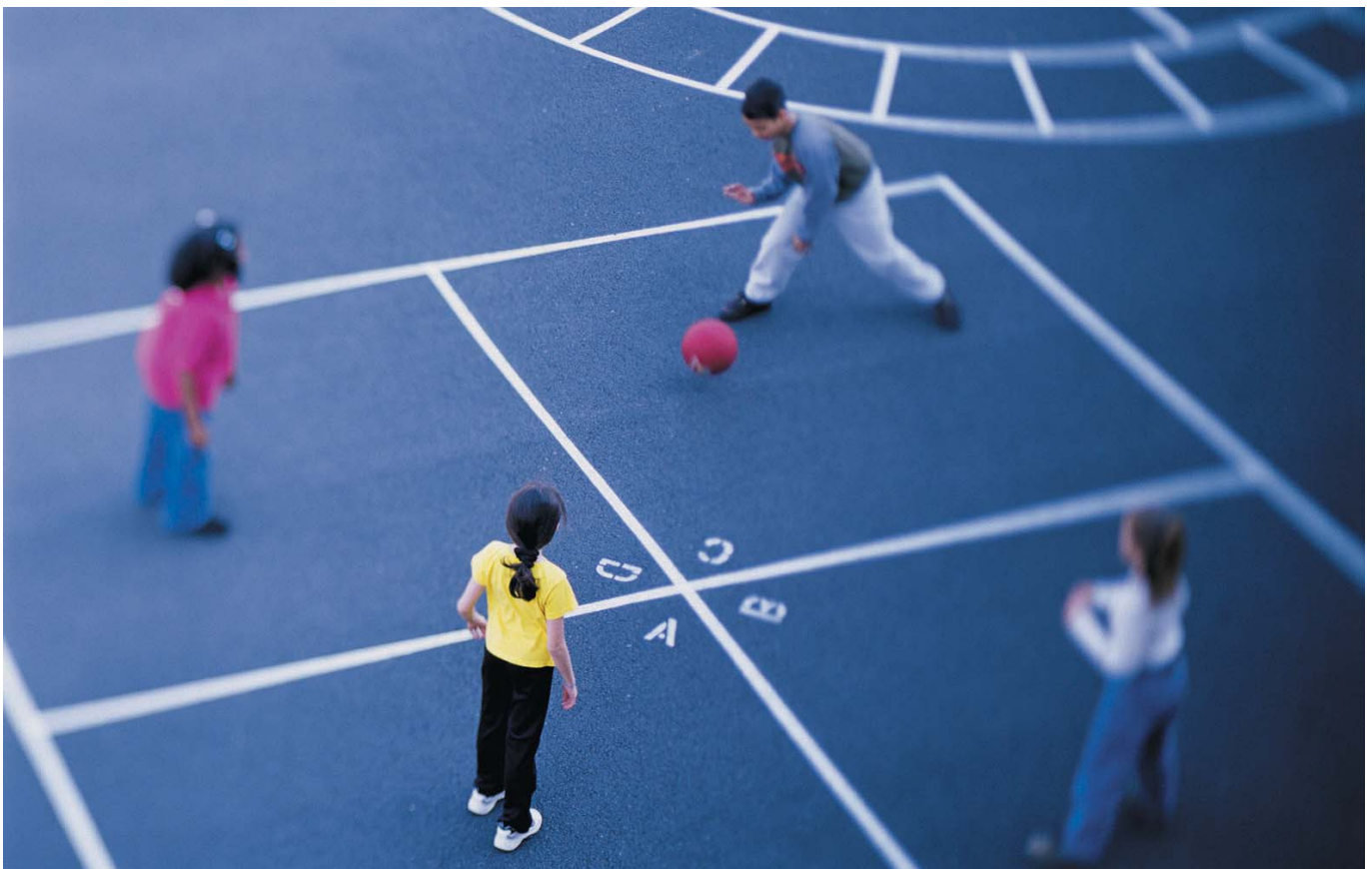


New Procurement and Delivery Arrangements for the Schools' Estate

Executive Summary

March 2005



Department of
Education

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Strategic Investment Board

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Executive Summary

1 Background

On 27th April 2004 the Education Minister, Barry Gardiner MP, announced a £222 million schools' building programme for Northern Ireland, signalling that this investment represented the first wave of a rolling programme of investment to address the capital backlog identified at that time by 2010. The vision for this accelerated programme of investment is to achieve *'a fit for purpose school estate, efficiently delivered and managed'*, where fitness for purpose is measured in terms of the sufficiency, suitability and condition of the education accommodation. When other capital programmes, youth facilities, minor works and the maintenance backlog are also taken into consideration, the total investment requirement is estimated in the draft Investment Strategy for Northern Ireland to be in the region of £3.6 billion over a 10 year period, which equates to around £360 million annually.

