

FURTHER AND HIGHER EDUCATION NEWSLETTER

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In this issue:

- SORP update
- Class Wars
- Learning through partnership: Private Finance and Management in the Delivery of Services for London

Recent publications

- Mergers and Collaborations – A Guide for Further and Higher Education Institutions
- The Role of the Director of Finance in Higher Education

Introduction

Welcome to the ninth newsletter for finance practitioners and CIPFA members working in the further and higher education sectors. The Panel comprises directors of finance from a range of further and higher institutions together with representation from the funding councils, audit firms and the National Audit Office. This newsletter has been prepared by CIPFA's Further and Higher Education Panel. The Panel's members are:

Eric Morgan (Chairman)	<i>Nottingham Trent University</i>
Kerry Ace	<i>CIPFA</i>
John Brown	<i>Newham College of Further Education</i>
Andrew Clark	<i>Education and Learning Wales</i>
Eric Gibson	<i>Queen Margaret University College</i>
Richard Harris	<i>Higher Education Funding Council for England</i>
Colin Hubbard	<i>Bolton Institute of Higher Education</i>
Jo James	<i>National Audit Office</i>
Dick Jeyes	<i>Dunstable College</i>
Philip Lloyd	<i>Learning and Skills Council</i>
Peter Marples	<i>KPMG</i>

Hari Khurmi	<i>Bentley Jennison</i>
Ian Looker	<i>PricewaterhouseCoopers</i>
Graham Marsden	<i>Consultant</i>
Ben McLeish	<i>Scottish Funding Councils for Further and Higher Education</i>
Henry Morgan	<i>City College, Norwich</i>
Bryan Pearce	<i>London School of Economics and Political Science</i>
John Sandbach	<i>University of Liverpool</i>
Sarah Tilley	<i>University of Plymouth</i>
Graham Try	<i>Richmond upon Thames College</i>
John Woodall	<i>University of Essex.</i>

The Panel's purpose is to develop, promote and maintain best practice standards and guidance and produce and disseminate relevant advice for finance practitioners in the further and higher education sectors.

CIPFA Publications

As part of its work programme, the Further and Higher Education Panel develops guidance on financial management and policy issues relating to further and higher education. Recent publications include:

Mergers and Collaboration – A Guide for Further and Higher Education Institutions

Over recent years there has been significant merger and collaboration activity in the further and higher education sectors. Such activity is likely to increase owing to the changing environment in which further and higher education institutions operate, for example through the impact of the Learning and Skills Council.

This practical guide considers the issues surrounding mergers and collaboration and identifies the key principles which will enable further and higher education institutions to plan and execute an effective merger or collaboration.

This guide is available priced £49.50.

The Role of the Director of Finance in Higher Education

This guide has been prepared by a BUFDG sub-group in conjunction with CIPFA's Further and Higher Education Panel. It considers the role of the director of finance in a modern higher education institution. BUFDG and CIPFA acknowledge that there are different administrative structures within higher education institutions and the individual responsible for financial strategy and stewardship may have other duties, such as oversight of IT. This guide relates to the finance role only. It describes how the director of finance can maximise his or her contribution to the operation of the institution. The guide clarifies the role which BUFDG and CIPFA believe all directors of finance should undertake and their position within the institution's structure.

This guide is available on Further and

Higher Education Panel web pages of the CIPFA website. A complimentary copy has been sent to all vice-chancellors and directors of finance.

A Handbook for Audit Committee Members in Further and Higher Education

This guide has recently been highlighted in HEFCE's updated *Audit Code of Practice* as essential reading. It provides a practical source of guidance and advice for audit committee members in further and higher education and for other interested parties. It describes audit committee members' roles and responsibilities; the role of internal and external audit and the responsibilities of management to review critically its control environment. The handbook is designed to complement the audit codes of practice that have been produced by the funding councils.

The handbook covers the following main areas:

- objectives and benefits of audit committees
- establishment and operation of an institution's audit committee
- duties of an audit committee
- discharging the audit committee's duties effectively
- administrative arrangements for the audit committee.

It also includes sections on:

- compliance with the law and regulations governing the sector
- internal control
- internal audit
- external audit

- financial statements
- value for money.

The handbook contains a series of questions for audit committee members to consider in relation to the topics discussed in the text. It also includes a good practice checklist in the appendices which will enable audit committee members to assess the effectiveness of their own committee.

This publication is available priced £19.50.

Recent Publication Developed by CIPFA's Financial Management Panel

What you can learn from ABC – Activity Based Costing and Activity Based Management in the Public Services

ABC – Activity Based Costing and its natural extension, Activity Based Management (ABM), have the capability to help public service bodies to meet the challenges they face. By looking at what is happening across the public services as a whole and seeing what different organisations are doing, this thoughtful guide will help institutions to reap the benefits and avoid the pitfalls. This guide explains the theory of ABC and provides practical examples from a variety of public service bodies, including higher education, on how it has been used as a management technique.

This guide is available priced £69.50.

For further details of the above publications, please contact CIPFA's Publications Unit on 020 7543 5601 or through CIPFA's website - www.cipfa.org.uk/shop.

