



National Audit Office

## **THE BUILDING SCHOOLS FOR THE FUTURE PROGRAMME** Renewing the secondary school estate

REPORT BY THE COMPTROLLER AND AUDITOR GENERAL | HC 135 Session 2008-2009 | 12 February 2009

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National Audit Office

# **THE BUILDING SCHOOLS FOR THE FUTURE PROGRAMME**

## Renewing the secondary school estate

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**6 February 2009**

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# SUMMARY

**1** In 2003, the Department for Children, Schools and Families (the Department) announced the Building Schools for the Future Programme (BSF), which aims to renew all 3,500 English secondary schools over the 15-year period 2005-2020, subject to future public spending decisions. It plans to entirely rebuild half the school estate, structurally remodel 35 per cent, and refurbish the rest. Refurbishment includes providing new ICT to recently built schools. Local Authorities are responsible for commissioning and maintaining the schools. The Department created Partnerships for Schools (PfS) to manage the programme centrally.

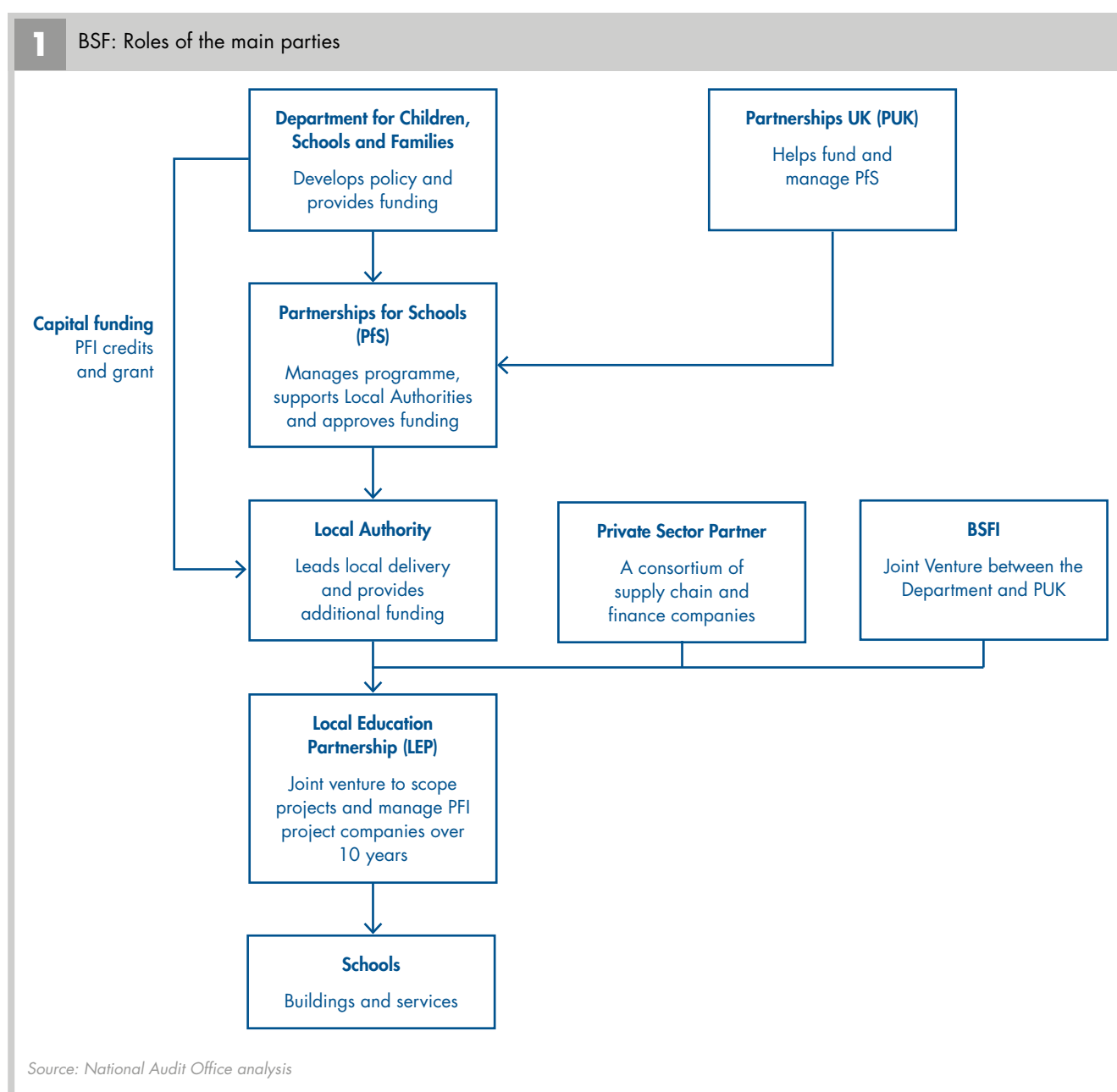
**2** The Department sees BSF as important to improving educational attainment and the life chances available to children, by providing educational, recreational and social environments that support modern teaching and learning methods. It wants buildings to be shared and used by local communities, and to be flexible in responding to developing needs. It also wants BSF to support local reorganisation of secondary schools to reflect demographic needs and a greater diversity of provision, including Academies and specialist schools.

3 BSF also aims to achieve improvements in the way school buildings are delivered through:

- i targeting funding to groups of schools to allow Local Authorities to plan strategically for the provision of school places and other facilities, and for the delivery of children's services, on an area wide basis;
- ii long-term partnering efficiencies between the public and private sectors, usually through the establishment of local joint ventures called Local Education Partnerships (LEPs), which have exclusive rights for 10 years to deliver new and refurbished school facilities and related services; and

- iii central programme management, coordination and support for local strategic decision making and school building and refurbishment projects.

Figure 1 sets out the roles of the main parties. Figure 6 (page 16) shows the funding, contractual and investment flows.



**4** The Department decided to use private finance in a number of different ways to help deliver BSF:

- i** By encouraging Local Authorities to use the private finance initiative (PFI) to procure new school buildings with the aim of providing better project management and maintenance. PFI is expected to account for 41 per cent of BSF by capital value up to 2011 (£4.5 billion allocated up to 2011). The rest (mostly to remodel and refurbish schools) is funded conventionally, mainly through capital grant from the Department (£5.8 billion allocated up to 2011).
- ii** In the funding and management of PfS – which is carried out jointly by Partnerships UK (PUK) and the Department.
- iii** In the LEP partnering arrangements, which bring together private sector contractors, lenders, the Local Authority, and Building Schools for the Future Investments (BSFI).
- iv** BSFI is itself a joint venture between the Department and PUK. It invests in the share capital of LEP joint ventures and in PFI projects to allow national influence over the quality of local project delivery.

**5** The Department provided £3.6 billion of capital funding up to March 2008 (£2.3 billion under signed PFI contracts and £1.3 billion under conventional funding). It has allocated another £7.5 billion up to March 2011, and plans to provide further funding after that. BSF accounted for 22 per cent of England's expenditure on school buildings in 2007-08. BSF has not been included in the Government's acceleration of education capital funding to act as a fiscal stimulus.

**6** Approximately 75 per cent of Local Authorities that had signed contracts before December 2008 have developed BSF projects under PFI arrangements. Over the course of 2008, difficulties in the banking sector reduced the amount of money available for banks to lend and it became difficult for Local Authorities to find lenders of senior debt for PFI deals. Kent County Council agreed a BSF PFI deal in October 2008 and between then and the start of February 2009 everyone that signed BSF contracts used conventional funding. The Department, PUK and PfS believe at present that BSF remains one of the more attractive markets for bidders, but the extent to which financing difficulties will have an impact on the programme as a whole is as yet unclear. The Treasury, Department and PfS are seeking new sources of private finance, including the European Investment Bank.

**7** This report focuses on the progress of the programme up to December 2008; on the delivery arrangements used by Local Authorities, including their local resources and capacity, the planning process and the benefits and costs of a LEP; and on the delivery arrangements used by the Department, PfS and PUK, including the management of the programme by PfS and the funding arrangements for PfS and BSFI.

## Key findings

### Progress in the delivery of the programme

**8 The Department and PfS were overly optimistic in their assumptions of how quickly the first schools could be delivered, leading to unrealistic expectations.**

In February 2004, the Department said that it wanted to build 200 schools by December 2008, but Local Authorities only managed to build, remodel and refurbish 42 schools through BSF. The Department underestimated the time needed to establish the programme, carry out strategic planning and procure private sector partners to build the schools. It took over a year for the Department, PfS and Local Authorities to establish the details of the programme, including the scope, overall level of funding available and the funding mix. It took Local Authorities nearly six months longer on average than initial estimates to procure a LEP, although this was a little less time than it took them on average to procure a contractor in previous school PFI projects. It also took Local Authorities about 18 months on average to develop strategic plans, compared to initial expectations of just over six months. After seeing the first few plans, the Department asked Local Authorities to spend more time to improve their proposals, because it believed it was more important to improve the quality than to accelerate the programme. PfS has streamlined the strategic planning and procurement processes so that it should be quicker in future.

**9 The programme now includes the majority of Local Authorities, but scaling it up to deliver all 3,500 new or refurbished schools will be challenging.**

As at December 2008, PfS is working with the majority of Local Authorities to develop their schools. Fifty-four schools are due to open in 2009 and 121 in the following year. To start all secondary schools by 2020, the number of schools in procurement and construction at any one time will need to double over the next three years. Consequently, there will need to be an increase in the availability of procurement and project management skills, which are in short supply at present.



### 10 There has been an increase in estimated total costs.

The Department and PfS estimate the total capital cost of the programme will be between £52 and £55 billion, a 16 to 23 per cent real increase from previous estimates. The majority of the increase is because the Department has increased the scope of the programme and has agreed to provide additional funding for the inclusion of Academies, Special Education Needs facilities, Voluntary Aided schools and carbon reduction measures. About a third of the increase in the estimate is because the original estimate assumed building costs would rise with general inflation, but building cost inflation is now estimated to have been twice general inflation up to 2008. To meet these costs and accelerate the programme to start all schools by 2020, annual expenditure on the programme would need to increase from £2.5 billion a year to between £3.4 and £3.7 billion a year at current prices from 2010-11 onwards.

### 11 The total capital cost of each BSF school averages £1,850 per square metre, which is similar to most other schools.

It is less than Academies built before their integration into BSF, which averaged £2,240 per square metre at 2007 prices. The prices of BSF buildings have been kept under control by the funding arrangements put in place by the Department and implemented by PfS. These place the cost of increasing the scope of school projects with the Local Authorities and require them to keep projects affordable.

## Local delivery arrangements

**12 BSF is making it easier for Local Authorities to use capital funding strategically.** More than 75 per cent of Local Authorities in our survey said it was leading to more strategic procurement. All of the seven Local Authorities in our case studies have put in place plans to re-organise their school estate in a coordinated way, and devoted significant time and resources to planning the investment. Initially, planning processes and guidance did not focus on the practical matters that would help schools meet expectations. The Department and PfS have improved the processes and guidance significantly for more recent projects.

### 13 The costs of establishing the first LEPs have been high.

We estimate that for the first fifteen LEPs, the combined total cost of designing the first few schools, procuring a private sector partner, and setting up the LEP averaged between £9 million and £10 million. A large proportion of this cost was for the design of the first schools. These total costs were higher than they needed to be because of avoidable delay, extensive reliance on consultants by Local Authorities, large numbers of sample schemes and alterations made to standardised documents. PfS has started to streamline the process of establishing a LEP to reduce costs in future.

### 14 It is too early for Local Authorities to be able to tell if the expected benefits of the LEP model will be realised.

A quarter of Local Authorities in our survey anticipate that there will be benefits from a LEP approach. But most have not yet reached the stage of developing new projects following the establishment of the LEP and consider it too early to tell. The private sector partners surveyed by the National Audit Office are more optimistic: nearly 70 per cent believe that the LEP model can offer value for money.

### 15 Early evidence shows that having a LEP can lead to time and cost savings on repeat procurements, although most Local Authorities have not reached this stage.

The first few projects developed after LEPs were established have been procured more quickly and efficiently than comparable projects undertaken without using a LEP. In the case of Lancashire, for example, two PFI schools were procured in 12 months and 7 months, compared to the 20 months it took to procure the LEP, and half the time that was previously typical for school PFI procurement before BSF. The first non-school project delivered through a LEP was in Leeds, and was procured six months more quickly than Leeds had previously managed without its LEP. The main factors were quicker scoping and agreement of projects, which also resulted in approximately a 20 per cent saving (£200,000) on the Local Authority's internal procurement costs compared to similar procurement without a LEP.

**16 The first LEPs found it difficult to establish effective working arrangements and relationships between Local Authorities and private sector partners.** Governance and contractual arrangements are complex, requiring early attention to how to manage the operational phase. PfS, Local Authorities and bidders initially paid insufficient attention during the procurement process to how LEPs would work in practice. Tensions from the negotiation process sometimes adversely affected relationships when the project moved from procurement to operation. Confusion around the scoping process and shortcomings in partnering have led to some avoidable delays and reduced efficiency in the LEPs' development and scoping of their first projects. In 2008, PfS started to focus on helping LEPs overcome these issues. Local Authorities and private sector partners are working to overcome early problems and some are starting to see the benefits of effective partnering, such as more effective town planning applications through the pooling of expertise.

**17 LEPs develop projects without competitive tendering during a ten-year exclusivity period.**

The exclusivity arrangements could make it harder to price projects economically, as the private sector partner will not typically need to demonstrate efficiencies by competing against rivals. To mitigate this risk, Local Authorities will therefore seek alternative sources of assurance over the value for money of individual project budgets proposed. The forms of assurance can include comparison to national benchmarks and to the original cost schedules put forward by contractors for the projects developed when they initially competed to join the LEP. There is also provision for market testing after five years. In addition the contracts include continuous improvement targets, which require reduced prices for future projects, and loss of exclusivity rights for failure to deliver value for money. Public sector membership of the LEP Board also improves the transparency of costing.

National coordination of BSF

**18 The Department's decision to establish PfS has helped to achieve effective programme management.**

PfS provides national leadership and is able to carry out programme management activities which the Department and Local Authorities could not carry out by themselves. PfS provides skilled specialist people that the Department would find difficult to recruit. It has also exercised

effective control over the overall scope, flow and cost of the programme in a way that could not be done by individual Local Authorities. PfS provides structured programme management and practical support to Local Authorities, including standardised documentation and guidance, and facilitates learning from experience between Local Authorities. Its overall costs, combined with those of the Department, are comparable to other programmes with central administration of devolved capital spending, such as the Department of Health's Local Improvement Finance Trust programme, the Housing Corporation's Affordable Housing Programme and the Department for Environment, Food and Rural Affairs' Waste Infrastructure Development Programme.

**19 PfS's corporate targets emphasise the timeliness of delivery.**

These influence performance bonuses received by PfS staff of up to 20 per cent. Although PfS's guidance and review of Local Authority plans highlight the importance of the quality of the schools being built, 70 per cent of the corporate targets are weighted towards timeliness of delivery. The Department and PUK are developing an additional set of quality performance indicators to use in future.

**20 The benchmarking tool developed by PfS to help control capital costs needs to be developed further so it is useful to all Local Authorities.**

PfS has developed a benchmarking tool for cost and price data to help Local Authorities gain assurance on value for money, given the ten-year exclusivity period of the LEP. It has been used where competition has been weak, but cannot as yet provide a benchmark for every Local Authority because it holds insufficient data. Effective use of the benchmarking information by Local Authorities will be essential to ensuring prices remain economic in the absence of competition.

**21 PUK's role in helping to fund and manage PfS has resulted in higher rewards for PUK than it would get from a straightforward fee arrangement, although it also results in greater commitment and in-depth support to the programme.**

The funding arrangement is complex and exposes PUK to some of the programme's risks, particularly delay. PUK's return on its contribution is up to 13 per cent a year, assuming there are no delays or performance deductions.

## Conclusion on value for money

**22** This report focuses on the efficiency and economy of procurement under BSF as it is too early to measure BSF's effectiveness in improving the quality of education. The main challenges to securing value for money revolve around increasing the pace of delivery; securing adequate cost assurance; and managing relationships in a complex delivery chain, requiring buy in from a wide range of public and private sector parties.

**23** Original expectations of how quickly schools could be built were overly optimistic. PfS will find it very challenging to include all 3,500 schools in BSF by 2020. To do so, it would need almost to double the number of projects in BSF over the next three years.

**24** The cost of the programme has increased by 16 to 23 per cent in real terms to between £52 and £55 billion, in large part because of decisions to increase its scope but also because of increased building cost inflation. The Department and PfS have taken measures to help control capital costs so that BSF school capital costs are similar to most other school building programmes and cheaper than Academies built before their integration into BSF.

**25** Achieving value for money through a LEP requires cost savings over the expected ten-year flow of projects to offset high initial costs. Procuring a LEP takes a long time and is costly. Costs have been higher than they need be (£9 million to £10 million to procure a private sector partner and design the first projects) and can be reduced for LEPs procured in future. There is some early evidence that LEPs can lead to time and cost savings once they have been set up, but very few Local Authorities have reached this stage. Contractors' ten-year exclusivity for developing projects within the LEP is a potential challenge in maintaining effective cost control and realising cost savings, requiring effective use of benchmarking, continuous improvement targets and market testing to gain assurance on the value for money of each project.

**26** National coordination by PfS has brought benefits to the programme. At the local level, there is evidence that the benefits of strategic funding and central programme management are being achieved in many cases. Achieving the potential long-term partnering benefits through the complex LEP model requires clear responsibilities, accountability, commitment and buy in from all parties.

## Recommendations

### The pace of delivery and cost assurance

- i** **The Department and Partnerships UK agree PfS's corporate targets annually, which influence the size of the bonus pool available to senior staff at PfS. So far these have focused on the timeliness of delivery, which, although important, needs to be balanced with maintaining the affordability of the programme and achieving effective outcomes.**

The Department should establish a smaller balanced scorecard of performance indicators for PfS than it currently uses. These should better reflect the objectives of BSF, covering the timeliness, cost and quality of the programme's outcomes.

- ii** **PfS's benchmarking data will be essential to help sustain value for money for schools not procured in competition.**

PfS should speed up its collection of cost information on BSF schools including procurement, capital, facilities management, ICT, life cycle costs and PFI contract variation costs, and make this information available to Local Authorities so they can benchmark their costs.

The Department should invite Local Authorities to provide detailed cost information on major school projects procured outside the BSF programme so that PfS can include this cost information within its benchmarking.

- iii** **The costs of setting up a LEP have been high for the first Local Authorities to do so. These costs should fall for future projects.**

PfS should monitor the costs of establishing and using a LEP; disseminate good practice; streamline and standardise the process so as to help Local Authorities to cut these costs; and use frameworks where sensible to make procurement quicker.

## The complex delivery chain

- iv A general lack of skills in procurement and programme management across the public sector constrains capacity in BSF. PfS currently helps improve skills levels on an ad hoc basis.**

Skilled resources, which are in short supply in the public sector, are required if the complex BSF model is to deliver the desired benefits. PfS should establish a strategy to increase the skills available to BSF. This strategy could include (i) the provision of training (potentially through contractors); (ii) shifting the balance of its own recruitment by taking on more junior staff and training them with a view to movement into Local Authorities; and (iii) facilitating the secondment and placement of skilled individuals between Local Authorities.

- v Many Local Authorities remain to be convinced of the benefit of the LEP approach. Poor planning for how to manage contracts during their procurement and difficulty in establishing effective working arrangements and relationships have slowed the speed at which the first LEPs are delivering their next phase of schools.**

The Department and PfS should obtain buy in from Local Authorities for the agreed procurement approach. The Department should encourage PfS and BSFI to work jointly to promote the effective operation of LEPs and help Local Authorities manage the transition from the procurement to the operation of the contracts and the ongoing contractual arrangements. PfS should satisfy itself that all deals have arrangements in place for the effective management of contracts before approval of their Final Business Case.

- vi Monitoring of whether local and national objectives are being achieved is unsystematic, and plans for achieving them lack detail.**

The Department and PfS should:

- a** require Local Authorities to introduce a consistent system to record and monitor the full list of benefits desired for each BSF school and project, keep that system up to date and use it to track and help realise these benefits.
- b** provide support to Local Authorities and schools in realising these benefits through, for example, developing the existing guidance on change management plans to include monitoring of who is responsible for achieving each benefit, how it will be measured, how it will be achieved, progress towards achieving it, and when it is achieved.
- c** review the achievement of the benefits in one and three year post occupancy reviews.



# PART ONE

## Introduction

Part 1 of this report provides an overview of BSF.

### Scope of BSF

**1.1** The Department for Children, Schools and Families (the Department), announced the Building Schools for the Future programme (BSF) in 2003 to renew all 3,500 secondary schools in England and facilitate its ultimate aim of improving educational attainment and the life choices available to children.

**1.2** It aims for BSF to be a move away from a patch and mend approach to planning the renewal of schools across the whole of a Local Authority's estate. It has prioritised areas of deprivation and low educational attainment to receive funding first.

**1.3** BSF aims to rebuild half of the secondary school estate, extensively remodel 35 per cent and refurbish 15 per cent. BSF also funds new ICT equipment (**Figure 2 overleaf**). Recently refurbished schools will only get new ICT equipment. The Department also encourages Local Authorities to use BSF to match school provision to demand, by building new schools or merging and closing existing ones.

**1.4** When it launched the programme, the Department said it would finish the renewal of all schools "within 10 to 15 years from 2005-06".<sup>1</sup> It now intends to have agreed contracts to renew the last schools by 2020 (15 years from 2005-06), but these schools might be built at any time up to 2023.

**1.5** Through BSF, the Department aims to achieve significant improvements in the delivery of new schools, including:

- i Better strategic planning of the type and location of schools, the physical environment and facilities to be included.** All Local Authorities have been given an indication of when they will join the programme and how much funding will be available. They are encouraged to assess how best to use funding across their school estate to ensure the number, location and types of school meet local needs, and how each new school building can best meet the school's objectives.
- ii Effective long-term partnering between Local Authorities and the private sector.** The Local Education Partnerships (LEPs) procurement model allows a Local Authority to work with a private sector partner for ten years to improve schools, rather than tendering each project separately.
- iii Central programme management.** Partnerships for Schools (Pfs) coordinates delivery, provides standardised planning and procurement processes and helps to control costs.

**1.6** The Department has provided £3.6 billion of capital funding up to March 2008 and plans another £7.5 billion up to March 2011. The Department expects Local Authorities to fund some of the capital costs and nearly all the revenue costs for planning, procuring and managing projects (**Figure 3 overleaf**). Fifty-two per cent of capital funding is expected to be provided as capital grant, 41 per cent under the private finance initiative (PFI) and the remainder under supported borrowing (**Figure 4 overleaf**). The Department stopped using supported borrowing after 2007.

1 2003 consultation and 2004 launch prospectus.

## 2 Classification of the levels of school renewal

Level of build	Level of build description	Expected proportion of schools to be renewed to this level (by floor area) %	Typical capital funding per pupil £	ICT Infrastructure and Hardware per pupil £	Typical funding route
Rebuild	The school is entirely rebuilt. Includes new schools where there is no existing school.	50	8,028	1,675	Private Finance Initiative (PFI)
Remodel	The existing school building is extensively developed, normally involving substantial structural reworking.	35	3,660	1,675	Capital grant
Refurbish	The existing school building is renovated without substantial structural reworking. Includes schools where only the ICT equipment is replaced.	15	318	1,675	Capital grant

Source: National Audit Office analysis of PFS papers

### NOTE

Funding presented at January 2007 prices and based on a typical mainstream 11–16 school of 1050 pupils. Capital funding increases at the same rate as public construction inflation. Capital funding includes furniture and equipment.

## 3 Who pays for what?

	Department's contributions under BSF	Local Authority and school contributions
Capital costs	<ul style="list-style-type: none"> <li>■ Funding to meet minimum building standards for schools (based on forecast pupil numbers)</li> <li>■ Funding to cover some "abnormals" (e.g. flood defences or asbestos removal)</li> <li>■ Funding for initial ICT equipment</li> <li>■ Design costs</li> </ul>	<ul style="list-style-type: none"> <li>■ Land (normally previous school sites)</li> <li>■ Funding of features beyond minimum standards</li> <li>■ Additional ICT equipment (often including a sinking fund for new equipment after five years)</li> </ul>
Administration costs of procurement	<ul style="list-style-type: none"> <li>■ Contribution towards Local Authority's project management costs.</li> <li>■ Legal costs associated with the set up of the LEP and PFI project companies</li> </ul>	<p>Pays all other costs of</p> <ul style="list-style-type: none"> <li>■ developing strategy (additional staff, senior management time and advisers)</li> <li>■ procurement (additional staff, senior management time and advisers)</li> <li>■ consultation</li> </ul>
Operational costs	<ul style="list-style-type: none"> <li>■ Some maintenance costs of PFI schools (double the contribution of prior PFI schemes)</li> </ul>	<ul style="list-style-type: none"> <li>■ Any cost of change management (e.g. training)</li> <li>■ Contract management costs</li> <li>■ All maintenance costs of non-PFI schools</li> <li>■ Maintenance costs of PFI schools (above that included in the Department's contributions towards PFI costs)</li> </ul>

Source: National Audit Office analysis of contracts and funding model

## Other school capital programmes

**1.7** The Department has doubled its capital expenditure on schools since 2000, to £5.4 billion in 2007-08. It devolves 40 per cent to Local Authorities and schools to use as they wish, but retains some as targeted funding for specific ministerial priorities (such as school kitchens), and spends a third on “strategic programmes” including BSF, the Primary Capital Programme, Academies and One School Pathfinders (**Figure 5 overleaf**). BSF has replaced the former school PFI programme.

**1.8** The Academies programme aims to improve educational attainment in deprived areas, by replacing poorly performing schools with new schools run by independent sponsors. Our 2007 Report on Academies found that the buildings were of a good quality and that there were indications that most of the first Academies had improved pupil attainment. But we also found that unforeseen costs, poor project management and increases in scope had often led to significant cost increases and overruns. These schools were procured individually, with a project manager hired by the Department (using a national framework) for each project, and directly

funded through grant from the Department. From 2007, responsibility for the procurement and construction of the buildings of new Academy projects was transferred to PfS, with responsibility for overseeing the educational and governance aspects remaining with the Department. To reduce the cost and time of procuring Academies, they are now procured either through the local LEP, where already established, or through a national framework of suppliers.

