P.2023/96 Amdt 5

THE STATES OF DELIBERATION
of the
ISLAND OF GUERNSEY

24th January 2024

Proposition No. 2023/96

Policy & Resources Committee

GOVERNMENT WORK PLAN 2023-25

AMENDMENT

Proposed by: Deputy L S Trott
Seconded by: Deputy H J R Soulsby

To insert new Propositions as follows: -

"Either

Option 1

13. To agree that progressing the Transforming Education Programme is a priority in this political term and that:

    a. The capital elements of the Transforming Education Programme should be phased, with priority given in this term to the construction of The Guernsey Institute and the foundations for the Sixth Form Centre at Les Ozouets Campus and the necessary refurbishment of Les Varendes High School – 'Phase 1' (as set out in Appendix 1 (Option 1) to this amendment);

    b. 'Phase 1' of the Transforming Education Programme should be added to the agreed capital portfolio for the remainder of this term at an indicative cost of up to £88m;

    c. The total portfolio value in this term will increase to £428m;

    d. The increase in the portfolio value should be funded by:

        i. Use of up to £33m from the General Revenue Reserve; and

        ii. Borrowing of up to £55m under the authority previously granted[1] to the Policy & Resources Committee; and

[1] Resolution 16 on item 1, entitled "Government Work Plan 2021-2025, 2021/71", of Billet d'État No XV dated 21st June 2021

e. The States will be able to afford to service the additional borrowing through the substantial increase in the estimate of revenues likely to accrue through implementation of the OECD's Pillar 2 initiative which provides for a 15% effective tax rate for large multinational enterprises and will be effective from 2025.

Or, if Option 1 is not approved: -

Option 2

14. To agree that progressing the Transforming Education Programme is a priority in this political term and that:

   a. The capital elements of the Transforming Education Programme should be phased, with priority given in this term to the construction of The Guernsey Institute at Les Ozouets Campus and the necessary refurbishment of Les Varendes High School – 'Phase 1' (as set out in Appendix 1 (Option 2) to this amendment);

   b. 'Phase 1' of the Transforming Education Programme should be added to the agreed capital portfolio for the remainder of this term at an indicative cost of up to £87m;

   c. The total portfolio value in this term will increase to £427m;

   d. The increase in the portfolio value should be funded by:

      i. Use of up to £32m from the General Revenue Reserve; and

      ii. Borrowing of up to £55m under the authority previously granted[2] to the Policy & Resources Committee; and

   e. The States will be able to afford to service the additional borrowing through the substantial increase in the estimate of revenues likely to accrue through implementation of the OECD's Pillar 2 initiative which provides for a 15% effective tax rate for large multinational enterprises and will be effective from 2025."

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[2] Resolution 16 on item 1, entitled "Government Work Plan 2021-2025, 2021/71", of Billet d'État No XV dated 21st June 2021

Rule 4(1) Information

(a) The propositions contribute to the States' objectives and policy plans by enabling the release of the current Coutanchez Campus site for housing, the provision of which has been identified as a strategic priority for the island in the Government Work Plan. It contributes to the delivery of the Education Strategy and extant Resolutions to strengthen the delivery of secondary and further / higher education that are included in multiple Policy Letters dating back to 2018.

b) In preparing the proposition(s), consultation has taken place with the Committee *for* Education, Sport & Culture.

c) The proposition has been submitted to His Majesty's Procureur for advice on any legal or constitutional implications.

d) The financial implications to the States of carrying the proposal into effect are as set out in this amendment and explained further in the explanatory note below.

Explanatory note

<u>Capital Costs</u>

- The proposal is that the construction works at Les Ozouets Campus will be phased with priority given in this term to the consolidation of The Guernsey Institute at that site. The costs associated with the construction of the Sixth Form Centre at Les Ozouets Campus have therefore been removed from the Phase 1 cost estimate, which will be subject to prioritisation in the next political term.

- The States of Deliberation will prioritise a new capital portfolio for the next political term as part of the Funding & Investment Plan/Capital Prioritisation debate. Exact timing is not known at this stage, but this debate is likely to be no later than June 2026.

- <u>Option 1</u> in this amendment includes the foundation works for the Sixth Form Centre as part of Phase 1 at a cost of £1m. The benefits of this approach being to minimise later cost, minimise disruption to education provision and provide critical stability to staff and students.

