

MASTER

Partnering and performance in building schools for the future

an investigation of the key performance requirements for private sector organisations involved in the BSF programme

Vermeer, D.M.M.

Award date:
2006

[Link to publication](#)

Disclaimer

This document contains a student thesis (bachelor's or master's), as authored by a student at Eindhoven University of Technology. Student theses are made available in the TU/e repository upon obtaining the required degree. The grade received is not published on the document as presented in the repository. The required complexity or quality of research of student theses may vary by program, and the required minimum study period may vary in duration.

General rights

Copyright and moral rights for the publications made accessible in the public portal are retained by the authors and/or other copyright owners and it is a condition of accessing publications that users recognise and abide by the legal requirements associated with these rights.

- Users may download and print one copy of any publication from the public portal for the purpose of private study or research.
- You may not further distribute the material or use it for any profit-making activity or commercial gain

Final research report
Dissertation project

Partnering and performance in Building Schools for the Future

An investigation of the key performance requirements for
private sector organisations involved in the BSF programme

University: Eindhoven University of Technology (TU/e)

Module: Final Research Report
Module code: 7CC37
Date: 3 November 2006

Education: MSc Construction Management and Engineering
department of architecture, building and planning

Composed by: ing. D.M.M. (Daan) Vermeer
Student ID: 0556415

Formal Tutors: Dr.ing. A.F.H.J. (Ad) den Otter M.Arch, TU/e
Prof.dr.ir. W.F. (Wim) Schaefer, TU/e
ing. A.J. (Hans) Kleine, TU/e
R.J. (Robert) Young BSc CEng MICE, BAM PPP

Supervisor UK: Prof. C. (Colin) Gray, The University of Reading
(non-formal) School of Construction Management and Engineering

Contact: info@daanvermeer.nl
www.cme.tue.nl

Preface

This report investigates the key performance requirements for private sector organisations involved in the Building Schools for the Future (BSF) programme in England. This is a hugely ambitious programme with one major, vital objective: to transform all English secondary schools and to make these examples of 21st century education the norm rather than the exception. My research examines the perceived lack of clarity over the definition of Best Value for Money and Long-term Partnerships in relation to the performance requirements of the school renewal programme. It is surprising that BSF policy documentation does not clearly define those terms that have such a fundamental meaning in BSF, particularly given the exclusivity rights involved.

The project proved a particularly interesting aspect of the final phase of my education in Construction Management and Engineering (CME) at Eindhoven University of Technology. This dissertation report is the apotheosis, undertaken following three years of study. *Whilst undertaking this dissertation project it appeared that a deeper insight into the BSF programme and theoretical issues have resulted in a very substantial research area.* As a consequence the research report would lead to a highly detailed aggregation level. As an intermediate solution each chapter is written in a tailored level with redirections to appendices for the details.

A large number of experts were consulted in the course of my research and I appreciated their enthusiasm and commitment during interview and discussion of the issues. About 40 face-to-face interviews were carried out in different parts of the UK. While securing meetings with the right people occasionally proved challenging, I received much positive support and would like to thank the many people who provided assistance and encouragement during the project.

Firstly, I wish to express my gratitude to Dr.ing. A. den Otter M.Arch and ing. H. Kleine, both of whom who were hugely inspirational and provided me with comprehensive support in bringing this publication to fruition. Further thanks go to R. Young BSc CEng MICE of Glasgow, Scotland. In addition I am grateful to Professor C. Gray of The University of Reading for his input and commentary. I also wish to thank M. Jones for supporting me during the preparation phase of my period of foreign study at the University of the West of England in Bristol. I am grateful to all others who gave up time and effort to assist me with this multi-method dissertation project. A final note of thanks is extended to Prof.dr.ir. W.F. Schaefer of the CME education at Eindhoven University of Technology. Some of the main objectives of this research included the primary cornerstones of a modern educational system, such as strategic partnerships and value creation in construction, and I am grateful to the CME researchers for assisting me in pursuing my ambitions.

Daan Vermeer
3 November 2006

List of abbreviations

4ps	Public Private Partnerships Programme
AMP	Asset Management Plan
BREEAM	BRE Environmental Assessment Method
BSF	Building Schools for the Future
BVfM	Best Value for Money
CAPEX	Capital Expenditure
CIP	Continuous Improvement Plan
CJV	Construction Joint Venture
D&B	Design and Build
DBOM	Design, Build, Operate and Maintain
DfES	Department for Education and Skills
DQI	Design Quality Indicator
FBC	Final Business Case
FM	Facilities Management
ICT	Information and Communications Technology
ITCD	Invitation to Competitive Dialogue
ITN	Invitation to Negotiate
KPI	Key Performance Indicator
LA	Local Authority
LEP	Local Education Partnership
LIFT	Local Investment Finance Trust
MoD	Ministry of Defence
NDPB	Non-Departmental Public Body
NHS	National Health Service
OBC	Outline Business Case
OGC	Office Government Commerce
OJEU	Official Journal of the European Union
OPEX	Operational Expenditure
PFI	Private Finance Initiative
PfS	Partnerships for Schools
PID	Project Initiation Document
PPP	Public Private Partnership
PRG	Project Review Group
PSP	Private Sector Partner
PUK	Partnerships UK
SCM	Supply Chain Member
SBC	Strategic Business Case
SHA	Shareholders Agreement
SPA	Strategic Partnering Agreement
SPB	Strategic Partnering Board
SPSS	Statistical Package for Social Sciences
SPV	Special Purpose Vehicle (project company, consortium)
VEM	Value Enhancement Matrix
WRAP	Waste and Resource Action Programme

Most of these abbreviations are further explained in the List of Definitions in Appendix 1.

Executive summary

The Local Education Partnership (LEP) is a Public Private Partnership between a local authority, Partnerships for Schools (a non-departmental public sector body) and a Private Sector Partner (PSP). The LEP model creates a local development and delivery company through which strategic Building Schools for the Future (BSF) capital investment can be efficiently and effectively deployed by local authorities into their secondary schools estate. The BSF programme offers an 'exclusivity' period of 10 to 15 years for the partners of a LEP to complete the required programme of works and services. For the local authority client 'exclusivity' is a method that can help it incentivise the LEP to provide *Best Value for Money* performance in BSF projects, through a *Long-term Partnership* approach. There is a risk that the LEP might not be able to perform well because of a perceived lack of clarity between the client and the LEP about the definitions of Best Value for Money and Long-term Partnership in relation to the performance requirements in BSF. The central research question is: Are the performance mechanisms in the Strategic Partnering Agreement (SPA) between the LEP and the local authority effective to ensure that the LEP and its supply chain will perform for the duration of the exclusivity period in BSF projects?

This research is worthwhile because the SPA is using the terms Best Value for Money and Long-term Partnership consistently in relation to performance but no formal definition is provided. Furthermore the SPA indicates a risk for the PSP of a loss of exclusivity if performance by the LEP falls below the standards imposed. As a result such underperformance will lead to a reduction in the volume of work for the PSP and its supply chain during the course of the BSF programme.