**1.9** In 2007-08, BSF provided 22 per cent of capital expenditure on state schools in England (£1 billion out of the £5 billion capital value of both public capital expenditure and PFI contracts signed in 2007-08), and 20 per cent of all PFI deals in England (£700 million out of the £3.6 billion capital value of PFI deals signed in 2007-08).

**1.10** In November 2008, the Chancellor announced that education capital funding would be accelerated to act as a fiscal stimulus. The Department brought forward devolved and targeted funding planned for 2010-11 to 2009-10. BSF was not part of this accelerated capital programme.

### 4 Forms of capital funding provided by the Department in BSF

Capital Funding type	Proportion of planned funding up to March 2011 %	Description	Mostly used for
Capital Grant	52	The Department provides funding to the Local Authority, who use it towards paying contractors. It can only be used for capital purposes.	Remodelled and refurbished schools Voluntary aided schools ICT equipment.
Private finance initiative (PFI)	41	The private sector partner undertakes the design, construction and financing of an asset and thereafter maintains it for an extended period, often 25 or 30 years. Local Authorities are obliged to pay yearly unitary payments to the private sector partner, which are funded through central government's PFI credits.	Rebuild schools only.
Supported Borrowing	7	The Secretary of State agrees that the Local Authority can borrow money towards its BSF programme, and the Department (via Communities and Local Government) provides annual Revenue Support Grant to cover the Local Authority's loan payments. Supported Borrowing has not been used since 2007-08 because caps on Revenue Support Grant have meant it was not always effective.	Previously used for ICT equipment.

Source: National Audit Office analysis of funding

## The BSF funding allocation process and strategic planning

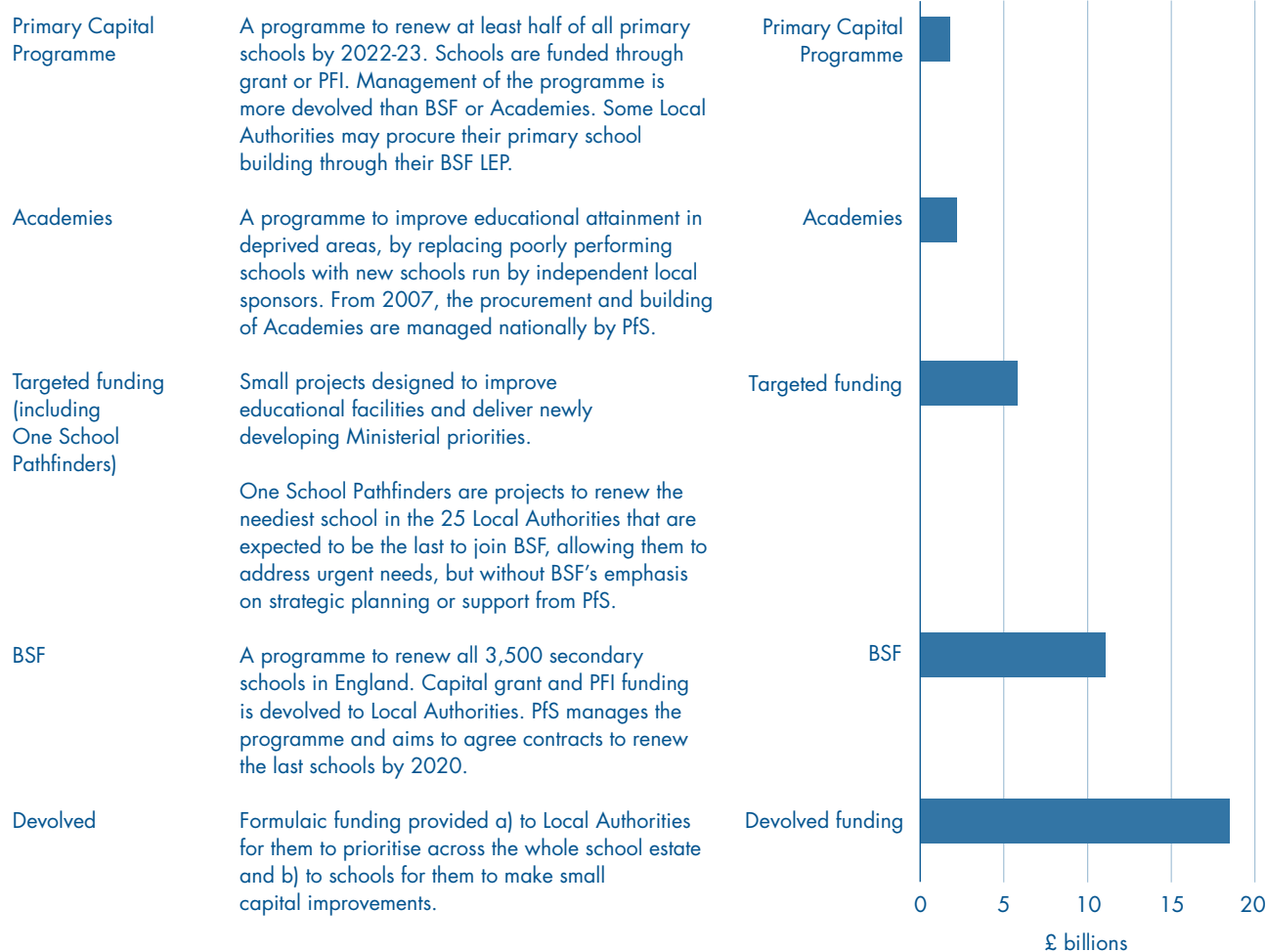
**1.11** BSF provides funding to Local Authorities to renew all the schools in an area through a “wave” of funding lasting three to five years following selection of a private sector partner. It allocates funding to small Local Authorities to allow them to renew all their schools in one wave, and to larger Local Authorities to allow them to renew all their schools across multiple waves, an area at a time. Local Authorities in waves 1 to 3 have received between £80 million and £410 million of capital funding for each wave.

**1.12** The Department prioritised areas into 15 waves, mainly by order of those with the lowest educational attainment (measured by those achieving five A\*-C GCSEs) and highest deprivation (free school meals), and spreading funding for large Local Authorities over multiple waves.

The waves are set out in Appendix 6. The Department is currently considering whether to continue using these arrangements.

**1.13** BSF funding makes it easier for Local Authorities to do more than they can with funding for single schools. It encourages Local Authorities to rethink the organisation of schools across their estate and allows them to coordinate their development, including merging and building new schools. The Department requires Local Authorities to demonstrate that they have undertaken extensive strategic planning on how to maximise the effect of funding to facilitate improved educational attainment and life chances for children.

### 5 The Department’s capital funding programmes. (2004-05 to 2010-11)



Source: National Audit Office analysis of Department’s management information



## National coordination and local delivery

**1.14** Under BSF, Local Authorities take the lead as planners, procurers and clients of projects. The programme uses private finance in a number of ways:

- i** Partnerships UK (PUK) jointly funds PfS with the Department so that it can support the management of the programme.
- ii** PFI is used to deliver new build schools. Local Authorities are encouraged to use PFI with the aim of providing better project management and maintenance of schools facilities.
- iii** To create a framework for long term partnering LEPs are usually established. These are joint ventures between the Local Authority, consortia of supply chain and finance companies, and Building Schools for the Future Investments (BSFI).
- iv** BSFI, itself a joint venture between the Department and PUK, invests in the equity of LEPs and PFI projects to provide additional national influence over local projects.

**1.15** The Department established PfS with the help of PUK to coordinate BSF and provide support to Local Authorities. It also hoped PfS would help Local Authorities to improve their procurement processes. PfS scrutinises Local Authorities' business cases before the Department provides funding.

**1.16** All the main bodies involved in BSF and the principal funding flows are set out in [Figure 6 on pages 16 and 17](#). It shows that under a joint venture agreement PUK provides funding for half of PfS's operating expenditure and the Department pays PUK a return, passed through PfS, based on the performance of the programme. The Department and PUK also jointly fund the investment activities of BSFI, with the aim of providing a rate of return of at least 12.5 per cent. BSFI typically invests as a 10 per cent equity shareholder in a LEP, with the Local Authority (10 per cent) and a private sector partner (80 per cent).

**1.17** The LEP is contracted by the Local Authority to scope projects and integrate a complex array of contracts to deliver school buildings and services. The LEP also sets up and manages PFI project companies which are contracted to build and manage new school buildings. The LEP and PFI project companies sub-contract to a private sector partner, which is typically the consortium of supply chain and finance companies that invests in the LEP and PFI project company.

## The procurement approach

**1.18** Local Authorities are responsible for planning local projects, finding a private sector partner, managing the transition to new buildings, and managing the contracts ([Figure 7 on page 17](#)). Local Authorities can choose their procurement approach, but are strongly encouraged to establish a LEP (except where PfS deems the Local Authority's programme is too small for a LEP to work or it has a better alternative already in place).

**1.19** The Department and PfS introduced LEPs as a new procurement model for BSF because (i) they saw the scale of BSF as an opportunity to support improvements to Local Authority procurement; (ii) they wanted to promote better partnering between the public and private sectors, and to enhance the efficiency of procurement; and (iii) they thought BSF might be too large for the bidding capacity of the private sector if every project was competitively tendered.

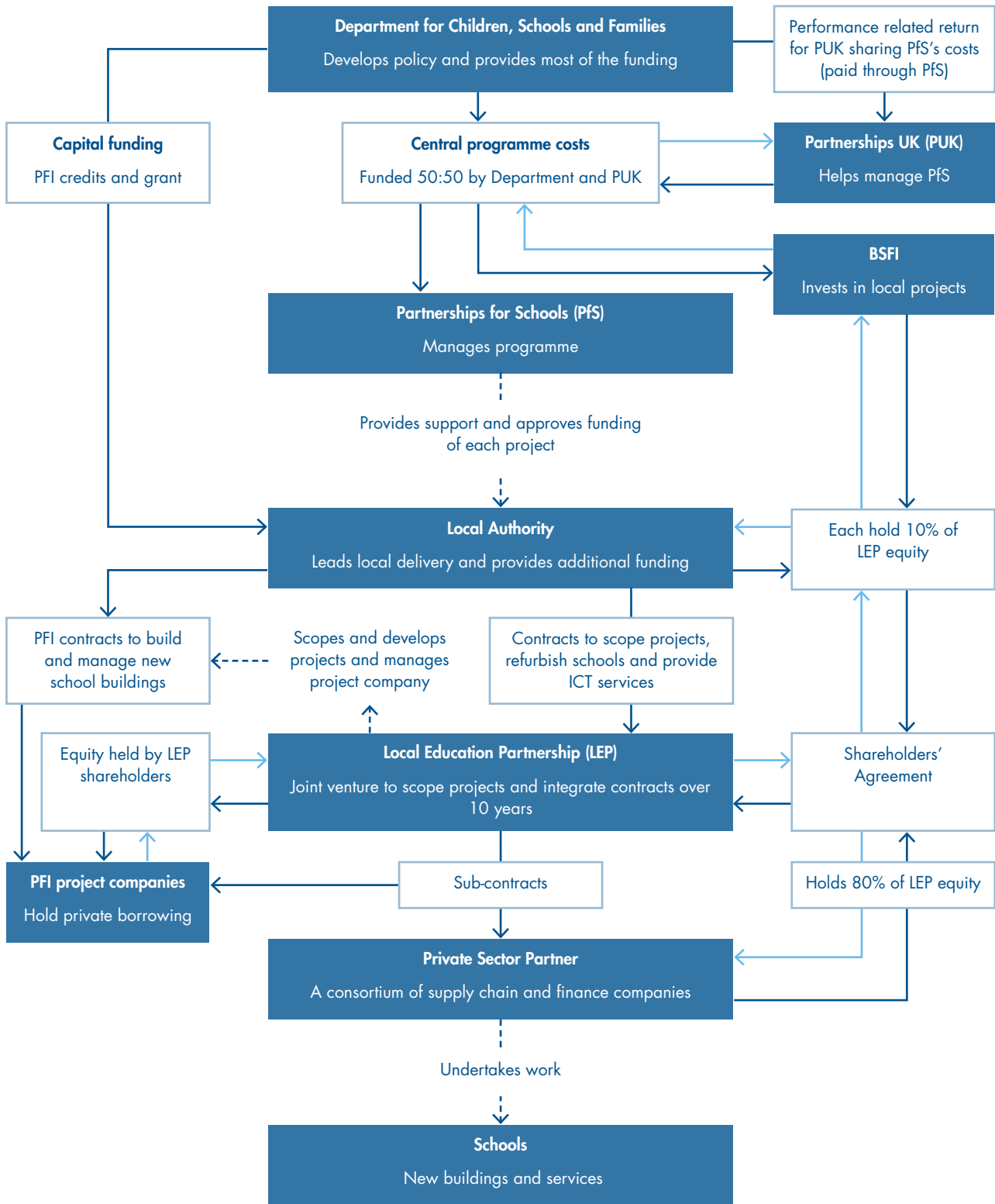
**1.20** A LEP is a joint venture between a Local Authority and BSFI (who together hold 20 per cent of the shares) and a private sector partner (holding 80 per cent of the shares). The Local Authority guarantees that the LEP may undertake all its major school capital projects for ten years, subject to the LEP meeting agreed standards. It is able to procure and manage any type of contract, normally with an integrated supply chain, on behalf of the Local Authority, including PFI, design and build, ICT and Facilities Management contracts.

## Previous related reports

**1.21** Our previous reports on other building programmes in the education sector ([Figure 8 on page 18](#)) have found that projects have tended to be of a high quality. There have often been, however, poor central support and programme management, leading to cost overruns and poor prioritisation of projects.

**1.22** There have been a number of reports on BSF from other bodies ([Figure 8](#)). The Department has commissioned PwC to undertake annual evaluations of the effect of renewing BSF schools, the first of which established a baseline. Some have focused on how to speed up the process. The Education and Skills Select Committee reported on the effectiveness of the planning and procurement processes, concluding that it was more important that BSF took the time to plan properly and get things right than to deliver quickly ([Figure 8](#)).

**6** Principal BSF funding, contractual and investment flows



□ Contracts   ■ Body   → Financial return on investment   → Payment or grant   - -> No transfer of money

Source: National Audit Office analysis

## 6 Principal BSF funding, contractual and investment flows *continued*

### Roles and responsibilities within the BSF Programme

#### National delivery bodies

##### Department for Children, Schools and Families (the Department)

Responsible for all children, primary and secondary school and family policy. Provides capital funding for each project after approving all business cases.

Sponsors and funds PFS and invests in BSFI.

##### Partnerships for Schools (PFS)

A Non-Departmental Public Body founded by the Department in March 2004 to act as the BSF delivery agency and manage the programme.

Acts as the main gateway between Local Authorities and the programme.

##### Partnerships UK (PUK)

A joint venture between the Treasury, Scottish Ministers and the Private Sector, which works exclusively for the public sector and has helped the Department establish the programme. It is classified as a private sector company.

Jointly funds PFS and BSFI, receiving performance payments for funding PFS from the Department and investment returns from BSFI.

##### Building Schools for the Future Investments (BSFI)

A limited liability partnership between the Department and PUK to provide influence in the management of LEPs. BSFI invests as a minority shareholder in LEPs alongside each Local Authority and their private sector partner, and appoints a Director to each LEP's Board.

#### Local delivery bodies

##### Local Authority

Principal client for all building, ICT and facilities maintenance contracts. It provides revenue funding for each project and tops-up capital funding.

Develops local strategies for how to use investment before procuring a LEP.

A Local Authority invests as a minority shareholder in LEPs alongside BSFI and the private sector partner. It also manages the LEP.

##### Schools

Provide funding towards ICT and maintenance budgets and helps the Local Authority procure the LEP.

Plan the use of new buildings and work with the private sector partner and its supply chain to manage rebuilding work.

##### Local Education Partnership (LEP)

A public private partnership between a Local Authority, BSFI and a private sector partner to construct and maintain local infrastructure.

Sub-contracts work (normally to the private sector partner) and manages its supply chain.

Develops plans for each phase of building.

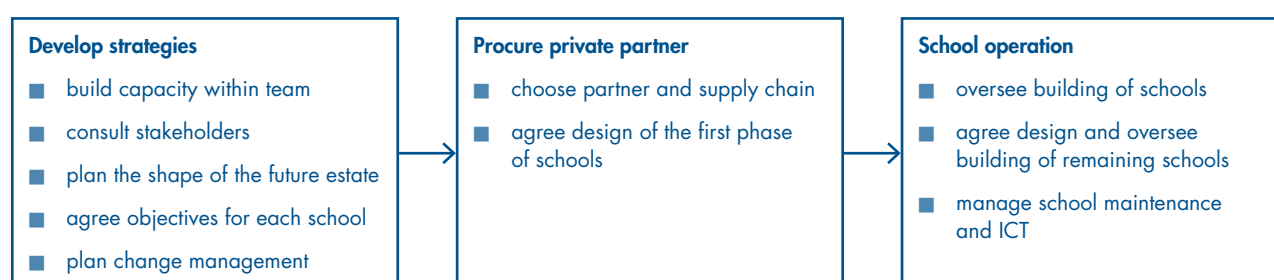
##### Private Sector Partner

Usually a consortium of private sector contractors who enter into negotiations with the Local Authority to provide services to construct and maintain infrastructure and ICT.

##### Supply chain

Designs and builds new schools and refurbishments and provides ICT and facilities maintenance services.

## 7 Overview of three stages undertaken by a Local Authority



Source: National Audit Office process mapping

## 8 Previous reports

### Previous major reports on BSF

#### Education and Skills Committee

“Sustainable Schools: Are we building schools for the future?”  
HC 140-I 2006-07.

The Select Committee undertook a major review of the BSF programme focusing on its planning and procurement, the focus on educational transformation, and sustainability. It concluded “Delay in the programme is a less significant risk to its success than inadequate preliminary thinking and clarity at a local level about what is required” and therefore that BSF should “take the time to get it right”.

#### PriceWaterhouseCoopers (PwC)

“Evaluation of Building Schools for the Future – 1st Annual Report”,  
December 2007

The Department commissioned PwC to undertake annual evaluations of the BSF programme. PwC have concentrated on surveying schools and monitoring the effect of BSF on educational transformation. Their first report found: (i) the existing school estate is increasingly unsuitable for modern teaching and learning; (ii) existing literature tentatively indicates that improved (new or refurbished) buildings contribute to pupil performance; (iii) teachers had high expectations of BSF and most believed it supports educational transformation; (iv) early and deep consultation is needed at all levels; and (v) there was scope to improve communication (particularly between Local Authorities and schools) and reduce the complexity of management.

“Building Schools for the Future procurement review”, May 2008

PfS commissioned PwC to review the procurement process. PwC suggested ways of shortening the process to cut the cost to bidders by £250 million over the whole programme.

#### Confederation of British Industry

“More than bricks and mortar”,  
July 2008

This report represents the interests of the private sector and the voluntary/not-for-profit sector in the BSF programme. It concluded that “(i) putting education first; (ii) decisive leadership from DCSF; (iii) a long-term commitment to the BSF programme; and (iv) improvements to the procurement process”, were essential to making BSF a success.

### Previous reports on related subjects

#### National Audit Office

“The Academies Programme”,  
February 2007, HC 254 2006-07

This report focused on the Department’s programme to improve education in deprived areas by setting up a new type of school. We found that most Academy buildings were of good quality, but had also suffered cost overruns from unforeseen costs and poor project management. Responsibility for managing the construction of Academy buildings has since been transferred to PfS.

“Renewing the physical infrastructure of English further education colleges”, July 2008,  
HC 924 2007-08

This report examined the Learning and Skills Council’s (LSC) programme to renew Further Education (FE) colleges. We found that the FE sector is making good progress in rationalising its estate and most projects were producing high quality buildings with limited cost overruns. We also found that the LSC’s programme management had improved over time, but that there was scope for improving some aspects including prioritisation of projects, the quality of management information and client support for colleges.

#### Audit Scotland

“Improving the school estate”,  
March 2008

Audit Scotland reviewed the Scottish programme of primary and secondary school renovation. Scotland used funding arrangements up to 2007 (when it stopped using PFI) that were similar to those used in England prior to the introduction of BSF. It found these had allowed the Scottish Executive to achieve its aims; but at current rates of progress it would take 20 years to remove all schools from a poor or bad condition; and its programme does not have a clear strategy with meaningful information on what needs to be done or understanding of how much it would cost to renew all the schools that require rebuilding or refurbishment.

Source: National Audit Office literature review

## Scope of this examination

**1.23** This report focuses on the progress of the programme and the methods of delivery used at a national and local level.

- Part 2 sets out the results of BSF to date, covering the progress and cost of the programme as a whole.
- Part 3 describes the local delivery arrangements, focussing on local resources and capacity, the planning processes and the benefits and costs of a LEP.
- Part 4 discusses the national delivery arrangements including PfS, PUK and BSFI.
- The Case Studies Annex sets out case studies on the seven Local Authorities we visited, describing how they are implementing BSF and their successes and challenges so far.



## Progress in the delivery of the programme

Part two of this report looks at the results of BSF to date. It covers the progress and cost of the programme as a whole.

### The speed of delivery

**2.1** As of 31 December 2008, 42 schools have been built under BSF and construction is underway on a further 94 (Figure 9). The rate of school building is planned to increase over the next few years, with 54 newly built or refurbished schools due to be opened in 2009 and 121 in 2010. To renew all 3,500 schools by 2023 requires the renewal of 250 schools a year on average from 2011 onwards.

#### 9 The progress of schools and Local Authorities in BSF as at December 2008

	Number of Local Authorities
Working on strategy	38
In procurement	17
LEPs operational	15
Non-LEP deals operational	10
<b>Total in programme</b>	<b>80</b>
	Number of Schools
Working on strategy	630
In procurement	303
In construction	94
Open	42
<b>Total in programme</b>	<b>1,069</b>

Source: Partnerships for Schools' management information

**2.2** Each Local Authority's first wave of schools takes around seven years from project initiation to opening the last school in the wave, including two years on scoping, two years in procurement and collectively three years in construction (about 18 to 24 months per school). Once they have set up a LEP, each project is expected to take around a year to scope and 18 to 24 months to build.

**2.3** The rate of school building is expected to accelerate as more Local Authorities finish negotiating contracts with their private sector partner. Twenty-five Local Authorities had finished procurement by December 2008. PfS aims for ten Local Authorities to finish negotiations in 2009 and the year after. PfS is currently working with 80 Local Authorities, out of a total of 149 that the Department hopes will eventually join the programme.

**2.4** To meet the ambition of including all schools by 2020, the programme requires (i) 8 to 9 new Local Authorities to enter the programme on average every year for the next 8 years; and (ii) doubling the number of schools that are in procurement and construction at any one time over the next three years.

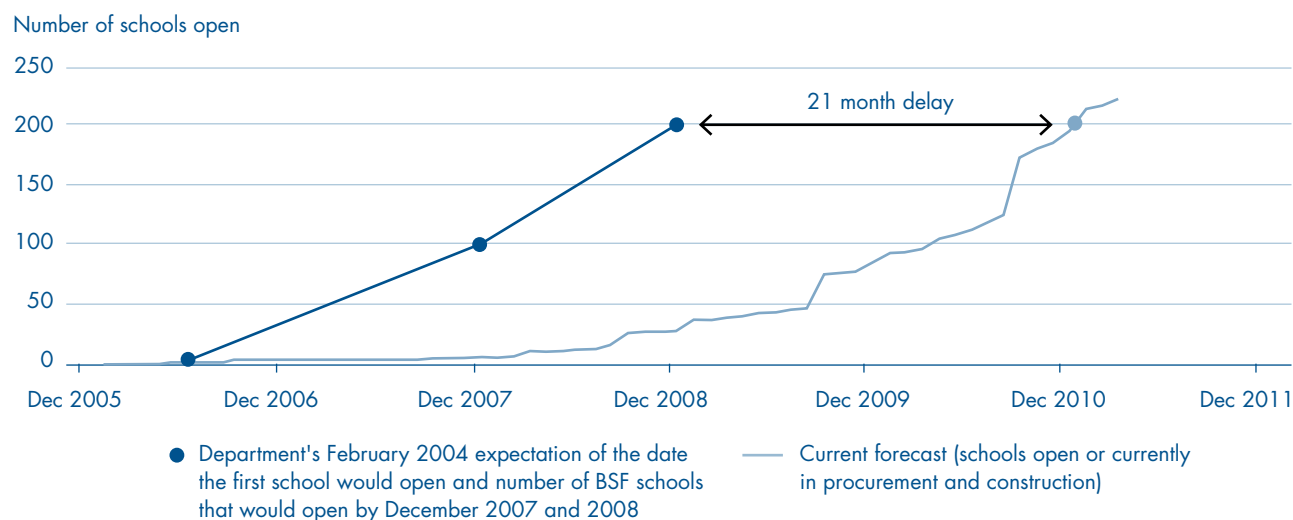
**2.5** The programme started more slowly than the Department expected. In 2004, the Department announced that 200 new BSF schools would be open by December 2008.<sup>2</sup> The current forecast is for the 200th school to open in September 2010, a delay of 21 months. The main reasons are that the Department underestimated:

- the time needed to establish PfS and launch the programme;
- the time Local Authorities would need to develop robust strategies; and
- the time needed to establish a LEP.

Figure 10 shows 2004 expectations compared to current forecasts.

<sup>2</sup> Building schools for the future: A new approach to capital investment, Department for Education and Skills, 2004.

## 10 Forecast school opening dates



Source: *Partnerships for Schools forecast school opening dates and the Department's BSF Launch prospectus (2004)*

### The Launch of the Programme

**2.6** In 2003, the Department announced BSF spending would start in 2005-06.<sup>3</sup> Even if Local Authorities agreed plans within a year and procurement was as quick as the quickest PFI deal (18 months), Local Authorities would have had to start straightaway. In 2003, the Department invited six Local Authorities to be pathfinders and explore the parameters of the programme and how the schools could be delivered. The Department was not in a position to know how long each project would take or how many projects it could afford to fund at a time, until the pathfinders reported on their experience and the Department was able to commission PfS to model the programme parameters in mid 2004. Only then was the Department in a position to tell Local Authorities how much money was available.

**2.7** The Department had hoped to set up PfS in September 2003. Legal and procurement matters, however, led to six months delay and it was established in March 2004. The Department, working with PUK, put key staff into PfS immediately, allowing it to start some essential planning straightaway. PfS and the Department developed and consulted on detailed guidance, standardised documentation for LEP contracts and tendering material in 2004, publishing them in March 2005. There was difficulty in appointing a permanent Chief Executive, however, and a secondee from PUK was appointed on a temporary basis in October 2004. Recruitment of the majority of the other staff was achieved by March 2005.