- <u>Option 2</u> excludes the Sixth Form Centre foundations with that element of the build included in Phase 2 and subject to future States prioritisation. The benefit of this approach would be to save £1m from the capital costs in this term.

- The sports facilities included in the design of the proposed Les Ozouets Campus will be considered as part of Phase 2 of the Programme. In the interim, Beau

Sejour's facilities will be used to deliver some elements of the post-16 sports offering with the location of the future provision being informed by the findings of the upcoming review of the Future Purpose of Beau Sejour. The Committee *for* Education, Sport & Culture has undertaken, if necessary, to amend the Terms of Reference of the Review to reflect the outcome of debate on this amendment. Initial analysis has shown that the works required to equip Beau Sejour to be a permanent home for post-16 education's sports provision would cost up to £4.9m. Interim changes to make Beau Sejour suitable as a short-term home until the long-term arrangements for delivering these services are confirmed are estimated to be in the region of £0.3m. It should be noted that these are provisional estimates at this stage.

- Overall revised costs and the movement from the estimate for the original scope for each option are shown in Table 1 below.

- The estimated costs have been updated to reflect funding requirements from 2024 to the end of the scheme and include the latest estimate for inflation, based on the timelines for Phase 1 with construction beginning in August 2024 with the building in use from January 2027. If there were a delay to the current construction timeline, inflation could increase costs by between £190k and £380k per month.

- Work to review the local construction market resource is ongoing with previous work undertaken in Q3 2023 indicating that both The Guernsey Institute construction project and the Our Hospital Modernisation Phase 2 project were deliverable without causing undue stress on supply chains. While further detailed work will be required to reconfirm this position once the scope and timescales are better defined, it is considered that the programming can be managed. Furthermore, the previous work confirmed that the other major construction projects (Affordable Housing and the Children and Families' Hub) are unlikely to impact deliverability owing to being of a different build solution and therefore requiring different specialist trades. This position remains unaffected.

Table 1: Capital Costs – movement from original scope

	Option 1 With Sixth Form Foundations £m	**Option 2 Without Sixth Form Foundations £m**
Original Scope	111.3	111.3
Less: Sixth Form Centre	(16.2)	(16.2)
Less: Sports Hall and MUGA	(8.8)	(8.8)
Plus: Works at Beau Sejour	0.3	0.3
Plus: Foundations for Sixth Form Centre	1.0	-
Phase 1 Funding Requirement	**87.6**	**86.6**

Table 2: Capital Costs breakdown

	Funding Required for Option 1 £m	**Funding Required for Option 2 £m**
Les Ozouets Campus Phase 1	76.0	75.0
Les Varendes Repurposing	1.7	1.7
Les Varendes Refurbishment	7.5	7.5
TGI Digital	2.1	2.1
Interim changes at Beau Sejour	0.3	0.3
Phase 1 Funding Requirement	**87.6**	**86.6**

Funding

The Policy & Resources Committee has taken a fresh look at the best means of funding the Phase 1 costs outlined above and has taken the following into account in arriving at its proposal:

- Since consideration of the F&I Plan, the revenues associated with the implementation of the OECD's Pillar 2 initiative have been reviewed and revised (see section on Pillar 2 below). Latest estimates are for revenues from this initiative to be c£30m per year, which is £20m higher than that assumed in the F&I Plan model. While these revenues would not be realised until 2026, they would more than cover any borrowing costs.

- The estimated cost of servicing £55m of borrowing is £3.2m per year in interest and capital repayments assuming a 40-year term and an interest rate of 5.0%. The interest rate assumption has reduced from that used in the F&I Plan due to falling long term interest rates linked to lower inflation.

- As part of the F&I Plan debate, and the successful Amendment to add in the "Our Hospital Modernisation phase 2" project to the capital portfolio, the States agreed that "*new borrowing should be taken out to support the funding of capital expenditure*" with no upper limit. However, the extant authorisation (Resolution 16 on item 1, entitled "Government Work Plan 2021-2025, 2021/71", of Billet d'État No XV dated 21st June 2021) to borrow up to £200m remains in place. Financial modelling has shown that the estimated borrowing requirement to fund the current agreed portfolio is c£100m, so the addition of £55m remains within the borrowing authority already approved by the States. It should be noted that borrowing would only be accessed if and when required.