To ensure that the LEP and its supply chain perform adequately for the duration of the exclusivity period the effectiveness of the performance mechanisms in the SPA is investigated in terms of measuring and assessing performance, setting out client's key performance requirements, and the delivery of the client's value objectives by private sector organisations. Effectiveness within this research very much depends on the ability of the LEP and its supply chain to meet the client's expectations in relation to the achievement of Best Value for Money performance and Long-term Partnership criteria. The effectiveness is determined by five related exploratory research questions covering the definition, identification, measurement, assessment and finally improvement of performance requirements set out in the SPA. For the latter question about improvement a Value Enhancement Matrix model has been designed and developed to process data about the clients' key value objectives in relation to other disciplines involved in the BSF programme. The multi-dimensional character of the model enables the preparation of a 'wish-list' of evidence based hypotheses to improve the working performance of the LEP partners. How performance mechanisms are being judged in terms of desired value objectives, and what the most important performance conditions are within those mechanisms can be assessed on multiple tier levels and multiple projects.

Within the UK construction industry it is apparent that there is a lack of consensus about what value ('best value for money') constitutes or how to measure and assess it. Additionally, there is an indication that the term 'long-term partnerships' is applied increasingly loosely to describe what is in fact a multi-faceted practice. Partnering is not an easy option. Teams undertaking partnering projects face a task of remarkable complexity and difficulty. Notwithstanding the perceived lack of clarity, it is still argued that both terms are strongly tied in with performance and in particular performance improvement.

A multi-method approach of literature research, policy review, a PFI case study, and benchmarking surveys have resulted in a comparison of BSF policy against current experience elaborated on a specific BSF project level. Since BSF was launched from 2005-2006 data was obtained from key disciplines from the first BSF projects that have reached the stage of preferred bidder. These are the projects in Bradford, Bristol, Lancashire and Sheffield.

The most effective performance mechanisms are the Partnering Services Specification, the Track Record & KPI test, and the Market testing Procedure. The Continuous Improvement Plan is also effective as it requires to demonstrate long-term Value for Money to reflect best practice, knowledge and experience gained over time and across projects. A performance mechanism with a limited effectiveness is the Benchmarking Procedure because it works from a cost-competitive perspective for New Build only. Any refurbishment and ICT projects are excluded from benchmarking. In addition quality and KPI performance are not yet benchmarked. The Value for Money Assessment Tool is of limited effectiveness as it is only applicable for elements procured under Private Finance Initiative (PFI) arrangements and there seems to be a general lack of clarity about this instrument. Lastly, the Collective Partnership Targets are very subjective and aspirational, whereby private sector organisations cannot be fully responsible as they have a limited influence on some of these targets.

The achievement of performance requirements can be a good basis upon which to measure the success of the partnership in BSF, on the assumption that all parties perform to the highest standards within their particular areas of expertise and responsibility. This approach could create the synergy required from BSF where the whole is greater than the sum of its parts if the parties are working with a common purpose.

“Not everything that counts can be counted;
and not everything that can be counted, counts.”

Sign in Albert Einstein’s office at Princeton

Contents

1	Introduction	1
1.1	Overview of the key problem situation	1
1.2	Central research question	3
1.3	Research objectives	3
1.4	Related research questions	3
1.5	Conceptual model	4
1.6	Target group	5
1.7	Timing of the research	5
1.8	Confidentiality	6
1.9	Validation	6
2	The Research Methodology	7
2.1	A comparison of Policy and Practice	7
2.2	Multiple Methods research strategy	7
2.3	Research structure	8
2.4	Entity definition from the central research question	9
2.5	Explanation of the entities	9
2.6	Research questions in detail	10
2.7	Face-to-face interviews and online questionnaire	15
2.8	Background of data suppliers	17
2.9	Data analysis	20
2.10	Reading guideline	20
3	Defining the theoretical context	21
3.1	Introduction	21
3.2	Critical views delivered by scientists and professional bodies	21
3.3	Motives for a mutual understanding	24
3.4	Critical views about the terms by specialists	27
3.5	Conclusions	28
4	A review of 'Building Schools for the Future'	29
4.1	The aim of BSF	29
4.2	Delivery of the programme	29
4.3	Structural BSF process	32
4.4	Evaluation of bids by the Local Authority	34
4.5	Selection of a Preferred Bidder	35
4.6	Overview of the Local Education Partnership model	36
4.7	The Supply Chain	39
4.8	Contracts for project delivery through the LEP	39
4.9	The Strategic Partnering Agreement	41
4.10	Exclusivity granted to the LEP	43
5	Delivering performance in BSF	45
5.1	Introduction	45
5.2	Defining Best Value for Money in the context of BSF	45
5.3	Defining Long-term Partnerships in the context of BSF	47
5.4	Identifying Best Value for Money in relation to performance	48
5.5	Identifying Long-term Partnerships in relation to performance	49
5.6	General findings on a BSF project level	49
5.7	Conclusions	50
6	Findings: Measuring performance requirements	51
6.1	Introduction	51
6.2	Performance mechanisms in relation to Best Value for Money	52
6.3	Performance mechanisms in relation to Long-term Partnerships	59
7	Findings: Assessing performance requirements	63
7.1	Introduction	63
7.2	Assessment of performance conditions	63

7.3	Value for Money Assessment tool	64
8	Meeting client's value objectives	69
8.1	Introduction	69
8.2	Working of the VEM model	70
8.3	Outputs from the VEM model	73
9	Conclusions	77
10	Discussion	79
10.1	Theoretical debate	79
10.2	Practical debate	79
11	Recommendation	80
11.1	Recommendation to private sector organisations	80
11.2	Recommendation for future research	80
12	Figures & tables	
12.1	List of figures	
12.2	List of tables	
13	Reference list	

Appendix

1	List of Definitions
2	Research Proposal (revised)
3	Overarching research design
4	Detailed research planning
5	Theoretical background
6	Protocols
7	Preliminary interview reports
8	Case study: West Lothian College PFI
9	Survey Questionnaires
10	Relevant Data outputs
11	Data analysis
12	Data implementation
13	BSF Information
14	Additional deliveries

CD Appendix:

- Summary reports preliminary interviews
- Table of findings BSF interview survey
- Table of findings BSF internet survey
- Value Enhancement Matrix model

1 Introduction

1.1 Overview of the key problem situation

The Building Schools for the Future programme (BSF) is a large government secondary education renewal initiative in England. 'Partnerships for Schools' (PfS) and 'Partnerships UK' (PUK) are responsible for delivering this programme. The latter was formed in 2000 by HM Treasury (UK's economics and finance ministry) and is a joint venture that bridges the gap between public and private sectors. PfS is a Non-Departmental Public Body that is owned by the government's Department for Education and Skills (DfES) and jointly funded by DfES and PUK.

The BSF programme is the biggest single UK government investment in *improving school buildings* for over 50 years. The aim of BSF is to rebuild, renew and/or refurbish all 3,500 secondary educational facilities in England over a 10-15 years period from 2005-2006, with all local authorities benefiting from the funding.

PfS will work in collaboration with 150 local authorities and the private sector partners to rebuild and renew all of England's public secondary schools to a 21st century standard during the 15-year lifetime of this £45 billion programme.¹

PfS has developed the Local Education Partnerships (LEP) model as a delivery mechanism for Building Schools for the Future (BSF). The LEP model allows local authorities to procure all the requirements of their local BSF programmes through a single Long-term Partnership with a Private Sector Partner (PSP), working together with PfS and the local authority in a joint venture company called a LEP.