**2.8** Waves 1 to 3 became pilots. The six pathfinder Local Authorities provided their first plans to the Department in mid 2004 and only started procurement in late 2004. But to avoid further delay to BSF, the Department brought forward waves 1 to 3 to start in 2005. These Local Authorities were not fully able to learn lessons from the pathfinders that might have speeded up their delivery and improved their procurement process.

**2.9** The Department took steps to manage the under-spent BSF funding by re-allocating it to One School Pathfinders and targeted funding (Figure 5). One School Pathfinders are projects to renew the neediest school in the 25 Local Authorities that are expected to be the last to join BSF, but without BSF's emphasis on strategic planning or support from PfS. They are a response to local concerns about particular schools with an urgent need for renewal.

### Time taken developing strategies

**2.10** The Department had assumed prior to 2004 that Local Authorities would be able to plan quickly how to rework their school estates based on their existing strategic planning work. But the Department was disappointed that early plans from Local Authorities were not sufficiently ambitious and did not take account of other education policies to widen the use of schools, integrate services or broaden the choice of school types in each area. It decided to give Local Authorities more time to develop high quality plans.

<sup>3</sup> *Building schools for the future: Consultation on a new approach to capital investment, Department for Education and Skills, 2003.*

**2.11** In its July 2004 modelling, PFS assumed that Local Authorities would take 28 weeks to develop their strategies and get an approved Outline Business Case. So far, it has taken Local Authorities an average of 81 weeks (**Figure 11**).

**Time taken in procurement**

**2.12** In its July 2004 modelling, PFS assumed procurement would take 78 weeks for the pathfinders and 60 weeks for wave 2 onwards, measured from publishing an Official Journal of the European Union notice (OJEU) to signing of contracts. So far, Local Authorities have taken on average 102 weeks to procure their private sector partners (**Figure 12**). This timing compares favourably to other PFI deals. School PFI deals closing between 2004 and 2006 took 108 weeks on average to procure despite being simpler to establish than a LEP; hospital deals took 164 weeks; and the rest 204 weeks.

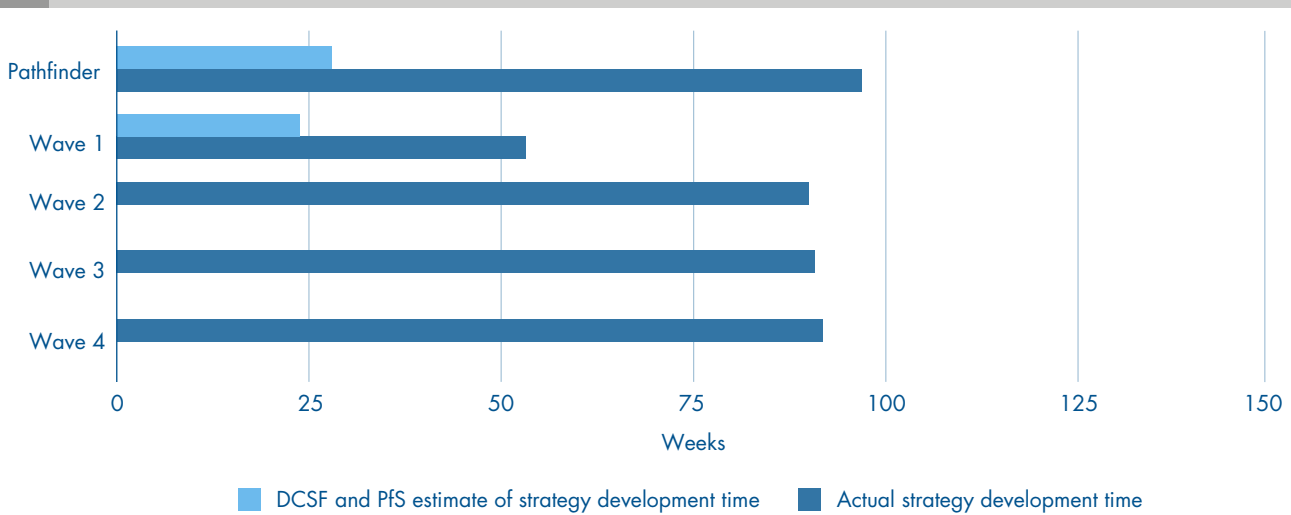
**2.13** Some projects have been delivered much quicker than the norm, and some take significantly longer:

- Sunderland and Middlesbrough used PFS’s national framework contract (paragraph 3.21) and took 52 and 47 weeks respectively. These could use the national framework because they did not use PFI.

- Stoke took 189 weeks to procure two sets of traditional design and build contracts (each comprising 3 schools), mostly because its Children and Young Persons’ Directorate was put under intervention after being deemed to be failing by the Secretary of State and the procurement was suspended.
- Greenwich had taken 209 weeks as at December 2008 to establish its own version of a strategic partnership and had not yet finished the process for the first schools. Greenwich was a pathfinder given permission to use its own model of procurement to establish a benchmark for comparison of the LEP. It procured its strategic partner within 100 weeks and the subsequent time has been used to procure a PFI project company to deliver the first schools.

In general, use of framework contracts leads to quicker procurement of the first schools, but local issues can have a large impact on the time procurement takes.

**11** Time taken to develop strategies



Source: Partnerships for School management information

**NOTE**

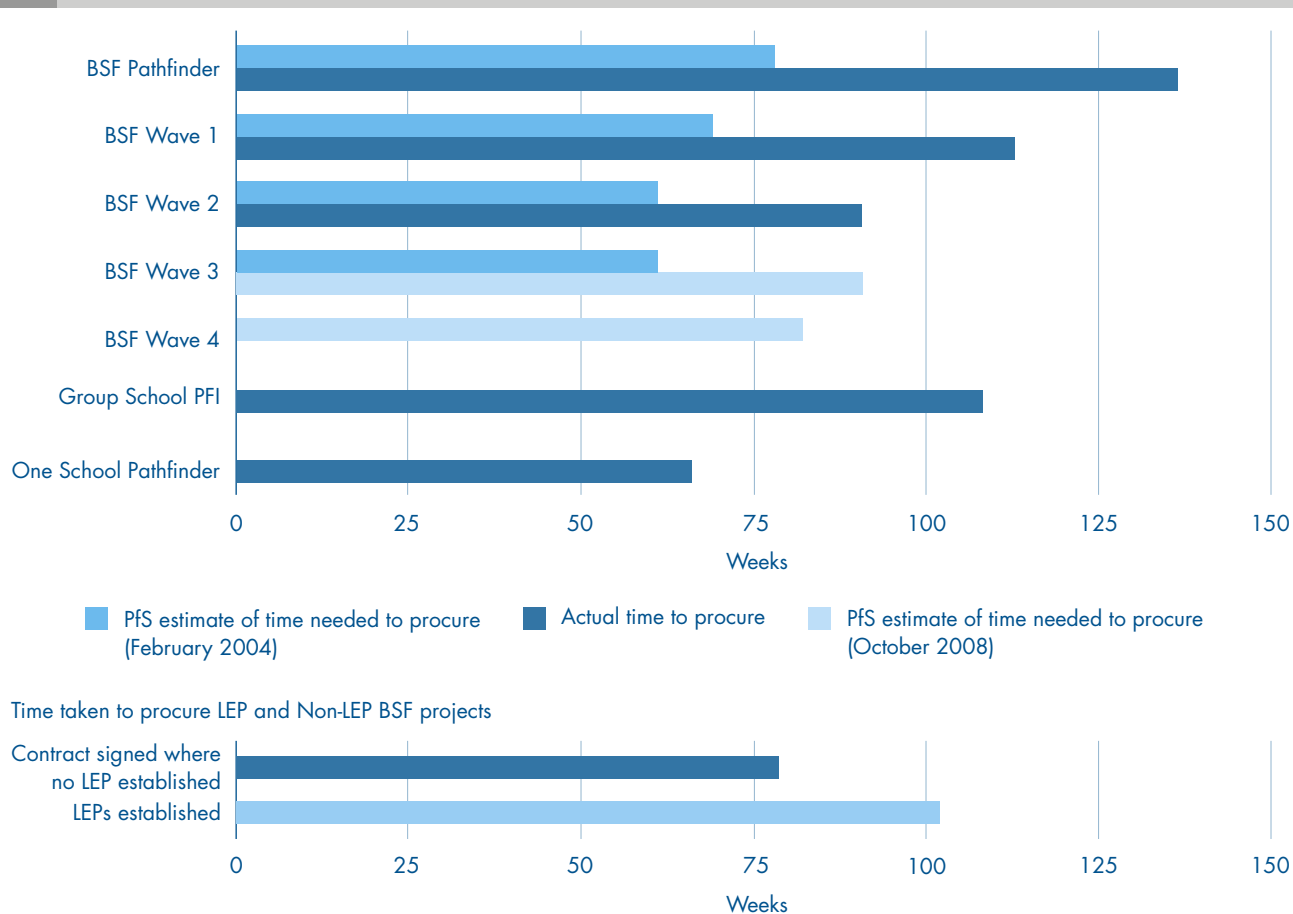
Time taken to develop strategies taken from first engagement with PFS to the start of procurement. Local Authorities in Wave 1 took 53 weeks on average to complete a strategy. All Wave 1 Local Authorities have been recorded by PFS to have started their strategy in October 2004, when PFS and Local Authorities rediscussed the affordability of their projects, but these Local Authorities may have already undertaken extensive preparation work before then.



**2.14** The time taken to procure a LEP is typical of procurement using competitive dialogue or negotiated procedure, the EU routes for complex procurements allowing client and bidders to negotiate during competition. PFS's guidance, based on its legal advice, tells Local Authorities to use the competitive dialogue procedure because the LEP services are complex and provide for the development of projects within exclusivity.

**2.15** PFS currently estimates that average procurement times will fall to 85 weeks for Local Authorities currently in procurement and that it will take an average of 74 weeks for wave 5 Local Authorities about to begin, following changes to the procurement process recommended by PwC.<sup>4</sup>

## 12 Time taken to procure BSF projects compared to other recent procurement routes



Source: Partnerships for Schools management information

### NOTE

Time taken measured from publishing an Official Journal of the European Union notice to signing of contracts. Manchester has been omitted from the analysis as it procured its partners before entering the BSF programme. They exclude Greenwich despite it completing procurement to find a private sector partner because it has not yet established its PFI project company before December 2008.

<sup>4</sup> Building Schools for the Future procurement review, PriceWaterhouseCoopers, May 2008.

## The cost of the programme

### Overall cost of the programme

**2.16** The Department and PfS currently estimate that the total capital cost of the programme over 2005-2023 will be between £52 and £55 billion at 2007-08 prices, a real increase of £7 to £10 billion (16 to 23 per cent) from earlier estimates after allowing for inflation (measured by GDP deflators). The main causes of the increase have been:

- the Department provided additional funding for Special Needs facilities, Voluntary Aided schools and carbon reduction measures (about £4.2 billion);
- the original estimate assumed building costs would rise with general inflation, but building cost inflation is now estimated to have averaged 6 per cent a year between 2005-06 and 2007-08 (twice the estimate of general inflation), costing about £3 billion; and
- inclusion of the Academies programme to be delivered through the PfS framework (about £1.2 billion).

**2.17** To meet these costs and complete the programme by 2023 would require the Department to increase its annual average capital allocation to BSF from £2.5 billion in the 2008-11 spending review period to between £3.4 to £3.7 billion from the next spending review period onwards.

### The cost of BSF schools

**2.18** The prices of individual BSF schools are similar to those of schools procured through other routes. The Department requires PfS to collect comprehensive data on the cost and price of schools. PfS's benchmarking system is a significant improvement over previous programmes and will allow Local Authorities to gain better assurance on the value for money of the schools they are procuring. But projects have been slow to provide data, and PfS has not yet collected enough on their whole life costs to enable us to come to a firm judgement on the projects' overall value for money. There is also limited data on schools procured through other routes to provide ready benchmarks of all aspects of their costs.

**2.19** The prices of BSF buildings have been kept under control by the funding arrangements put in place by the Department and implemented by PfS. These place the cost of increasing the scope of school projects with the Local Authorities and require them to keep projects affordable. The cost of building a school varies greatly depending on the size, location, type of site and facilities included. The prices of new BSF schools average £1,850 per square metre<sup>5</sup> and range between £1,300-£2,600 per square metre, at January 2007 prices and after adjusting the costs for regional distribution. In comparison, the prices of Academies built before their procurement was integrated into the BSF funding regime averaged £2,240 per square metre<sup>6</sup> and ranged between £1,600-£3,000 per square metre. These prices include all capital costs, fees, abnormalities (unusual features such as flood defences), external landscaping, and furniture and equipment. They exclude VAT and ICT. There is no statistical difference between the average price of BSF schools and PFI schools built before BSF was launched. The prices of schools procured through other routes are not collected centrally.

**2.20** Figure 13 shows the spread of the price of BSF schools compared to PFI schools and Academies built to date and that Academies are generally more expensive than the BSF or PFI schools.

**2.21** The prices of new PFI BSF schools are fixed in the contracts. Prices do not therefore change over the construction period (except under exceptional circumstances such as the Local Authority breaching the contract). Local Authority costs can change considerably when fixed price contracts are not used. Our 2007 report on Academies found cost overruns ranged from 0 to 35 per cent and averaged 9.5 per cent for the first 26 Academies.<sup>7</sup> Fixed price contracts do not guarantee the best price, however, as the contractor will reflect the risk of cost and time overruns in the fixed price.

<sup>5</sup> £1,740 to £1,940 per square metre at 95 per cent confidence intervals.

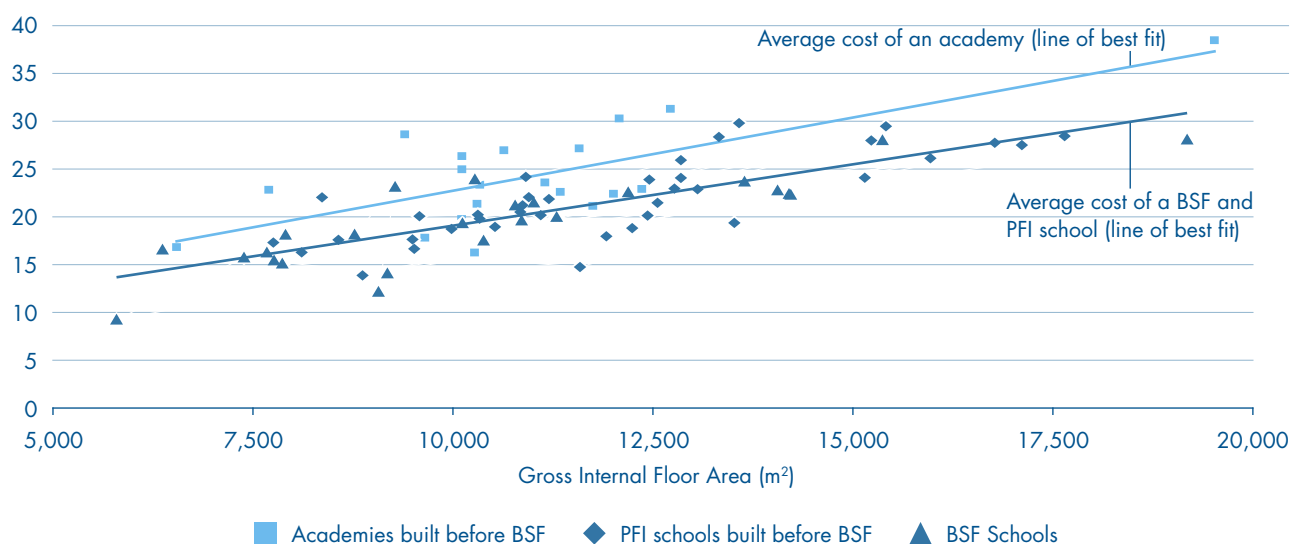
<sup>6</sup> £2,160 to 2,300 per square metre at 95 per cent confidence intervals.

<sup>7</sup> *The Academies Programme*, National Audit Office, February 2007, HC 254 2006-07.

### 13 The price of BSF schools compared to the price of Academies and PFI schools built before the BSF programme

This figure shows that there is a great deal of variation in the individual price of each school depending on the type of site and facilities included, but that the prices of BSF schools are not significantly different from PFI schools and generally less than Academies. The price is shown as capital cost to the public sector, adjusted for annual price inflation and location to allow a better comparison. The figure excludes refurbishments, because they vary too much in the amount of work undertaken to allow a comparison.

Capital cost (£m) in 2007 prices and adjusted for location



Source: National Audit Office analysis of data collected by the Department for this study and PFS's benchmarking data

**2.22** The price of BSF refurbishments, delivered through design and build contracts, are either fixed in the contract or set as targets with an element of sharing of cost variations, depending on the contract chosen by the Local Authority. Prices also vary depending on the proportion of the building refurbished. Our cost analysis above is therefore limited to new build schools.

**2.23** PfS will undertake post occupancy reviews on each school a year after it has opened. Until these take place, it is too early to say whether the school designs, build quality or facilities will meet expectations. BSF schools have been built to higher specifications and space standards than previous schools.



## Local delivery arrangements

This part of the report looks at the local delivery arrangements for BSF and focuses on the planning and procurement process, including local government capacity to deliver and the new Local Education Partnership model.

### The planning process

**3.1** The Department expects BSF to improve learning and teaching through using capital funding more strategically. It encourages Local Authorities to change the make-up and location of their school estate. It also encourages schools to spend more time planning the facilities and school environment to support their ethos and curriculum.

**3.2** This encouragement has significantly increased the attention put into early planning. Under BSF, Local Authorities take as long planning as they do on the subsequent procurement (just under two years). By contrast, previous school PFI projects spent around a year getting approval for PFI funding from the Treasury's Project Review Group. Although there is no record of the time spent locally on strategic planning under other programmes, costs can act as a proxy. Only 5 per cent of advisory costs in 2004-06 school PFI projects were spent pre-procurement.<sup>8</sup>

**3.3** Most participants believe that BSF's approach is leading to better-scoped projects. Seventy-eight per cent of Local Authority BSF managers and 86 per cent of BSF lead private contractors in our census said that BSF is leading to more strategic procurement of infrastructure compared to previous school building programmes (Figure 14).

### Restructuring the school estate

**3.4** The greater certainty of funding and its allocation to clusters of schools under BSF makes it easier for Local Authorities to make changes that are difficult with funding for individual schools, including:

- **Estate rationalisation.** Local Authorities are able to rearrange the number and location of their secondary schools. This allows Local Authorities to take account of falling pupil numbers, movements in population and changes in the make-up of communities.
- **Changing the type of school provision.** Local Authorities are able to extend or change the choice of school types in their area. Most Local Authorities also use the programme to provide specialised facilities, and coordinate the specialisms across all the schools in the area.
- **Estate-wide ICT and facilities management provision, with managed services.** Local Authorities can establish estate-wide managed services to promote economies of scale and performance improvements.
- **Integration of special needs provision.**

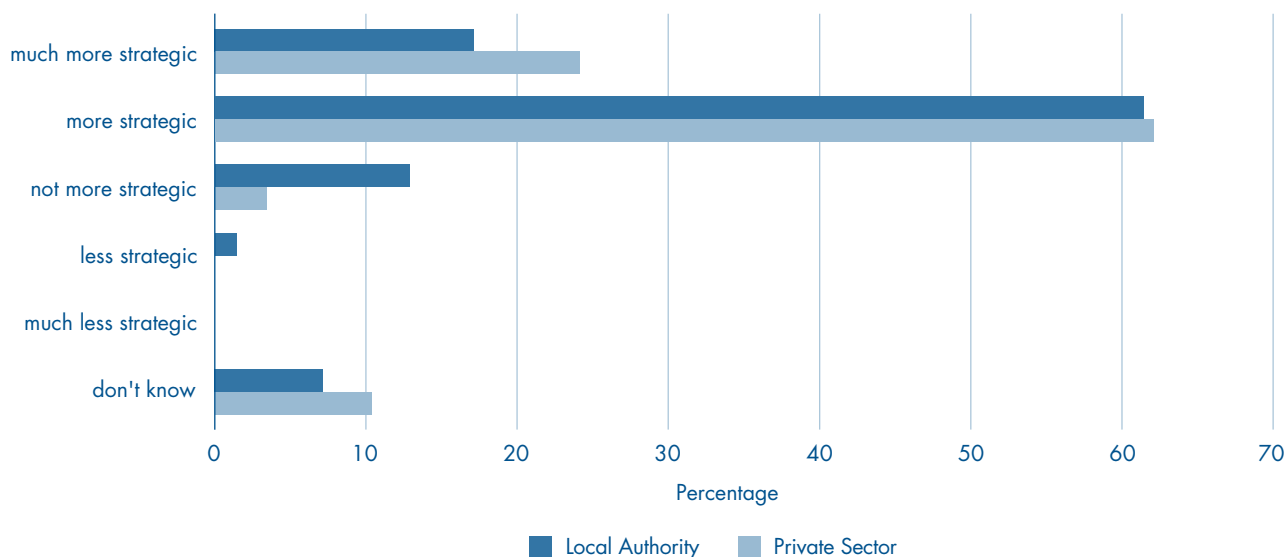
### Strategies for improving learning and teaching

**3.5** The production of early strategies did not focus on what would most add value, and were seen by Local Authorities as a hurdle to get funding, rather than as useful plans. The Department and PFS changed the processes in 2006 to emphasise achievement of the wider aims of BSF. Recent strategies have been of a higher quality, easier to read and clearer about Local Authority strategic priorities.

<sup>8</sup> Unpublished data, collected for *Improving the PFI tendering process*, National Audit Office, HC149 2006-07.

## 14 Local projects opinion on whether BSF leads to strategic use of funding

Answers to “In your opinion, does your local BSF programme lead to a more strategic procurement of infrastructure, compared to previous school capital funding programmes, in a way which will lead your local school estate to be better adapted to 21st century education?”



Source: National Audit Office census of Local Authorities and their private sector partners involved in BSF

**3.6** Most of the Local Authorities in our case studies produced their change management plans before these changes and did not specify ownership of targets or precisely how they would be achieved. We also found that they were late in planning training and employment arrangements for achieving the change management. The Department and PfS now require schools and Local Authorities to produce full change management plans for how they will improve learning and teaching.

**3.7** Local Authorities and bidders agree a range of measures during procurement negotiations for the Local Authority to judge the track record of the LEP and use in deciding whether to continue its exclusivity. These include “collective partnership targets” that reflect their wider aims for BSF. Collective partnership targets often include apprenticeships generated from the building programme, educational improvements expected from BSF schools and wider community use of the facilities. These targets will provide the Local Authority with one means of assessing the success of its strategy. But these local targets are not reflected in national project monitoring and there is little consistency in how they are measured across Local Authorities.

## Local capacity

**3.8** Local skills capacity to deliver BSF is a constraint on the programme. The scale of the task when renewing entire school estates and the complex delivery arrangements increases the burden on both schools and Local Authorities.

**3.9** BSF requires significant time commitment from school leaders, who told us that it creates considerable pressure on their ability to carry out their other duties. Some Local Authorities provide their schools with additional resources to plan and procure BSF, including to cover teaching while leaders (Governors, Heads, Deputies, and other senior staff) commit time to BSF.

**3.10** School leaders often find it difficult to work with and articulate their vision to bidders and architects because they have limited experience of building schools. The Department funds the National College of School Leadership, which provides leadership development opportunities for teachers and school leaders, to help schools at the early planning stage and to provide training to school leaders. But schools and Local Authorities have to manage the transition and early operational stages without central support. School leaders in our focus groups told us they often felt left to manage alone.

**3.11** There is also a shortage of the commercial and project management skills needed by Local Authorities to deliver BSF. PfS found a lack of capacity to be a significant factor in the delay of the first projects. We found examples of:

- a shortage of staff to undertake the range of activities expected, often leading to some key activities being given inadequate attention such as consultation with local communities;
- reliance on consultants for key positions, leading to high costs, a lack of transfer of skills to the Local Authority and a lack of continuity; and
- dependence on key individuals during procurement who did not continue after contract signature, causing a lack of continuity and implementation problems.

**3.12** PfS and the Department have emphasised the importance of a Local Authority building its capacity before entering the programme. They prioritised Local Authorities within waves 4 to 6 using an assessment of how ready they were. PfS encourages Local Authorities to invite 4Ps, which advises Local Authorities on procurement and project management issues, to provide a skills audit and assessment of their readiness to deliver. Since 2007, the Department and PfS require Local Authorities to demonstrate that they have sufficient capacity to manage their BSF projects before allowing them to commence procurement.

## The procurement approach to BSF

### The new Local Education Partnership (LEP) model

**3.13** Local Authorities are responsible for choosing their procurement model. PfS will not recommend that projects are funded, however, unless they use a LEP or can demonstrate that their alternative provides value for money. By December 2008, 15 Local Authorities had established a LEP, four established their own framework, two use a national framework for design and build projects set up by PfS (paragraph 3.21), one through separate design and build contracts, and two used a single PFI deal. PfS expects most to use LEPs in future.

**3.14** A LEP is a joint venture company that manages the scoping and integration of services to deliver new and refurbished capital works. **Figure 15** shows the contractual framework that parties sign up to when a LEP is established. The strategic partnering agreement grants exclusive rights to the LEP to deliver projects for a fixed period, likely to be 10 years, subject to value for money tests. The Local Authority then contracts a LEP to

refurbish schools through traditional Design and Build contracts and also ICT services. A PFI Project Company is contracted directly by the Local Authority to build new schools and is managed by the LEP through a managed service agreement. The school building, ICT services and ongoing maintenance of these assets are sub-contracted by the LEP and PFI project companies to a private sector partner, which is typically the consortium of supply chain and finance companies that includes the private investors in the LEP and PFI project company.