- As part of the F&I Plan the States resolved *"to maintain the current level of the General Revenue Reserve in this term."* However, it is now proposed that approval is given to use an additional £33m (Option 1)/£32m (Option 2) from the General Revenue Reserve, in recognition of the fact that the Transforming Education Programme is a critical programme. Due to the increase in the estimate of the Pillar 2 revenues and after taking account of servicing the borrowing, the General Revenue Reserve would be replenished to current levels by mid-2028.

- The Guernsey Institute build at the Les Ozouets Campus is expected to result in estimated savings of £0.3m-£0.6m owing to reduced premises, rental, and operational costs as a result of working on fewer sites. This project was expected to be a contributor to the savings targets included in the F&I Plan. Should the project not be approved, the Committee *for* Education, Sport & Culture would face cost pressures due to the ongoing requirement for portacabins as well as the States needing to fund essential works and maintenance on the existing outdated estate at significant cost.

- The States resolved to authorise the Policy & Resources Committee to take out new external borrowing up to a maximum of £150m, specifically to lend on to the Guernsey Housing Association, or another provider of affordable housing, to fund the Affordable Housing Development Programme. This debt is to be repaid in full by the GHA at a rate calculated to ensure that there are no residual costs to the States of Guernsey. Based on latest forecasts the funding requirement is likely to be in the region of £100m, reducing the borrowing requirement by £50m. Although this debt has been approved for specific use and so cannot be 're-allocated' it does reduce the overall potential debt level for the States.

Taking the points above into consideration, this amendment proposes that to fund the additional portfolio costs as a result of adding Phase 1 of the Transforming Education Programme, the States authorise borrowing of up to £55m and use of up to £33m (or £32m for the option without the Sixth Form foundations) from the General Revenue Reserve, if needed.

<u>Pillar 2</u>

On 19 May 2023, the Treasury lead announced[3] Guernsey's intentions in respect of the global Pillar Two initiative to set a minimum effective tax rate for the world's largest multinational enterprises. This approach will comprise the implementation of an "Income Inclusion Rule" and a domestic minimum tax to provide for a 15% effective tax rate for large in-scope multinational enterprises (those multinational groups with global turnover above €750m), from 2025.

The Policy & Resources Committee continues to actively work on these proposals, monitoring implementation internationally and adapting to developments which may require adjustments to our own implementation plans. There has also been significant engagement with diverse stakeholders, across a broad range of sectors and geographies, to explore the most appropriate approach to the introduction of these complex rules which maintains an attractive and globally competitive investment environment in Guernsey.

There is much technical work still to do to finalise how this global initiative will work in practice, as such the proposals for implementation of the minimum tax in Guernsey have yet to be finalised. Once there is clearer visibility of the global position later in 2024, the proposals can be finalised and presented to the States Assembly for debate in the normal way.

The application of these rules has the potential to generate a material amount of revenue in Guernsey (which although applicable to 2025 will not be collected until 2026 at the earliest), as Pillar 2 is expected to capture the majority of regulated banks in Guernsey (currently taxed at 10%) and a significant proportion of international insurance activity (currently taxed at 0%). However, how much additional revenue is dependent not only on how the legislation is applied in Guernsey, but also how it is applied in countries where entities in Guernsey might also face tax, or in jurisdictions where business might relocate if they feel there is an advantage in doing so. Therefore, there remains uncertainty around the final proposals and resulting revenue gains and it must be acknowledged that there will also be risks to the economy with the implementation of these proposals, as some companies may decide that being in Guernsey is not the best option for them.

