

Investing in education

The UK Building Schools for the Future programme aims to ensure that all secondary pupils learn in twenty-first century facilities. Projects present challenges in terms of risk allocation and management. **By Sue Copeman**

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The Building Schools for the Future (BSF) concept marries two accepted methods of school development – private finance initiative (PFI) financing for new schools and more traditional ‘design and build’, including refurbishment – into one package. A crucial new third component is installing information and communication technology (ICT) to provide online access to learning. This adds complexity to the already challenging need to take into account the risks for all involved.

Happily the challenges are not proving insurmountable: “After a slow start, BSF has gained momentum,” says Andrew Birt, Head of the PFI Team at Jardine Lloyd Thompson Construction division, “and we’re seeing an influx of new projects.”

Once a local authority’s strategy for change and outline business case are approved, it identifies its preferred private partner. This is generally a consortium that carries out construction and refurbishment, operates and maintains schools, and also installs and maintains the all-important ICT. The initial development period usually lasts for ten years. Ongoing service contracts may extend for 25 or 30 years.

Typically, there will be several waves of projects within the initial period, says Birt. While some will involve refurbishing existing schools, PFI projects for new schools are key. “Even schools built in the 1950s and 1960s are reaching the point where they need major refurbishment. Installing necessary IT equipment in existing sites can be expensive. It’s often more cost effective to build a new school.”

Apportioning risk

Non-departmental government body Partnership for Schools (PFS) recently updated standardised BSF documentation. Philip Vernon, partner at international law firm Ashurst, believes that standardisation is generally helping local authorities' procurement processes to become more efficient, but the competitive dialogue procurement procedure needs to be managed sensibly by the local authorities to avoid escalating bid costs.

Despite contracts' standardisation for PFI projects, there are challenges for other parts of the BSF programme. "The design and build aspect of BSF can be quite difficult because the standard documentation doesn't follow the typical Joint Contract Tribunal (JCT) contract (used for most UK building work) but mirrors PFI documentation. The contractor can be exposed to more risk than just liability for loss resulting from negligence," Birt warns. "It's not just a matter of reinstating a building but also ensuring continuity – obtaining temporary classrooms, transportation to alternative schools, and so on," adds Birt.

"The provision of ICT has added a complication because most lenders don't want to take the technology risk on board," comments Warren Beardall, who works within Jardine Lloyd Thompson Financiers Due Diligence team. Stewart Grant, Commercial & Insurance Manager for Catalyst Lend Lease, agrees: "Integrating ICT contracts is a key consideration. We have to ensure that liabilities devolve to the appropriate people."

"You have to make sure that the ICT issues solutions are integrated with those for the design and fabric of the buildings," adds Vernon at Ashurst, "so that all work proceeds in tandem. It means delivering a building that enables ICT services to operate. Having new or refurbished schools up and running to meet the requirements of

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the school term calendar is also paramount."

Mike Bryan, Managing Director and Head of Infrastructure at merchant bank NIBC, believes that standardised documentation can impede flexibility. "Too many risks are controlled and managed centrally. There is insufficient flexibility for local authorities to do their own deal, inhibiting innovation and ability to achieve a true partnership."

He also warns that insurance is not a universal panacea: "Insurance doesn't make risks go away. You need to ensure both that there is a good level of cash flow mitigation and that risks have been costed for proportionately at the different levels. In allocating risk, it's important to consider the power to control. Parties may be concerned about potential risks from contamination from adjacent off-site areas or vandalism. The public sector may want its private sector partners to take these risks but the local authority may have more control.

"It's a question of balance," he concludes. "The quantum of financial risk that parties are asked to take should reflect the payment for their services. An IT provider's contract may be relatively small in terms of value so should it be asked to take on the liability costs ensuing if an entire £50 million school is unavailable?"

Another BSF challenge is that developments run in tandem and may not become operational simultaneously. "You may need construction and operational insurance running side by side; there can

also be existing structure issues – a new school being built in an existing school's grounds – which later presents demolition risks and can complicate how the revenue stream is insured," explains Beardall.

A more receptive market?

Traditionally, insurers have not regarded schools as attractive risks because of a history of arson and malicious damage. That perception is changing, partly because a more competitive insurance market is encouraging insurers to look at new opportunities, and also because of the way developers present their risks to the market.

Jardine Lloyd Thompson has advised on and placed around 75–80 per cent of the closed BSF projects to date and is the UK's leading broker in terms of PFI/PPP (public private partnership) projects. Many of its clients, according to Birt, do not insure on a specific project basis, but buy portfolio cover encompassing a bundle of projects.

"The size of PFI and BSF schemes has created critical mass which makes the area more attractive to insurers," he says. "And the new breed of schools that have sprung from the PFI and BSF initiatives, as well as delivering better education with a positive environment for learning, are less vulnerable to attack because they are built to modern standards with sprinklers, CCTV, access control, and so on."

And the future?

By 2011, every English local authority should have received funding to renew its schools in greatest need – many will have major rebuilding and remodelling projects underway through BSF. By 2016, major rebuilding and remodelling projects should have started in every local authority.

It is early days, but a recent KPMG report says that government data demonstrates that investment in school facilities improves educational attainment and that schools procured through PFI deliver better educational outcomes faster than those procured conventionally. Will other countries follow the United Kingdom's lead?

According to Birt, BSF could be an appropriate model in countries that have a similar education delivery system. After all, the UK's PFI model has now been adopted by other countries. **RS**

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TYPICAL BSF STRUCTURE