This programme is being initiated at a time when the education sector in Northern Ireland is facing significant challenges:

- 1 There are nearly 50,000 surplus school places, and pupil numbers are projected to fall by a further 9% over the next ten years;
- 2 The diversity of provision is increasing, with integrated and Irish-medium education developing alongside the existing controlled, Catholic maintained and voluntary grammar sectors;
- 3 A revised curriculum is to be introduced, with a greater vocational element;
- 4 The post-primary review has recommended the abolition of academic selection and the introduction of a Pupil Entitlement Framework, which should offer greater opportunities to pupils and increase collaboration between schools and between schools and further education colleges;
- 5 There is a desire to use school facilities as a wider community resource.

The Department of Education (DE) and the Strategic Investment Board Ltd (SIB) concluded that given the scale of change required in the schools' estate the processes for procuring and delivering capital investment needed to be reformed. They therefore commissioned PricewaterhouseCoopers (PwC), in association with Turner & Townsend and Keppie Design, to:

- Prepare a procurement strategy for a rolling programme of investment in the schools estate;
- Examine the organisational and delivery arrangements required to implement the strategy; and
- Develop an implementation plan for the delivery of the new arrangements.

2 The need for change

There is broad agreement within the Department and across the education authorities that the arrangements for planning the estate and delivering capital projects and services need to be improved if the objective of providing *'a fit for purpose school estate, efficiently delivered and managed'* is to be achieved. There is also a general consensus in relation to the main problems with the current planning and delivery arrangements. These include:

- 1 The need for greater integration, consistency and co-ordination in the planning of the schools estate by the education authorities;
- 2 The need to review the method of projecting long term enrolments, in order to avoid an overprovision of pupil places in the medium to long term;
- 3 The need for more robust and consistent information on the condition and suitability of schools;
- 4 The differences in the way specialist resources are made available for each of the sectors for planning and managing their estate and delivering capital projects;
- 5 The duplication of activity that occurs in the planning and development work undertaken by the education authorities and DE;
- 6 The time taken to procure and deliver capital projects through the Public Private Partnership (PPP) process;
- 7 The time taken to procure and deliver conventionally funded projects, as separate contracts are let for each individual scheme;
- 8 The management and procurement of minor works;
- 9 The current maintenance arrangements in relation to accountability, funding allocations, use of funding, and the optimisation of investment across the asset lifecycle; and
- 10 The need for a NI wide policy on the provision of FM services within PPP schemes (particularly for catering services).

The education authorities have also expressed relatively consistent views on the outcomes they would wish to achieve from any changes to the arrangements. These are described below, and formed the basis for assessing the options for change.

3 Outcomes

From our discussions with representatives of all the education partners in Northern Ireland, the following emerged as key requirements of the new arrangements:

Education outcomes	<p>Maximum impact on education outcomes by ensuring:</p> <ul style="list-style-type: none"> ▪ the best practicable match of school places to the school population in each local community, minimising the costs imposed by surplus capacity, whilst allowing appropriate parental choice ▪ new schemes are implemented as quickly as possible ▪ the lowest practicable proportion of the available funds is absorbed by the costs of scheme development and procurement (but not at the expense of good quality design) ▪ long-term value for money in the delivery of major and minor works, maintenance and services across the whole estate.
Governance	Arrangements consistent with the statutory responsibilities and accountabilities of education bodies and which acknowledge their distinctive ethos.
Fairness and transparency	A needs-based approach to the planning, procurement and delivery of services which is transparently and consistently applied across the whole schools estate and offers equitable treatment to all of the education sectors/partners.
Affordability	Financial commitments clearly identified and known to be affordable in the long term.