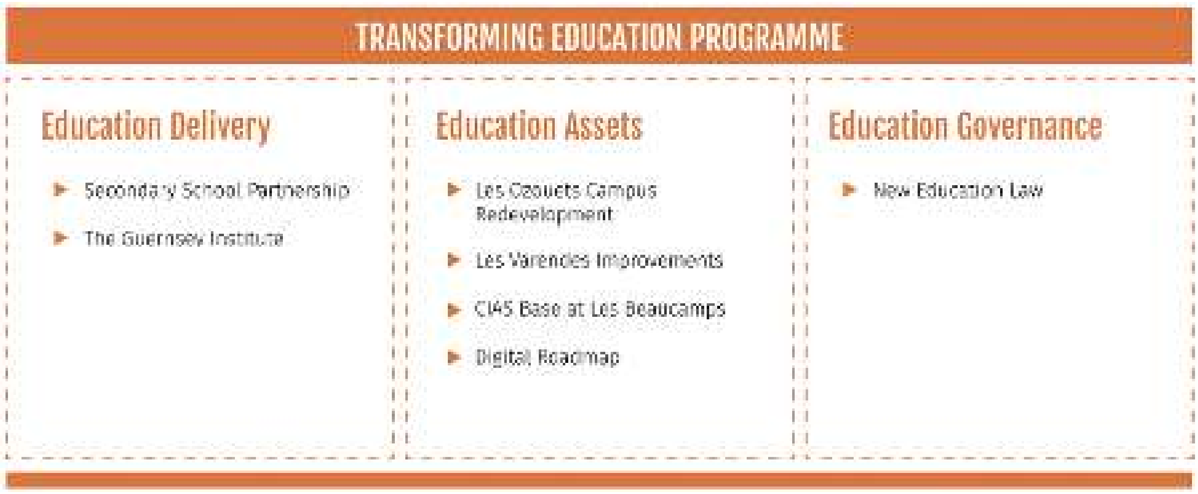
The F&I Plan originally assumed additional revenues of £10m, taking a cautious approach for planning purposes due to the status of the (global) technical discussions at that point in time. Subsequently, more recent company data has been available to analyse, as in-scope companies have filed their 2022 tax returns and completed their Country-by-Country Reporting notifications. There has also been progression in technical discussions giving more certainty over 'rule ordering' (i.e., determining in which jurisdiction the top-up tax is paid) and the Pillar 2 calculations required, with the OECD releasing its third tranche of administrative guidance on 18 December 2023. More jurisdictions have also announced their intended implementation plans, released draft legislation, or issued consultations that are helping to inform next steps. This work and additional clarification has led to an increase in the estimate of revenues to c£30m.

[3] Guernsey aligns with Jersey and Isle of Man on approach to OECD's Pillar Two Framework - States of Guernsey (gov.gg)

Appendix 1– Phases of the Transforming Education Programme

The Transforming Education Programme includes a range of capital investment which delivers extant States Resolutions to strengthen the delivery of education, dating back to 2018. The Programme includes a number of projects, which are shown in the diagram below.

Figure 1: Projects in the Transforming Education Programme



The table overleaf shows how the delivery of these projects will be phased. It should be noted that the funding for many projects included in Phase 1 is already in place, independent of this amendment. The funded elements of Phase 1 are currently underway, with implementation of the educational model underpinning the Secondary School Partnership completing in September 2025.

Table 1: Proposed Phases of the Programme

Project	Phase 1	Phase 2	Notes
Formation of the Secondary School Partnership	Fully delivered		Already funded, independent of this amendment.
Formation of The Guernsey Institute	Fully delivered		Already funded, independent of this amendment.
Les Ozouets Campus Redevelopment	Partially delivered: • TGI facilities, other than sports facilities • Shared facilities and services for the whole site (such as heating plant, learning resource centre, etc). • Foundations for Sixth Form Centre (if Option 1 is approved)	Fully delivered: • Sixth Form Centre (including foundations, if Option 2 is approved) • Sports facilities (subject to outcome of the Beau Sejour Review)	Option 1 includes the foundations for Sixth Form Centre in Phase 1. Option 2 includes the foundations for Sixth Form Centre in Phase 2 (to be confirmed by the States of Deliberation in the next F&I Plan). Interim arrangements will be made to accommodate the Sixth Form Centre for four academic years from September 2025 to June 2029.
Les Varendes Improvements	Fully delivered		Funding for refurbishment works to the Les Varendes site, and repurposing of appropriate facilities for the Guernsey Music Service, SHARE, and the Youth Commission, are included in this amendment.
CIAS Base at Les Beaucamps	Fully delivered		Already funded, independent of this amendment.
Digital Roadmap	Fully delivered		Funding for the improvement of IT in primary and secondary schools is in place, independent of this amendment. Funding for TGI Digital is included in this amendment.
New Education Law	Fully delivered		Already funded, independent of this amendment.