Forthcoming Guidance

As part of its 2002 work programme, the Further and Higher Education Panel is developing a number of other guides. They include:

Higher Education Finance (fully revised edition)

This revised edition of Higher Education

Finance outlines the essential features of the financial structure and funding systems which underpin the higher education sector and details the regulatory framework in which institutions must operate. It is designed to act as a reference manual for those already working in the sector; to provide an insight into the complexities of higher education finance for those with an academic interest in the sector; and to give guidance to those outside who deal with the sector.

This volume will be available later on in 2002.

A Model Set of Financial Regulations for Further and Higher Education Institutions (revised edition)

The Further and Higher Education Panel is developing a fully revised edition of A Model Set of Financial Regulations for Further and Higher Education Institutions which was first published in 1996. In particular, the new edition will include additional guidance on overseas travel, costing and transparency and student loans.

The model set is not intended to be prescriptive and each institution will need to tailor it to produce financial regulations which are applicable to its own circumstances and structures. It will be available both as a hard copy and on disk.

This guide will be available later on in 2002.

Further Education Finance

Following extensive changes in the post-

16 sector, the Further and Higher Education Panel is revising Further Education Finance which was first published by CIPFA in 1995. The fully updated volume will feature new chapters covering:

- the Learning and Skills sector
- Learning and Skills Council recurrent grant
- other grants including work based learning
- European grants
- costing
- corporate governance and risk management

This volume will be available in 2003.

Forthcoming Courses

During 2002, the Further and Higher Education Panel will be holding the following courses:

European Funding in Further and Higher Education - Accounting and Accountability (Summer 2002)

Topics to be covered include

- Accounting for European funded projects
- Accountability and audit issues
- Case studies.

Developments in Further and Higher Education Finance (Autumn 2002)

For further details contact Sarah Edwards on 020 7543 5751 or email her at sarah.edwards@cipfa.org.

SORP 2003 – Accounting for Further and Higher Education

The current SORP for Further and

Higher Education has been effective since 1 August 1999. There is a requirement to review the SORP at three yearly intervals and so preparations are now under way to produce an updated standard effective from 1 August 2002.

Work has begun within the BUFDG Accounting Standards Group to prepare an initial exposure draft for consideration by the UUK Group which will coordinate production of the new SORP. The likely timetable for production will be:

June-November 2002 –
Preparatory work on
drafting

December 2002 – Issue of
Exposure Draft
for consultation

February/March 2003 –
Consideration by
Accounting
Standards Board

April 2003 – SORP issued.

The main new accounting standard to affect the SORP will be FRS 17 and accounting for pensions but a watching brief will need to be held over seven new Exposure Drafts to be issued soon by the ASB including:

- FRED 23 – Hedge accounting
- FRED 24 – The effects of changes in foreign exchange rates
- FRED 25 – Related party disclosures
- FRED 26 – Earnings per share
- FRED 27 – Events after the balance sheet date

FRED 28 – Inventories; construction and service contracts

FRED 29 – Property, plant and equipment; borrowing costs.

Furthermore the ASB is going to publish a consultation paper which proposes to amend six International Accounting Standards on:

- presentation of financial statements
- accounting policies, changes in accounting estimates and errors
- leases
- consolidated and separate financial statements
- accounting for investments in associates
- investment properties.

There is therefore enormous activity around the review of accounting standards and almost all of these will need to be considered in the updating of the FE/HE SORP.

**John Sandbach,
Director of Finance, University of
Liverpool**

Public Management and Policy Association (PMPA)

The PMPA is a national membership organisation managed and supported by CIPFA which is designed to bring together managers and policy makers from across the public services. The PMPA provides a forum in which members can discuss public policy and management issues that straddle programmes and sectors. PMPA members receive copies of CIPFA's quarterly journal (*Public Money and*

Management), the *PMPA Review* and *PMPA Reports*. It runs 10 lectures a year and has an annual conference – the theme of the 2002 conference was *Delivery, Delivery, Delivery* – are the right people doing the right things? The PMPA also runs sounding boards and workshops. The PMPA is supported by over 20 associated bodies, including the FDA, CIPFA, ACCA and CIMA.

The PMPA runs an extremely popular evening lecture programme (priority for places goes to PMPA members). Recent speakers have included Andrew Pinder from the Office of the e-envoy speaking on E-Government, Jay Walder of Transport for London and Wendy Thomson of the Office of Public Services Reform.

Joining In

Further information on joining the PMPA is available from Sandra Harper at CIPFA, 3 Robert Street, London, WC2N 6RL. Tel: 020 7543 5679; fax 020 7543 5695; e-mail: sandra.harper@cipfa.org.

Volunteer Help Required

Newly reformed Finance Information Service (FIS) Education Working Party invites volunteers from the further and higher education sectors to assist in revising the Education FIS Volume. Volunteer members will be divided into regional sub groups which will meet in York and London.

If you are interested in this project, please contact Fiona Williams, Technical Information Services, Institute of Public Finance on 020 7340 1214 or email her at fiona.williams@ipf.co.uk

Class Wars, by Neil Merrick

The following article was first published in *Public Finance* on 14 December, 2001.