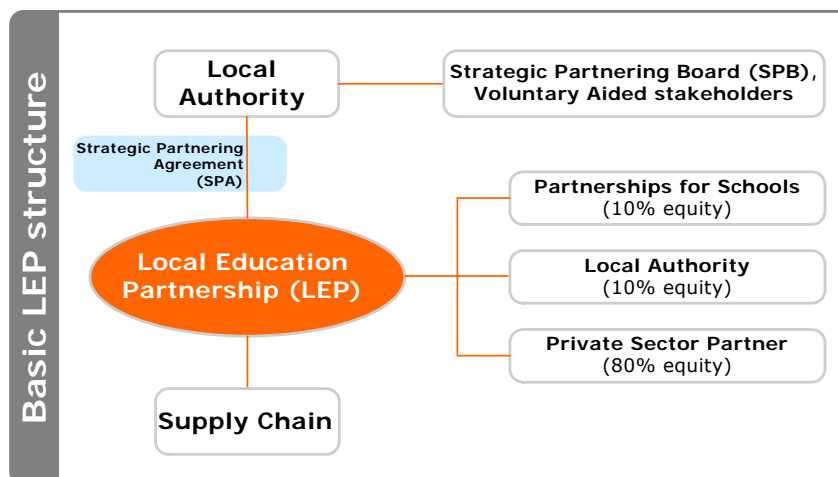


Figure 1.1 – Basic LEP model structure (BSF-standard, March 2005).

The LEP model as shown in its most basically form in figure 1.1 allows public and private sectors to engage at a strategic level on educational planning and delivery, and allows BSF projects to be developed and delivered without the need for repetitive and inefficient procurement. Given that BSF is a long-term programme and involves a complex mix of funding routes, services and contracts, the initial procurement has been designed to select a Private Sector Partner with a very wide range of skills and expertise and to establish a Long-term Partnership in order to develop and deliver projects in a manner that would deliver the BSF programme requirements at a local level.²

The BSF programme offers an 'exclusivity' period of 10 to 15 years to the LEP partners to complete the required programme of works/services. The establishment of a Long-term Partnership and the provision of High Quality Education Services are defined in the Strategic Partnering Agreement (SPA) between the local authority and the LEP. The SPA is shown in figure 1.1.

¹ BSF website: www.bsf.gov.uk (visited: July 2006)

² Introduction to the BSF standard documents, Partnerships for Schools, March 2005

Subject to the provisions of the SPA the LEP has the sole and exclusive right to provide all the works/services for the initial Capital Project and any Approved New Projects (SPA, clause 7.1 and 7.2). So the exclusivity granted to the LEP relates to the delivery of the initial BSF project and any subsequent New Projects in the first instance. However if the LEP does not perform adequately it can lose the exclusivity. Also if such projects require to be re-tendered upon termination arising from a breach by the LEP or upon expiry, the LEP is not entitled to any exclusive rights to re-tender.

For the local authority client 'exclusivity' is a method that can help them incentivise the LEP to provide *Best Value for Money* performance in BSF projects, without jeopardizing the *Long-term Partnership*. Ultimately the exclusivity encourages or motivates the partners within the LEP and its supply chain to add their distinct and complementary resources and skills to make the BSF programme work well (PfS, 2004a).

Key Problem

The key problem is that the LEP might not be able to perform because there is a lack of clarity between the client and the LEP about the definition of *Best Value for Money* and a *Long-term Partnership* in relation to the performance requirements in BSF.

The SPA indicates a risk for the PSP to lose the exclusivity if performance by the LEP falls below the standards imposed. As a result such underperformance will lead to a reduction in the volume of work for the PSP and its supply chain during the course of the BSF programme.

Offering exclusivity goes together with a number of provisions in the SPA to incentivise the performance of the LEP. This right of exclusivity is contingent on the performance of the LEP in all facets of activity for the LEP: development, procurement and delivery of the initial project and any Approved New Projects. The LEP's sole right to deliver any project in the strategic plan of the local authority is subject to meeting the Approval Criteria set out in the SPA.

The criteria involve:

- Demonstrating that the LEP's proposals meet the strategic requirements of the local authority, offer Best Value for Money and affordability, and are compliant with law and regulations;
- Demonstrating good track record performance on the delivery of previously approved projects;
- Demonstrating performance against a continuous improvement plan. (PfS, 2004a)

The SPA also indicates some other performance thresholds to be reached by the LEP, e.g. Partnering Services, Collective Partnership Target, benchmarking and market testing, and the fact that costs are only recovered from successful project delivery.

In addition the SPA (clause 2.3) sets out 9 non-binding 'high-level principles' which underpin the delivery of the parties' obligations under the SPA. The agreement has set out key principles for a successful partnering relationship between the parties. The most relevant principles are:

- a) Close working relationships between the LEP and the local authority at all levels;
- b) A focus on achieving Best Value for Money operational performance within agreed timescales;
- c) Enable the local authority and the LEP to establish and agree challenging time and performance objectives and to meet or improve them.
- d) Support, defend and promote the Long-term Strategic Partnering.

The argumentation for the key problem is discussed in chapter 3 and 4 with reference to literature, BSF policy documentation and preliminary meetings with experts.

1.2 Central research question

Are the performance mechanisms in the SPA effective to ensure that the LEP and its supply chain will perform for the duration of the exclusivity period in BSF projects?

Effectiveness within this research very much depends on the ability of the LEP and its supply chain to meet the client's expectations in relation to the achievement of Best Value for Money performance and Long-term Partnership criteria. In order to comply with the research objectives the effectiveness from this Central Research Question is determined in terms of:

- (1) measuring and assessing performance,**
- (2) setting out the client's key performance requirements, and**
- (3) the delivery of the client's value objectives by private sector organisations.**

A justified answer to this question is obtained by investigating current experience of the standard conditions contained in the SPA, elaborated on a specific BSF project level.

1.3 Research objectives

Research objective 1:

The first aim of the research is that private sector organisations will need to know (A) how performance requirements are being measured and assessed objectively in the BSF programme and (B) what the client's key performance requirements are, in order to win selection on Best Value for Money standards in the first instance and thereafter to maintain its exclusivity status and workload continuity.

Research objective 2:

The second aim of the research is that private sector organisations will need to know (C) how performance mechanisms are being judged by the LEP partners and their supply chains and (D) what their value objectives are, in order to meet client's expectations about performance in relation to Best Value for Money and Long-term Partnership criteria in BSF projects.

1.4 Related research questions

(Q1) → Theory & BSF Policy based question

Is it possible to have a theoretical as well as contextual understanding of the definition of Best Value for Money and Long-term Partnerships in BSF? (conclusions in section 3.5 and 5.7)

(Q2) → BSF Policy & Project based question

How can Best Value for Money and Long-term Partnerships be identified at BSF programme level as well as at project level? (conclusions in section 5.7)

(Q3) → Quantitative/Qualitative survey based question

On what Best Value for Money and Long-term Partnership criteria are BSF projects being measured objectively at the different project stages and procurement routes? (findings in chapter 6)

(Q4) → Quantitative/Qualitative survey based question

What are the client's expectations about the assessment of performance requirements of their PSP and its supply chain in relation to Best Value for Money and Long-term Partnership criteria in BSF projects? (findings in chapter 7)

(Q5) → Design based question

Is it possible to produce an implementation model for the PSP and its supply chain to help them improve the working performance of the LEP in BSF projects? (VEM model in chapter 8)

1.5 Conceptual model

The main definitions derived from the central research question and the objectives are summarized in the figure below. The purpose of this model is to show the causal from the relationships between all words and phrases. A more detailed research design in Appendix 3 also links this model with the related questions from section 1.4. The description of most of the terms is further explained in Appendix 1: List of definitions.

