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The Chief Minister
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Dear Chief Minister

EDUCATION DEPARTMENT – REDEVELOPING THE LA MARE DE CARTERET SCHOOLS' SITE

In July 2014, the States approved the Treasury and Resources Department's States Report entitled 'States Capital Investment Portfolio' (Billet d'État XVI) which set out the recommended future approach for the development of capital investment projects aimed to ensure that informed decisions can be taken on the best use of scarce resources; that value for money can be demonstrated in all investment decisions; and that the States are able to make decisions based on robust evidence as to the benefits of each project and have increased confidence in their value for money in light of stated objectives.

The Report set out that 'business cases are a key building block in the move to evidence-based decision making for the allocation of resources' and listed some of the benefits of business case development which included:

- The need to ensure that benefits are optimised in a business case will result in the best value options being pursued. This should ensure that scarce resources are allocated more efficiently and that the benefits derived for the States are maximised;

- A requirement that all relevant elements of an investment decision are appropriately considered, via the five case model, before resources are allocated to it;

- The clear linkage of inputs (resources) to the proposed outputs they are intended to deliver. This affords immediate transparency of the relative efficiency of the proposal, facilitating better informed decisions about how resources are allocated

At the Outline Business Case (OBC) stage (the stage reached with the Education Department's project), a preferred option should be identified **which should demonstrably optimise value for money**.

Fundamentally, the Treasury and Resources Department considers it is essential to ensure that appropriate consideration is given to the reasons for a project, its scope and benefits and its deliverability before work commences. Such additional planning will ensure that the best projects are delivered and can in fact accelerate the overall project timetable by avoiding issues during the procurement or delivery phases.

The expected process and sequence for all States Capital Investment Portfolio is therefore:

1. Complete the OBC for review and sign off by Project Board;

2. Complete a 'project assurance review' to establish continued value for money and deliverability of the project;

3. The Treasury and Resources Department and sponsoring Department consider the findings of the review;

4. The Treasury and Resources Department and sponsoring Department agree the preferred way forward in light of the project assurance review;

5. The sponsoring Department submit a States Report supported by the completed OBC and seek authority to proceed, with delegated authority being given to the Treasury and Resources Department to approve the Full Business Case and open a capital vote within agreed limits following the procurement phase.

Although the Education Department has undertaken all of the elements, it has not followed this sequence and has submitted the States Report prior to completion of the OBC and before final issue and consideration of the project assurance review reports. The review teams found that a large amount of key information expected was not available and were not able to review a completed OBC which should be the basis for that review stage. This has made it extremely difficult for the Treasury and Resources Department to review this complex and substantial project report in the time available.

Project Assurance Reviews

The project assurance review teams have now issued their reports. The gateway review has resulted in an 'amber status' meaning *'successful delivery appears feasible but significant issues already exist requiring management attention. These appear resolvable at this stage if addressed promptly and should not present a schedule/cost overrun*'.

The gateway review summary reads:

> *The Review team's assessment is that this is an exceptionally well planned and managed project, with strong stakeholder support providing a compelling business justification for proceeding.*

The amber status reflects the finding that, as at the date of the review, the Outline Business case is incomplete, with the key omission being the analysis of the full life costs and revenue implications of the project. Whilst the business case for the new school and the community facilities is strong, and the up-front capital costs well understood, it is important that the long term financial impact is equally well understood, to ensure that decisions to proceed to the next stage are made in the full knowledge of the affordability implications of the scheme.

The business justification for the enhanced, competition level sports facilities (rather than standard facilities to support the school and local community) is less compelling than that for the core of the project, and a full understanding of the revenue implications, which will include income generation as well as expenditure, will help greatly in strengthening that part of the business case.

Subsequent to the on-site review being completed, the Review team has had further discussion and correspondence with the SRO, and is pleased to report that significant progress is being made in assessing the revenue implications of the project and completing the OBC, and we would expect that this will be done well in advance of the States debate on the project in November.

Away from this specific point, whilst there are a small number of additional recommendations arising from the review, the Review team's view is that none are significant in terms of impacting on the potential deliverability of the project. Subject to completion of the Outline Business Case, the Review team believes that the likelihood of the project being delivered successfully is very high, and would recommend, therefore, that the project proceeds to the delivery stage.