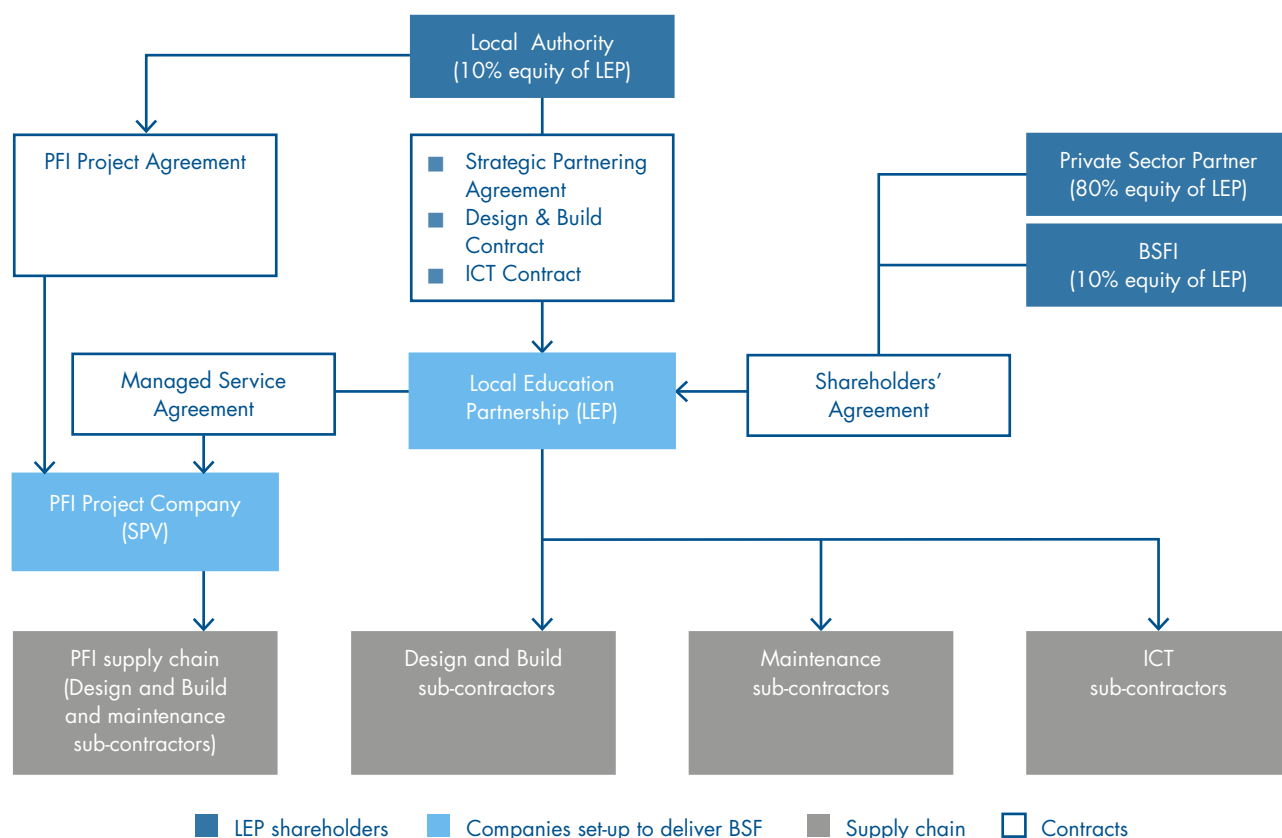
**3.15** The LEP Board is governed by four private sector partner directors, a Local Authority director and a BSFI director. The Local Authority director is typically a representative from the Senior Management Board, such as the Chief Executive, Finance Director or other Corporate Directors. The Board is chaired either by an independent chair or one of the LEP Board Directors, whose vote does not become casting.

**3.16** A LEP is intended to provide a number of benefits:

- i **Partnering efficiencies** through its ten-year framework and large flow of work. This creates incentives for better joint working. There is some early evidence of quicker delivery of subsequent projects and savings in transaction costs (paragraph 3.29). As work is not competitively tendered, benchmarking and incentives are used to put pressure on capital costs.
- ii **Development resources**, by involving the private sector early on in the development of projects, which helps in scoping more viable projects. The LEP also shares the costs and risks of scoping project, which provides an incentive to manage the costs better.
- iii **An integrated supply chain** with the ability to supply all BSF services under one umbrella contract, allowing PFI, conventional design and build, facilities management and ICT contracts to be combined under a single interface with the Local Authority, schools and other stakeholders.
- iv **A strong permanent local business** with the delivery capacity for BSF and the Local Authority's other capital programmes. The LEP should have specialists in education and understand the Local Authority's education priorities. The Department also wants LEPs to join up programmes, have a local base and links into the local community, and to act strategically and entrepreneurially to deliver the Local Authority's needs.

- v **Stronger educational and community links** through increased incentives and processes for the private sector partner to contribute to wider social and educational aims of the programme. The contribution to wider educational aims is used by the Local Authority when assessing the performance of the LEP. Such contributions include for example providing apprenticeships and mentoring of local pupils.
- 3.17** Bidders develop the first few school designs during the initial competition. The Local Authority then selects a partner based partly on its performance in designing the first projects. Schools and Local Authorities have, however, identified some drawbacks.
- i Despite knowing the Local Authority's budget, bidders tend to raise the expectations of the schools and Local Authorities in the early stages of procurement, leading to later de-scoping of the designs to keep them within budget.
  - ii The best design of each individual school developed by bidders during the procurement process does not always win, because: the Local Authority scores bids on a variety of factors of which design counts for only 18 per cent (**Figure 16 overleaf**); the assessment of a bidder's design capability is based on the aggregate assessment of all the bidder's sample schemes; and authorities cannot choose good designs from a losing bidder.
  - iii It is difficult for schools and Local Authorities to collaborate properly with the designers because they have to work with each of the competing bidders, and have to be careful not to communicate ideas between bidders.

## 15 The contractual structure of the LEP



Source: *Partnerships for schools contract guidance*

**3.18** It would be possible to select a private sector partner and set up a LEP before designing and scoping the first schools. This sequence would potentially be cheaper and quicker to procure, especially if the private sector partner was taken from a national framework, because only one set of designs would be needed. But it would also mean that Local Authorities could not use the experience of scoping the first projects in assessing bids and the first projects would not establish a local benchmark of costs in competition. PfS believes it needs more confidence on whether such an approach would comply with EU regulations.

**3.19** Once a LEP is established, projects are developed without re-tendering, with the risk that prices charged by the LEP will be uneconomic. This risk is mitigated by controls within the LEP contract arrangements, including:

- i** inclusion in the initial competition to establish the LEP of at least two projects that are used to set local cost benchmarks;
- ii** PfS benchmarking data at a national level, which can be used by Local Authorities to assess each project developed by the LEP;
- iii** competition within the supply chain underneath the LEP, especially where the private sector partner is not itself part of the supply chain;
- iv** contractual provisions to share economies of scale and learning curve efficiencies, by guaranteeing reduced real prices for each subsequent project;
- v** contractual provisions to market test some of the new projects and services provided by sub-contractors to the LEP;
- vi** performance monitoring of the LEP and the threat of terminating its exclusivity if the projects it develops are not value for money;
- vii** public sector directors on the LEP boards to promote transparency in the scoping of projects; and
- viii** standard form contracts agreed at the beginning so each project is developed on a consistent basis.

**3.20** Having an integrated supply chain is a key part of a LEP's ability to promote long-term partnering. To achieve these benefits, however, governance and management structures must give management adequate control over the business. Local Authorities must also be able to create a credible threat that they might terminate the guarantee of future work. The contracts should also provide for (i) transparent information from the supply chain; (ii) the ability for the public sector to withhold payment if the supply chain cannot produce reliable information; and (iii) incentive mechanisms for each supply chain contractor aligned with the public sector client. The LEP structure is designed to address these issues.

- The public sector shareholding and the associated representation on the LEP Board provides some insight into contracts and costs with the main suppliers.
- Fixed price contracts are established for each project, with standard payment terms that withhold payments for non-delivery or under-performance.
- The Local Authority has the ability to terminate the guarantee that it will use the LEP for all its major school projects if the LEP does not perform to its obligations under the Strategic Partnering Agreement.

## 16 Selection criteria used by Local Authority to select a Private Sector Partner, set out in the standard tendering documentation

Criterion	Weighting	%
<b>The LEP Partnership</b>		
Overview of LEP & Delivery of Partnering Services	10	
Value for Money, Performance Monitoring and Continuous Improvement	12	
LEP Business Plan, Supply Chain Management and Interface Issues	12	
Design Philosophy	6	
<b>Sub-total for LEP Partnership</b>		<b>40</b>
<b>Sample Schools</b>		
Design of Sample Schools	12	
Delivery of Sample Schools (including FM)	18	
<b>Sub-total for Sample Schools</b>		<b>30</b>
<b>ICT</b>		<b>20</b>
<b>Financial</b>		<b>5</b>
<b>Legal</b>		<b>5</b>
<b>TOTAL</b>		<b>100</b>

Source: PfS standard tender templates

### NOTE

Design is assessed as the sum total of design philosophy (6 per cent) and on the design of sample schools (12 per cent).



**3.21** The main alternative to a LEP is to procure each project through a framework agreement. Under a framework agreement, a small number of contractors agree to standard terms and conditions and can compete for each project. PfS has set up a national framework for design and build projects, which Local Authorities can use. Alternatively, Local Authorities could set up their own frameworks, as Manchester City Council has done (see the Manchester case study in the case study annex). Frameworks are generally much cheaper and quicker to establish than a LEP, but:

- only last four years by EU regulations;
- are less flexible in what can be included because there can be no negotiation between the Local Authority and contractors during tendering; and
- separate frameworks have to be procured to deliver Design and Build, ICT and Facilities Maintenance services.

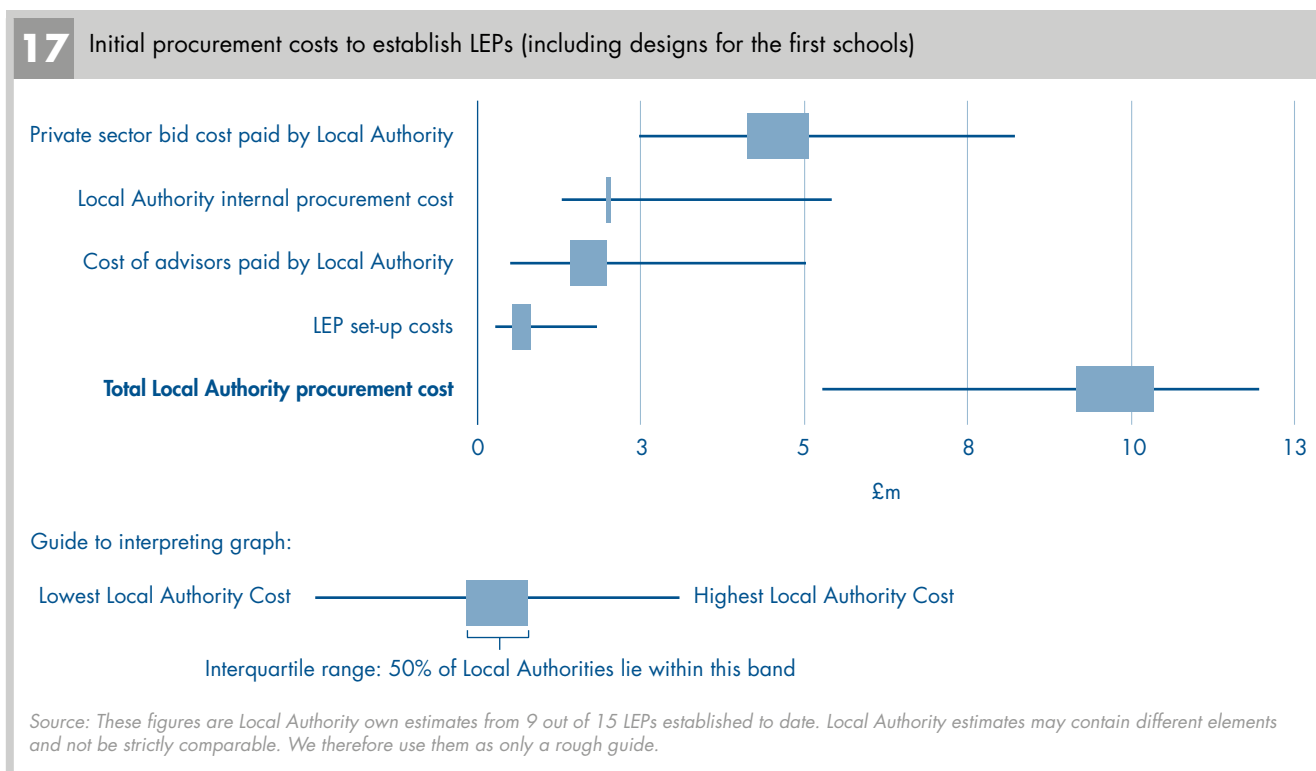
**3.22** It is also possible to procure schools through a single PFI contract without a LEP. The steps to set up a PFI contract are very similar to those to establish a LEP, but new projects would have to go out to tender. It may therefore be appropriate where the Local Authority wishes to use PFI but there are too few projects to develop a flow for the LEP, such as in Solihull (see the Solihull case study in the case study annex).

## Initial procurement costs

**3.23** Once established, a LEP can lead to cost savings in each of the projects it develops, but the costs of establishing the first LEPs and designing their first projects have been higher than they need to be (Figure 17). Accurate data is scarce as Local Authorities record costs differently or not at all. But we estimate that for the first fifteen LEPs the combined total cost of the Local Authority's and the winning bidder's staff time, consultants and legal costs averaged between £9 and £10 million. This total combined cost covers the costs of designing the first few schools, procuring a private sector partner (the Local Authority's staff and consultants costs) and legal costs associated with setting up the LEP. Figure 17 shows the interquartile range of estimates for individual projects provided by Local Authorities and includes:

- £2 million of their own costs;
- £1 to £2 million on Local Authority consultants;
- £4 to £5 million of the private sector's costs paid by the Local Authority through the contracts; and
- £0.5-£0.8 million of legal costs to set up the company structures.

**3.24** A large proportion (£1 to £2 million) of the private sector's costs is for the development of designs for the first schools which are built once the LEP is established. Local Authorities will pay additional costs to the LEP for the development of subsequent projects.



**3.25** We believe that Local Authorities should be able to establish a LEP and design the first few schools for an average of £6.5 million (Appendix 3). Leeds City Council estimates that it spent £5.3 million setting up its LEP. There are a number of reasons why costs have been high so far.

- i** Local Authorities have spent a considerable amount on pre-procurement BSF planning, mainly on education and design advisers. They tend to include this spending within their estimates of BSF procurement costs, but not in their assessment of non-BSF procurement.
- ii** Most Local Authorities experienced avoidable delay in their procurement (although no more than previous school PFI deals). A major factor in this delay was insufficient capacity within the Local Authority (see paragraph 3.11).
- iii** Insufficient internal capacity within Local Authorities also led many to rely extensively on consultants for key posts such as the project manager and project director, significantly increasing their costs.
- iv** Some Local Authorities have included the design of a large number of schools (up to eleven in the case of Kent) in the procurement stage. The design of schools during procurement is likely to be more expensive than design after the LEP is established, because each bidder produces designs which are then assessed by the public sector. Design during procurement means, however, that those schools can be started more quickly.
- v** Despite PfS introducing standardised documentation, Local Authorities and bidders altered it for their own purposes and developed new documentation, requiring extensive legal and commercial advice. PfS has since launched a new process to agree derogations from standard contracts which it hopes will reduce the costs and time of agreeing terms and conditions.

**3.26** The cost to bidders is also high compared to other procurement methods. In 2008, PfS commissioned PwC to review the procurement process with the aim of reducing bidder's costs. PwC recommended cutting some elements of the process and reducing the number of schools designed during the competition process from three to two. It estimates that such reductions would save £250 million of bidders' costs over the programme.

**3.27** In our case studies, Local Authorities not using a LEP told us they had also experienced high costs of procurement, for similar reasons to those experienced by those procuring a LEP.

## Achieving value for money in the long term

**3.28** LEPs should provide procurement cost savings where the Local Authority is using private finance or lots of different types of contracts, and has a sustained flow of work that cannot be commissioned and developed in one go. Specific costs savings should arise from:

- procurement cost savings, from not having to re-tender new projects;
- quicker scoping and design of new projects, from having incentives and governance arrangements which share scoping costs and provide transparency over them; and
- partnering efficiencies, from Local Authorities and their partners developing a better understanding of how to work with each other during the 10-year partnership.

**3.29** The early evidence shows that developing projects through a LEP is quicker, cheaper and more efficient than re-tendering the work. A lack of planning on how LEPs would work in practice has, however, led to delays in the first projects developed through the LEP and difficulties in establishing effective partnering from the start. As at December 2008, only Leeds and Lancashire had finished scoping school projects through the LEP. After a year's delay in starting (see the Lancashire case study in the case study annex), Lancashire has developed two single school PFI projects through the LEP, the first taking 12 months and the second 7 months, less than half the time it normally takes to establish a PFI contract (see paragraph 2.12). Leeds used its LEP to develop a separate £33 million PFI project for two leisure centres in 14 months, six months quicker than Leeds' previous experience of procuring similar sized PFI contracts. Using the LEP eliminated the need for two stages of the standard procurement process, establishing internal project teams and establishing the strategic business case, which saved £200,000.

**3.30** We found that none of our case studies with operational LEPs displayed strong partnering behaviour. In one case, the Local Authority was emphasising contractual management at the expense of relationship management. Both sides complained about the other's lack of understanding. In another, the Local Authority was in disagreement with the ICT contractor over the introduction of new software to the schools and the LEP did not mediate.

**3.31** We visited a further three Local Authorities and their LEPs in late 2008 to see if they had managed to overcome some of these early problems. Two of these three had experienced delay, but all were working through these issues and were optimistic that they would be quicker in future (**Figure 18**).

**3.32** We found, through our case studies and census of all Local Authority BSF project managers, that most Local Authorities thought it was too early to tell if the expected benefits of the LEP (set out in paragraph 3.16) will be realised. Only 14 per cent of Local Authority BSF managers believe the LEP will produce savings, less than those who think it will add to costs (**Figure 19 overleaf**). Many did not know. Private sector partners are more favourable to the LEP. Nearly two thirds of the private sector partners questioned in our survey believe the LEP will produce savings.

**3.33** We also found that some Local Authorities were not seeking to achieve the full range of intended benefits of the LEP:

- i They generally do not pay the LEP to provide the full range of potential services and be an independent “permanent business”. They are normally dependent upon their main contractors to provide the services.
- ii A few seek to work directly with the lead contractors in a conventional client-contractor relationship. They procure and pay for a LEP, but do not use it to help manage the contractors.

**3.34** A few Local Authorities told us that they felt forced into adopting a LEP against their own judgement of what produced the most value for money. The Department and PfS believe that Local Authorities who felt pressured into adopting a LEP approach did not produce a robust business case for not using a LEP and attach weight to the economies of scale of adopting a consistent approach across the programme. It is important, however, that they get buy in at local level or the chances of success are reduced.

## 18 Visits to Local Authorities with early problems with operational LEPs

### Sheffield (LEP established July 2007)

The establishment of Sheffield’s LEP led to some tension between the Local Authority and the private sector partner, Paradigm (led by Taylor Woodrow). During the closing stages of the negotiation process, Paradigm had assumed that the Local Authority would be ready to specify the next set of projects so the LEP could start to scope the projects straight away. It became apparent in the run up to agreeing the contracts that the Local Authority was not in a position to release the projects to the LEP as the specification process and stakeholder consultation were still under way, with knock-on consequences for the project flow and working capital of the LEP.

Sheffield and Paradigm used this period before subsequent projects were released to develop working relationships, processes and responsibilities for each aspect of the scoping process. This five month pause provided them with a much more detailed understanding of how they would work together than set out in the contracts. They are now developing the next phase of projects and say that they are working very effectively together and more so than if they had gone straight into developing the new projects. For example, Sheffield is submitting more effective town planning applications through the pooling of expertise.

### Westminster (LEP established April 2008)

Westminster was initially not keen on establishing a LEP. Westminster is using only design and build contracts and the benefit of using a LEP is therefore marginal compared to using a framework. This initial reluctance on the part of the Local Authority led to tension during the procurement process.

But the Private Sector Partner chosen, Bouygues, learnt lessons from its experience in Waltham Forest, while changes in Westminster’s executive team led to a new approach towards the LEP. Both sides have embraced the LEP as a useful vehicle and governance structure, including using the Strategic Partnership Board to bring in all the school sponsors. Westminster is attempting to maximise the value it can get out the LEP by putting additional work through it, including a potential project for a new Adult Learning Centre.

### Waltham Forest (LEP established August 2009)

Waltham Forest’s LEP has had particular problems with its working capital caused by interruption to the flow of projects. This hiatus led to strains in the relationship over the issue of the LEP’s viability as a business.

Partnership workshops have helped Waltham Forest and its private sector partner, Bouygues, to work better with one another. They agreed that the LEP needed to be more strategic and to appoint an independent chair. They have developed a new stage in the process to ensure the Local Authority agrees a specification and is ready to commission a new project before the LEP starts scoping, which BSFI has disseminated to the other LEPs.

Both sides say the relationship has transformed over the six months to October 2008. They foresee the next projects being developed much more quickly.

*Source: National Audit Office interviews with senior Local Authority managers and their contractors.*

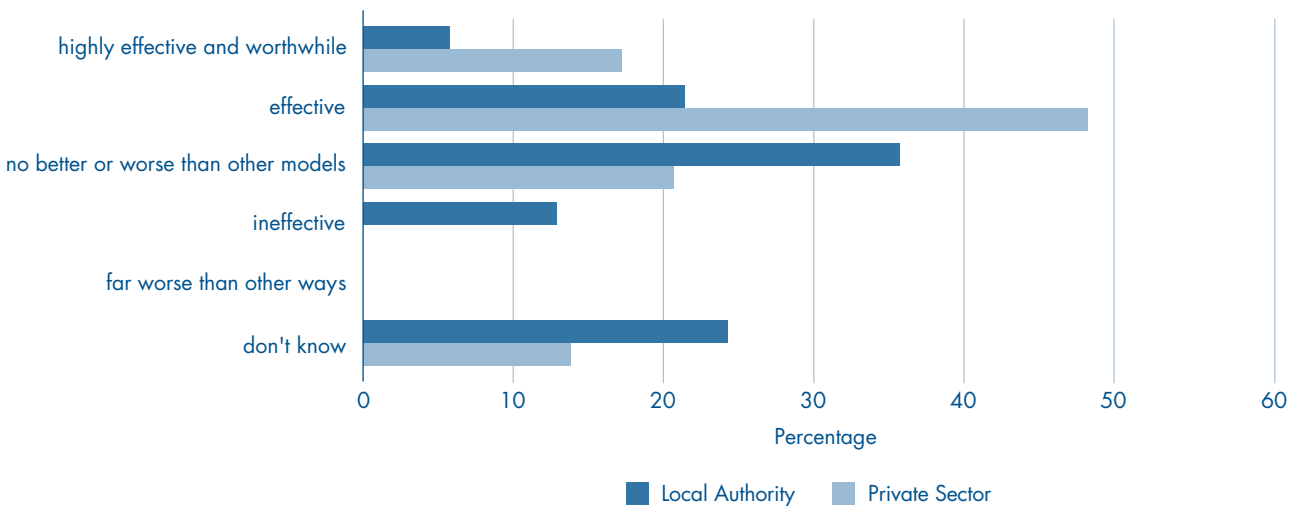
**3.35** Two Local Authorities, Lambeth and Liverpool, initially used individual design and build contracts for each of the schools in their first wave of BSF. They both propose to run a procurement process to establish a LEP for their next waves of funding. Lambeth believes the LEP will assist with the integration of ICT and Facilities Management services with its design and build contracts.

**3.36** Complex governance and contractual arrangements require early attention on how to manage the operational phase. PfS and BSFI are beginning to focus on making LEPs work better. In 2008 they commissioned PwC to review operational LEPs. They started to introduce partnering workshops, to help LEP partners work out the things they needed to do to work better together. They have also increased the amount of time PfS staff are able to spend with each operational LEP.

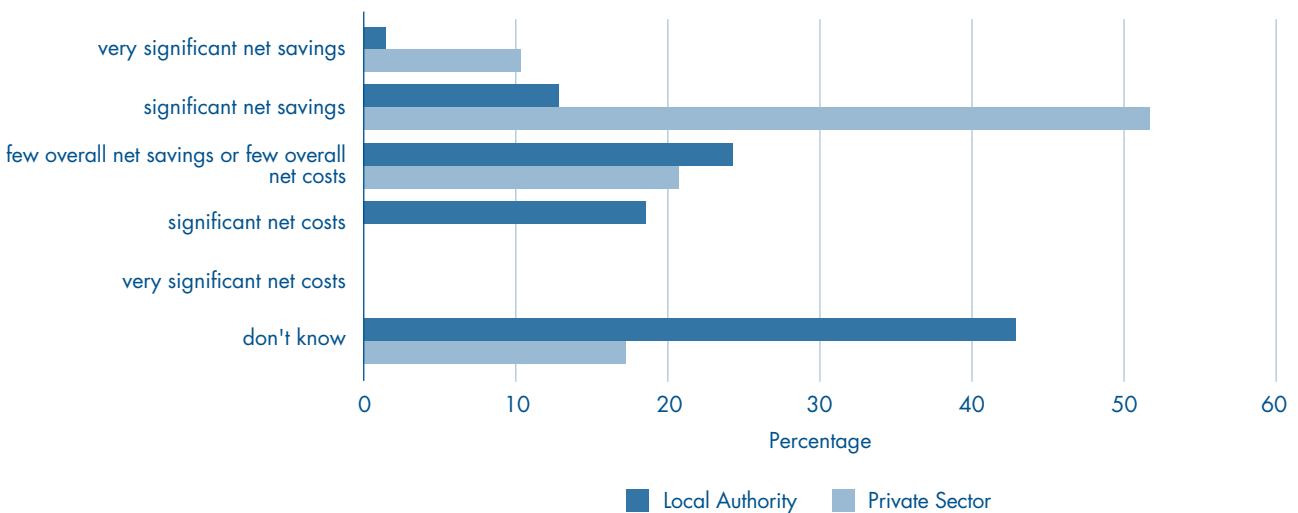
**19** Local views on the effectiveness of the LEP model

Question: "On the whole, do you believe that having a Local Education Partnership is a *good approach* to renewing your school estate and equipping it to be capable of improving educational outcomes?"

The LEP model is:



Question: "In your opinion, is the Local Education Partnership model likely to bring overall savings or costs to the Local Authority over the ten year exclusivity period (when compared to other ways of procuring school buildings and refurbishments)?"