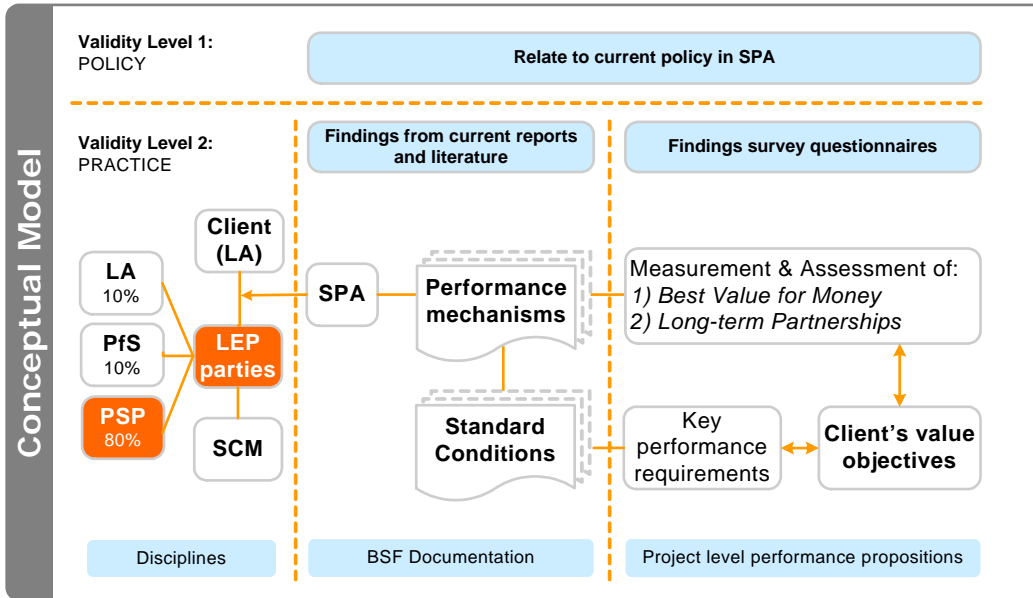


Figure 1.2 – Conceptual Model of the research with causal relationships

1.5.1 Primary research routing

Looking at the overarching research design in Appendix 3 it appears that the Conceptual model connects four of the research questions directly to Objective 1.

A summary is illustrated in the schedule below.

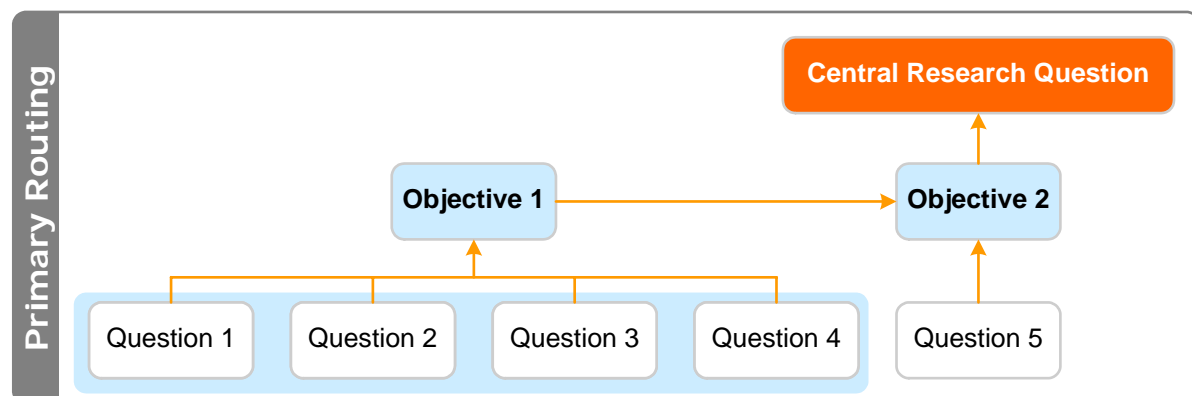


Figure 1.3 – Primary research routing

At first the outputs of Objective 1 are needed to deliver Objective 2, led through the answering of Question 5. The implementation model created from Question 5 will provide the data to judge about the effectiveness of the performance mechanisms in the SPA, as set out in the Central Research Question.

1.6 Target group

The research objectives are addressed to private sector organisations involved in the BSF programme, i.e. the PSP and their supply chain. The research is set up in collaboration with BAM PPP UK Ltd and therefore the outcomes are in particular directed to them, albeit they could be addressed to all private sector organisations.

BAM PPP a specialist investment company of Royal BAM Group, a world-wide construction services organisation listed on the Amsterdam Stock Exchange and turning over £5 billion annually. In the UK BAM PPP works with its sister companies HBG Construction and HBG Facilities Management to provide an integrated approach to Public Private Partnership (PPP) projects which takes account of the requirements of upfront delivery and long-term ownership and responsibility.

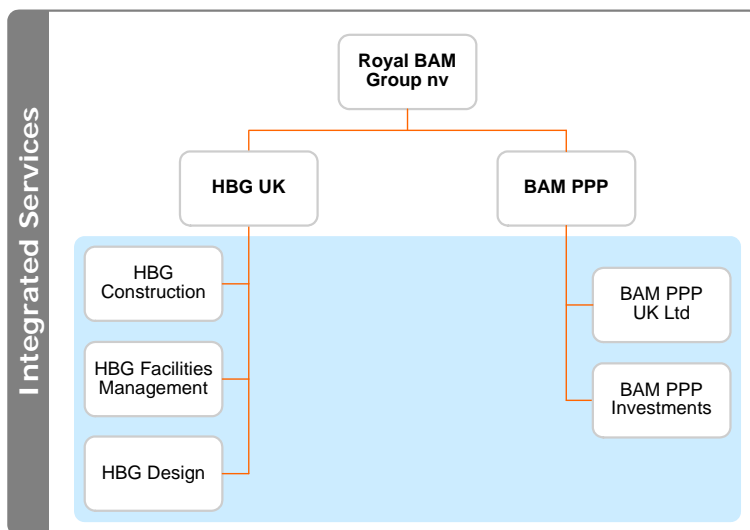


Figure 1.4 – Integrated Services (Royal BAM Group, 2006)

BAM PPP has its head office in Glasgow and operates in the UK, Ireland, The Netherlands, Belgium and Germany managing accommodations and infrastructure with a capital value of £1.7bn.

1.7 Timing of the research

The research spanned a period of 8 months, from March 2006 to October 2006. A detailed research plan is in Appendix 4. As the BSF programme was launched from 2005-2006 the first four BSF projects have not been delivered so only the initial stages can be reviewed. They all have reached the status of preferred bidder, but still need to work up to financial close. There is also no LEP set up yet. Hence it needs to be stressed that the findings from interviews are mainly based upon assumptions. This is why a meeting has taken place in advance of the actual research with Mr A. Robertson (Deputy Chief Executive, and Commercial & Financial Director) from PfS on the 25th of April 2006 (Appendix 7). He emphasised that the evidence based in this research will be the people's assumptions about their assumptions.