The discussions also identified a number of other outcomes which the education partners considered would improve the way in which the education estate was delivered and managed:

- 1 Ensure specialist resources (e.g. development and procurement skills) are available to support the whole education service in the management and planning of the estate and the delivery of projects and services.
- 2 Streamline planning, approval and delivery processes to avoid duplication and delay.
- 3 Adopt a whole life approach to managing school buildings, such that maintenance and investment decisions are co-ordinated.
- 4 Ensure a consistent approach to the maintenance across the whole schools estate, regardless of sector.
- 5 Provide each school with a single point of contact for the provision of estate services, simplifying the interface with school management, and maximising the time spent by management on education outcomes rather than facilities.
- 6 Create flexibility to facilitate post-primary reforms and minimise duplication of facilities, and to accommodate joint projects with partners from outside the education sector.
- 7 Use the capabilities of the private sector supply market as effectively as possible.
- 8 Build on the experience gained from similar initiatives in Northern Ireland and Great Britain (e.g. in the education and health sectors).

4 A whole-system approach to planning and delivery

The current sector-focused approach to planning and provision needs to change if the outcomes above are to be met.

4.1 Planning

Planning should be based on forecast need, with the criteria of condition, sufficiency and suitability applied in the same way to all sectors. This requires consistent data on the demand for places, together with comprehensive and comparable suitability and condition data at school level. The planning process should seek to optimise the use of the existing capital resources wherever possible – i.e. to use existing schools in a way which best matches current demand.

Planning also needs to optimise facilities between schools. If some of the vocational elements of the new curriculum are to be delivered in the post-primary (as opposed to FE) sector, no school will have the demand, or the teaching capability, to justify the necessary capital provision across all subjects. They will have to specialise and share. Similar opportunities may exist within the existing curriculum (e.g. for sport or performing arts) where sharing would provide access to a wider range of facilities than would otherwise be affordable.

Planning should therefore be done on a whole-system basis, so that the interactions between proposals for different areas and sectors are fully worked through before investment decisions are made. This should include identifying opportunities to reclassify or share existing schools and to share facilities between schools. At a local level, planning should focus on 'education communities', which are geographic areas within which the majority of children living within the area go to school in the area. Planning on the basis of education communities should minimise the adverse impact on estate planning that currently arises from the significant flows of pupils across education authority boundaries, resulting in an over supply of pupil places. Sector bodies should review and develop estate management plans for their sector in each locality, bringing local knowledge to bear, but final decisions need to be made by the Department in the interests of the school population as a whole.

The output of the planning process should be a ten-year Strategic Investment Plan for each area, taking account of population trends in the area and the need for rationalisation of the schools' estate. This will provide the clarity needed to provide the foundations for an efficient delivery programme, and will also assist education authorities with the task of reconfiguring services where needed, as local people will be able to see the long term vision for the schools in their community.