Schools and colleges have been fighting each other for years to attract lucrative A-level students. And the new funding system for 26-29 year-olds is unlikely to make any difference. Neil Merrick reports

It is just after 9 am on a bright November morning, and a group of teenagers are making their way into lessons at Farnborough Sixth Form College. It is the first day back after half-term and the students' return is greeted with an audible sigh of relief from the college's finance department and tutors. For, although the pupils don't realise it, they each have a price on their head.

And that price is the subject of much rancour. Simmering irritations over funding-per-student disparities between schools and colleges have bubbled over since the Learning and Skills Council was given responsibility for all 16-19 year-old education. FE and sixth-form colleges came under its funding remit in April 2001, school sixth forms follow this year. Colleges believe they are underpaid compared with schools. Schools are not happy either. They are going to have to adapt to a complicated new funding formula that for the first time takes into account not just a student's attendance on a course but whether they pass their exams.

According to the Association of Colleges (AoC), FE colleges across the country

receive, on average, £2,500-£3,000 per student. This compares with £2,600-£4,000 for school sixth forms, according to 2000/01 figures from the Department for Education and Skills.

Funding per student is generally higher across the school sector because of the large number with relatively small sixth forms. Just 593 out of the 1,781 sixth forms in English secondary schools have more than 200 students. Colleges argue that it is more cost-effective to teach 16-19 year olds in sixth form and FE colleges because of economies of scale – but they would still like more money for doing it.

‘At present, there is no programme to bring about harmonisation between the two sectors,’ says John Brennan, director of FE development at the AoC. ‘There is no money in the system to allow the LSC to do anything about the finding gap.’

School sixth forms are continuing to be funded by local education authorities until April 2001, even though they already came under local LSCs for planning and other purposes. From April 2002, schools will receive money from their LEA for pupils to the age of 16 while the LSC will fund sixth-formers. Within the school, however, all the money will go into a general pot and could then be switched between year groups.

After April (2002), colleges and school sixth forms will – in theory – be funded according to a new national formula drawn up this summer (2001) by the LSC. The formula owes more to the old Further Education Funding Council

system, which weighted different types of courses according to how much it costs to deliver them, than to local management of schools (LMS), which is based on the simpler idea of placing a value on each pupil, regardless of what they study.

But there will still not be a level playing field. Prior to leaving the then Department for Education and Employment to become home secretary, David Blunkett promised schools with sixth forms that, while the formula would be applied from 2002/03 to see how much they ought to be receiving under the new system, they would not lose money providing they continued to recruit the same number of sixth formers.

This 'funding guarantee' – made, it would seem, to ensure Labour did not lose support among middle-class voters whose children attend school sixth forms – has not gone down well in the colleges. Although it is not certain that colleges will necessarily get less than at present when the new formula is applied, they do not see why sixth forms should be offered protection that they were denied during the 1990s – when they first came under the FEFC's complex market-driven funding methodology – and are still being denied today.

The guarantee would also seem to ensure that competition for 16-19 year-olds between schools and colleges is likely to continue, if not heighten, as schools seek to ensure that their numbers do not fall.

John Guy, principal of the Farnborough college, believes there is 'a nervousness in schools' as they wait to see what

happens when LSC funding is applied in theory, if not reality. At the very least it will show what schools and colleges would each be receiving if there were a level playing field, even though that is still some way off. 'A light will be shone more strongly on what youngsters actually do in sixth forms,' he says. 'The funding methodology will be reflecting the activities of students rather than just their presence.'

Guy was a member of a government action group that advised the LSC over the national formula. In spite of the fact that college principals were promised something simpler than the old FEFC methodology, he is not certain that this has been achieved. 'I'm not really sure how much simpler it is,' he says.

The new formula has done away with terms like 'entry units' and 'on-programme units' but there are still 'programme weightings' and attempts to reflect area costs in different parts of the country. To encourage wider participation, schools and colleges will be paid extra for taking students from so-called 'disadvantaged' groups.

Farnborough itself is quite well off by FE standards. It received an average of £3,354 this year for each student on the roll on November 1. Partly this is due to the post-16 curriculum introduced in September 2000. Before April, the old FEFC targeted money at the curriculum, to ensure it was followed by the vast majority of 16-19 year-olds. 'Funding per student has gone up considerably during the past 18 months because of Curriculum 2000,' says Gordon Dodds, assistant principal for finance at Farnborough.

Under the curriculum, new sixth formers in schools and colleges are encouraged to study up to five AS levels in the first year and then focus on three at A-level during the second. Dodds says that the college is doing quite well, mainly because numbers are going up by about 50 students per year.

These are currently 1,750 students, nearly all of whom attend full-time to study A-levels. Unlike most sixth form and FE colleges, Farnborough runs very few adult or vocational courses. So it receives more per student from the LSC than colleges offering a wider range of academic and vocational courses to young people and adults.

In spite of this, the college still does not receive as much per student as a typical secondary school with a sixth form. AoC figures show schools are receiving an average of £3,530 per sixth former in 2001/02, although funding varies considerably between local education authorities.

