Lodge, in Tividale, Oldbury.

The extension of Brades Lodge will allow provision for a total of 60 -70 pupil places, dependent on the needs of the children from September 2024.

In November 2022, the Director for Children and Education approved funding of £0.080m for initial feasibility work, with further authority given in May 2023 for £0.135m to fund the detailed design of the expansion.

Brades Lodge is operated by Manor Hall Academy Trust, who have agreed to contribute £1.25million towards the cost of the build.

It is a statutory responsibility of the Council to ensure all children in Sandwell have access to a school place. Sandwell has limited places to meet the special educational needs of primary school pupils and currently maintain 3,258 Education, Health and Care plans for young people. If the current growth in population continues, this could increase to 3,600 by 2025.

Strategic Finance has been asked to carry out an appraisal of the funding application, which has been evaluated against HM Treasury Green Book guidance. The appraisal process recorded a score of 67%, with some areas of risk identified.

[ILO: UNCLASSIFIED]



## Project Objectives

- To provide sufficient school places in ‘good’ schools.
- To support the Council’s Vision 2030, where Sandwell “children benefit from a high-quality education throughout their school careers...”

## Project Details

Following a significant rise in demand for school places for pupils with Special Educational Needs and Disabilities in Sandwell, feasibility studies at Brades Lodge identified the potential to expand the school site to provide an additional 20-30 places. The Manor Hall Academy Trust manage and operate both Shenstone Lodge and Brades Lodge. The proposed expansion of the site will cover 565 square metres and will be complete by September 2024.

The project will deliver the following accommodation:

- Science Lab with Prep room
- Art Room
- Food Technology Room with prep room
- Workshop with prep room
- 2 General Classrooms
- 2 Recovery rooms
- Office
- Unisex toilets
- Accessible / staff toilet

The total cost of the construction phase is estimated to be £2.514m, with funding to a maximum of £1.250m being offered by Manor Hall Academy Trust. The remaining costs of £1.264m will be met from the Council’s Basic Need funding. Sandwell MBC will enter into legal agreement with Manor Hall Academy Trust for their capital contribution to the project.

## Scope and objectives of financial appraisal

The purpose of financial appraisals is to consider the guidance provided by HM Treasury in evaluating business case proposals and assessing the potential risk to the Council in achieving its objectives. The following components and risks are assessed:

HM Treasury Green Book	Potential Risks
<u>Strategic Case</u> Objective, need, demand and reasonableness	Insufficient justification for project/will not meet strategic objectives

[ILO: UNCLASSIFIED]



<u>Economic case</u> Option analysis and risk	Poor use of council resources & excessive risk to Council
<u>Commercial Case</u> Legal and statutory implications	Project may contravene legal/statutory regulations
<u>Financial Case</u> Affordability	Proposals are not affordable or realistic
<u>Management Case</u> Governance, project management, monitoring and evaluation	Non-delivery of project and outputs
Limitations to scope of appraisal	Information provided by Project Officer

#### LEVEL OF ASSURANCE GAINED FROM FINANCIAL APPRAISAL

Limited (0%-65%)	Satisfactory (66%-80%)	Substantial (81%-100%)
There is a high risk of objectives not being met due to insufficient assurance within the project proposals. There is limited evidence to confirm that the risks to the Council could be adequately mitigated.	There is adequate assurance that objectives could be met, but further actions are required to adequately mitigate the risk to the Council.	There is good assurance that objectives will be met, with little risk to council resources.

### Overall Conclusion

The appraisal scored 66% and provides **satisfactory assurance** over the adequacy of the proposals.

Financial appraisals will identify the following levels of issues:

#### Fundamental

Action is imperative to ensure that the objectives of the project are met

#### Significant

Action is required to avoid exposure to significant risks in achieving objectives

#### Merits Attention

Action is advised to enhance operational efficiency

[ILO: UNCLASSIFIED]



## Summary of key issues identified

- The financial appraisal has identified NO 'fundamental' issues
- The financial appraisal has identified 3 'significant' issues
- The financial appraisal has identified 2 'merits attention' issues

## 2 Issues Arising

Action is required to avoid exposure to significant risks in achieving objectives  
**Significant**

### 2.1 Financial Case – Reasonableness of Costs

- (a) A breakdown of the estimated construction costs was provided by the contractor in March 2023. However, the contractor has caveated the estimates stating 'it should be noted that the figures are indicative at this point and should be used for high level purposes only, with the clear understanding by all parties that all prices will change as the design develops and additional items may well be required. A lot of assumptions have been made due to the lack of detailed design information as drawings are only at RIBA 2 level to date.'
- (b) The contractor has allowed a total contingency allowance of £0.436m, which represents a 17% allowance. However, considering rising inflation and other cost increases within the construction industry, it is unclear whether this will be sufficient.
- (c) Estimated costs of £0.095m have been included by the Schools Organisation Team for consultants' fees but no further breakdown has been provided to understand what the estimates include or to determine whether they are reasonable.
- (d) No financial sensitivity analysis has been undertaken on the proposals and it was therefore not possible to determine the effect on the overall cost of the programme should there be fluctuations in the cost drivers of the project, e.g. construction costs, changes to specifications etc.

#### **Implication:**

Further changes to specifications may be required which could result in additional costs. Where additional costs cannot be managed within the allocated funding, further approval for additional funding would then be required and may delay delivery of the project.

#### **Recommended Action:**

- That cost estimates are reviewed for reasonableness and to ensure that additional costs could be managed within the allocated funding.

[ILO: UNCLASSIFIED]



## 2.2 Management Case – Project Programme

A detailed project plan was provided by the contractor and includes a date for completion of mid-September 2024. As the academic year starts in early September, it is not known what contingency plans are in place, should the expansion works not be completed for the start of term.

### **Implication:**

Failure to deliver the proposed expansion by September 2024 may result in financial implications to the Council, in providing alternate learning provision for the additional pupils.

### **Recommended Action:**

- That the project plan is reviewed to ensure that delivery can be achieved within agreed timescales and will not result in additional costs in providing alternative school accommodation.

Action is advised to enhance operational efficiency  
**Merits Attention**

## 2.3 Economic Case – Risks

A corporate Risk Register was provided to support the expansion of Brades Lodge. However, only two risks were identified and the risk of delivery within timescales has not been recognised. It was also unclear whether all the risks specific to this project had been adequately considered and addressed.

### **Implication:**

Risks to the project may not be adequately assessed and mitigated, resulting in non-delivery of the objectives and financial implications to the Council.

### **Recommended Action:**

- That the corporate risk register is reviewed to ensure that all risks are appropriately identified and assessed, with adequate mitigation.

## 2.4 Management Case – Project Evaluation of Outcomes

No specific outcomes have been included within the appraisal application.

### **Implication:**

It may not be possible to undertake effective project evaluation without pre-determined outcomes to monitor against.

[ILO: UNCLASSIFIED]



**Recommended Action:**

- Ensure post project evaluation includes specific outcomes, along with benchmarking of final costs to assess value for money.

[ILO: UNCLASSIFIED]