4.2 The role of the private sector in delivery

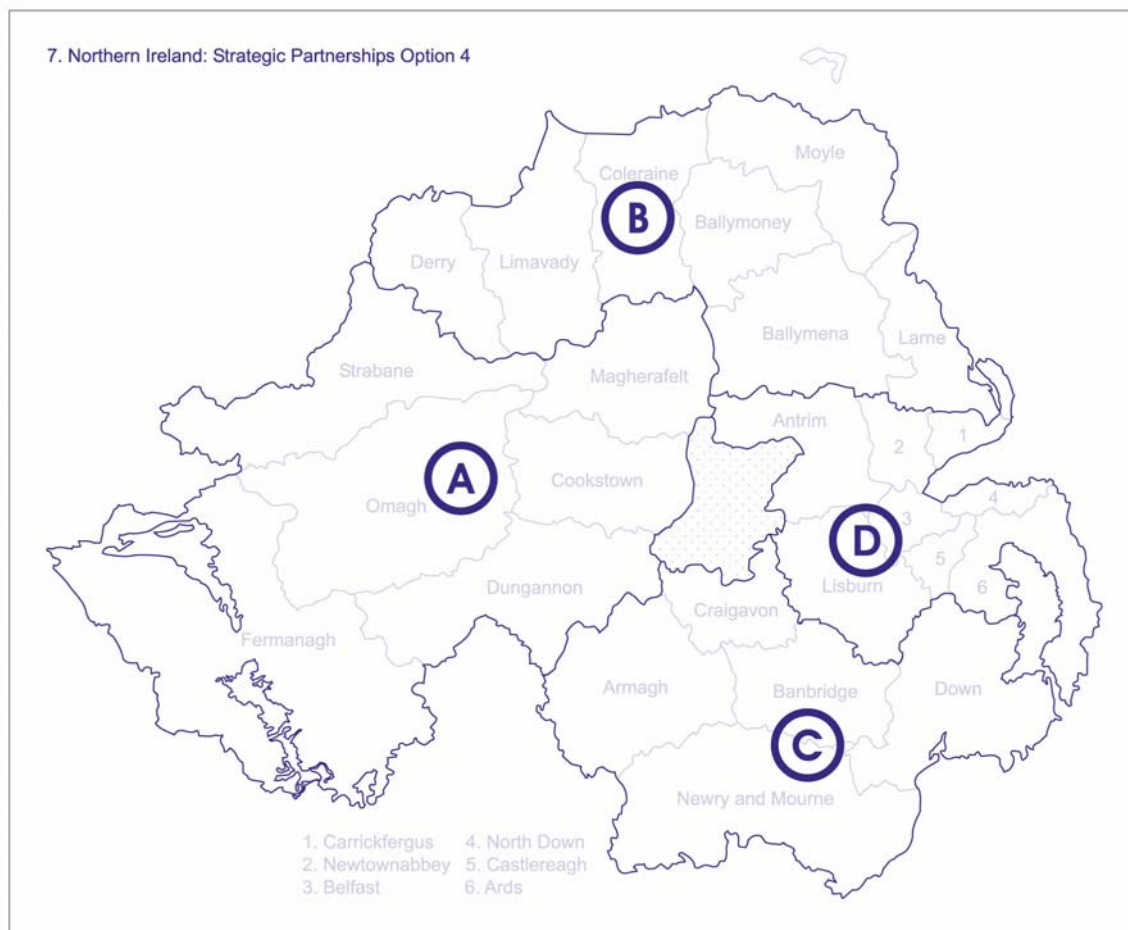
There is a consensus that current delivery arrangements are not adequate for the scale of investment now being planned. In particular, more technical resources will be needed than are currently available, and partnering with the private sector will need to be used more extensively.

With the desired outcomes for the education estate in Northern Ireland in mind, we looked at the approaches that are being used elsewhere to meet similar challenges, including existing experience in Northern Ireland (e.g. conventional and PPP schools, Health Estates and the current BELB project) and precedents from elsewhere in the UK (e.g. Building Schools for the Future and NHS LIFT). We also reviewed Government guidance on best practice in procurement and carried out a programme of market sounding interviews with private sector construction and facilities management companies.

On the basis of this analysis, we recommend that the construction, maintenance and building-related servicing of the education estate should be provided through long-term Strategic Partnerships with the private sector. Having examined a range of options for how such partnerships should be structured, we recommend that they should be area-based, with each partnership mapping as closely as possible onto the 'education communities' described earlier.

Each partnership would be responsible for supporting all the schools, regardless of sector, in each of the education communities in its area. Our preliminary analysis suggests that there could be four partnerships, as illustrated below, although further work is needed to confirm this.

Possible Arrangement of Four Strategic Partnership Areas



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In our view, this arrangement:

- offers the best prospect of optimising local provision relative to need because planning and delivery areas are aligned;
- will be the most cost-effective, because it provides the greatest degree of geographical concentration in a situation where costs are related to geographical spread;
- will enable value for money to be tested through benchmarking between providers; and
- will attract the most private sector interest and encourage the private sector to mobilise local suppliers as effectively as possible.

Each partner would have a seven-to-ten year contract to manage the maintenance and building-related facilities management services of all of the schools in its area, and would have an exclusive right to design and build any required schools (both conventionally funded and PPP) subject to satisfactory past performance, and ensuring its prices were consistent with defined cost benchmarks.

We recommend that all the partners should be selected in a single procurement process, and then allocated to areas, rather than having a separate procurement for each area. This will be faster, cheaper and (as there is strong private sector support for a single procurement) likely to attract the largest number of bidders.