He agrees about the different interpretations and confusion about Best Value for Money and Long-term relationships that people bidding for the work might have. These are real subjects of debate during the negotiations with clients and potential private partners. Robertson argues that the delivering of Best Value for Money and having a fully working partnership is a difficult thing to do.

"It works well whilst you get this understanding. But at the moment this is a point that a lot of people need getting. It will be driven by perceptions, lack of knowledge and their feeling that understanding grows better in negotiations".

It is obvious that in a stage of 'preferred bidder' private sector organisations are not thinking at all about the contractual threshold to lose the exclusivity. Robertson argues that they want to continue and prepare the work they have been selected for. After a while they will start thinking about any thresholds. Then they will start again with issues in relation to partnering and performance and the continuous improvement of other future projects.

This research is very theoretical and prospective because no BSF projects have been built yet and accordingly real conclusions cannot be drafted upon hard data.

1.8 Confidentiality

The researcher is a student working on a joint-project from Eindhoven University of Technology and The University of Reading. The research was partly carried out from Glasgow and partly from Reading. The involvement of BAM PPP in this research is purely based upon their interests in the outcomes of this project. The collaboration encompasses financial as well as tutorial support. In exchange this report will only be provided to both universities and BAM PPP.

All 16 respondents from the interview survey and the committee of supervisors are allowed to receive the conclusions and a summary of this final report.

Due to the confidential nature of some information, certain details cannot be revealed, such as names of interviewees / companies in relation to certain project aspects and judgements.

1.9 Validation

The following research methodologies have been validated and consolidated:

Validation of research methodologies				
What:	Who:	Consolidation:	How:	Remarks:
<i>Literature Research Report</i>	<i>All supervisors</i>	<i>Accepted</i>	<i>Hand-in 12-02-2006</i>	
<i>Research Proposal</i>	<i>All supervisors</i>	<i>Accepted</i>	<i>Hand-in 12-04-2006</i>	<i>After several revisions</i>
<i>Reports preliminarily interviews</i>	<i>All supervisors</i>	<i>Accepted</i>	<i>Hand-in during April and May 2006</i>	
<i>Survey Questionnaires</i>	<i>Projects Director BAM PPP</i>	<i>Accepted</i>	<i>Pilot April 2006</i>	<i>After several revisions</i>
<i>Case Study Report</i>	<i>All supervisors</i>	<i>Accepted</i>	<i>Hand-in June 2006</i>	
<i>VEM model</i>	<i>All supervisors</i>	<i>Accepted</i>	<i>Support meeting 28-08-2006</i>	<i>After several revisions</i>
<i>Final research report</i>	<i>All supervisors</i>	<i>Accepted</i>	<i>Final Colloquium 03-11-2006</i>	<i>After green light meeting 18-10-2006</i>

Table 1.1 – Validation and consolidation of methodologies

2 The Research Methodology

2.1 A comparison of Policy and Practice

The methodology, strategy and structure of this research are diverse. Every research question has its own character and research methodology. A 'multiple method research' (section 2.2) approach has been undertaken. This study relies heavily on an 'exploratory research'. Robson (2003) classifies *exploratory* as follows:

- to find out what is happening, particularly in little-understood situations;
- to seek new insights;
- to ask questions;
- to assess phenomena in new light;
- to generate ideas and hypothesis for future research.

The essence is that fulfilling the research objectives in section 1.3 will lead to a grounded answer to the central research question. The objectives have a 'What' element, which suggests the use of a non-experimental fixed strategy (e.g. surveys). They also have a 'How'-element which indicates a flexible design of qualitative and quantitative data.

Validity of research objectives

Both objectives have two validity levels with which they have to comply. The levels are illustrated in figure 1.2. As a result the investigation for the related research questions 1 to 4 are based upon a summary of what is indicated in BSF standard policy documentation. This is primarily the SPA with its performance mechanisms. The second level of validity is the outcomes of the survey questionnaires from the LEP partners and their supply chain members on the first four BSF pathfinder projects. Their views will finally give an indication of the effectiveness of the performance mechanisms.

2.2 Multiple Methods research strategy

The research strategy is a Multiple Methods approach (Robson, 2002, pp370). One of the tools in this is triangulation. This is an approach used to combine qualitative and quantitative methods. Data triangulation is the use of more than one method of data collection (i.e. a case study project, interviews and a literature research). Each of the methods is indicated within a blue strategy box in the research design in Appendix 3.

Literature review

A literature study has been carried out based on existing theories. The aim is to produce a critical review of related subjects in order to get an in-depth understanding of research and policy delivered by other scientists and professionals respectively.

Another aspect of the literature research is to find new ideas, approaches or innovations and to consider whether they would have any use in the context of my dissertation project. The reason for this is to consider how projects may be managed in theory and to compare this theory with the way in which projects are managed in practice. A distinct understanding has to be achieved about the nature of the innovation and the scope for it to be implemented in construction. During this phase I have also interviewed experts in the construction industry to discuss their experiences related to aspects in the literature.

Survey research

The research strategy consists of a benchmarking interview and internet survey. Surveys can be useful to investigate the similarities and differences in expectations and working practice of performance mechanisms. The outcomes can be compared to the BSF standard documentation in relation to performance. A questionnaire has been prepared for 16 formal structured interviews with the key disciplines in the first BSF projects. More details are explained in section 2.5. The survey protocol is added in Appendix 6.1.

Case study research

The main purpose of doing a case study within this research is to produce a better perception of practice so as to produce better questions for the face-to-face interviews survey and the online questionnaire. In consultation with BAM PPP I have agreed to focus on one of the projects that they regard as best practice in PPP/PFI project delivery. The West Lothian College PFI is further discussed in a separate report in Appendix 8. A case study protocol has been produced and is added in Appendix 6.

2.3 Research structure

The research consists of qualitative and quantitative parts. Firstly a theoretical background has been shaped in order to come up with a robust problem definition. Several sources are used, such as scientific articles and books, reports and interviews with experts.