The Value for Money review also raised significant concerns which require addressing before a recommendation to proceed can be made from a value for money perspective. These concerns surround the lack of revenue costs for each option in the business case presented and the incomplete options appraisal.. The Treasury and Resources Department is therefore not currently in a position to comment on the affordability of the scheme with key information still missing.

Overall Value for Money

It is important to note that the project assurance reviews concentrate on reviewing the business case presented and not in questioning or challenging the assumptions, scope or specification of the project.

The Treasury and Resources Department considers that its role is broader than that of the project assurance review and that it has a responsibility to advise the States as to whether the project as proposed represents value for money overall and is affordable in the context of the total funds available to the portfolio. The Department has concentrated on examining the elements within the project that drive the project cost and sets out in this letter some of the questions which have emerged which the Treasury and Resources Department believe need answering before the States can be assured of the value for money of this project.

For the avoidance of doubt, the Treasury and Resources Department is not questioning the need to replace the schools at La Mare de Carteret (LMDC). Instead, its questions focus on the specification, standards and size of schools that are built (as this has such a material impact on cost) and the requirement for the additional facilities proposed.

The States Report sets out that two fundamental criteria have been used in deciding whether there is a case for capital investment in rebuilding the existing schools at LMDC which are in line with those used in the UK. These are:

1. Whether there is a continuing need for the school places at the existing schools to be maintained – the 'Basic Need'; and

2. Whether the condition of the schools is such that they can no longer offer fit-for-purpose facilities.

Fundamental Criteria 1 - Basic Need

Having modelled the requirement for school places throughout the Island until the year 2042, the Education Department has concluded that a 600 place school is required at LMDC in order to cope with the peak demand in 2026/27.

The Education Department has allowed an additional 5% on the forecast peak which has a significant impact on the size of school required. This assumption gives a maximum demand of 2,594 places with maximum capacity of 2,580, a potential shortfall of just 14 places. However, using the same assumptions, the average annual spare capacity over the period modelled would be 125 spaces.

The Policy Council's Policy & Research Unit has commented that:

The key assumptions for school age population used by the Government Actuary's Department in putting together the data are:

- *the fertility rate (particularly when looking out beyond 5 years) and;*
- *the immigration assumptions.*

The Education Department was provided with the headline projections which assume net immigration of +200 people per year.

Examining the variant population projections held by the Policy Council (which look at different assumptions of migration) suggests that within a 10 year horizon the projections of secondary school age children are likely to be fairly accurate, the local children having already been born and net migration among under-15's being typically very low.

At the point of peak demand (the mid-2020s) the available data suggests that the projections should be accurate to 1% - 2%. Beyond this point (where the children born on island to immigrants begin to reach secondary school age) migration assumptions have a larger impact and the confidence level deteriorates.

By the 2040s, varying migration assumptions by 100 people per year either way results in a confidence level of +/-5%. However, even at the upper limit of the *confidence level, the number of children is not projected to exceed the peak estimated in 2027.*

The Treasury and Resources Department has therefore undertaken calculations to examine the impact of reducing the 'contingency' factor to 2%. If this is applied to the peak demand then a 480 place school would give a gap at the peak year (2026/27) of just 60 pupils across the projected 2,471 cohort in the four schools. The average spare capacity (over the modelling period) in a 600 place school at these pupil numbers would be approximately 195 spaces.

The difference in area between a 600 and 480 space school is 932sqm. Using costings provided in the Education Department's OBC would give a total cost difference between a 600 and 480 space school of about £3m. The Treasury and Resources Department has asked the Education Department whether it would be possible to build a smaller school.

The Report does not cover in any detail an analysis of the basic need in relation to the Primary School but states that:

Proposals for rationalising and transforming the Primary education sector were approved by the States following discussion of the States Report "Transforming Primary Education" October 2013, and so this Report does not revisit the discussion on the retention of the La Mare de Carteret Primary School, or the discussion of primary pupil numbers. Suffice to say that the La Mare de Carteret Primary School is an integral part of the Department's policy of 2-3 form entry in the Primary phase.

The LMDC Primary school has been classified by the Education Department as a social priority school with a maximum class size of 24. The modelling undertaken for the October States Report assumed a school at LMDC based on a class size of 25 which gives a 350 space school. However, this Report assumes a class size at LMDC Primary of 30, giving a 420 space school. These additional 70 spaces would equate to an additional built area of some 360sqm which, using the costs assumed in the OBC, would equate to a difference in cost of approximately £1m.