Source: Survey of local authority BSF managers and their contractors



## PART FOUR

## National coordination of BSF

This part of the report examines the national delivery arrangements. It focuses on Partnerships for Schools (PfS), Partnerships UK (PUK), and Building Schools for the Future Investment (BSFI).

### Partnerships for Schools

**4.1** The Department established PfS to manage the delivery of BSF. PfS is an incorporated Non-Departmental Public Body (NDPB) owned by the Department. It employed 114 people, 100 full time equivalents, as at 31 December 2008. To encourage a commercial culture and an incentive structure that promoted delivery, the Department invited PUK to share the funding and management of PfS. An Oversight Board, made up of non-executive directors, holds PfS to account for fulfilling its aims and objectives. PfS's day to day operations are the responsibility of the Chief Executive, who is a former Chief Executive of Norfolk County Council, and four members of the senior management team.

**4.2** PfS has helped achieve a high standard of programme management. It provides national leadership through making the Chief Executive accountable for delivery. Having a single body accountable for delivery also improves the chances of success. It has attracted specialist staff who would have been difficult to recruit and employ within the Department, increasing the programme's procurement and monitoring capacity. It has also exercised effective control over the overall scope, flow and cost of the programme in a way that could not be done by individual Local Authorities. We set out a fuller commentary on PfS's performance in Appendix 2.

**4.3** PfS is also helping to learn and disseminate lessons from individual projects across the programme. It has undertaken major reviews of the early projects, its systems and processes, contractual terms (including standardised documentation), and procurement guidance and processes. It facilitates networking between Local Authorities in procurement.

**4.4** PfS's staff are awarded bonuses of up to 20 per cent of their salary based on their performance, with the overall size of the bonus pool set on the basis of PfS's performance against its corporate targets. Although PfS uses its reviews of Local Authority plans and the guidance it gives Local Authorities to emphasise the importance of the quality of the schools being built, its corporate targets over-emphasise the timeliness of delivery (**figure 20 overleaf**). The Department and PUK are developing an additional set of quality performance indicators to use in future.

**4.5** The overall cost of managing the programme across PfS and the Department is £20 million a year, 1 per cent of the programme's annual budget. Although comparisons are not straightforward, this proportion is broadly similar to comparable programmes (**figure 21 overleaf**). The comparator bodies all administer central funding for programmes that are delivered by devolved local bodies, although the exact make-up of the funding and activities differs. The central running costs for the Academies programme, for example, also include the cost of finding and managing the relationships with sponsors and supporting opened academies to continuously improve performance. The Department has a greater role in the delivery of BSF than the sponsor departments of the other NDPBs so figures for the Department as well as PfS are given in the table.

## 20 Partnerships for Schools 2008-09 Corporate Targets

Corporate Target	Weighting %	Indicators
Delivery	70	<ul style="list-style-type: none"> <li>■ 18 targets involving the number of projects reaching each milestone in year</li> </ul>
People and operating efficiencies	15	<ul style="list-style-type: none"> <li>■ Delivery of benchmarking</li> <li>■ Stakeholder satisfaction</li> <li>■ Improve lesson dissemination</li> <li>■ Staff training</li> </ul>
Securing the Future	10	<ul style="list-style-type: none"> <li>■ Proportion of programme that is new build</li> <li>■ Sustainability ratings of buildings</li> <li>■ Robustness of competition</li> </ul>
Brand Management	5	<ul style="list-style-type: none"> <li>■ Media evaluation</li> <li>■ External communications</li> </ul>

Source: Partnerships for Schools, Business Plan 2008-09

## 21 Benchmark comparisons of 2007 total costs of running the programme

	Description	Structure	Annual programme spending £m	Number of FTE staff	Central running costs	
					£m	% of spending
BSF: Partnerships for Schools (and Department)	Manage the BSF programme of investment in secondary schools	Incorporated NDPB	1,815 <sup>3</sup>	100 (122.5)	12.5 (19.6)	0.7 (1.1)
Academies programme (2005-06, before procurement and building responsibilities were transferred to PFS) <sup>1</sup>	Manage the Academies programme	Department Team	433	97	4.4	1
Community Health Partnerships	Manages the LIFT programme of investment in primary care buildings	Incorporated delivery body	319	19	3.5	1.1
Housing Corporation <sup>2</sup>	Manages investment in social housing	NDPB	2,064	266	24.0	1.2
Waste Infrastructure Team (DEFRA)	Manages central investment in local waste schemes	Department Team	465 <sup>3</sup>	27	4.5	1.0

Source: National Audit Office Analysis of joint venture payment mechanism

### NOTES

1 2005-06 figures (when spending peaked), restated to 2007-08 prices.

2 Figures for regulation activity are excluded to aid comparison to BSF. Central costs and staff have been apportioned based on staff numbers in the investment and regulation divisions.

3 This includes PFI credits allocated in 2007-08 (i.e. outline business cases approved).

**4.6** PfS has relatively high staff costs per employee compared to the Department and other public bodies, reflecting its efforts to recruit highly qualified staff and a mix of experience and skills from the public and private sectors. The Department also maintained 15 staff up to 2008 to establish the programme, but has now significantly reduced the number of staff working on BSF.

**4.7** The Department and PfS have been heavily dependent on consultants to establish the programme. They spent £11.1 million up to March 2008 (20 per cent of total central administration costs) on private consultants. PfS has used consultants to develop standardised contracts and tendering documents and to review the procurement process and operational issues. The Department has commissioned PwC to undertake an independent annual evaluation of the effect of the programme on educational outcomes. Now the programme is underway, the budgeted central expenditure on consultants is £2.5 million in 2008-09 and is expected to be £1.6 million from 2009-10 onwards, including £0.4 million a year for the annual evaluation.

**4.8** The Department has also relied on consultants to provide it with commercial expertise. In one case, the Department paid KPMG £1.35 million over three years for the delivery of corporate finance services that were provided by one individual. Had the Department known that it would need this commercial expertise for such a long period of time, it would have been more economical to have used secondments.

## Managing the private sector market

**4.9** The number of lead consortia bidders has fallen from 32 involved in initial projects (Wave 1 to Wave 3) to 25 for upcoming procurements (Wave 4 to Wave 6a). Three bidders have been bought out by other BSF consortia, six bidders have exited the market and one bidder has not yet committed to future projects. There are also six new entrants and three of these bidders are now formally bidding for a project.

**4.10** Three projects have selected their private sector partner without full competition. Only one of the bids received by Westminster remained compliant with its tendering requirements by the time it selected a final bidder and all but one consortium withdrew from the Durham and Tower Hamlets tendering process before the submission of final bids. Where competition during negotiation is weak, PfS supports the Local Authority to benchmark the costs and increases its scrutiny of the business cases.

**4.11** There are significant barriers to entry for new consortia, including:

- **High bid costs and the complexity of procurement.** PwC estimates that bid costs average £4 million for the winner and collectively £10-15 million for all the project's bidders. Few consortia can sustain more than a few bids at a time.
- **Constructing and maintaining a supply chain.** Bidders are expected to have their supply chain and financing in place before they bid. If one member of the consortium encounters problems, the whole bid could fail.
- **Finding an ICT partner.** There are fewer active ICT contractors than construction contractors in the programme. When forming new consortia to bid for projects, construction contractors compete for ICT contractors who have already won bids elsewhere.
- **The scale of the task.** Local Authorities require bidders to understand the education sector, prove they can integrate services, improve the operation of schools, and provide high quality affordable buildings.

**4.12** PfS promotes an active BSF private market and creates competition for BSF projects. This function would be difficult for either the Department, which lacks appropriate commercial expertise, or Local Authorities, who do not have a view over the whole programme and market. To do so PfS:

- has regular senior level formal and informal meetings with bidders;
- monitors who is bidding for each project and who is intending to bid for future projects with 'bidder bulletins' on upcoming projects, including tendering dates and indicative capital value;
- consults with bidders, notably through a procurement review in May 2008, undertaken by PwC, which consulted Local Authorities and the private sector on the procurement process and ways to shorten it, and three times on the form of standard contracts;
- acts as a broker between Local Authorities and bidders during the procurement process and helps enforce standard form contracts; and
- controls the flow of deals to help ease pressure on the market's bidding capacity.

**4.13** The extent to which problems in the finance markets will affect BSF is unclear. Approximately 75 per cent of Local Authorities that had signed contracts before December 2008 have developed BSF projects under PFI arrangements. Over the course of 2008, difficulties in the banking sector reduced the amount of money available to banks to lend and it became increasingly difficult for Local Authorities to find lenders of senior debt for PFI deals. By the end of January 2009, economic conditions had not delayed any BSF projects, but the last Local Authority that had agreed a PFI contract was Kent County Council in October 2008. Newham Borough Council had intended to use PFI to build two schools when it established its LEP in January 2009, but had to postpone using PFI and use conventional funding instead to build the school. It intends to sign a PFI deal for these schools later.

**4.14** The Department and PfS are in active discussion with Banks and other potential lenders and believe that BSF remains one of the more attractive markets for bidders. The projects are relatively small and financed through a mix of grant and PFI funding. PfS has secured commitment in principle from the European Investment Bank for £300 million of investment in the senior debt of BSF PFI projects.

## Partnerships UK

**4.15** The Department brought in PUK to provide: commercial, project and programme management expertise; a governance structure that promotes effective delivery; and help in establishing the programme. PUK funds half of PfS's operating expenditure under a joint venture agreement for a return, paid through PfS, based on the performance of the programme. The arrangements align PUK's interests with those of the Department and incentivise PUK to help the Department manage the risks better. Paying PUK to adopt some of the programme risks, however, costs the Department more than just paying for the services PUK provides and does not significantly reduce the amount of risk to which the Department is exposed. The arrangements are based on the joint venture framework used for PUK's involvement in the earlier Local Improvement Finance Trusts primary healthcare programme. In other programmes, such as the Waste Infrastructure Development Programme, PUK is remunerated for its costs of providing secondments and services. The Department has not assessed the expected benefits compared to the costs.

**4.16** The effect, however, has been to engender top level attention to BSF in PUK and greater in-depth support and commitment. Remuneration was set to provide a target internal rate of return to PUK of 15 per cent (IRR). This rate of return is similar to that of private risk equity in Public Private-Partnerships. The returns can vary by up to 2.5 percentage points depending on Key Performance Indicators (KPIs) and reduce if projects are delayed against set milestones.

**4.17** The key risks that affect the return to PUK are:

- i not delivering against the KPIs;
- ii projects being delayed;
- iii PfS spending more than its budget; and
- iv the programme being unsuccessful or terminated.

In 2008, the Department and PUK agreed that the risks had changed and there was no longer a risk of PfS spending more than its budget, or a significant risk of the Department terminating the programme. They thus reduced the maximum IRR to 13 per cent for waves 4 onwards.

**4.18** Forecast payments are set out in **Figure 22**. For its support so far to the first three waves, PUK is expected to receive a net cash return of £6 million. This would give it an IRR of 12.8 per cent, rather than 15 per cent, because of the delay in the programme.

## Building Schools for the Future Investment

**4.19** The Department and PUK set up BSFI to invest in the risk capital of local projects and provide directors to LEP boards, to gain more influence over local delivery. BSFI buys 10 to 20 per cent of the equity of each project and invested £13 million up to March 2008 in ten LEPs and their PFI projects. It expects to invest between £52 and £83 million more over the remainder of the wave 1-6 projects in progress, of which the Department and PUK had committed to an extra £27 million by December 2008. This is risk capital which would otherwise have been put in by the private sector equity investors. BSFI receives the same terms and rate of return as the private sector, aiming for an average nominal rate of return of at least 12.5 per cent, before tax, over its portfolio. Its current forecast rate of return is 10.9 per cent.



## 22 Forecast payments to PUK under the joint venture arrangements

	Forecast cash contribution from PUK to PfS £m	Forecast payments to PUK £m	Net cash return	IRR %
Contributions and returns payments paid to date (April 2004–March 2008)	18	4	–14	n/a
Entire programme prior to 2008 renegotiation Wave 1-15 (April 2004–March 2022)	106	140	34	14.9
Committed projects Wave 1-3 (April 2004–March 2019)	20	26	6	12.8
Remaining programme after the 2008 renegotiation Wave 4-15 (April 2004–March 2022)	86	110	24	13

Source: National Audit Office analysis of the Joint Venture Agreement Model

### NOTES

- All forecasts assume that PfS costs remain constant in future and that there will be no further delays or performance adjustments.
- They do not include any return to PUK for PfS's delivery of the Academies programme, payments made for secondees or rental payments for PfS's use of PUK's accommodation.
- All contributions and returns stated at nominal value at 2007-08 prices.

**4.20** The investment in risk capital provides the Department and PUK with greater practical influence through:

- Scrutiny of commercial viability. BSFI's investment committee, comprising two representatives each from the Department and PUK and an independent chair, scrutinises LEP deals to try to ensure they create a viable business.
- A director independent of the client or supply chain. The independent director has been useful in resolving issues, promoting partnering workshops and mechanisms to improve joint working.
- A focus on the LEP as a business. Because BSFI invests in the LEP and PFI project but not the supply chain, it promotes more robust governance and management structures, new business opportunities for the LEP and the appropriate distribution of profits and risks between the LEP and the supply chain.
- A communication link between local projects and the national programme. Close contact between BSFI, the Department and PfS provides early warning of local problems. BSFI directors share knowledge between projects.

**4.21** BSFI's powers over LEPs could potentially be retained if BSFI's share of equity was reduced to a token amount. The Department and PUK believe, however, that a significant exposure to risk capital is required to align the interests of BSFI directors with those of the private sector directors and to have influence on the LEP. Otherwise, they believe, the other parties in the LEP would not take them seriously and would exclude them from decision-making.

**4.22** The Treasury believes the inherent conflict between acting as a client and as an investor will normally outweigh any benefits that may arise from such an investment. The Treasury agreed for the Department and PUK to invest in wave 1-6 BSF projects, via BSFI, because of the practical leverage this brings, but will undertake a review of this policy before the launch of wave 7.



# CASE STUDIES

**1** These seven case studies of local BSF projects illustrate the ways Local Authorities are using BSF to attempt to achieve educational transformation and some of the successes they have had and challenges they face. We have not made any assessment of whether each is value for money as an individual project.

**2** The case studies are based on our interviews with local bodies and the focus groups we hosted in each area. We chose Local Authorities that would offer a broad cross section of approaches to BSF.

## Manchester



Newell Green High School, Manchester

Wave	Progress	Capital funding as at October 2008 £m
Wave 1	Operational phase	202
Academies	Developing outline business case	142
Wave 4	Developing strategy	118 (to be confirmed)

### What is the local authority trying to achieve?

**3** Manchester City Council (Manchester) aims to use BSF to:

- attract pupils and parents who have previously travelled to learn outside its borders and deliver a 'step change' in education services;
- establish seven Academies, each sponsored by the Local Authority and a local business;
- extend its ICT learning platform to neighbourhood areas, allowing people to access the school network and its content from schools, houses and institutions across the city;
- provide more sustainable features in the new BSF schools;
- rationalise and co-locate its Special Educational Needs estate with its secondary schools.

### How is it trying to achieve its aims?

**4** Manchester is refurbishing or rebuilding 32 of its 35 secondary schools (including seven Academies) and installing new ICT in all. It is the one of the first Local Authorities to sponsor Academies.

**5** Manchester is using its own procurement model. It has established a conventional four year framework with two construction contractors: Balfour Beatty and Laing O'Rourke. It has a separate contract with Ramesys to provide ICT services. An interface agreement regulates the interaction between the three companies. It also has pre-existing joint ventures with other companies to provide facilities management. These contracts are managed directly by Manchester. All the partners sit on the Manchester Partnering Board, where joint issues are discussed.

6 Competitive tension is maintained between the two construction contractors through the use of key performance indicators and the threat of switching all the work to the other provider depending upon their overall performance. But frameworks can only last four years by EU regulations, so Manchester needs to start all its contracts under the framework by September 2009 or set up new arrangements for any remaining work after that.

### Successes and challenges to date

7 The Manchester approach has been broadly successful so far:

- The first contracts under the framework were signed in October 2006 and the first four schools have already opened. There has since been delay in the construction of the remaining schools, but Manchester is still confident it can initiate all its projects within the lifetime of its four year framework.
- It has established strong partnership working arrangements. Contractors are co-located with Manchester’s BSF team. They have established joint risk management, including a shared risk register and risk funding pool, so the issue of who pays for issues that arise is settled beforehand (up to the amount available in the pool), and they can concentrate on solving the problem. They use a ‘Kit of Parts’, a catalogue of school building parts, to try to achieve economies of scale, improve quality and reduce maintenance costs.

8 The main issues that have arisen so far are:

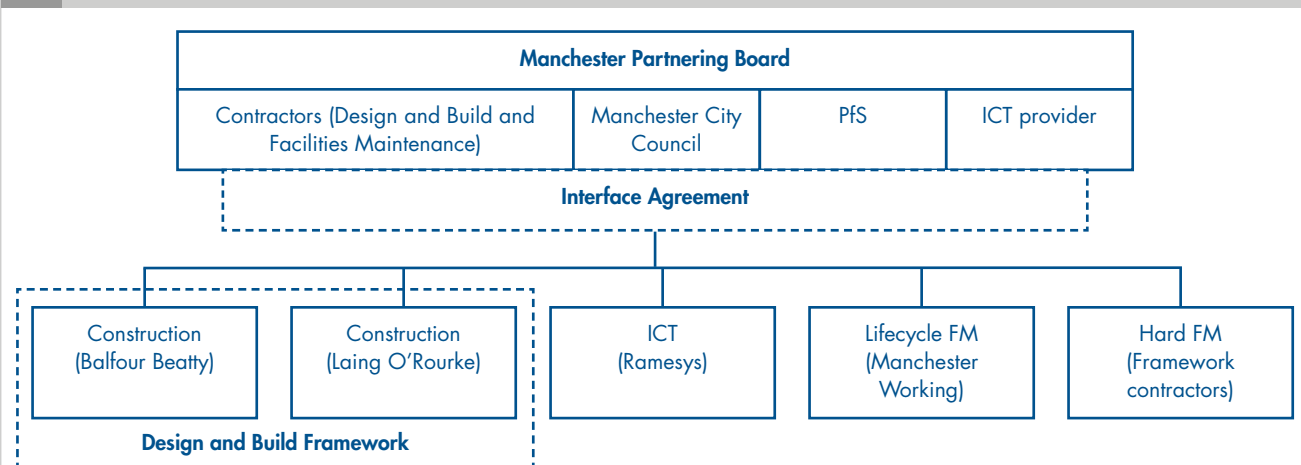
- Manchester has adopted its own procurement model, which was not supported by PFS’s standard processes. It had to spend additional time and money to modify existing documentation.
- There is no single point of contact for schools and Manchester manages integration of contracts itself. Soft facilities maintenance is not included in its BSF procurement.
- School leaders and teachers were concerned about the future running costs of the new school and a lack of support for the appointment of additional leadership capacity.

### Resources

9 Manchester is confident that it has sufficient capacity to manage the BSF programme – it has a large in-house team and recent experience of managing large scale capital programmes. It is managing BSF from within its Capital Buildings Team.

10 Leadership capacity within the school we visited for a focus group was resourced internally. The Assistant Head was tasked to manage the programme and a Facilities Manager was appointed to oversee the handover and smooth running of the school.

## 23 Manchester’s model for delivering BSF



Source: Interviews with Manchester City Council managers

## Timeline of events



## Bristol



Bristol Metropolitan College

Wave	Progress	Capital funding as at October 2008 £m
Pathfinder	Operational phase	127
Wave 4	Procurement	108

### What is the local authority trying to achieve?

**11** Bristol City Council (Bristol) has a number of poorly performing schools and was ranked 144th out of 148 Local Authorities in 2007 for GCSE achievement (grades A\*-C). A very large proportion of Bristol’s children either attend the large number of local private schools or schools outside the Local Authority. Bristol wants BSF to help turn around state education in the City and to attract children back to the state sector.

### How is it trying to achieve its aims?

**12** In 2001 Bristol launched a strategy of renovating its secondary school estate, including the closure, rebuilding and opening of schools, and starting with the rebuilding of four schools under a Group PFI project. BSF provided further impetus by providing funding for the next four schools to be rebuilt and ICT in one school previously

built by the Local Authority in Wave 1 and the remodelling of six more in Wave 4. The rebuilding programme has focused on schools near the borders of the city where performance is particularly poor and that are vulnerable to pupils being attracted to schools outside the Authority.

**13** Bristol has established a standard LEP with a consortium led by Skanska, and using Northgate as ICT subcontractors. Bristol decided to go for a “thinly capitalised” LEP, without any direct staff, and dependent upon the supply chain. Bristol wanted to retain the function of strategic planning in developing future schools.

### Successes and challenges to date

**14** Bristol was the first Local Authority to establish a LEP. The overall programme appears to be going well and Bristol continues to be ahead of other Local Authorities.

**15** In September 2007, it became the first Local Authority to open a new BSF school, Bristol Brunel Academy. It was on time and budget. Its proportion of students achieving five or more A\* to Cs including Maths and English at GCSE grades increased from 19 to 34 per cent in its first year. It recently won the Private Finance Design Award.

**16** Bristol believes that some of the anticipated benefits of a LEP are starting to be felt: standardisation, lower costs of procurement and better design. However, it has yet to assess these benefits accurately. It is drawing in additional Local Authority work, including a primary school, three Academies and children's centres.

**17** But issues arose during the procurement of the first few schools that could have been avoided:

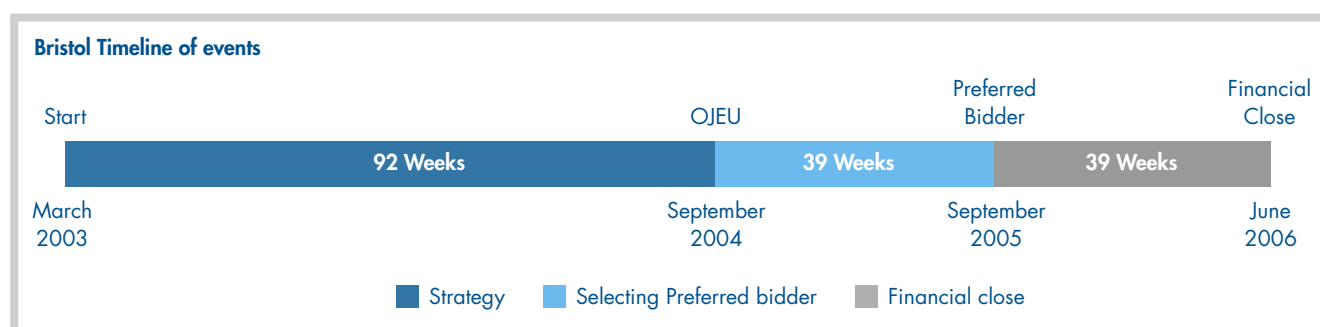
- Bristol was the only case study at the time of our visits to have any operational experience of open schools in the BSF programme. Speedwell Technology College became Bristol Brunel Academy during its building's reconstruction. The new leadership team was not involved in the design of the new building as they were appointed after the contract was agreed. They have spent additional money adapting the new building to their requirements at further cost, but some aspects are not working well for their new educational strategy. For example, the Academy needed more desktop PCs than originally envisaged leading to crowded ICT suites that are too small for the teacher to move between desks to help individual students.
- The Local Authority and the ICT contractor are in disagreement over a number of implementation issues, including whether the service has been fully implemented. PfS sponsored an independent review to help broker agreement on what went wrong and how it could be put right. One of the main issues that arose out of this was that Bristol had retained responsibility for implementing the contractors' systems, including all training and roll-out. This is now included as a contractor's duty in the standard ICT contract specification.
- Schools told us that they found it difficult to distinguish the role and responsibilities of the LEP from the supply chain. Relations between the consortia contractors were strained as they were competing against each other in other national BSF projects. The LEP was not helping to mediate or integrate their work as intended.

## Resources

**18** Bristol used the experience from a previous school PFI project to implement BSF. It was invited to take advantage of the BSF programme ahead of other Local Authorities partly because it already had a clear estate strategy in place and experience in building new schools. However, Bristol has suffered a lack of continuation and capacity within the Local Authority team, with key members of staff leaving immediately after it established the LEP.

**19** School leaders are highly committed to BSF, but told us that they sometimes felt ill equipped to manage the more technical issues.

## Timeline of events



## Kent



Northfleet Technology College, Kent (Architect's drawing)

Wave	Progress	Capital funding as at October 2008 £m
Wave 3, 4 and 6	Wave 3 – Construction Wave 4 – Procurement Wave 6 – Strategy	Wave 3 – 233 Wave 4 – 206 Wave 6 – to be confirmed
Wave 5, 7 and 9	Strategy	to be confirmed
Wave 8, 10 and 11	Strategy	to be confirmed

### What is the local authority trying to achieve?

**20** Kent County Council (Kent) had an education strategy in place before entering BSF that focused upon raising educational attainment and personalised learning through:

- a cluster approach allowing schools to function more collaboratively;
- vocational training facilities; and
- increased investment in the quality and suitability of the education provision for children needing special care.