‘There is still a gap,’ says Dodds, pointing out that colleges such as Farnborough generally employ more teachers than schools and subsequently offer a wider range of A-levels. ‘Our costs are higher because of the activities that are undertaken here.’

Farnborough does not expect its total income to change very much once the new formula comes into effect. ‘The indications are that we will get a similar amount for delivering A and AS levels,’ says Guy.

Under the FEFC, colleges received a

fixed number of units when students completed a course successfully. Now they will lose 10% of the final programme cost if an individual drops out or fails. ‘The cost of failure is higher under the new system,’ Guy adds.

Schools may find it harder to get to grips with the formula – not least its achievement element – because they are moving into fairly unfamiliar territory. Under LMS, they have no financial incentive to ensure students pass exams, as they are paid as long as the student continues attending classes. While their income is protected for the foreseeable future, they only have a limited incentive to attract more students. The DfES has decided that additional students should attract only an extra £2,600 per year – in line with the lowest level of sixth-form funding nationwide – rather than the sum a school stood to earn from its former LEA.

In spite of this, John Dunford, general secretary of the Secondary Heads Association, expects schools to try to expand their sixth forms so that they can offer a wider range of courses. He also points out that the ‘funding guarantee’ cannot last forever and eventually schools will face the reality of the formula. ‘We recognise that no political commitment is made in perpetuity,’ he says.

In the short term, schools are keen to at least retain the same number of students. Earlier this year (2001), John Guy was alarmed when he discovered that a school in Surrey, just across the county border from Farnborough, was offering some pupils £500 scholarships to stay on as sixth formers.

‘With breadth of curriculum we offer, youngsters do not need a £500 bribe to come here,’ he says. ‘But it’s an interesting change in the way youngsters are being wooed by schools to stay on.’

Tony Ryles, principal of the school in question, Tomlinscote School in Frimley, resents the suggestion that he is bribing students to stay on. The scholarships, paid for out of canteen profits, are intended to help youngsters who might be tempted to take on part-time jobs at the expense of studying. Twenty scholarships are being offered this year to pupils who gained the best GCSE results last summer. About two-thirds of youngsters stay on in Tomlinscote’s sixth form, which has just over 300 students.

‘We develop very close links with our students. We have them here for five years,’ he says. ‘I don’t think the scholarships will make much difference to the numbers in our sixth form.’ Nor does Ryles expect the formula to make much difference to his school’s income.

The Association of Colleges, meanwhile, will be watching the situation closely and pushing the LSC to publish figures showing how the income of schools and colleges would compare if the formula were introduced for both types of institution at the same time. ‘Greater transparency will make it much clearer to people where they stand,’ says John Brennan. ‘We will continue to mount pressure but it would be advantageous if the government commits itself to a timetable for eliminating the gap.’

Learning through Partnership: Private Finance and Management in the Delivery of Services for London

The following article was first published in *Public Money & Management*, Volume 21, Number 4, October to December 2001.

Jon Wakeford and Jo Valentine

This article looks at the attractiveness of the Private Finance Initiative (PFI) and Public-Private Partnerships (PPPs) to the private sector. One of the authors works for Jarvis plc – the company has been a major participant in PFI projects and, more recently, in various PPPs in London and across the UK. The article aims to identify a realistic model of the role of the private sector in PPPs. The authors use three case studies from London to recommend ways of improving the partnership element of PPPs in order to reach a ‘win-win’ situation, rather than the traditional adversarial approach between private and public sectors.

This article reflects on the PFI and PPP from a private sector point of view, arguing that experienced operators in PPP arrangements should be involved in assessing the effectiveness of private funding of services, in great detail, on a case-by-case basis. The criteria by which publicly-owned and run services are judged—responsiveness to the user’s needs, value for money and accountability—are no less appropriate to services provided under the PPP. Failure to recognize this fundamental point runs the risk that disillusionment and hostility to partnership arrangements will proliferate among those who stand to benefit most from them.

This article looks at four key issues:

- It aims to identify a realistic model of the role of the private sector in PPPs, by assessing the impact of policy developments relating to the PFI at a macro-political level over time.
- It takes a recent report published by the Institute for Public Policy Research (IPPR) on *Building Better Partnerships* (Commission for Public–Private Partnerships, 2001) as a benchmark for assessing current private sector approaches to PPPs and PFI, and examines how well private operator practice and the IPPR’s suggested conditions for improving the quality of PPP arrangements are now aligned.
- Using three case studies from London, it identifies to what extent private operators are already involved in fulfilling many of these conditions, both in terms of their relationships with citizens and their environment, and in the more technical arena of effective risk management.
- It explores how the case studies shed light on ways of improving the partnership element of PPPs, by applying greater sensitivity in shifting the balance of practice relative to policy.