The new Strategic Partnership arrangements may have implications for the BELB PPP Project, which is a Strategic Partnership project involving the delivery of an initial cluster of up to 10 controlled schools and one library through thirty year PPP arrangements, and the maintenance of all of the controlled schools within the Board area. It is outside the scope of our terms of reference to analyse the options for accommodating the BELB PPP Project within the new Strategic Partnership arrangements. Specific legal and commercial advice will be required to consider the options and to identify a preferred solution.

4.3 An Education Infrastructure Procurement Service

Once spending decisions are made through the planning process, individual schemes need to be progressed. The resources to do this are technically specialised, and are currently split between the Department and the sector bodies (principally the Boards). Considerable specialist skills will be required to negotiate with the strategic partners and to manage performance and relationships. Such skills should be located within a specialist service, dedicated to delivering a fit for purpose education estate, with streamlined processes to ensure effective delivery. The core skills of the Education Infrastructure Procurement Service will be those required to develop and procure the programme of capital schemes set out in the Strategic Investment Plan for delivery by the strategic partners. These are:

- project appraisal and assessment;
- project management;
- stakeholder consultation;
- procurement management;
- contract negotiations; and
- contract and performance management.

PPP schemes will require skills in risk evaluation and modelling, and project finance. Conventional schemes will require architecture and design skills, the extent of which will depend on the level of design that the Education Infrastructure Procurement Service undertakes before handing schemes over to the strategic partner.

Because it will have the relevant skills, the Education Infrastructure Procurement Service should also procure the partnership contracts with the private sector, and should be the public sector contracting party on behalf of education authorities. Authorities would no longer contract directly, as happens now on conventional and PPP schemes. Instead, sector bodies would participate in choosing project sponsors and would be represented on Programme Boards for their schemes in each area. The Programme Boards would fulfil the traditional role of the Project Board in the procurement and delivery of the capital schemes within each of the main sectors (or group of sectors) and should have a key role in overseeing the preparation of Economic Appraisals, Outline Business Cases and Full Business Cases for the local schemes.

In addition, a cross-sector Strategic Partnership Board would be established for each of the Strategic Partnership areas, comprising representatives of the education authorities operating within the area. The Strategic Partnership Board would provide a vehicle for reconciling the estate plans for each sector within the Strategic Partnership area and would also be consulted on the specification of maintenance and building-related FM services and the monitoring of capital and service delivery by the Private Sector Partner.

We recommend that clustered schemes (which provide more than one school) should normally be structured so that all schools within the cluster are in the same sector. Mixed-sector clusters require more complex project management arrangements, and are more prone to delay.

5 Roles and responsibilities

The following summarises the roles and responsibilities we foresee under the new arrangements:

5.1 Department of Education

The Department of Education funds the schools estate, and accordingly will be primarily responsible for:

- 1 Establishing the planning guidelines for the schools estate;
- 2 Reconciling the views of the education authorities on the planning of the estate;
- 3 Approving investment priorities and Strategic Investment Plans for each area;
- 4 Approving Economic Appraisals and Outline Business Cases;
- 5 Approving Final Business Cases;
- 6 Making the final decision on whether or not to proceed with investments; and
- 7 Providing the funding to support the planned investment in the estate.

5.2 Education authorities

In the arrangements we are proposing, education authorities exert influence at three levels:

- in planning local provision and developing investment priorities within their sector;
- in consulting and advising the Education Infrastructure Procurement Service on the procurement and management of the Strategic Partnerships; and
- in directing the specification and procurement of local capital schemes through the Programme Boards and the nominated project sponsors.

In this respect, the education authorities will be primarily responsible for:

- 1 Establishing the priorities for investment within their sector based on shared planning information;
- 2 Agreeing development schemes to optimise number of school places within their sector in an education community;
- 3 Working with other authorities to develop overall plans for local communities;

- 4 Advising on the procurement of the strategic partners and the allocation of partners to areas; and
- 5 Through representation on Programme Boards for schemes within their sector:
 - appointing project sponsors
 - acting as client for the procurement of local schemes
 - developing and approving key elements of the local schemes including design and performance requirements