### How is it trying to achieve its aims?

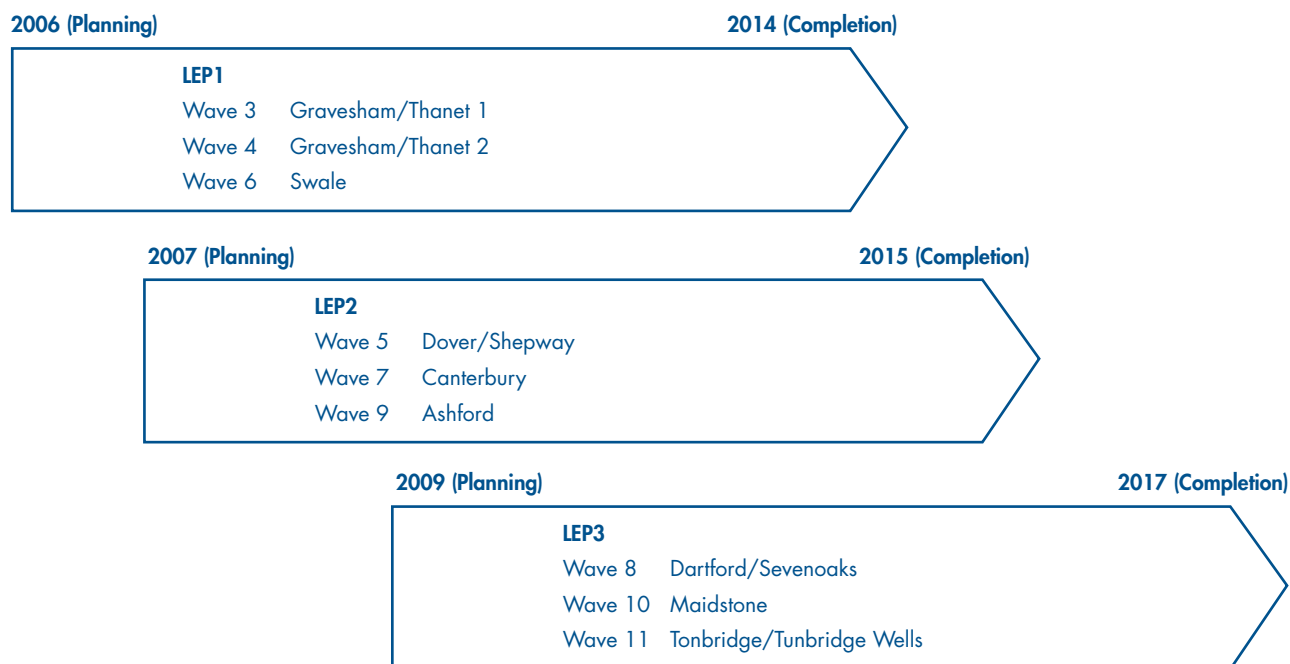
**21** Kent’s school estate is one of the largest in England. Its BSF programme has been scoped to be delivered by three LEPs, with a total estimated £1.8 billion expenditure budget. It may extend one of the first two LEPs instead of procuring a third.

**22** The first wave of funding concentrates on areas of low educational attainment and the most deprived parts of the County, including Gravesham and Thanet. Three schools will be rebuilt and eight others will be remodelled.

**23** Kent has established its first LEP with a consortium between Land Securities Trillium (LST) and Northgate. LST owns 62 per cent of the LEP, Northgate 18 per cent, and BSFI and Kent each own 10 per cent. The LEP does not have a fixed supply chain; LST puts together sub-contractors as part of its bid, but can change its sub-contractors once the LEP is in operation.



## 24 Structure of BSF roll-out in Kent



Source: Kent County Council

## Successes and challenges to date

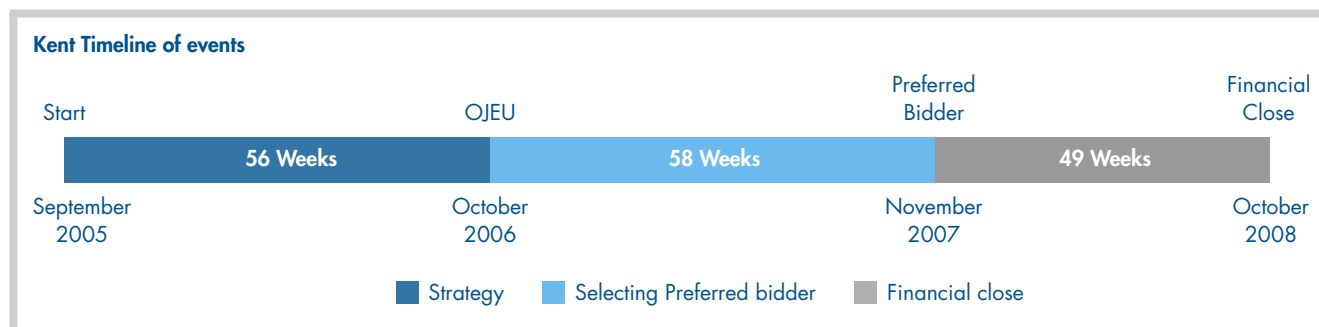
24 Kent has adapted the standard BSF approach:

- It asked two bidders to design seven schools before selecting the LST/Northgate consortium as its preferred bidder, with a further four school designs developed by the consortium before financial close. Normally two or three sample school designs would be developed up to financial close. Increasing this number will speed up the delivery of those schools and does not appear to have greatly increased the time spent in negotiation. However, it has significantly increased the cost to the Local Authority and bidders, and bidders report that its cost placed unsustainable strain on their bidding capacity and hinted that they would not be willing to bid again on those conditions.
- It set up a 'Secondary Transformation Team', a team of former school heads and leaders who provide advice to schools on curriculum and design issues as part of their BSF planning. This has helped to align school expectations and plans with Kent's overall BSF objectives.
- It employed the architecture firm Gensler to provide draft designs for its schools before inviting companies to compete to form its first LEP. Our school focus group told us that these designs helped them develop their ideas, but the bidders told us they were not useful as initial stage drawings as they chose to start again when producing their bids.

25 Kent believes the procurement of the LEP went well overall, but:

- Kent experienced seven months delay in the last stage of its competitive dialogue process. PfS suggest that the period between selecting a final bidder and signing contracts should last four months (19 weeks) to clarify and confirm commitments in the final tender. Kent was one of the early adopters of the competitive dialogue procurement process. They believe that the market did not fully appreciate the impact of this change in procurement process.
- Kent has on occasion thought that it had negotiated better terms from the contractors than the standard documents, but had difficulty in getting PfS to allow changes. PfS seeks to standardise terms and conditions to achieve economies of scale over the whole programme.

## Timeline of events



## Resources

**26** Kent is procuring BSF with a ‘thin’ team, employing few internal staff for the size of the programme, which Kent believes is adequate. Kent relies on consultants to run many work streams and is dependent on key staff. Bidders are generally happy with the level of access to Kent’s BSF team and its advisers.

**27** Leadership capacity was resourced internally and capacity has been increased in Kent through the Secondary Transformation Team. School Leaders were concerned with the resources available for Change Management, including training.

## Lewisham



Sedgehill Secondary School, Lewisham

Wave	Progress	Capital funding as at October 2008 £m
Pathfinder	Construction	90

### What is the local authority trying to achieve?

**28** Lewisham Borough Council (Lewisham) aims to use BSF to:

- facilitate existing trends of improved educational performance (which might otherwise level off);
- increase inclusion through increased special needs capacity in mainstream schools;
- further the use of structured school federations and collaboration amongst its schools; and
- address its £8 million worth of back-log repairs.

### How is it trying to achieve its aims?

**29** Lewisham has established a standard LEP model with Costain Group (construction) and VT Group Plc (partnering services, ICT and FM). It has established its own service requirements.

**30** Lewisham has a directly elected mayor. The Deputy Mayor sits on the LEP board as Lewisham's representative, and apart from Westminster, is the only elected member on any BSF project to do so.

### Successes and challenges to date

**31** Lewisham has adopted a policy of universal provision for all pupils, meaning that it intends each of its schools to receive the same level of service, including interim ICT service for schools scheduled for development in later phases and the same standard of facilities maintenance for PFI and Design and Build schools. Lewisham is establishing sinking funds to meet these commitments.

**32** Lewisham initially planned to deliver three new schools in a joint programme with neighbouring London Boroughs Greenwich and Southwark. The joint programme was disbanded in 2006, mainly because each Borough wanted to do different things. This delayed Lewisham's programme by about a year, whilst it extensively re-scoped its plans.

**33** Consequently, PfS and Lewisham agreed to bundle its pathfinder projects with ten Wave 3 schools to produce a wider estate strategy and viable flow of work for a LEP.

**34** Lewisham has established its LEP to have a fair degree of day-to-day operational independence from its integrated supply chain. Although it has more staff than the LEPs in our other case studies, Lewisham believes the LEP could still have more resource allocated to it. The LEP shareholders had jointly chosen a general manager from outside their organisations.

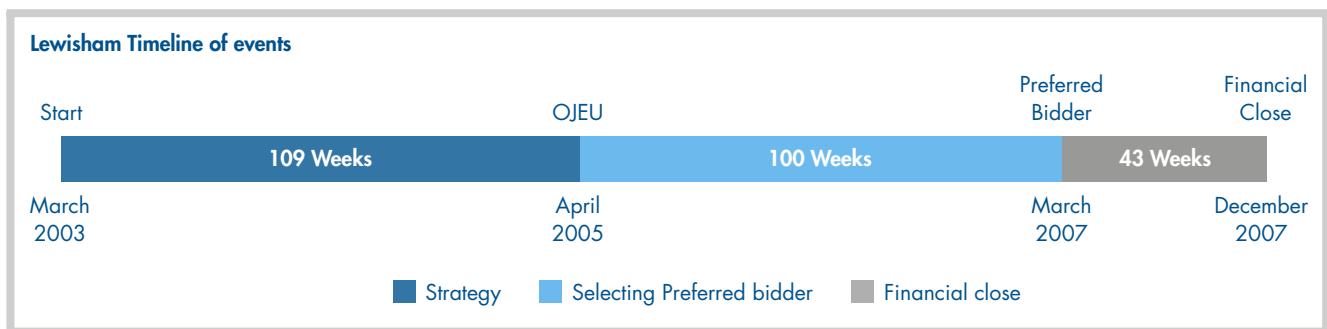
**35** Lewisham and its partners are attempting to overcome early problems in establishing a partnership:

- A disagreement and lack of communication over the material to be used for the structure of the schools led to a four-month delay in signing and contributed to a lack of planning for how the LEP would work in practice. Both sides told us that they were keen to rebuild trust, but that this would take time and effort. BSFI and the LEP have worked together to bring Lewisham and the private consortium closer together through a partnering workshop and discussion of how to make the LEP work now it is operational.
- Lewisham agreed to an early works contract to avoid further delay in school openings. The LEP was able to offer a strategy for phased completion and handover to the schools for each of these early projects.

## Resources

**36** Lewisham took the decision to lead its BSF programme through its Planning and Regeneration Directorate, working closely with its Children and Young People and Resources directorates. This helped it to direct the right senior management skills at the programme and provide an integrated approach within the Local Authority. Lewisham identified its skills gap in project management and brought in long-term secondments and consultants to manage the BSF process. This contributed to Lewisham’s high external costs of over £5 million.

## Timeline of events



## Solihull



The Archbishop Grimshaw Catholic School, Solihull

Wave	Progress	Capital funding as at October 2008 £m
Wave 1	Operational phase	86

### What is the local authority trying to achieve?

**37** Solihull Metropolitan Borough Council (Solihull) wants to use BSF as part of its regeneration strategy, reorganising its currently oversubscribed school estate while attempting to address low education attainment and deprivation in the North of the Borough, through:

- Developing learning communities, especially inclusion of Special Educational Needs provision into mainstream campuses.
- Designing schools to incorporate facilities for both boys and girls, and removing single sex schools.
- Integrating wider community facilities into the school buildings and campuses.

### How is it trying to achieve its aims?

**38** Solihull is focusing its first wave of BSF funding at its deprived Northern Wards. It is rebuilding all four of its northern secondary schools and will then remodel the schools situated in the south of the Borough.

**39** It originally planned to establish a standard LEP. But Solihull and PFS agreed that it did not have a flow of work that could justify the cost of establishing a LEP. Only four schools were included in its first wave and its next wave of funding was not expected for another 10 years, after the LEP exclusivity period.

**40** Instead, it has established a single contract with BAM PPP to rebuild three of the schools under PFI arrangements and rebuild the fourth school under design and build arrangements.

**41** Solihull established a separate five-year ICT managed service contract with RM plc, and an integration agreement between RM plc and BAM PPP.

## Successes and challenges to date

**42** In May 2006, Solihull completed the construction of the first BSF ‘quick win’ school, co-locating two Special Educational Needs schools on the same site. A further two schools have been opened as part of the main BSF programme.

**43** It commenced its ICT managed services before the new school opened. This allowed an easier transition for staff and pupils. It also gave the added benefit of a longer period of ICT service provision. ICT legacy equipment will only be transferred to the new buildings if it is suitable for the new network and managed service provision.

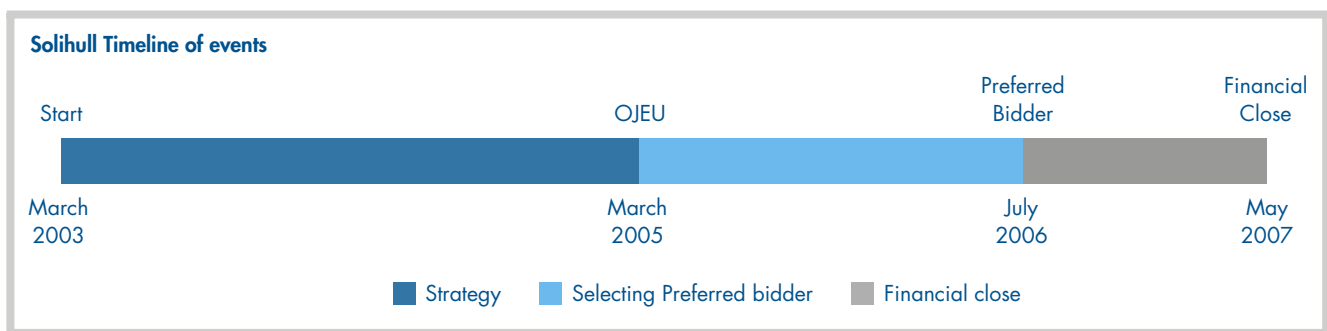
**44** Solihull experienced over a year’s delay agreeing its contracts, mainly due to extensive negotiations with private sector parties, preparation of non-LEP standard documentation and redesigning schools to incorporate school leadership teams’ comments. This led to high procurement costs, which the Local Authority estimates to be £3.2 million (3.9 per cent of capital funding).

**45** BSF funding for ICT lasts for 5 years and will effectively end in Solihull during August 2010. Solihull does not have a sinking fund and has not identified alternative funding sources for a refresh of the ICT contract after 2010.

## Resources

**46** Solihull chose to resource its internal BSF team thinly and buy in support from consultants where necessary. It later appointed a dedicated project manager, after which the schools felt the process was better managed. Solihull has supported school leadership teams with additional funding to manage their involvement with BSF.

## Timeline of events



## Lancashire



Burnley Campus, Lancashire

Wave	Progress	Capital funding as at October 2008 £m
Wave 1	Operational phase	205

### What is the local authority trying to achieve?

**47** Lancashire County Council's (Lancashire) first wave concentrates on Burnley and Pendle where it wants BSF to:

- aid the regeneration of the area through improved educational attainment;
- develop a universal educational vision for its schools across the area, with coordinated specialisms;
- end single sex provision;
- reduce surplus capacity to meet the needs of a declining population, by merging eleven schools into eight; and
- increase the provision of Special Educational Needs and Behaviour, Emotional and Social Difficulty facilities at mainstream schools.

### How is it trying to achieve its aims?

**48** Lancashire is a large Local Authority with over 80 schools. It will spread its BSF programme over many waves, potentially with a number of LEPs. In December 2006, Lancashire and its contractor Catalyst established the second LEP in the country.

### Successes and challenges to date

**49** Lancashire started planning the restructuring of the eleven schools in Burnley and Pendle in 2002 when it consulted school heads, governors and dioceses. Before the announcement of BSF, Lancashire planned to do this without large-scale redevelopment of the buildings.

**50** Lancashire set up an independent staff commission board in 2005-06 (academic year) to oversee the staff restructuring process and find jobs for staff in the new schools. There were no compulsory redundancies. Lancashire seconded the school headteachers to a central BSF planning team with Deputies acting as headteachers for the first year of the new schools. The Heads we spoke to told us they felt this was invaluable.

**51** The new schools opened in the existing premises in September 2006. The first three transferred to their new buildings in September 2008. They were built to time and budget, helped by an early works agreement. The Local Authority and Heads told us they were highly satisfied with the quality of the LEP’s designs, project management and delivery. Lancashire hopes the rest will transfer to new buildings before the end of 2010.

**52** The construction of the next two schools, Unity College and Marsden, was delayed by a year due to a public inquiry into a compulsory purchase order for Unity College and an application to declare that Marsden’s site is a town green.

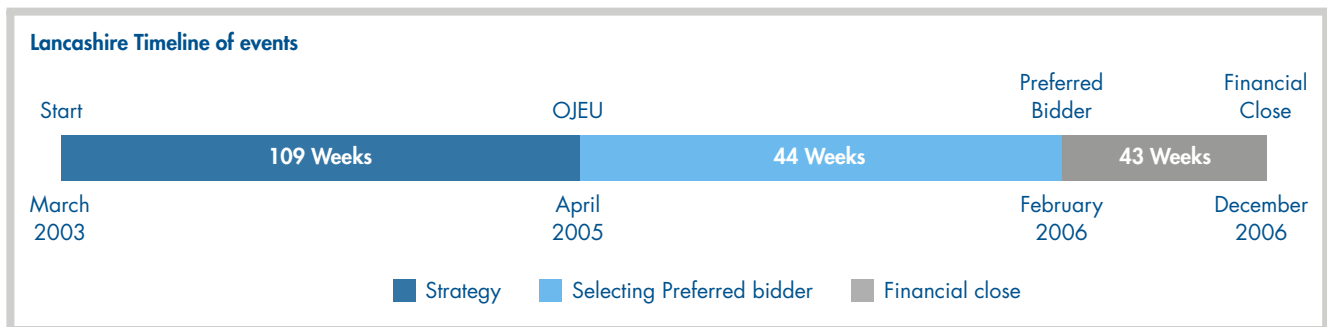
**53** We found that to date the benefits from the LEP were yet to be captured because the supply chain was being managed through a traditional client contractor relationship. This arrangement had led to a difficult relationship between Lancashire and Catalyst. They did not allow enough time between finishing procurement and the next phase of developing schools to establish effective working relationships and processes. Lancashire and Catalyst are working to improve their partnering, with assistance from PfS and BSFI.

**54** Lancashire was the only case study where we encountered any general dissatisfaction with BSF in our focus groups or interviews (as distinct from detailed comments about delivery arrangements). Staff and pupils reported discontent with the pre-BSF staff restructuring process, which they associated with the programme. The focus group and interviews with Local Authorities’ officials and members also reported a large amount of negative local press and community campaigns against the local BSF programme. The headteachers told us about some of the difficulties this caused them and the difficult role they took in managing the schools’ local community relations.

### Resources

**55** Several of Lancashire’s stakeholders told us they thought Lancashire needed to improve its capacity in a number of areas. It has recruited some additional capacity since our visit.

### Timeline of events





## Ealing



Dormers Wells High School, Ealing (Architect's drawing)

Wave	Progress	Capital funding as at October 2008 £m
Wave 5	Strategy	311

### What is the local authority trying to achieve?

**56** Ealing Borough Council (Ealing) was in the midst of planning its BSF programme when we visited it. It aims to:

- raise educational attainment across all groups, especially low achieving groups;
- increase choice and diversity in provision, including more self-governing schools;
- provide additional capacity to meet the needs of an expected increase in population;
- co-locate Special Educational Needs schools with mainstream schools and reduce out of area Special Educational Needs placements; and
- provide wider provision in mainstream schools so that services are made available in areas of greatest need.

### How is it trying to achieve its aims?

**57** Ealing is seeking approval to rebuild and refurbish 12 secondary schools (including three Special Educational Needs schools) and build two new schools (including one Special Educational Needs school). It also plans to build a new sixth form at an existing PFI school and provide ICT equipment to three existing Group PFI schools. It plans to procure a standard LEP.

### Successes and challenges to date

**58** Ealing is the only case study in our sample undertaking the revised planning processes for Wave 4 onwards. It submitted its plans with only one month delay.

**59** PFS has increased its scrutiny of Local Authority plans, to try to avoid some of the set backs experienced by early projects. It challenged Ealing's first draft plans on:

- the affordability of its programme;
- how Ealing would find a site for a new school or what contingency plan it had if it failed to do so;
- choice and diversity aspects including the possibility of any of the schools having Trust or Academy status;
- how Ealing would manage a difficult decant and integration of a Special Educational Needs school; and
- how Ealing would resource its procurement and management of BSF.

**60** Ealing wants to build a new school, but has not yet finalised the site. It predicts that it needs to provide 900 extra places for 11 to 16 year olds in the North of the Borough. Ealing will have to fund the purchase of land or acquire it through a planning deal. It originally planned to provide a new school in 2015, after it had developed the other schools. PFS challenged this on the basis that it would provide no contingency if the new school could not be developed.

**61** Ealing has sold land to fund the costs of planning and procuring its BSF programme, which it estimates will be £5.2 million.

## Timeline of events

**62** Ealing's project started in September 2007 and it is currently in the process of preparing an outline business case. It expects to publish an OJEU notice in early 2009 and establish its LEP in 2010.

## Resources

**63** Ealing was encouraged to use the strategy phase to build up its capacity ahead of the procurement. 4Ps have assisted Ealing in identifying capacity issues through a skills audit. Ealing believed it had many of the skills in house, calling on experience gained from the Group PFI project and hiring external consultants.

**64** School leaders told us in our focus groups that they felt overwhelmed by the need to rapidly become experts in BSF, especially building design, but praised the National College for School Leadership for its leadership training.

# APPENDIX ONE

## Methodology

### Study Scope

- 1 This report considers the progress of the BSF programme and the delivery mechanisms at a national and local level.
- 2 It does not include an assessment of whether it is value for money to renew the secondary school estate, nor an assessment of whether wider educational objectives are being met by the renewal of the secondary school estate.

### Methodology and analysis

- 3 This report is based on the following data collection methods:
  - i seven case studies of Local Authorities that are undertaking BSF projects, using in-depth semi-structured interviews with Council members and staff and the contractors, review of documentation held by PfS, and a focus group for each case study of school leaders, staff and pupils;
  - ii a census of all Local Authorities and private companies involved in BSF;
  - iii interviews with staff at the Department, PfS and other national bodies;
  - iv a file review of documentation held by the Department and PfS; and
  - v use of existing evidence.

### Case Studies

- 4 We undertook seven evaluative case studies of Local Authorities undertaking BSF projects to obtain local views on:
  - local Authority objectives for BSF and commitment to the programme;
  - the benefits and disadvantages of the BSF approach;
  - the cost effectiveness of BSF;

- how BSF performance is measured locally;
- the performance of the national delivery bodies;
- the working relations between the Local Authority and private sector partner;
- local capacity;
- the benefits and disadvantages of the procurement process; and
- the engagement of local stakeholders.

5 We visited a cross section of Local Authorities designed to give us an insight into different approaches to BSF (**Figure 25 overleaf**).

6 For each case study, we undertook two-hour semi-structured interviews, on the topics above, with each of (i) Council leaders, (ii) senior officers, and (iii) project managers with the Local Authority, (iv) General Managers from the LEP, (v) team leaders from the private sector partner, (vi) the PfS project director, and (vii) other relevant stakeholders.

7 We reviewed documents held by PfS, including business cases and management information, to understand the background for each case study and to gain an understanding of the process and PfS monitoring.

8 We also held three focus groups at six of the seven case studies of (i) school leaders across the Authority, and (ii) staff and (iii) pupils from a single school undergoing renewal. The focus groups used a topic guide focusing on participants' opinions of the programme, their progress and challenges to date and what they want out of their new BSF schools. The seventh set of focus groups, at Lewisham, was cancelled due to a teachers' strike. Our focus groups were facilitated by a consultant from KPMG, with a member of the National Audit Office team as an observer.

9 We did not review individual contracts or the performance of Local Government.

## 25 Criteria for choosing case studies

Local Authority	BSF wave	Region	Stage at time of our visit	Urban/Rural	LEP	Capital funding as at October 2008 £m
Bristol	Pathfinder and 4	South West	First schools built	Urban	Yes	235
Lewisham	Pathfinder	London	Building first schools	Urban	Yes	90
Manchester	1 and 4	North West	Building first schools	Urban	No	462
Solihull	1	Midlands	First schools built	Urban	No	86
Lancashire	1	North West	Building first schools	Semi-rural	Yes	205
Kent	3, 4 and 6	South East	Selecting partner	Semi-rural	Yes	439 <sup>1</sup>
Ealing	5	London	Writing strategy	Urban	Yes	311

Source: National Audit Office methodology scoping papers

### NOTE

<sup>1</sup> Not including Wave 6 funding.

**10** We undertook three further visits to Local Authorities and their private sector partners in October 2008 at the request of the Department to ascertain the strength of claims that Local Education Partnerships were overcoming issues raised in our seven evaluative case studies. Because the Local Authorities for these further visits were not selected by the National Audit Office, our findings from them have been separately treated in the report and not extrapolated or merged with findings from the case studies.

### Census

**11** We surveyed all Local Authorities and consortium leads involved in BSF on themes emerging from our case studies, to assess the prevalence of views across the whole population, including:

- whether BSF leads to more strategic procurement of infrastructure;
- the LEP model approach and potential cost savings;
- local capacity and relationships; and
- the Performance of PfS.

**12** The survey was sent to the 70 Local Authority BSF managers and 33 team leaders from the private companies who were active or had bid for projects as of 7 May 2008. We received survey returns from 70 Local Authorities and 29 contractors (100 per cent and 88 per cent respectively).

### Interviews

**13** We conducted in-depth semi-structured interviews with staff from key stakeholder organisations, including:

- 4Ps;
- British Council for School Environments;
- British Educational Communications and Technology Agency;
- Building Schools for the Future Investments;
- The Commission for Architecture and the Built Environment;
- Department for Children, Schools and Families (the Department);
- HM Treasury;
- National College of School Leadership;
- Ofsted;
- Partnerships for Schools; and
- Partnerships UK.

### File review

**14** We reviewed documents held by the Department, PfS and BSFI, including:

- documents prepared by the Department and PfS on the strategy of delivering BSF, including the consultation on prioritising Local Authorities, the LEP model and the use of public equity in a LEP;
- management information produced by the Department and PfS on the progress of delivering BSF;

- key corporate governance documents, including board minutes, audit reports and management reports;
- pfS analysis of forward costs; and
- pfS market analysis of Construction and ICT private sector activity.

## Analysis

- 15** Our analysis included:
- i** a matrix analysis of findings against our issue analysis;
  - ii** a cost benefit analysis of using a Local Education Partnership;
  - iii** a cost benefit analysis of using PfS as central managers of the programme;
  - iv** a timeline analysis of events causing delay;
  - v** a school cost comparison analysis; and
  - vi** consultation with a panel of experts.

## Cost Benefit Analysis

**16** We analysed the value for money of the central programme management approach and the use of Local Education Partnerships using cost benefit analyses. This allowed clear identification of potential benefits and disadvantages of these approaches, although clear quantification was not always possible. We then assessed the extent to which each of the potential benefits and disadvantages had materialised. This analysis has been used in the report (Appendices 2 and 4 and parts 3 and 4).