The Education Department's October Report showed average class sizes at LMDC Primary of 14 to 22 with surplus spaces of 25.7% and the same Report shows that the school is likely to continue to be under-occupied in its future modelling. It is understood that the Education Department wishes to future-proof school capacity as far as possible, but the Treasury and Resources Department questions whether the States can afford to do so to such an extent given the declining pupil numbers over the long term.

Fundamental Criteria 2 - School Condition

The Education Department's Report states that:

'Pupils are working in outdated facilities in both schools unsuitable for a modern educational environment, and which do not allow the schools' curricula to be delivered efficiently and effectively. Going forward, this may impact on the schools' ability to achieve high quality learning outcomes.'

The Treasury and Resources Department is concerned that the same factors may apply to other Primary schools across the estate and that there is therefore a risk that building the Primary school proposed at LMDC will set a precedent and an unofficial benchmark for a programme to redevelop other Primary schools. This could have significant future cost implications for the States if space and specification standards are not formally agreed, appropriate and benchmarked to ensure value for money.

The 16% Guernsey Uplift

An independent review was carried out in 2005 to produce recommendations for areas for the first of the High School Projects, St Sampson's High School. The review panel recommended that a 16% uplift on "Building Bulletin 98, Briefing Framework for Secondary School projects", produced by The Department for Children, Schools and Families (DCSF). The panel recommended that *'the Education Department should Design the other two schools (LBHS and LMDC) to a similar standard when funding becomes available.'*

It is clear that it was the intention that the 16% uplift be applied to LMDC High School when it was developed. However, the review is now almost 10 years old and the Treasury and Resources Department consider that this is an opportunity to question whether the factors particular to the Guernsey educational system that were identified at the time are still valid namely:

- *the smaller class sizes and pupil / teacher ratio in Guernsey.*
- *the Education Development Plan's aims to ensure the new schools should be 'future proofed' for at least fifty years and be sufficiently flexible to accommodate changes in the curriculum, teaching styles, demographic trends and community needs.*
- *the impact of the generous pupil to teacher ratio and the smaller average group size on the accommodation.*
- *the impact of the high investment in ICT on all teaching areas.*
- *the impact of inclusion and an increase in the number of pupils with complex special educational needs including physical, emotional and behavioural problems in mainstream schools must be reflected in the quantity and quality of teaching and ancillary facilities, provision for visiting specialists and the design of circulation areas. The panel is persuaded that the bigger classrooms will facilitate the use of Guernsey's favourable staffing ratio to offer a flexibility to set by ability. We believe the schedules proposed generate adequate spaces for withdrawal and SEN support. The allowance generated for circulation should be sufficient to meet the many demands placed upon it.*
- *the impact of increased community use of school premises for life-long learning and sport and recreation.*

The review undertaken in 2005 was specifically in relation to secondary schools on the island and no work has been undertaken to establish a space standard for Primary schools. The Education Department states that:

> *'It would be unreasonable and untenable to expect the LMDC cohort of parents, pupils and staff, and the parishes from which they draw, to accept new buildings and facilities which do not meet the same standards as those previously approved by SED and the States as appropriate for the next generation of schools.'*

The Treasury and Resources Department is concerned that applying the 16% Guernsey space factor to the LMDC Primary school will set a precedent for future primary school projects and that consideration should be given to a further independent review to set a space standard for Guernsey primary schools to ensure there is an agreed and consistent benchmark by which to work since this factor has a significant cost implication of over £1m for the primary school.

Cost Per Square Metre

The cost per square metre assumed for LMDC is £2,896. This cost per square metre was considered by the value for money reviewer who has commented that:

> *A review of capital costs is enclosed in the draft OBC which benchmarks the costs per square metre of the building works against both previous EDP1 schools as well as similar UK schools. Whilst the benchmarking analysis with the previous EDP1 projects identifies that the cost fits well against previous school projects (updated for inflation) the benchmarks provided against UK projects are less clear to understand. The Project Team who has confirmed that the cost per square metre allows for:*

- *a more robust specification than a standard school in the UK. This additional cost/specification allows production of a more robust solution (to reduce ongoing maintenance costs and increase the life of the building);*

- *the provision of a specification that meets the needs of the specific marine environment.*

The Treasury and Resources Department understands that an additional £200-300/sqm has been allocated for additional specification requirements which relate to '*a specification associated with a marine environment and an increased design life*.' The cost impact of this on the High School alone amounts to between £1.5-2.0m. The Treasury and Resources Department has not as yet seen a robust justification for this increased cost per square metre.