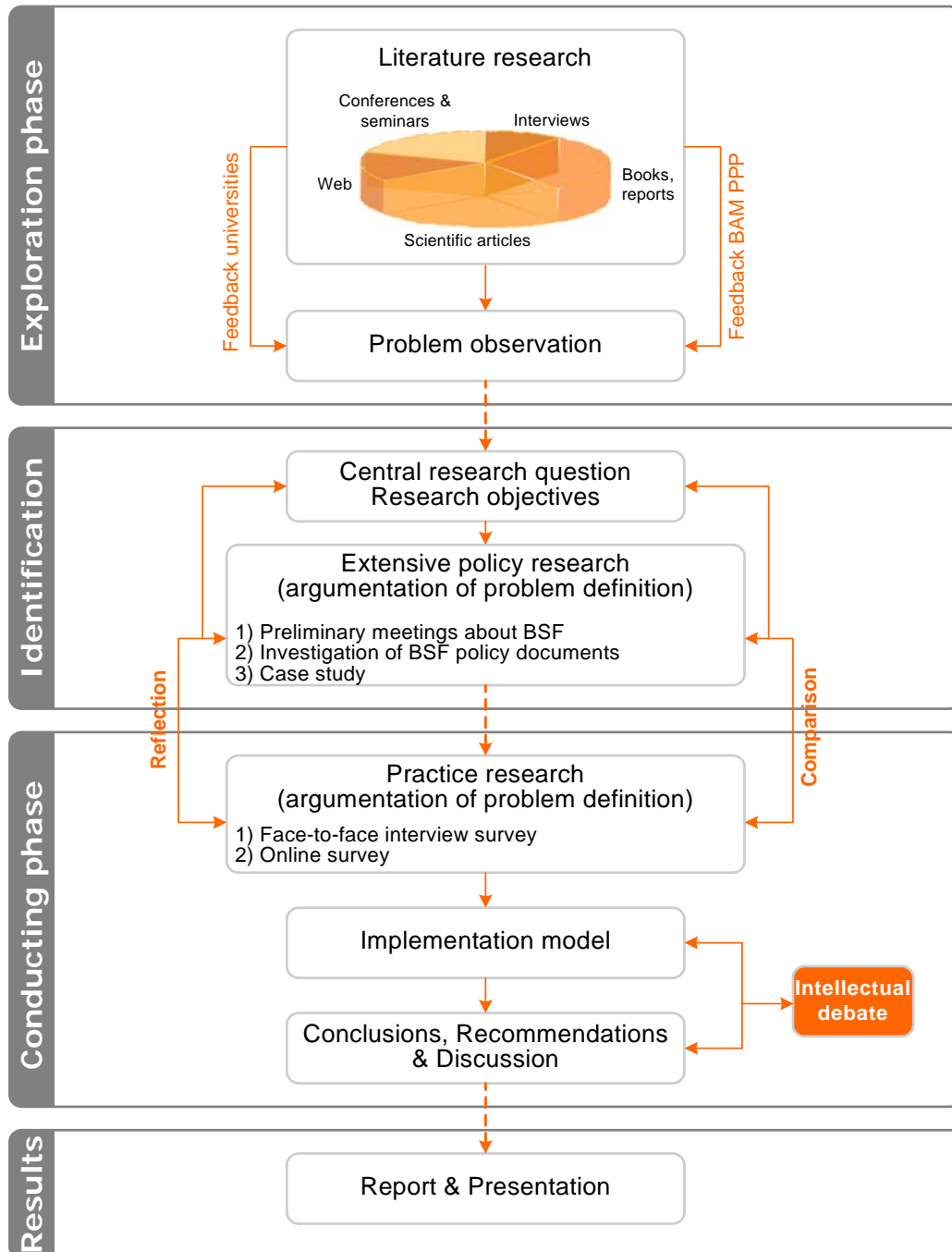


Figure 2.1 – Research stages

Subsequently a number of activities have been undertaken to bring in arguments about the existence of the key problem. Therefore an extensive review of the BSF policy documents was required. Also about 12 preliminary meetings and a case study have been carried out. The policy will be compared against the outcomes of a benchmarking interview survey. The most relevant outcomes that contribute to the client's value objectives are presented in an implementation model. More about this model will be explained in chapter 8. The boxes within figure 2.1 represent 4 phases of conducting research. Detailed corresponding time plans are in Appendix 2 and 4.

2.4 Entity definition from the central research question

The research entities are the LEP and its supply chain of projects within the BSF programme *where the preferred bidder has already been selected* (figure 4.2, p34).

These research entities will be involved in this research hence the specific research questions will be addressed to LEP partners and their supply chain:

- a) Local Authority (LA or client);
- b) Private Sector Partner (PSP);
- c) Partnerships for Schools (PfS);
- d) Supply Chain Member (SCM).

For the survey part of this research lessons can be learned from the experiences being gained on different levels and on different projects in an advanced stage of development. In consultation with BAM PPP and the universities the selection of the preferred bidder by the client will be sufficient.

Selection of a preferred bidder in BSF results from the following project stages: initiation, strategic planning, business case development, procurement planning to the actual procurement. During the procurement the client will select a preferred bidder. From that moment in the procurement stage both parties will continue to work up to the next stage of financial close, where a LEP can be established. A detailed explanation of the structural BSF process is described in section 4.2 to 4.5.

Furthermore considering the points from section 1.7, during the timescales of this research the only projects that have reached the status of preferred bidder are three of the first *BSF pathfinder projects* and one *first wave project*. They are the projects in Bradford, Bristol, Lancashire and Sheffield. Hence the *entity population* is 16, comprising 4 disciplines on 4 BSF projects. Each of the local authorities is discussed in more detail in Appendix 13.3.

2.5 Explanation of the entities

The key characteristics for each discipline have to be explained in more detail. I have only investigated disciplines of a basic LEP structure as illustrated in figure 1.1. Abstained parties from this model for further investigation are the Strategic Partnering Board, Voluntary Aided Stakeholders and any Debt Providers.³ The reason for their absence is that, in this preferred bidder stage, they still need to be developed and this has not been done yet. Another limitation is that doing more than 16 face-to-face interviews would be too risky due to time constraints.

Local Authority (LA)

The Local Authority is the council with statutory responsibility for delivery of education in a local area. The LA acts as the public sector client in BSF. In addition the LA is a shareholder of the LEP with 10% equity. The main roles of the local authority client are: the counterparty of the SPA, the formulator local authority requirements and approving/rejecting New Project proposals submitted by the LEP (The Projects Partnership & Capsticks, 2004). Representative business function for this discipline is the LA project director.

³ These parties are further explained in the list of definitions in Appendix 1.

Private Sector Partner (PSP)⁴

The private sector organisation with which a local authority enters into a PPP or PFI contract. In BSF, the PSP will have a majority stake of 80% within the LEP, and may also be in direct contract with the local authority through PFI contracts. A PSP may itself be a joint venture company with several consortium members but it may also be a singly company. Representative business function for this discipline is the PSP bid director.

Partnerships for Schools (PfS)⁵

This is the non-departmental public body (NDPB) set up to deliver the BSF programme nationally, jointly managed by the DfES and Partnerships UK.

On a local project level PfS acts as a policy gatekeeper, and assists with project development and management including:

- challenging local authorities in defining their educational strategy and how they will use the investment opportunities of BSF.
- assisting local authorities to select their PSP with which they will establish a LEP.

PfS is shareholder on each BSF project with 10% equity. Representative business function for this discipline is the BSF project director.

Supply Chain Member

This is any person or organisation engaged by the LEP or a project company from time to time as permitted in the Strategic Partnering Agreement. The key supply chain member will provide all or any part of the project services in relation to a LEP project for the Design, Build, Operation and Maintenance and ICT services (PfS, 2006b).

2.6 Research questions in detail

2.6.1 Question 1: Definition → Theory and BSF policy based question

Research Question 1 is: 'Is it possible to have a theoretical as well as contextual understanding of the definition of *Best Value for Money* and *Long-term partnerships* in Building Schools for the Future?'

Research type: exploratory, internet survey

The purpose of this question is to describe the theoretical characteristics of the definition (Chapter 3), as well as the prescriptive contextual relationships with BSF (Chapter 4). Also the different views about these definitions are investigated by the research entities on the first BSF projects (Chapter 5).