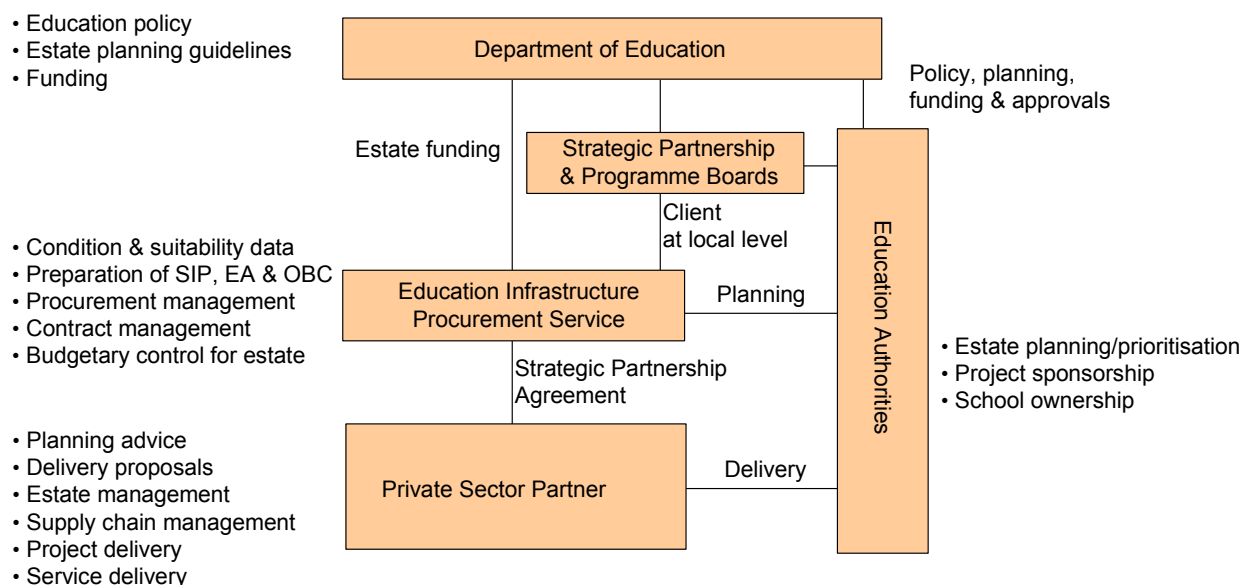
5.3 Education Infrastructure Procurement Service

In the arrangements we are proposing, the Education Infrastructure Procurement Service will act in support of the education authorities in the planning of the estate and will be responsible for the procurement of the Strategic Partnerships and the local schemes as well as ongoing contract and performance management. The Education Infrastructure Procurement Service will therefore be primarily responsible for:

- 1 Managing estate condition and suitability data to inform priority setting. The condition and suitability data is to be kept current by the strategic partners;
- 2 Preparing Strategic Investment Plans on behalf of the education authorities;
- 3 Carrying out or commissioning Economic Appraisals and Outline Business Cases;
- 4 Managing the procurement of the strategic partners on behalf of the education authorities;
- 5 Managing the procurement of local schemes on behalf of the education authorities, to achieve the agreed outcomes and timescales;
- 6 Developing the contractual terms and risk sharing arrangements;
- 7 Preparing and submitting Final Business Cases for approval by the Department of Education and the Department of Finance and Personnel;
- 8 Managing the contracts and the performance of the strategic partners; and
- 9 Managing the relationship with the private sector partner at regional level and supporting schools in ensuring quality of service on a day-to-day basis.

The relationships between the education partners, the delivery body, and the private sector are summarised in the diagram overleaf.

Strategic Partnering Relationships and Allocation of Responsibilities



6 Value for money and affordability

We have sought to quantify the financial benefits of the strategic partnership model, principally by comparison with the expectations for Building Schools for the Future in England, but adopting more conservative assumptions in some cases, as follows.

Cost category	Nature of saving	BSF estimate	Assumed for NI
Optimisation of schools estate	Less surplus capacity built as a result of improved planning	5% p.a.	5% p.a.*
Capital costs	More efficient delivery resulting from a consistent pipeline of capital projects	15%	10%
Lifecycle costs	Optimisation of capital and maintenance spending across the full asset lifecycle	5%	5%
Facilities management costs	Economies of scale from size and geographic concentration of partnership areas	7.5%	5%

* in addition to the existing trend of a capacity reduction of 0.5% p.a. to reflect falling rolls

The costs of procuring PPP schemes under a Strategic Partnership will also be lower than for existing PPP clusters (although the initial cost for procuring the Strategic Partnerships will be higher).