Between the needs analysis of school spaces, the 16% Guernsey uplift and the additional assumed cost per metre square, there could be the potential to save at least £7m on the project costs. The Treasury and Resources Department would wish to be satisfied that all of these costs are justified before being able to comment on the value for money of this project.

Other Facilities

The brief for the Schools project also includes proposals to:

- Relocate the existing autism services at Amherst and St Sampsons High School to a new facility at LMDC
- Build a pre-school nursery alongside the Primary school
- Deliver community facilities for families and the older generation
- Offer competition level indoor sports facilities

The cost of these elements is not clearly identified in the States Report or the benefits articulated and these additional elements were not originally envisaged as part of the Education Development Plan approved by the States in 2002.

The project assurance review reports have both said that the case has not been robustly made for these elements in the OBC and recommendations made accordingly. The Treasury and Resources Department is therefore not currently able to comment on these elements.

Project Benefits

As set out at the beginning of this letter, one of the key objectives of the Treasury and Resources Department in establishing the States Capital Investment Portfolio was that an increased focus was given to the identification of project benefits at an early stage so that delivery of these can be monitored.

The States Report does not include a section clearly setting out the benefits (both financial and other) of the preferred solution. The Treasury and Resources Department would expect the Report to articulate the benefits in one section, including how they will be delivered, monitored and measured. Without this information it will not be possible to measure the success of the project in the future.

Ongoing Revenue Costs

The Education Department's Report is currently silent on the running costs of the proposed new complex which makes it impossible for the Treasury and Resources Department to comment on the affordability of the scheme.

The Education Department notes in the Report that the existing buildings have high energy and increasing maintenance costs, but these are not specified. The Treasury and Resources Department would be optimistic that the modern, energy efficient buildings being designed would provide ongoing revenue savings against this baseline. However, the Department is also aware that the footprint of the new buildings is significantly larger than the current schools. Therefore, it is important that the revenue costs are clearly identified so that it can be confirmed that these can be managed within the Education Department's cash limit. If the running costs of the school are likely to be above the amount affordable to the Education Department then an assessment would be required as to where and whether that funding could be secured given the States' fiscal constraint of no real-terms growth in revenue expenditure.

The Report does contain an assessment of the total life cycle costs of the whole scheme. However, given that only the costs of the preferred option have been made available and that there is no baseline against which to compare, these do not assist the Treasury and Resources Department's assessment of affordability.

The Report is also lacking any identification and commitment to delivery of financial benefits. The Report does allude to possible financial benefits, for instance with regard to the transfer of the Communication and Autism service, but these are not specified.

Summary

Given the schedule of the Education Department, it has not been possible to receive answers to these questions and comments in the time available and therefore the Treasury and Resources Department felt bound to share its concerns with the States.

The States Report states that *"A delay of one year to the completion of the programme is estimated by cost consultants to have an inflationary impact of an additional £2.7m on the total project cost".* This may be true from a project perspective. However, consideration also needs to be given to:

- The fact that retaining £60m in the General Investment Pool for an additional year would probably yield between £2m and £3m;

- The £2.7m could be overshadowed by the savings which could be achieved in a lengthened procurement and value engineering phase;

- That there may be considerable scope for cost reduction in the project by examining in further detail the brief, assumptions and basic need. The analysis set out in this letter shows a potential £7m cost reduction.

The Treasury and Resources Department considers it vital, for such a significant investment, that the Education Department demonstrates the value for money and affordability of the option proposed for the redevelopment of the LMDC Schools and associated facilities. The Treasury and Resources Department is presently unable to advise the States that the project set out in this States Report represents value for money or is affordable and is therefore unable to support the Report.

The Treasury and Resources Department wishes to work with the Education Department ahead of the debate on the Report to find mutually acceptable amendments to the scope of the project that will enable the States to commit to an option for the replacement of the LMDC Schools that offers best value.

Yours sincerely

Gavin St Pier
Minister