## Cost comparison

**17** We compared the cost of BSF schools to those built under the previous programme of school PFI projects, Academies and One School Pathfinders. We used a regression analysis on data normalised for region and annual inflation using indices from the Building Cost Information Service. We obtained data on the cost of construction, ICT and facilities maintenance from PfS's benchmarking system and information collected by the Department specifically for our study. Where the construction cost of BSF schools was not included in the benchmarking system, PfS supplied data as given in the Local Authorities' final business case.

## Consultation with a panel of experts

**18** We met with a panel of experts prior to conducting our fieldwork to provide us with assurance on our methodology and highlight potential issues to pursue in our case studies. We later presented our emerging evidence to the panel of experts and invited them to comment. The methodology, findings and conclusions are, however, our own and not those of the panel. All members were unpaid. The panel included:

- Professor John Gray – University of Cambridge;
- Michael McIlroy – Ofsted;
- Christine Lewis – Unison;
- Brian Standen – 4Ps;
- Caroline Saffel – 4Ps;
- Hannah Jones – National College of School Leadership;
- Roger Leighton – Headteacher of the Sydney Russell School, Dagenham;
- Chris Whitehead – Balfour Beatty;
- Hugh Howes – Headteacher of the Voyager School, Peterborough; and
- Kingsley Manning, Newchurch Ltd (consultancy group).

# APPENDIX TWO

## Partnerships for Schools' programme management

### Programme management provided by Partnerships for Schools

#### Benefits of PFS as the Programme Manager

##### Example

PFS provides national leadership for the programme

- Accountability for the delivery of the programme lies with PFS' Chief Executive
- Single gateway for the national programme
- Clear regional and thematic responsibilities within Senior Management Team
- Champions programme in the media and with other stakeholders

Skilled professional people

- Specialist staff on PFI, programme management, design, education, ICT, contracts and procurement
- Non-Executive Board members with relevant experience
- Incentive schemes tied to programme delivery

PFS provides support for Local Authorities

- Standardised documents
- Strategy and procurement guidance
- Technical guidance
- Mediation and problem solving

Managing the portfolio of projects

- Determines flow of projects
- Risk and opportunity management
- Finance management of the programme

Management of private sector capacity

- Reviews bidder interest in current and upcoming projects
- Educates bidders on upcoming projects
- Consults sector on procurement process
- Keeps sector informed through bulletins of proposed OJEU dates, indicative funding and PFI content

##### National Audit Office comment

PFS is clearly identified by all stakeholders as the driving force behind delivery of the programme. By providing a single point responsible and accountable for delivery of the programme it improves leadership, transparency and accountability and increases the long-term chances of the programme's success.

PFS provides a vehicle for attracting specialist staff, who would be difficult to fit into the general civil service structure.

PFS provides good overall support to Local Authorities planning or procuring their projects, but is not yet providing enough support for operational projects. PFS has to balance the role of funding gatekeeper and supporting Local Authorities, sometimes causing tension in the relationship with local projects.

PFS manages the timing, flow and overall scope of the programme, with direction from the Department. It delivers the Department's requirements for more structured programme management and greater control of the overall progress of the programme compared to the Department's other strategic capital programmes. It also provides detailed and up to date real time monitoring of progress on each project, collected through its face to face contact with each project. But it has tended to be over optimistic in its expectations and some projects continue to slip against PFS's timetable.

PFS has built up a network of companies involved in the programme. The scale of the BSF programme requires an expansion of the market focused on the building and refurbishment of schools and the provision of education ICT. PFS provides a central focus to promote the programme with the private sector in a way that could not be done by individual Local Authorities, and provides expertise on the private market not present within the Department.

## Programme management provided by Partnerships for Schools *continued*

	Example	National Audit Office comment
Effective cost control	<ul style="list-style-type: none"> <li>■ Funding allocation model with associated guidance to LAs</li> <li>■ Procurement review</li> </ul>	PfS has helped keep the capital costs of individual projects under control and the overall cost of the programme to the Department down.
Quality control	<ul style="list-style-type: none"> <li>■ Business cases scrutinised by PfS Education and Design teams</li> <li>■ Checks changes to standard procurement terms and conditions</li> <li>■ Uniformity creates economies of scale</li> <li>■ Benchmarking capital costs for all Schools and Facilities Management for PFI Schools</li> </ul>	PfS monitors progress of each project, reviews each business case and encourages Local Authorities and schools to consider what they need to progress their project. PfS also promotes standardisation of documentation and terms and conditions, with the aim of achieving procurement efficiencies over the whole programme. Occasionally these are worse than Local Authorities believe they could get on an individual deal.
Learning and knowledge management	<ul style="list-style-type: none"> <li>■ Lessons learnt database (PfS website)</li> <li>■ Facilitation and Networking</li> </ul>	PfS has been effective at learning lessons from the early projects and changing the processes for later projects. It also facilitates networking between Local Authorities. But to date, most attention has been on facilitating learning on the planning and procurement stage, and not enough on the operational stage.
<b>Cost of PfS as the Programme Manager</b>		
	Example	National Audit Office comment
Overhead administration costs	See paragraph 4.5	Central programme management inevitably brings greater central administration costs over devolved funding streams, but, at one per cent of programme costs, they are broadly comparable to similar programmes.
Advisory and set-up costs	See paragraph 4.7	Advisory and set up costs have been increased by the complicated structure of PfS and the need for a lot of additional technical, legal and financial advice on the LEP model.
Reduced local flexibility	<p>PfS provides rigorous challenge to Local Authorities considering:</p> <ul style="list-style-type: none"> <li>■ non standard delivery models</li> <li>■ different funding routes (PFI or conventional)</li> </ul>	Central programme management creates tension with local autonomy. PfS encourages Local Authorities to conform to its approach to achieve economies of scale and benefits over the whole programme, but this reduces the opportunities of each Local Authority to tailor its own approach to local circumstance. Where Local Authorities have pursued their own approach, PfS has not always been able to provide them with as much support.
Increased local administrative burden	<ul style="list-style-type: none"> <li>■ Central review of outline business cases</li> <li>■ Provision of benchmarking information</li> </ul>	Local Authorities need to undertake additional exercises to help PfS monitor progress and costs, causing some increased administrative burden. However, some of these exercises, such as the provision of benchmarking information, will benefit the Local Authorities.
Delay caused by increased set-up time of the programme	<ul style="list-style-type: none"> <li>■ Getting PfS fully operational caused a year's delay</li> </ul>	Pathfinders and early waves could not start procurement until PfS was formally launched, delaying the programme by around a year (see part 2). Early projects also encountered problems as PfS settled down. For instance, many complained about a high churn rate amongst their contacts with PfS, because as PfS expanded its number of staff it moved people around from project to project to decrease its staff to project ratios.

## Central administration costs of the BSF programme

		2002-03 FTE <sup>2</sup>	2003-04 FTE	2004-05 FTE	2005-06 FTE	2006-07 FTE	2007-08 FTE	Total
Number of employees	DCSF	1.7	4	18.25	16.5	21.4	22.25	
	PFS			33	66	90	111	
	BSFI						2	
		£000	£000	£000	£000	£000	£000	£000
Average cost per Employee	DCSF	58	61	32	41	44	44	
	PFS	–	–	106	82	76	85	
	BSFI	–	–	–	–	–	126	
Staff Cost	DCSF	98	242	581	678	940	973	3,512
	PFS	–	–	3,496	5,399	6,838	9,428	25,161
	BSFI	–	–	–	–	–	251	251
Advisory & Consultancy Costs	DCSF	–	290	907	761	1,827	6,149	9,934
	PFS	–	–	2,830	970	1,072	757	5,629
	BSF	–	–	–	–	–	–	–
Other Costs	DCSF <sup>1</sup>	–	–	–	–	–	–	–
	PFS	–	–	1,085	1,915	2,108	2,760	7,868
	BSF	–	–	–	–	32	188	220
<b>Total Costs</b>	<b>DCSF</b>	<b>98</b>	<b>532</b>	<b>1,488</b>	<b>1,439</b>	<b>2,767</b>	<b>7,122</b>	<b>13,446</b>
	<b>PFS</b>	<b>–</b>	<b>–</b>	<b>7,411</b>	<b>8,284</b>	<b>10,018</b>	<b>12,945</b>	<b>38,658</b>
	<b>BSFI</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>32</b>	<b>439</b>	<b>471</b>
<b>Grand Total Costs</b>		<b>98</b>	<b>532</b>	<b>8,899</b>	<b>9,723</b>	<b>12,817</b>	<b>20,506</b>	<b>52,575</b>

Source: National Audit Office analysis of Department's and PFS's management information

## NOTES

1 Absorbed into the Department's administration overhead (e.g. rent on building) and not separately identifiable using the Department's financial systems.

2 Full Time Equivalent.



## APPENDIX THREE

### Administration costs of procuring BSF schools

We estimate that the initial cost of procuring a Local Education Partnership could be reduced to £6.5 million for Local Authorities about to start. This uses 4Ps' estimates of Local Authority staffing requirements, and assumes

that the use of consultants and advisers is restricted to specialist advice and that the time taken in planning and procurement is speeded up to meet PfS's current target of 3 years.

<b>Internal Costs (4Ps' assessment of minimum staffing requirements)</b>		
Cost heading	Full time equivalent staff over 3 years	£000
Project Director	1	320
Project Manager	1	240
Administrative Document Manager	0.75	90
School organisation & education capital teams	1	240
Property and Asset Manager	1	75
ICT Advisor	1	50
Corporate Finance Advisor	0.6	240
Legal Advisor	0.6	200
Planning Advisor	1	70
Stakeholder Management team	3	150
Training	–	50
<b>Estimated minimum total internal cost of procurement</b>		<b>1,725</b>
<b>External Costs (4Ps' assessment of minimum staffing requirements)</b>		
Legal		400
Finance		300
Technical		350
Insurance		50
Design		75
Property Surveys		100
<b>Estimated minimum total external cost of procurement</b>		<b>1,275</b>
Bidders cost (PwC assessment of cost post procurement review)		
<b>Winner's bidding costs charged to Local Authority</b>		<b>3,000</b>
Cost of setting up the LEP (legal and administration cost of setting up companies)		
<b>LEP set up costs charged to Local Authority</b>		<b>500</b>
<b>Total cost to Local Authority of establishing a LEP (including designs of first schools)</b>		<b>6,500</b>

# APPENDIX FOUR

## The potential benefits of a LEP

Potential Benefit	Is this a potential additional benefit over:		National Audit Office comment
	Repeat PFI deals?	Framework contracts	
<b>Procurement efficiencies</b>			
<ul style="list-style-type: none"> <li>one competitive tender for 10 years of procurement</li> </ul>			LEPs are likely to be cheaper than the repeat procurement of PFI deals, but more expensive than framework contracts. Initial costs have been higher than they need to be, making this benefit harder to achieve.
<ul style="list-style-type: none"> <li>different types of contracts procured at once (ICT, design and build, facilities management and PFI contracts)</li> </ul>	✓	X	
<ul style="list-style-type: none"> <li>guaranteed minimum construction efficiency savings built into long term contract</li> </ul>			
<b>Partnering</b>			
Long term partnership promotes better working practices including:			Long-term contractual relationship promotes better working practices.
<ul style="list-style-type: none"> <li>working together to overcome problems</li> </ul>			Most Local Authorities and their private sector partner are committed to achieving partnering efficiencies, but few have put in sufficient effort to achieve them.
<ul style="list-style-type: none"> <li>transparency in project appraisal</li> </ul>	✓	X	
<ul style="list-style-type: none"> <li>established joint working processes and mature understanding of each other's requirements</li> </ul>			
<ul style="list-style-type: none"> <li>driving down administration costs and encouraging better outcomes</li> </ul>			
<b>Strong permanent business</b>			
<ul style="list-style-type: none"> <li>ability for LEP to act strategically within Local Authority, linking BSF to other programmes e.g. co-located services</li> </ul>			A few Local Authorities have put additional work through their LEP, creating additional procurement savings, but most are waiting for the LEP to prove itself through the delivery of schools.
<ul style="list-style-type: none"> <li>ability for LEP to win other work, increasing project flow, economies of scale and further procurement efficiencies</li> </ul>	✓	✓	
<ul style="list-style-type: none"> <li>mechanism to integrate local projects to national programme through BSFI holding (see part 4), increasing project learning</li> </ul>			LEPs do not currently have sufficient resources to be called strong permanent businesses, making it hard for them to commit effort to being more strategic.
<b>Development resource</b>			
<ul style="list-style-type: none"> <li>incentive for LEP to develop future projects more cheaply and quicker, because supply chain resources are at risk</li> </ul>	✓		It is too early to say whether this will decrease costs and improve quality, but effort is being put in to achieve this.
<ul style="list-style-type: none"> <li>brings supply chain into design and scoping phase early to identify potential efficiency or effectiveness improvements</li> </ul>		X	

Potential Benefit	Is this a potential additional benefit over:		National Audit Office comment
	Repeat PFI deals?	Framework contracts	
<b>Integrated supply chain</b>			
<ul style="list-style-type: none"> <li>■ bringing Facilities Management, ICT and Design and Build contractors together to scope projects and integrate service provision into designs should decrease whole life costs and improve the performance of buildings</li> </ul>	✓	✓	<p>It is too early to say whether this will decrease costs and improve quality, but effort is being put in to achieve this.</p>
<b>Stronger educational and community links</b>			
<ul style="list-style-type: none"> <li>■ increased incentives and processes for the private sector partner to contribute to wider social and educational aims of the programme</li> </ul>	✓	✓	<p>The contribution to wider educational aims is used by the Local Authority to assess the performance of the LEP. Such contributions includes, for example, providing apprenticeships and mentoring of local pupils.</p>

# APPENDIX FIVE

## BSF LEP and PFI finance costs and shareholdings

Local Authority	Financial Close	PFI project company gearing (mezzanine and senior debt as a percentage of capital) %	PFI project company blended equity internal rate of return <sup>1</sup> %	Equity Investors	Equity shareholding in LEP %	Equity shareholding in PFI project company %
<b>Local Authorities procuring through a LEP and PFI</b>						
Bristol	01/07/2006	91.1	14.51	Investors in the Community	40.0	41.5
				Skanska	40.0	41.5
				BSFI	10.0	16.0
				Bristol City Council	10.0	1.0
Bradford	18/12/2006	90.8	13.7	Amey	40.0	29.0
				Costain	40.0	29.0
				HSBC	0.0	29.0
				BSFI	10.0	12.0
				Bradford Metropolitan District Council	10.0	1.0
Lancashire	19/12/2006	90.6	12.7	Bovis	40.0	40.0
Lancashire 2nd PFI	14/12/2007	90.6	13.5	HBoS	40.0	40.0
				Lancashire County Council	10.0	1.0
				BSFI	10.0	19.0
Leeds	01/04/2007	92.7	14.0	BSFI	10.0	19.0
Leeds 2nd PFI	13/03/2008	93.0	14.0	Barclays Private Equity	26.7	26.7
Leeds 3rd PFI	07/08/2008	92.5	14.0	Interserve	26.7	26.7
				Mott MacDonald	26.7	26.7
				Leeds City Council	10.0	1.0
Newcastle	01/07/2007	91.2	14.1	BSFI	10.0	19.0
				Robertsons	30.0	30.0
				Sir Robert McAlpine	30.0	30.0
				Parsons Brinkerhoff	20.0	20.0
				Newcastle City Council	10.0	1.0

Local Authority	Financial Close	PFI project company gearing (mezzanine and senior debt as a percentage of capital) %	PFI project company blended equity internal rate of return <sup>1</sup> %	Equity Investors	Equity shareholding in LEP %	Equity shareholding in PFI project company %
Sheffield	31/07/2007	92.0	13.4	BSFI	10.0	19.0
				HSBC	40.0	40.0
				Taylor Woodrow	40.0	40.0
				Sheffield City Council	10.0	1.0
Waltham Forest	31/08/2007	90.5	12.8	BSFI	10.0	10.0
				HSBC	63.9	63.9
				Bouygues	16.1	16.1
				London Borough of Waltham Forest	10.0	10.0
Lewisham	13/12/2007	90.2	13.5	BSFI	10.0	10.0
				Costain	40.0	40.0
				VT	40.0	40.0
				London Borough of Lewisham	10.0	10.0
Leicester	19/12/2007	90.3	14.0	BSFI	10.0	19.0
				Miller	40.0	40.0
				GSL	40.0	20.0
				Land Securities Trillium	0.0	20.0
				Leicester City Council	10.0	1.0
South Tyneside and Gateshead (joint procurement)	21/12/2007	91.6	12.7	BSFI	10.0	14.5
				Carillion	40.0	40.0
				RBS	40.0	40.0
				South Tyneside Council	5.0	5.0
				Gateshead Council	5.0	0.5
Islington	08/07/2008	91.7	13.8	Balfour Beatty Capital	80.0	80.0
				London Borough of Islington	10.0	10.0
				BSFI	10.0	10.0

Local Authority	Financial Close	PFI project company gearing (mezzanine and senior debt as a percentage of capital) %	PFI project company blended equity internal rate of return <sup>1</sup> %	Equity Investors	Equity shareholding in LEP %	Equity shareholding in PFI project company %
Nottingham	13/06/2008	92.0	13.0	Carillion	80.0	80.0
				Nottingham City Council	10.0	10.0
				BSFI	10.0	10.0
Kent	24/10/2008	90.1	12.5	Land Securities Trillium	80.0	80.0
				Kent County Council	10.0	10.0
				BSFI	10.0	10.0
<b>Local Authorities procuring through a LEP without PFI</b>						
Westminster	10/04/2008			BSFI	10.0	
				Westminster County Council	10.0	
				Bouygues	80.0	
Hackney	27/11/2008			BSFI	10.0	
				London Borough of Hackney	10.0	
				Mouchel Babcock Education	80.0	
Newham	09/01/2009			BSFI	10.0	
				London Borough of Newham	10.0	
				Laing O'Rourke	80.0	
Tower Hamlets	21/01/2009			BSFI	10.0	
				London Borough of Tower Hamlets	10.0	
				Bouygues	80.0	
<b>Local Authorities procuring through a Non-LEP model, but using private finance</b>						
Solihull	01/05/2007	91.2	14.7	BAM PPP		100.0
Knowsley	13/12/2007	91.7	15.4	Balfour Beatty Infrastructure Investments Ltd		100.0

## NOTE

<sup>1</sup> Blended IRR includes hybrid debt and equity and equates to the rate of interest that balances the present value of cash outflows from a project with the discounted cash inflow of the investment. IRRs stated as nominal pre-tax rates.

# APPENDIX SIX

## Local Authorities in BSF

The table below sets out waves 1 to 6. Some larger Local Authorities are in more than one wave. Their second waves

have been labelled as “repeat projects”. At the time of print there are no confirmed dates for Waves 7 onwards.

Wave	Local Authorities	Start	Start construction	Finish construction
Pathfinders	Bradford, Bristol, Greenwich, Lewisham, Sheffield and Southwark (later moved to Wave 3)	2003	2006	2011
1	Knowsley, Lancashire, Leeds, Leicester, Manchester, Newcastle, Newham, Solihull, South Tyneside and Gateshead (STaG), Sunderland and Waltham Forest	2004	2007	2012
2	Birmingham, Hackney, Haringey, Hull, Islington, Lambeth, Liverpool, Middlesbrough, Nottingham and Tower Hamlets	2005	2008	2013
3	Barnsley, Derbyshire, Durham, Kent, Luton, North Lincolnshire, Salford, Sandwell, Southwark, Tameside and Westminster. Repeat projects: Bradford	2005	2008	2014
4	Barking & Dagenham, Blackburn & Darwen, Cambridgeshire, Coventry, Essex, Hertfordshire, Kent, Oldham, Rochdale, Somerset and Telford & Wrekin. Repeat projects: Bristol, Haringey, Kent, Manchester and Sheffield	2007	2008	2015
5	Blackpool, Camden, Derby City, Ealing, Hartlepool, Kensington & Chelsea, Kent, Lincolnshire, St Helens, Wandsworth, Wolverhampton. Repeat projects: Birmingham, Bradford, Lambeth, Newham, Nottingham, Sandwell Tower Hamlets, Waltham Forest	2007	2009	2016
6	Bedfordshire, Bournemouth & Poole, Doncaster, Halton, Hammersmith & Fulham, Hillingdon, Kent, Kirklees, Nottinghamshire, Portsmouth, Redcar & Cleveland, Stockton on Tees and Suffolk. Repeat projects: Durham, Liverpool and Luton	2008	2010	2016
6a <sup>1</sup>	Hounslow, Southampton, Staffordshire and Worcestershire, Enfield, North Tyneside, Rotherham and Walsall	2008	To be confirmed	To be confirmed

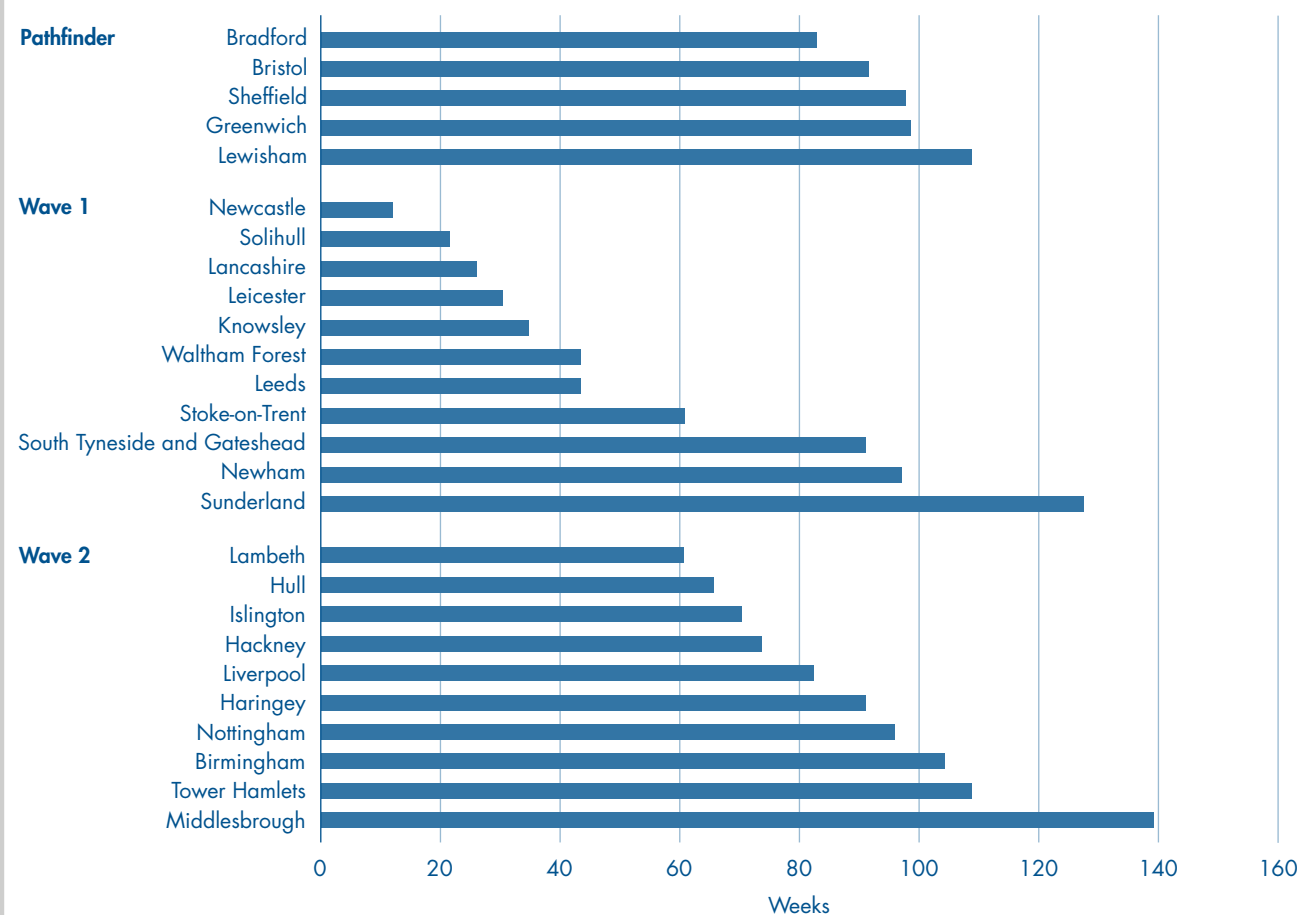
### NOTE

1 The eight Local Authorities within Wave 6a were originally placed in Wave 7-9, but were fast tracked in advance of Wave 7 in June 2008.

