



National Audit Office

THE BUILDING SCHOOLS FOR THE FUTURE PROGRAMME

Renewing the secondary school estate

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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.

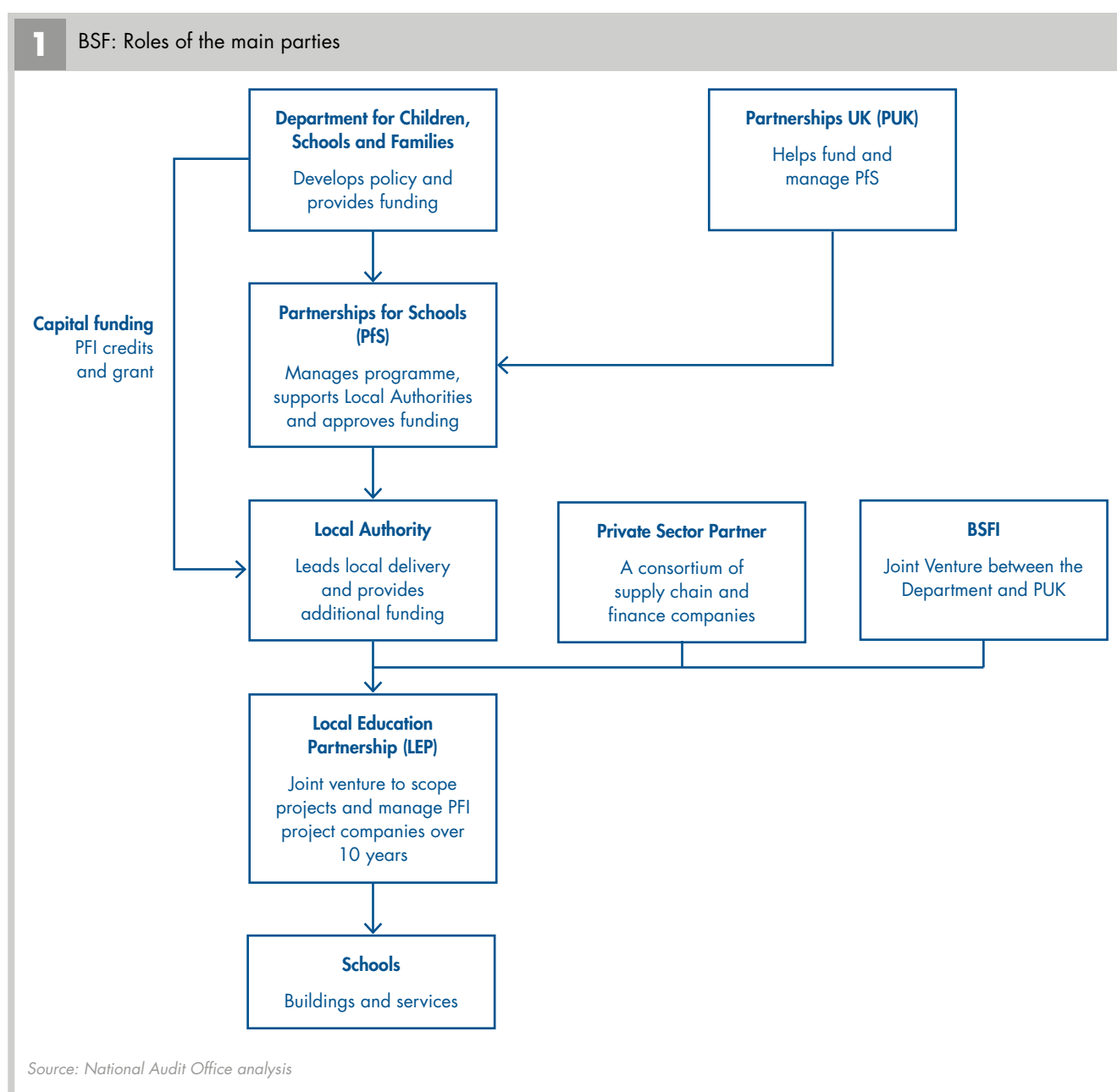
2 The Department sees BSF as important to improving educational attainment and the life chances available to children, by providing educational, recreational and social environments that support modern teaching and learning methods. It wants buildings to be shared and used by local communities, and to 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.