Changing Perceptions of PFI

Since its inception, PFI has been dogged by a tension in terms of how it is perceived. Is it simply a way of avoiding public-expenditure controls and effectively ‘getting something for nothing’ in terms of funding new projects? Or is it, alternatively, an approach that delivers measurable value

for money, cost savings and appropriate transfer of risk to the private sector? The PFI initiative was launched in 1992 to fill the gap left by the Ryrie Rules (Private Finance Panel, 1995), which had acted as a powerful disincentive to public bodies seeking to harness private finance. Since then, a growing number of people looking to justify the use of PFI have started to recognize the validity of the alternative view. This has happened not only in response to changing perceptions of PPPs and PFI by policy-makers in central government, but also because of real developments in the relationship of *promoters* (the organization[s] granted the concession to build, own, operate and transfer) to *principal* (the organization responsible for granting the concession, normally a public regulated monopoly), (see Smith, 1999).

The policy shift towards greater private sector participation in the provision of public services began in 1992, during Norman Lamont's period as Chancellor of the Exchequer. He was the driving force behind the PFI, encouraging the private sector to act as promoter in joint ventures with the public sector. Privately-owned companies would—it was hoped—take the lead in transferring risk away from the public purse and offering value for money in operating contracted-out services. The immediate benefit of PFI for both central government and local public sector monopoly providers was that services could be provided on an 'off-balance sheet' basis. To an extent, that is how PFI has been viewed ever since. This is a telling fact, as it underlines how the first justification for PFI (as a way of avoiding public-expenditure controls) was favoured in the early days. It is easy to see why this was. If public sector bodies have to pay for assets, accounting rules say that the full cost must be added to government expenditure in the year of

implementation, with a knock-on effect on the public sector borrowing requirement (PSBR).

The initial response to PFI from the private sector was low-key, prompting Norman Lamont's successor as Chancellor (Kenneth Clarke) to try and stimulate greater private involvement. By 1994, the Treasury had moved from the 'carrot' to the 'stick' approach in terms of dealing with potential public sector principals. The Government decided not to approve capital projects unless there was clear evidence that potential private financing solutions had been thoroughly investigated. Not surprisingly, this policy of 'universal private finance testing' resulted in much higher levels of interest from private sector promoters. In addition, it demonstrated that the Government's belief that private financing could offer viable solutions to public investment needs and should endure over the long term. As Broadbent *et al.* (2001) noted, it also indicated 'perhaps the belief that otherwise no projects would be forthcoming'.

The move had the effect of bringing promoter and principal together. Market demand was ensured and promoters could more easily assess the size of the available market and evaluate the costs of involvement relative to projected returns. As a result, more firms were prepared to invest the significant sums involved in the extensive bidding processes. More importantly, it shifted the focus of public sector justifications for using PFI towards achieving value-for-money savings, because principals were compelled to make a realistic assessment of how they themselves managed and delivered services compared to private firms. By 1996, universal market testing had resulted in the establishment of the Public Private Partnership Programme to act as the

second, local element of the institutional framework, designed to encourage investment in local services and therefore, it was assumed, the growth of PFI.

When the Labour Party came to power in 1997, the new government immediately carried out a wide-ranging review of PFI, focusing on organizational structure and operation. At the same time, the Paymaster General announced an end to universal testing, on the grounds that delay and expenses were being incurred in trying to make impracticable PFI models work (HM Treasury, 1997). From this review, a report by Sir Malcolm Bates (1997) made 29 recommendations to standardize and centralize the arrangements for PFI. Most significantly, the Private Finance Panel was disbanded and the PFI procurement process was further standardized by an HM Treasury Private Finance Task Force (TTF). The management of PFI became even more uniform, with step-by-step instructions covering 15 different areas of procurement, the emergence of the Project Review Group, and standard guidance determining what should be in each PFI contract. This provided a clear basis for both promoters and principals to examine the key issues: value for money, the likelihood of a PPP achieving significant efficiency gains and the appropriate apportionment of risk.

The later Bates Review of July 1999 extended the process with the instigation of Partnerships UK, a body of private sector experts replacing the projects wing of the TTF (Bates, 1999). While Bates argued that there was no necessity for procuring authorities to use what we might see as this 'promoter-friendly' resource, Broadbent *et al.* (*op. cit.*) argue that 'it will probably become of greater significance in determining PFI deals'.

The IPPR's Commission on Public-Private Partnerships

Successive administrations have used policy to draw promoters and principals together: standardizing procurement, helping public sector bodies to assess 'a good deal' (see Comptroller and Auditor General, 1999) and private firms to gauge the market more accurately. As a result, the debate about PPPs has shifted to focus on how efficiently and effectively they are operating. In practical terms, this has meant more detailed analysis of risk baselines, residual risks, expected value and other financial measures, as well as the establishment of more sensitive value-for-money criteria. In particular, greater attention is being paid to accountability and redress, social equity and economic regeneration.

The IPPR's Commission on Public-Private Partnerships represents the latest addition to the on-going assessment of what they call 'the new partnership agenda'. The Commission's final report, *Building Better Partnerships* (Commission on Public-Private Partnerships, *op. cit.*), identifies the various rationales for considering PPPs, as well as suggesting conditions which, if met, they argue will result in partnerships working more effectively. Responsible promoters involved in PPPs funded by PFI and many other routes, are currently working towards—or indeed have fulfilled—many of the Commission's conditions for improvement. From a private sector point of view, many of the comments in its report would be hard to dispute. Nevertheless, while many PPPs appear to have performed poorly over recent years, the Commission remains committed to improving the success of such projects. It argues that: 'The real challenge we face is to manage a diverse

public service sector effectively, so that it enhances social equity by improving the quality of, and commitment to, publicly-funded services' (Commission for Public–Private Partnerships, *op. cit.*).