Specific analysis approach

In order to answer this question the following approaches have been deployed. A number of scientific articles and reports are consulted to produce a theoretical understanding of the two terms. Leading is the construction task force's widely cited *Rethinking Construction* report (DETR, 1998), its relatively recent sequel the *Accelerating Change* report (Strategic Forum for Construction, 2002), the report *Be Valuable* (Saxon, 2005), the new code of practice *Partnering in the Construction Industry* (CIOB, 2006), and guidance from HM Treasury and the Office of Government Commerce (OGC). Also several articles from the literature review have been exploited. In the context of BSF, PfS's standard documentation and guidance has been the most appropriate source of information. Leading is the *Strategic Partnering Agreement* (PfS, March 2006), the *BSF guide for school governors and headteachers* (4PS, 2005), and the BSF Handbook (The Projects Partnership & Capsticks, 2004). Finally, respondents from the online questionnaire have brought in their views in relation to the first research question.

⁴ BSF Glossary of Terms, BSF website: www.bsf.gov.uk, visited January 2005.

⁵ Partnerships for Schools website: www.p4s.org.uk, visited July 2006.

2.6.2 Question 2: Identification → BSF Policy & Project based question

Research question 2 is: 'How can *Best Value for Money* and *Long-term Partnerships* be identified at BSF programme level as well as at project level?'

Research type: exploratory, internet survey

The purpose of this question is to illustrate how Best Value for Money and Long-term Partnerships will have to be delivered according to the BSF policy. The other part of the question refers to the different views of the research entities on the first BSF projects. This question is discussed in Chapter 5.

Specific analysis approach

A thorough investigation of all the BSF standard documentation has been carried out, in particular the Strategic Partnering Agreement with its extensive series of appendices. The SPA refers to seven instruments to measure, assess or improve performance in relation to the delivery of Best Value for Money and Long-term Partnerships.

An analysis of the performance instruments contained within the SPA has been done. Also questions were asked within the online questionnaire about the adoption of each of the performance mechanisms.

2.6.3 Question 3: Measurement → Quantitative & Qualitative survey based

Research question 3 is: 'On what *Best Value for Money* and *Long-term Partnership* criteria is performance in BSF projects being measured objectively at the different stages and procurement routes?'

Research type: exploratory, face-to-face interview survey, internet survey

This question is also an exploratory investigation and discussed in Chapter 6. Not only are the characteristics described, but the relationships and differences too.

The purpose of this question is to explain the criteria to measure Best Value for Money and Long-term Partnerships. Therefore each of the performance instruments has been further investigated in more detail. This has been achieved through document review and benchmarking interviews about:

1. *The required adoption of each mechanism by the LEP;*
2. *Respondents' views about the effectiveness in relation to each project stage / procurement route;*
3. *Respondents' views about the importance of performance conditions;*
4. *A list of assumed benefits / drawbacks for each mechanism based on initial considerations;*
5. *A list of respondents' suggestions for improvement.*

Specific analysis approach and composition of the research population

After the literature review and detailed investigation of the BSF SPA, the relevant conditions can be further specified. A questionnaire has been produced (Appendix 9) with questions about the five aspects listed above.

Along with this survey the answering of this question 3 can be assisted by recent relevant research reports. For example some private companies such as Deloitte have already ventured into this subject. Also other sectors have contributed to this research. A predecessor of BSF in education is the LIFT programme (Local Improvement Finance Trust) in health.

The operational research population is fairly small due to a small number of projects that currently has reached a preferred bidder status. That is why the whole population of 16 respondents will be involved so accordingly no sampling test is needed. Further justification is contained in section 2.4. Diagrams and schedules have been produced through statistical software.

2.6.4 Question 4: Assessment → Quantitative & Qualitative survey based

Research Question 4 is: 'What are the client's expectations about the assessment of performance requirements of their PSP and its supply chain in relation to *Best Value for Money and Long-term Partnership* criteria in BSF projects?'

Research type: exploratory, face-to-face interview survey

This Question 4 is also an exploratory investigation and discussed in Chapter 7. The purpose of this question is to set out which performance instruments will be assessed by the client. Therefore the criteria to assess performance have been explained per instrument. Finally an exploration of the client's expectations is determined and differentiated for each of the research entities.

Specific analysis approach and composition research population

The investigation of BSF performance mechanisms from Question 3, along with the outputs of the BSF policy search from Question 2 will lead to a thorough review of a list of instruments that will be applied to assess performance in BSF. Therefore each of the performance instruments has been further investigated in more detail in relation to performance assessment obligations.

For one particular assessment instrument (Value for Money Assessment tool) the face-to-face interview survey has assisted to set out the expectations for each discipline and compare average judgements with the client's expectations. Diagrams and schedules have been produced through statistical software.

2.6.5 Question 5: Improvement → Design based question

Research Question 5 is: Is it possible to produce an implementation model for the PSP and its supply chain to help them improve the working performance of the LEP in BSF projects?

2.6.5.1 Research type: creative, face-to-face interview survey

A specific design approach has been undertaken in Chapter 8. Figure 1.3 shows that research questions 1 to 4 have to be answered first in order to meet objective 1. The input of the implementation model will be in particular the survey outputs from objective 1, i.e. the key performance requirements per discipline and in particular the client's.

The purpose of this question is to come up with a number of substantive and evidence based hypotheses. They will be multi level based on multiple projects, i.e. the first four BSF projects. However, they are multi level only in the extent to which the second tier LEP and third tier supply chain can meet the first tier client's expectations.

Ten major questions (the 'Value Measures') with which to judge the desired value objectives of BSF clients have been added to the survey questionnaire. Judgements have been passed by the respondents by answering the questions so as to provide the key value objectives per mechanism. As a result of the survey judgements can be drafted, based upon shared perceptions from each of the four disciplines. Hence the implementation model explicates:

1. How performance mechanisms are being judged by the LEP partners and their supply chains in terms of importance of performance conditions;
2. What their key value objectives are to meet the expectations of the client about performance in relation to Best Value for Money and Long-term Partnerships;

2.6.5.2 Specific analytical approach

The intended approach comes from theory in Total Quality Management, called: Quality Functional Deployment (QFD). Derived from this theory is the 'Value Enhancement Matrix'. The model can be found in Appendix 12.1.

The inputs of this model are (1) the key performance requirements for each performance mechanism (i.e. only the most important performance conditions mentioned by the respondents) and (2) the respondent's judgements about the 10 value measures.

The outputs by implementing this model on each of the performance mechanisms are:

1. A level of priority of the most important performance conditions;
2. The extent to which client's expectations about the most important conditions are shared by other disciplines;
3. The shared judgement of each of the partners about the 10 value measures;
4. The extent to which client's expectations about the 10 value measures are shared by other disciplines;
5. A level of priority based on the shared judgements of disciplines across the first BSF projects to meet client's expectations about the value measures in relation to the most important performance conditions
6. The important controls leading to value objectives that the LEP and its supply chain need to deliver in order to meet client's value objectives.
7. A separate table connected to this model shows the average judgement outputs for the 10 value measures;

The important controls from point 7 ensure the provision of a wholly answered Objective 2. The necessary input for the conclusions is now linked together. The evidence based hypotheses are listed in terms of higher expectations, lower expectations or expectations on target. The discussion of these statements is a part of the conclusion.

Diagrams and schedules have been produced through statistical software.