# APPENDIX SEVEN

## The length of each Local Authority's planning and procurement

### 26 Time taken to develop strategies

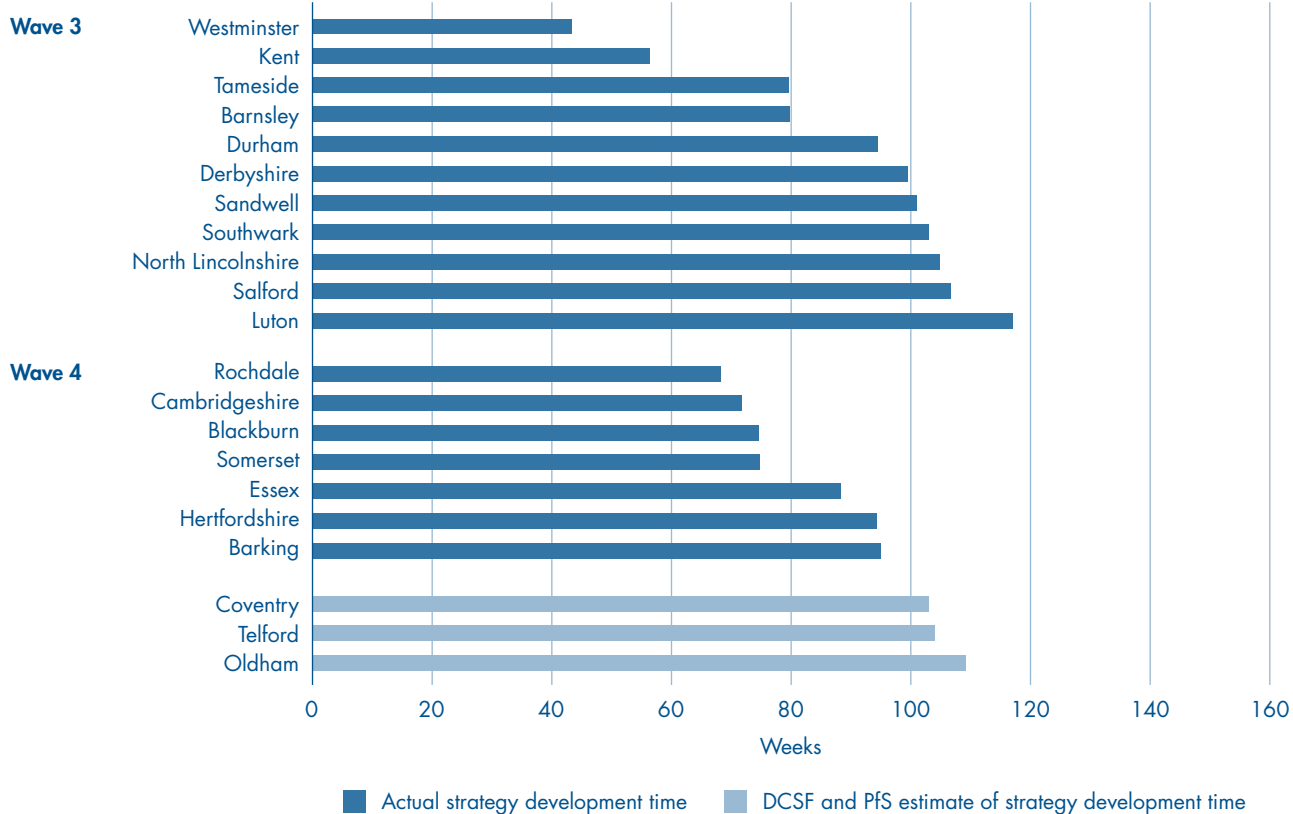


Source: Partnerships for Schools, management information

#### NOTE

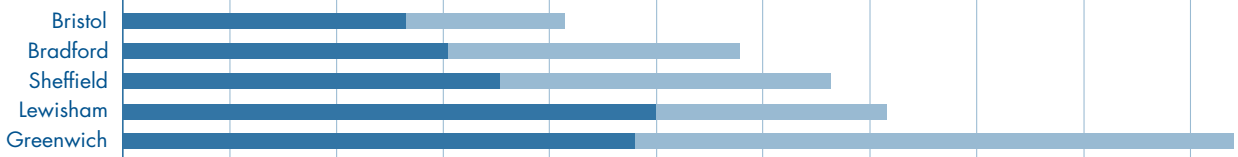
Time taken to develop strategies taken from first engagement with Partnerships for Schools to the start of procurement.



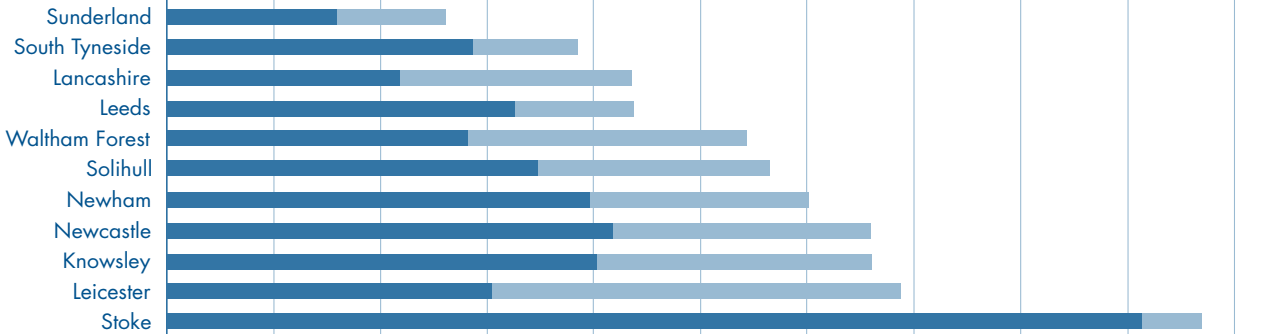


**27** Time taken to procure BSF projects compared to other recent procurement routes

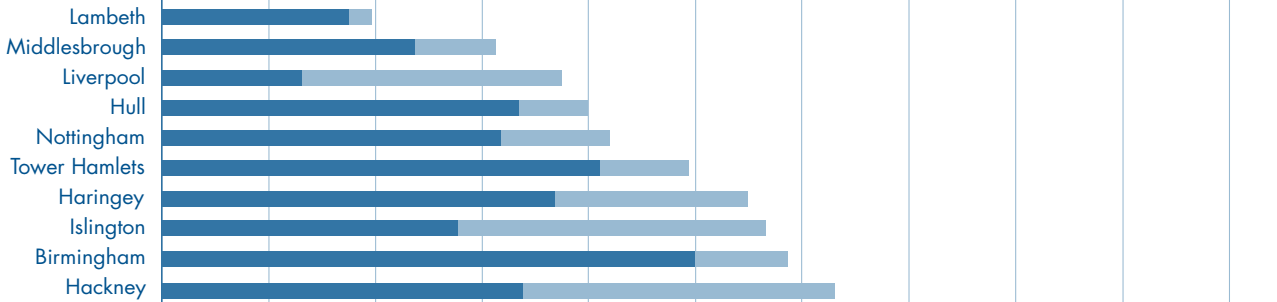
**BSF Pathfinder**



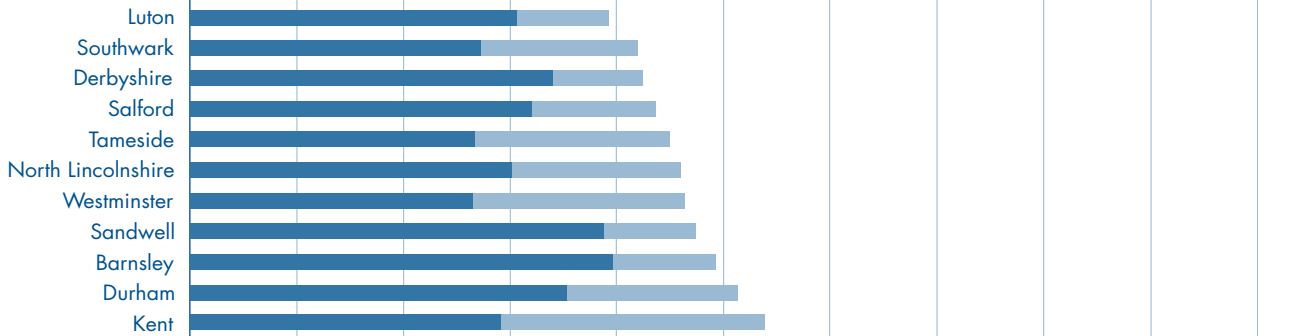
**BSF Wave 1**



**BSF Wave 2**



**BSF Wave 3**



0 20 40 60 80 100 120 140 160 180 200  
Weeks

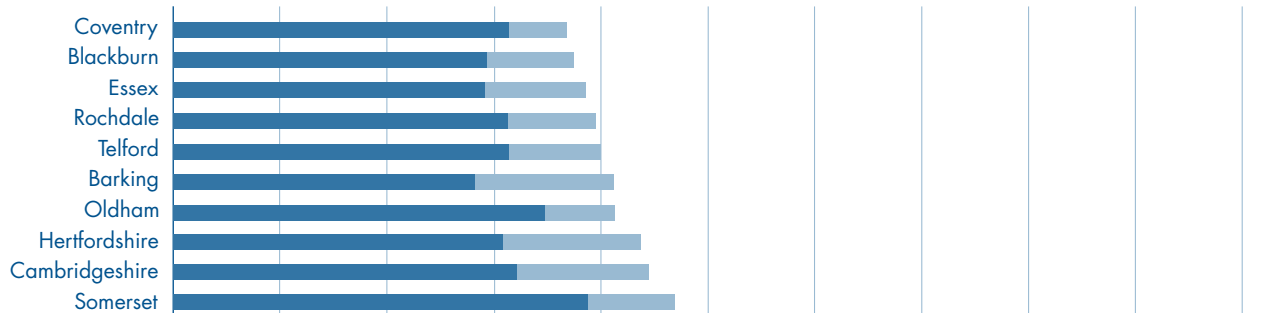
Source: Partnerships for Schools, management information

**NOTE**

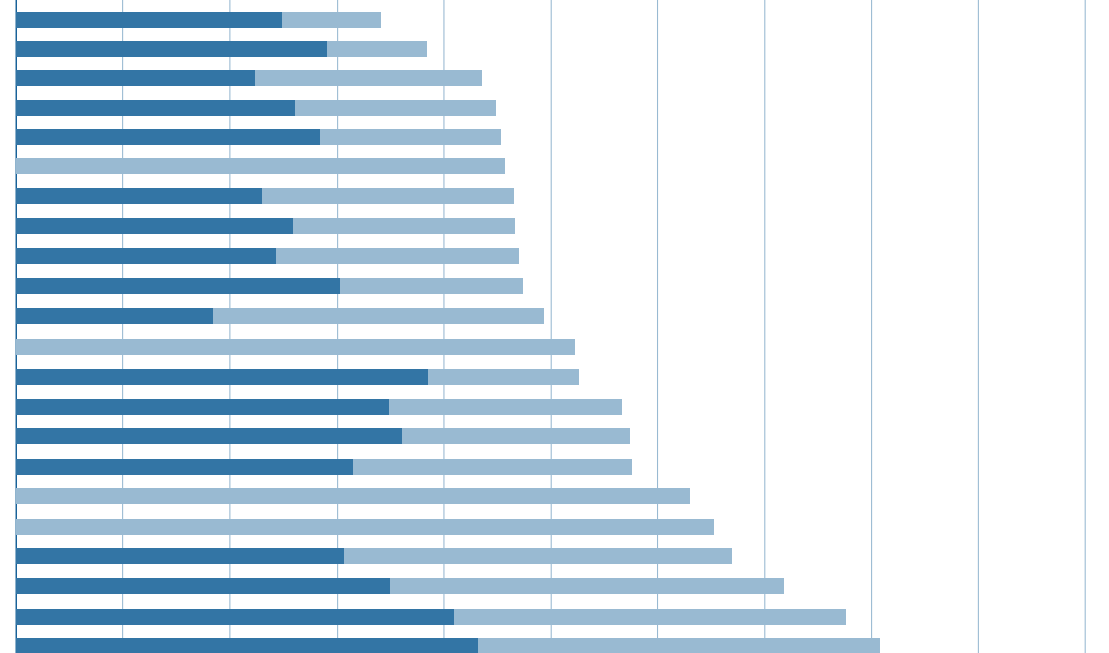
Where procurement is not complete by the end of December 2008, PFS's most recent estimate is used.

Manchester has been omitted from the analysis as it procured its partners before entering the BSF programme. Some of our survey data for the Group PFI schools is incomplete and does not show the date that the preferred bidder was selected.

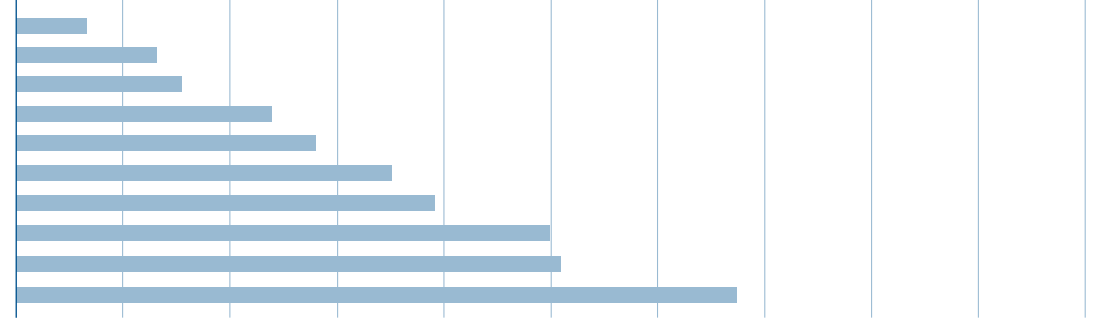
**BSF Wave 4**



**Group Schools PFI**



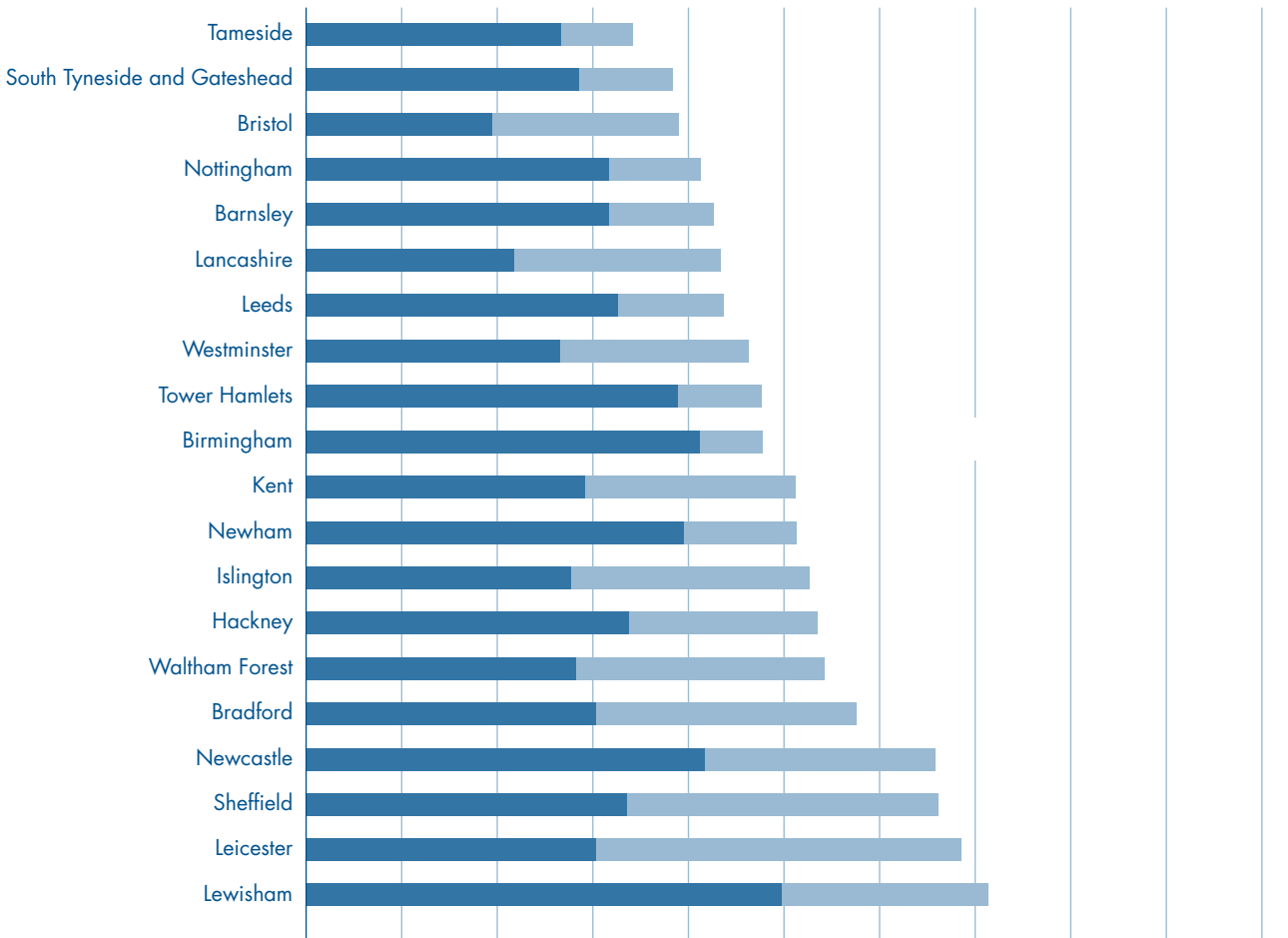
**One School Pathfinder**



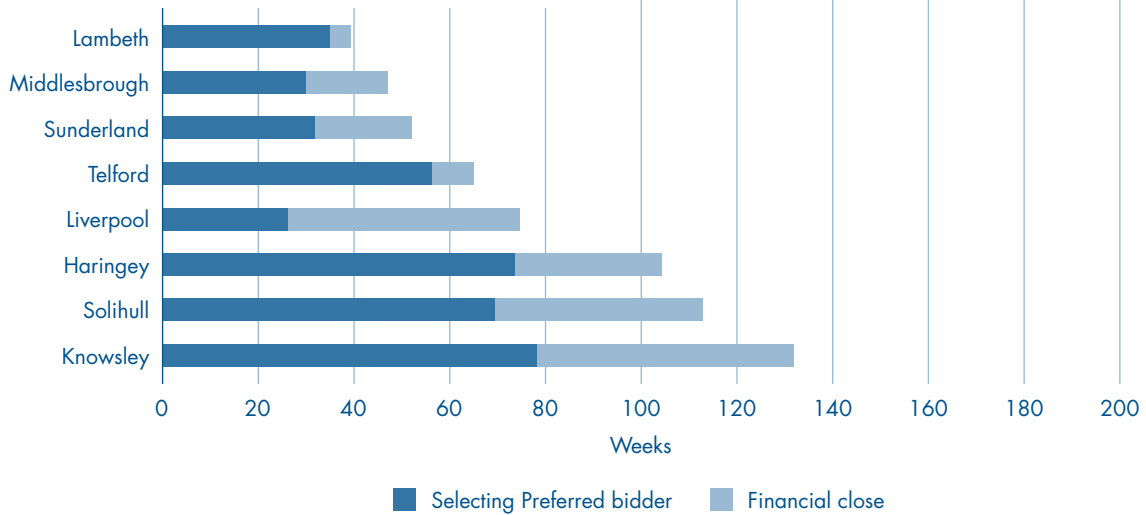
0 20 40 60 80 100 120 140 160 180 200  
Weeks  
■ Selecting Preferred Bidder ■ Financial close

**28** Time taken to procure LEP and Non-LEP BSF projects

**LEPs established by end of December 2008**



**Contracts signed by end of December 2008 where the LEP approach was not taken**



Source: Partnerships for Schools' management information

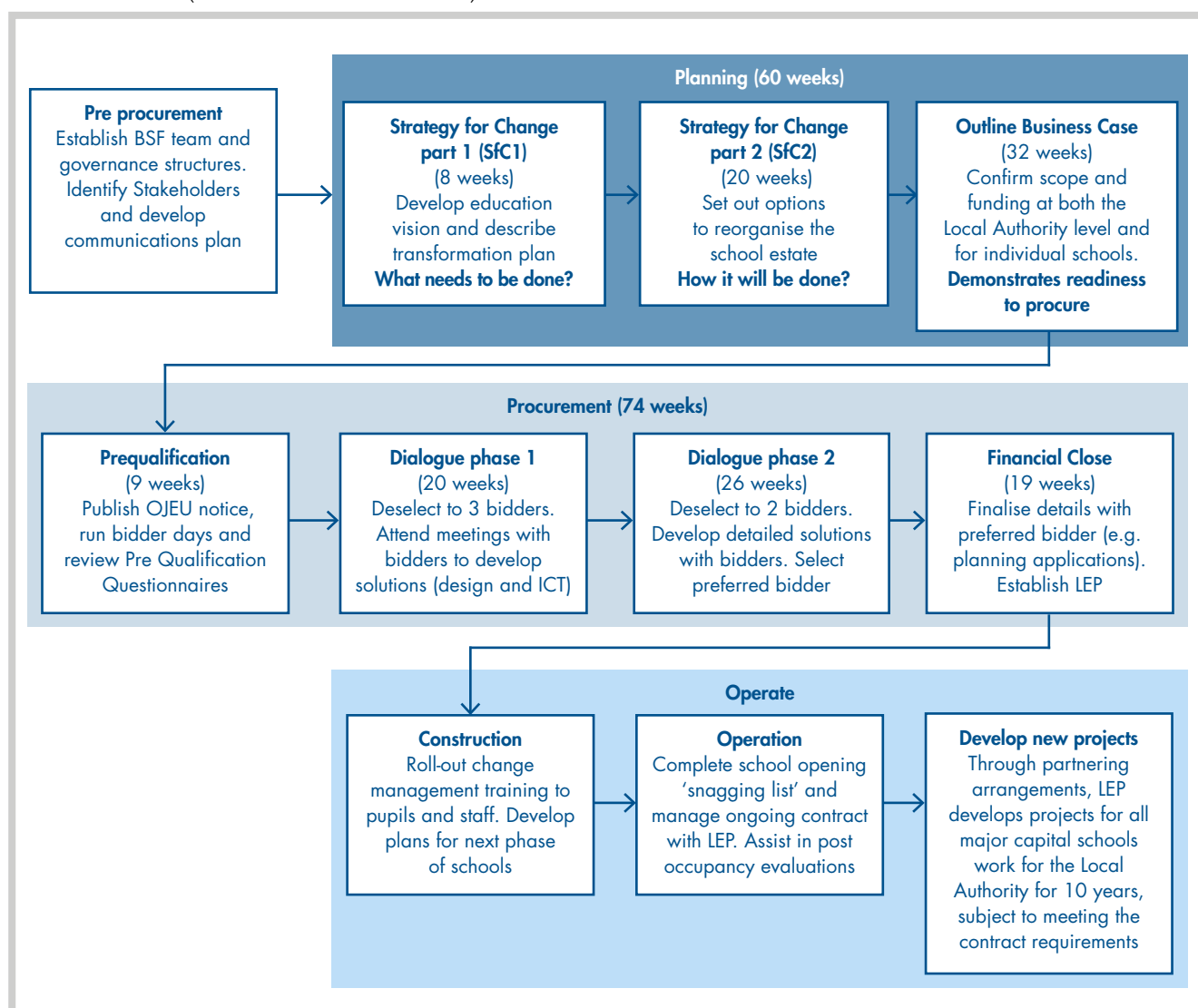
**NOTE**

Manchester has been omitted from the analysis as they procured their partners before entering the BSF programme.

# APPENDIX EIGHT

## Process map for future BSF projects

Process map for future BSF projects with PfS estimates for how long each stage should take (as used for Wave 5)



# GLOSSARY

Term	Acronym	Description
Capital Grant		A grant provided by the Department to fund the acquisition, creation or long-term enhancement of school buildings, facilities and ICT. The Department transfers Capital Grant to Local Authorities when local projects require payments to be made to the private sector partner.
Contract variation costs		The cost of changing public sector requirements in the services and assets provided in a PFI project once it enters the operational phase.
Design and build		This method of procurement involves the contractor being responsible for design as well as construction. The main contractor will use either in-house designers or employ consultants to carry out the design. Most of the construction work will be carried out by specialist or sub-contractors. Does not include responsibilities for financing or operating school buildings as commonly seen in PFI projects.
Facilities Maintenance	FM	Management of services relating to the operation of a building. Includes such activities as maintenance, security, catering and external and internal cleaning.
Final Business Case		Local authorities are required to submit a Final Business Case as a requirement of reaching financial close with their preferred bidder. It is the final approval prior to the release of funding and therefore approval to enter into the agreements for each scheme.
Information Communications and Technology	ICT	Communication devices or applications, as well as the various services associated with them, used in a school environment.
Internal Rate of Return	IRR	<p>The internal rate of return for an investment is the discount rate that makes the net present value of the investment's income stream total to zero.</p> <p>It represents the annual return on the investment after taking account of all payments and returns and the timing difference between them. It can be used to compare the investment to, say, the interest rate on a bank account.</p>
Key Performance Indicators	KPIs	Financial and non-financial measures used to help an organisation define and measure progress toward organisational goals.

Term	Acronym	Description
Life cycle costs		The cost of maintaining and replacing all the component parts of an asset and related services over its life span.
Local Infrastructure Finance Trusts	LIFT	The Local Improvement Finance Trust is a partnership procurement programme established by the Department of Health in 2000 to provide capital investment in primary and community care based services. LIFT is delivered locally through 47 LIFTCos; limited companies with the local NHS, Community Health Partnerships and the private sector as shareholders. The LIFTCo owns and maintains new healthcare buildings and leases the premises to Primary Care Trusts, Local Authorities and other healthcare professionals.
Local Education Partnerships	LEPs	A Local Education Partnership is a public private partnership between a Local Authority, Building Schools for the Future Investments and a private sector partner, to construct and maintain local infrastructure.
Learning and Skills Council	LSC	The council aims to improve the Further Education and training sector to raise standards and to make learning provision more responsive to the needs of individuals and employers.
Non-Departmental Public Body	NDPB	The governance model for agencies established by Government to deliver specific objectives that are not part of a Government department.
Official Journal of the European Communities notice	OJEU	Official means of informing the progress of a particular competitive procurement to the European public.
Outline Business Case	OBC	The Outline Business Case is a document which is completed by a Local Authority to gain formal approval for a BSF project to move into procurement. It builds on the strategic vision set out earlier in the project and looks at what is achievable and affordable.
Pathfinder		Local Authorities chosen to be pilot projects in the BSF programme.
Preferred bidder		A bidder selected from the shortlist to carry out exclusive negotiations with the Local Authority.
Private Finance Initiative	PFI	The private sector partner undertakes the design, construction and financing of an asset and thereafter maintains it for an extended period, often 25 or 30 years. Local Authorities are obliged to pay yearly unitary payments to the private sector partner, which are funded by central government through PFI credits.
Private Sector Partner		Usually a consortium of private sector contractors who enter into negotiations with the Local Authority to provide services to construct and maintain infrastructure and ICT.
Real prices		The price of goods or services after the effects of inflation has been taken into account.
Schools Capital Division		A team within the Department for Children, Schools and Families which leads the strategic direction of BSF and other school capital programmes.

Term	Acronym	Description
Strategic Partnering Agreement		A standard contract between a Local Authority and a private sector party which gives exclusive rights to the LEP to deliver projects for a fixed period, likely to be 10 years.
The Education and Skills Select Committee		Now known as the Children, Schools and Families Committee, its terms of reference were to examine “the expenditure, administration and policy of the Department for Education and Skills and its associated public bodies”.
The Treasury’s Project Review Group		The Project Review Group oversees the approval process for local authority PFI projects that receive Government support. It is the gatekeeper for the delivery of PFI credit funding to the Local Authority PFI programme.
Whole life costs		Taking a view of the construction, operation and maintenance of the asset over the whole life of the project.



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