The IPPR thus reasserts the case for publicly-funded universal services, but at the same time expands the scope for PPPs as a means of increasing the quality and responsiveness of public services. It argues for a clear distinction between authorities responsible for commissioning services and agencies responsible for delivering them, and sees an environment made up not only of potential private sector partners, but other public and voluntary partners. This mixed portfolio of organizations, if properly managed, is viewed as an opportunity and not a threat.

The IPPR's suggested criteria for assessing the validity of a PPP approach are:

- That it guarantees social equity and ensures public services respond to the needs of all citizens.
- That partnerships offer value for money in the delivery of efficient, high quality and responsive services;
- That services are clearly accountable and provide mechanisms for redress in situations of service failure.

Unless PPPs can fulfil these criteria, they should not be adopted.

Against this background, we should be able to identify clearly, in the London case studies that follow, how services have improved or will improve. Even though the variability of cost savings has proved problematic across most, if not all, PFI schemes (for example the Skye Bridge), we should also be able to demonstrate clear cost savings relative to the public comparator. (National Audit Office reports suggest typical savings in the region of 10% across the lifetime of

a project, having controlled for two major IT schemes for the former Department of Social Security, which have a distorting effect owing to the significantly higher cost-savings involved.) Although we would expect inherent tension between the specification of services and the need to ensure that bids are comparable, we would also expect to be able to track the path of the bid to operation/financial close. And, although there is likely to be a healthy tension between competition and co-operation, the scope for 'common ground' should be evident in the early stages of the partnering relationship, with 'comfortable' relationships often being successfully fostered only over the long term.

Another key element for judging the success, or likely success, of the case studies is an assessment of how far the PFI arrangement in each case focuses on outcomes. This belief that outcome-based contracting should be a regular feature of partnerships is a central feature of the IPPR Commission's approach: contractual payments should be partly linked to the tangible benefits for service users. Although we might not expect to see this in contractual form in our case studies, we would expect evidence of proposals to extract more from public assets over their life-cycle, as well as increases in the value of those public assets at the point where they potentially return to public sector management. Related to this point are the mechanisms for ensuring that public assets are, and remain, effectively managed. This may include the processes used to enhance the promoter's management expertise, such as structures for assessing management, their appropriateness and sensitivity to new techniques.

The accountability of the service provider and its transparency in dealings

should also be apparent. That implies, as the IPPR Commission advocates, that there should be active engagement by both the public and the public sector workforce. Ensuring public legitimacy in service provision partnerships is much easier to achieve if a contract is well run in terms of delivery and value for money. Unlike the technical aspects of a PPP, this cannot be ‘accounted away’ and is only achieved over the entire life-cycle of a project. Finally, an effective PPP needs to be robust enough to withstand contention, demonstrate understanding of the ‘stakeholder’ approach to the citizen/service provider relationship, and identify the value in an evidence-based approach to policy-making. We turn now to a discussion of the London case studies.

Case Study 1: London Underground

Background

In March 1998, the Government announced that it would be introducing PPPs to the capital’s underground railway network, to provide stable and increased investment. The plans were to divide London Underground Ltd (LUL), a wholly-owned subsidiary of the nationalized London Transport, into a publicly-owned operating company responsible for delivering services to customers, and three privately-owned infrastructure companies. Outputs were identified as £8 billion worth of investment in London Underground over the next 15 years. It was expected that passengers would benefit from tangible service improvements and that successful bids would ensure value for money for taxpayers.

In this case, the PPP was to be planned and operated by London Underground which would remain publicly owned and be responsible for safety on the whole

system. Private contractors were invited to take responsibility for track maintenance and upgrading, tunnels, signals, stations, lifts, escalators and trains. Contract lengths were set at 30 years, after which time assets would return to public sector control. It was proposed that the private sector would take over three infrastructure companies (Infracos), set up for the purpose, with responsibility for delivering a large infrastructure investment programme, strategic investment planning, professional project management and daily maintenance management. Operational responsibilities would remain in the public sector (see figure 1; NAO, 2000).

Jarvis was involved in the bid for the deep tube lines as part of the JNP Infraco: a group of private companies also including Bechtel/Halcrow and Amey. The basis of the project was based on design, build, finance, operate and transfer.

Issues

The evaluation of bids in this case was ‘thorough and comprehensive’, according to the National Audit Office (2000). London Underground took a two-tier approach, involving setting up robust public sector comparators (PSCs) combined with a bid evaluation process: effectively a level playing-field model, where the decision as to who provides the service is taken solely on a judgement of who will provide the best service against robust PSC models. As well as providing value for money, initial evaluation of this deep tube bid looked for a number of specified qualities in the promoter:

- Delivery of required performance.
- Asset stewardship.
- Safety and environmental competence.

- Stewardship of staff.
- Acceptance of the principles of partnership.