We have prepared a financial model to consider the value for money and affordability implications of the strategic partnership model and to make comparisons with the existing PPP and conventionally funded delivery processes. The modelling shows that, on the assumptions detailed in the main report, the Strategic Partnership scenarios offer the potential for savings in the region of 10% in net present cost terms. Strategic Partnerships also offer the potential to achieve additional savings in relation to private sector bid costs and public sector capital planning, development and procurement

resources. These potential savings have not been quantified within the financial model. The private sector will also face lower bid costs which should be passed on in lower tender prices.

The affordability analysis indicates that, on our assumptions, Strategic Partnerships should result in lower capital and recurrent funding requirements than the equivalent combination of conventional and PPP delivery, and the more that PPP is used, the lower the capital funding requirement and the greater the recurrent funding requirement. However, the unit cost of maintaining and servicing schools to the standard of a PPP output specification is greater than the current expenditure on school maintenance and services (on a unit cost basis). Careful consideration therefore needs to be given to balancing the recurrent budget available against the level of PPP used in the schools capital programme.

7 Implementation

Implementation of the new delivery arrangements will however require significant change to organisational structures, roles and responsibilities and working practices. It will also need to take account of developments with the Review of Public Administration. We have prepared a high-level implementation plan, broken down into the following phases.

- 1 **Project Initiation**, including consultation with key stakeholders and appointment of implementation team (3 months)
- 2 **Establish Education Infrastructure Procurement Service**, including organisation design, resourcing and equality assessment to facilitate establishment of the Education Infrastructure Procurement Service initially in shadow form (9 months)
- 3 **Establish New Operating Procedures**, including new procedures for planning, managing and funding the schools' estate (16 months)
- 4 **Design Strategic Partnering Arrangements**, including finalising the partnership areas and contractual framework (20 months)
- 5 **Deliver Legislative and Statutory Changes**, including giving the necessary powers to the Education Infrastructure Procurement Service (26 months)
- 6 **Establish Strategic Partnerships** including preparing the Strategic Investment Plans, procuring the Strategic Partners and developing the migration arrangements (30 months)

Many of these activities can be implemented in parallel, and we estimate that it will take in the region of 40 months to implement the new arrangements. We believe this timetable to be challenging but achievable, and critical to the achievement of this timetable will be the support of the education partners and key stakeholders, the appointment of Project and Change Management Teams supported by suitably skilled and experienced advisers, and the allocation of the financial resources necessary to support the change programme and develop and procure the Strategic Partnership arrangements.

8 Benefits of the new arrangements

In our view, the delivery arrangements we propose have the potential to deliver significant benefits for the education service in Northern Ireland. These benefits include:

- 1 The establishment of Strategic Investment Plans for the schools estate, which are based on robust assessments of the sufficiency, suitability and condition of schools and which profile the estimated capital expenditure needs of the estate over a ten year period.
- 2 A robust, consistent and co-ordinated planning approach, which is based on longer term forecasting of pupil numbers and provides closer correlation between the provision of pupil places within the estate and the long term pupil demand, thereby reducing overcapacity.
- 3 More robust assessment and monitoring of the condition and suitability of schools, which will ensure that investment is directed where there is greatest need.
- 4 The establishment of a commercially orientated Education Infrastructure Procurement Service, which is focused on the efficient delivery and management of the schools' estate, acts on behalf of all the education authorities, brings together scarce development, procurement and project management resources, and targets them on the agreed priorities.
- 5 The establishment of Strategic Partnerships with the private sector that provide a single point of delivery for capital investment and services, and which are incentivised to optimise capital and maintenance expenditure over the asset lifecycle.
- 6 Delivery arrangements that are consistent with recognised best practice and government guidelines.
- 7 A substantial reduction in the number of procurements for the delivery of capital projects, meaning that the delivery of investment is faster and procurement costs are lower.
- 8 Transparent use of funding, so that money allocated for the estate is spent on sustaining the estate.
- 9 Greater value for money in delivering and managing the estate, an improved educational environment and a positive impact on student attitude and attainment.

We consider that there is a strong correlation between the characteristics of the delivery arrangements that we have proposed, and the outcomes desired by the education authorities (summarised in Section 3 above), and that all of the education authorities' essential requirements and desired characteristics can be achieved to a greater or lesser extent by the proposed delivery arrangements.