The JNP consortium bid was recognized as offering a credible management structure, separating investment and maintenance from operations, along similar lines to the successful Dutch Railways model. Bechtel/Halcrow provided project management expertise and the capital finance programme. Amey was recognized for its infrastructure management skills, and Jarvis in particular for its in-house expertise and proven asset management record. In return for seconding private sector project and programme managers, Jarvis will receive long-term fee income. The consortium proposed an appropriate technical solution for achieving the outputs specified by London Underground and overcoming the key obstacle to achieving performance targets, persistent systems failure.

Ultimately this solution needs to be as sound in practice as it is on paper, because the outcomes-based contracting element of this particular PPP involves severe penalties for failure to deliver. In the case of station refurbishment overruns, a penalty charge of £200,000 a month will be levied. The JNP bid pledged a programme of operating expenditure totalling £1 billion and an additional capital investment programme of £1 billion within the first seven years of the concession. However, London Underground were understandably sceptical about pledges of this kind, mainly because in terms of the full lifetime of the concession, the seven and a half year mark provides the first opportunity to consider the ‘reasonableness’ of bid profiles in operation. The aim of the comparison was to protect against bidders trying to win by submitting the lowest bid and subsequently adjusting prices upwards

after the first periodic review. In this case, the estimated range of each bid was compared to the PSC models over the full lifespan of the concession, to inform the decision on value for money.

In terms of project finance, criticism has often focused on the respective capital costs of funding such a PPP. In this case, it has been argued that private finance will prove more expensive than equivalent public financing, on the grounds that the capital costs in this case make up a larger proportion of total cost. In real terms this is correct. In the JNP bid the ‘blended’ cost of capital is indeed higher than for example a gilt option, but the cost incorporates a higher proportion of the overall project risk.

In terms of social accountability, JNP will inherit London Underground’s obligations. LUL has an ‘open-book’ agreement with the consortium, with real-time access to all workings. They are also committed to setting up a cross-PPP—a partnership of LUL and all private operators across the Tube network—to address social issues relating to all aspects of operation.

Considerable work remains to be done, however, to ensure that negotiations with LUL continue to a satisfactory financial close.

Case Study II: Haringey Local Education Authority

Background

The London Borough of Haringey is one of the most deprived in England. The proportion of pupils eligible for free school meals is well above the national average and there are high levels of mobility within the pupil population, reflecting the large proportion of refugees and asylum seekers in the area. In this context, there was a need to

provide a more diverse educational strategy.

The Local Education Authority (LEA) made a PFI bid to refurbish and open a new secondary school in September 1999 and increase intakes to six of its nine secondary schools. Although this move will provide enough places in total across the borough, it is envisaged that schools with surplus places will accept a high proportion of excluded pupils or recently-arrived refugees.

Key Features of the Project

The scope of the project included refurbishing and improving facilities at eight existing secondary schools and a community special school. Jarvis was awarded the contract, after a competitive tender. The council's vision was to modernize these schools quickly and ensure that they would be maintained to a high standard. The requirement was to provide the new and improved facilities and services in two phases. The initial three-year phase involved significant investment in construction and renovation work, to bring the schools up to current curricula standards, and create a better learning environment for the children. This took care of one of the LEA's key problems, its maintenance backlog.

In the second stage—the full service period—Jarvis is designing, building or refurbishing, financing and managing facilities for the eight schools involved. Jarvis's role includes a range of services such as cleaning, caretaking, building and grounds maintenance. Under the contract, these services will continue for 25 years, providing a long-term solution. Equally importantly, the contract defines the nature of the relationship between the council, school governing bodies and school managers. The council's education strategy provided a starting

point for identifying what and how Jarvis could contribute. The objectives are to ensure that the schools deliver high-quality education; regenerate neighbourhoods and communities, deliver a cleaner environment; improve service performance; and embrace existing opportunities for electronic service delivery. (Two other examples of such innovative approaches are briefly summarised in figure 2.)

Jarvis worked with the LEA to develop service output agreements which addressed delivery and performance issues. This was particularly important in terms of improving building maintenance services, where there were some concerns over capital funding and the level of potential revenue generation needed to support the priorities which had been identified.

Jarvis is incentivized with a pay-and-performance mechanism, which monitors standards set out against the output specification. In the event of a classroom not being available, for example, this mechanism is used to calculate and make deductions. The performance summary shows achievements against each of the specified standards, at each of the schools and premises, along with the details of the events, scoring and/or marking from which the performance data is derived. By focusing on service provision, the council has established pre-defined service levels and information about the promoter. This is regularly benchmarked, which also enables the Council to compare its spending with that for other schools, and to manage its overall capital expenditure budget.

In sum, the project highlights how a private sector partner has responded to the development and implementation of a wide range of investment initiatives in

London schools, underpinned by a performance measurement mechanism which enhances delivery of high-quality education for the LEA and the community. By controlling the financing, design, construction and operation of school facilities, the whole-life costs can be minimized, benefiting everyone involved.

Partnership—Client and Provider Level

With greater co-operation and partnership, risk can be allocated more accurately and reduced from the beginning. Mumford (1998) describes the partnership approach as ‘relational contracting’, as opposed to committed contracting—referring to the degree of ‘rigidity’ within contracting structures. The emphasis is on developing effective partnership policies, and operations. The business partnership model demands that the private sector provider should understand the client’s industry, business and applications, in order to become not just a supplier but a developer. A business perspective is instrumental in developing new working relationships aimed at a ‘win-win’ situation, rather than the traditional adversarial approach between private and public sectors.

Case Study III: Greenwich Arts Student Village

Background

Jarvis’s specialist business unit, the University Partnerships Programme (UPP), has a detailed knowledge of and strong links to the colleges in south-east London, both through previous accommodation projects in the area and through the individual expertise of staff. UPP identified a site half-way between Greenwich and Deptford, and jointly owned by the University of Greenwich and Goldsmiths College, as a potential partnership opportunity. In the past, both

colleges had expressed an interest in disposing of the halls of residence and a teaching building on the site. Around the same time, a third college, Trinity College of Music, was looking at the possibility of acquiring part of the site for a 200-bed student residence.

The Project

Jarvis UPP carried out a detailed study into student accommodation requirements and private letting patterns in this part of London. This uncovered significant local and displaced demand, as well as evidence that latent demand in the catchment area of these colleges was being translated into higher course uptake figures. These findings indicated strong levels of external demand for accommodation, which when combined with a student/bed-space ratio of more than 10:1 within a three-mile radius of the site (only 3,500 beds available for over 40,000+ students), revealed a substantial need for high-quality dedicated student accommodation. Rising private sector rental values, fuelled by a pressurized local market, indicated that students were finding it difficult to locate accommodation and the situation was set to worsen.

This led Jarvis UPP to take an innovative procurement route, effectively reversing the standard process. Greenwich Arts Student Village is to be a design-build-finance-operate (DBFO) project, consisting of 1,185 student rooms, with demand risk distributed across the three colleges involved. Jarvis UPP has offered nomination agreements on rooms at the Village to each college, reducing its risk of being left with unoccupied rooms.

This has raised a number of issues with respect to the management of the tension between co-operation and competition in the working relationship between all

parties. On the successful procurement of the site, Jarvis UPP has focused on transparency in its dealings with all partners. This relationship is not straightforward, particularly as students will remain in occupation as other parts of the site are developed. This formal relationship is in its infancy and it is therefore not possible to assess its success in any great depth, except to note that the partners and the local community are regularly informed about progress of the scheme.

In terms of providing accountable service delivery to match that offered by the local higher education institutions, the direct relationship between service provision and demand provides the greatest discipline. The connection between high quality and accountable service provision is closely related to the risk of voids occurring on such a project. This discipline remains regardless of the local letting demand patterns, as project modelling assumes at least 98% occupancy during term-time and above-average occupancy during the summer vacation. Jarvis UPP themselves accept all void risk on vacation income, which provides a further incentive for effective and accountable service provision. The company is currently negotiating a joint venture initiative with their university partners, with respect to income over this period.

The Greenwich Arts Student Village proposals are a clear example of what we call 'regenerative imagination'. The project highlights joined-up thinking, in terms of how its vision fits with the wider regeneration of the Deptford area (see Coinde, 2001). When it comes to winning public legitimacy for the PPP, Jarvis UPP have linked this project closely to the development of Deptford's dockland, a number of business development agencies, and an understanding of strategic thinking on

the forming of a 'skills and education corridor' in this part of the capital. The Village itself also offers substantial space for performing arts, with many events likely to be open to the general public.

Conclusions

The aim of this article has *not* been to suggest that all PPPs are working as well as they were intended, nor to sell the value of PFI funding solutions for large-scale projects. Clearly, promoters feel that PPPs have value, both in terms of making a profit and giving managers of public sector services the flexibility to prioritize spending on core services. Responsible promoters would be well advised to shy away from justifying a PPP approach on the grounds that private finance enables projects to be undertaken that would otherwise not take place. This argument is spurious, in that unless private involvement brings genuine efficiency gains, the taxpayer still incurs the full service cost albeit at a later date. Similarly, what Heald and Geaghan (1999) see as the 'nudge-and-wink' approach to using PFI and PPPs, as a way of avoiding costly additions to public expenditure and PSBR numbers, should also be rejected.

We have also tried to highlight how approaches to existing PPP/PFI projects dovetail with a number of the IPPR Commission's conditions for successful partnership, in such a way as to foster a dialogue between public and private service providers without suffering from what Frank Dobson has called 'shoals of exaggeration' (quoted in Broadbent *et al.*, *op. cit.*). While we accept Walsh's (1995) point that a limited volume and quality of empirical evidence is being collected by promoters responsible for operating large-scale projects (making it difficult to assess technical effectiveness), we maintain that

experienced private sector firms are aware of the issues surrounding the public legitimacy of PPP and are already attempting to address them. Finally, we believe that in developing such relationships, promoters need to understand that their projects inevitably have both positive and negative economic impacts. While negative outcomes often (and with good reason) attract loud publicity, it is also important to realize that in today's climate the positive outcomes are very often lost opportunities.

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