2.6.5.3 Quality Functional Deployment (QFD)

The QFD theory was first defined by Yoji Akao in 1966 and initially applied by Mitsubishi Heavy Industries in 1972. Basically QFD means deploying the attributes of a product or service desired by the customer throughout all the appropriate functional components of an organisation (ReVelle, 1998). The QFD approach is not new and the associated matrix has been used for years in all kinds of industries all over the world. QFD is not difficult to use and you can work with it on very different ways both in product or service design as well as in research or creativity. QFD is, in a way, both an advanced cause-and-effect analysis and a form of quality assurance (ReVelle, 1998).

Also other implementation approaches have been considered such as the Ishikawa cause-and-effect diagram and the Porras stream analysis method. The very well tailored steps within QFD approach made the approach better fit-for-purpose compared to the Ishikawa and Porras analysis.

The approach to QFD as described in (ReVelle, 1998) has a relatively high level of detail. In the context of this research project some of the Major Steps of QFD have been taken over. Therefore the word 'QFD' has been replaced with 'Value Enhancement Matrix' (VEM). But the principles of QFD remain for this research and are based on the first three Major Steps of QFD.

Step 1 of VEM model includes all the activities that focus on understanding the BSF performance requirements. The analysis of the client requirements starts with identifying the performance mechanisms and their Part Characteristics as described in chapters 5 and 6. The data produced are refined to the detail of specific performance conditions/topics for each instrument. The outputs for step 1 are all the performance conditions as listed in the tables of Appendix 11.1.

Step 2 involves gathering the voice of each of the partners, including the client, through a survey questionnaire. The purpose of this step is to establish a clear understanding of the needs of all key disciplines involved in BSF, particularly the subjective performance requirements of the client. The subjective performance requirements are referred to as the Demanded Values. The LEP and its supply chain are more likely to provide partnering services that meet or exceed the client's expectations.

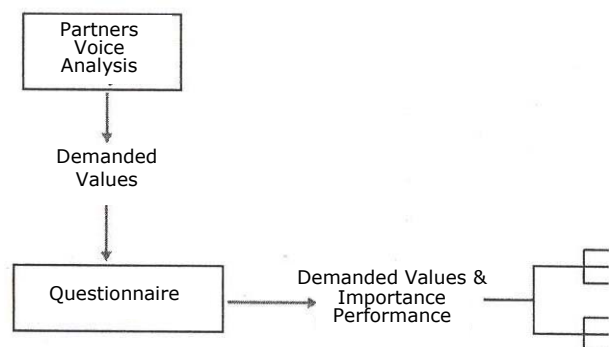


Figure 2.2 – Step 2: capturing and analyzing the voices

The output of step 2 is a prioritization of the most important performance conditions by all disciplines. This enables to rank each condition's relative importance and to benchmark this importance for each discipline against the client's.

The matrix used in step 3 translates the demanded values for each discipline into value measures of performance mechanisms. The value measures are the generated answers to 10 closed questions from the survey questionnaire.

The translation is important because it takes the closed answers (e.g. scant - modest - in-depth) and turns it into technical language with which research can be done.

For each discipline priorities are set for the Demanded Values, ranging from 'Important Priority' if mentioned by one respondent, to 'Highest Priority' when shared by four.

The value measures are used to prioritize research outputs. For example, which value measures judged by the client are equally judged by how many disciplines? The highest value measure is allocated in such a way as to build schools with the greatest positive impact on the client's expectations.

Value objectives can be set for each discipline, but only the PSP and their supply chain will be involved here in order to answer Question 5. By combining average expectations for each discipline across BSF projects it is possible to compare those with the expectation of the Local Authority client. Averages separated out for each discipline and are based upon the fact that 4 different assumptions (4 BSF projects per discipline) may vary or may be similar. *Similarity means: a particular judgement is shared by one discipline in two or more BSF projects.*

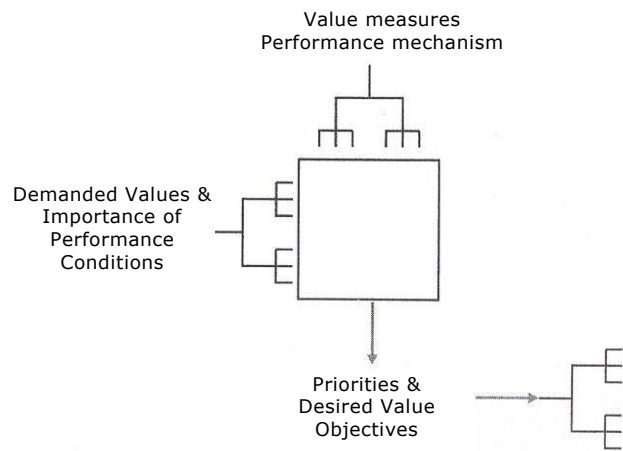


Figure 2.3 – Translating demanded values into value measures

2.6.5.4 The logic of the Value Enhancement Matrix

The data is organized into an L-type matrix, with the partner's performance requirements (the WHATs) including importance values down the left side of the matrix. The key value measures (the HOWs) are defined in columns across the top of the matrix. In the cells where the rows and columns intersect, the strength of their relationship is recorded. Relationships are categorized as: strong (double circle), medium (single circle), or weak (triangle). If there is no relationship, then the cell is left blank.

Strong means that a client's expectation is shared by the PSP, SCM and PfS.

Medium means that a client's expectation is shared by the PSP, PfS or SCM.

Weak means that a client's expectation is shared by the PSP only.

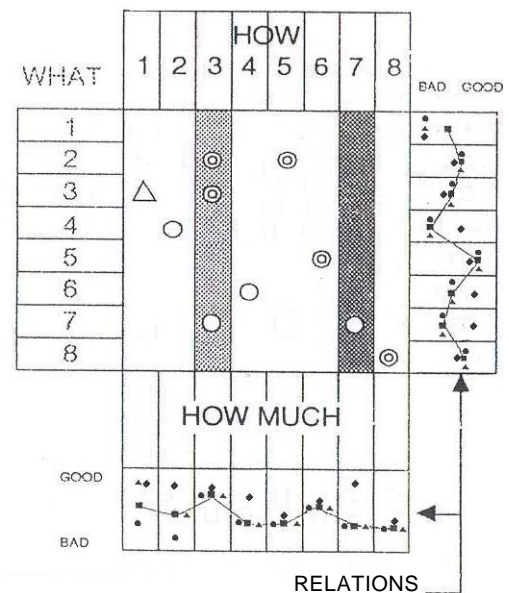


Figure 2.4 – L-type matrix with several relationships

Figure 2.4 is a basic example of a VEM model, derived from QFD theory. It gives an example in which column 3 has several strong relationships. It is obvious that column 3 is more important than column 7, because client's expectations are shared by all disciplines for that value measure and for several performance requirements. In other words, it satisfies a larger number of client wants. For the conclusion-making a priority score is calculated and expressed in a 1, 2, 3, etc. ranking, so as to come up with a 'wish list' of evidence based hypotheses for the delivery of client's value objectives by private sector organisations involved in BSF. Some additional more specific prior conditions are discussed in Chapter 8.

2.7 Face-to-face interviews and online questionnaire

Questions 1 to 5 are partly analysed through a benchmarking interview survey and by the data from the online questionnaire. Face-to-face interviews were conducted so as to provide answers on Research Questions 3, 4 and 5. A detailed survey protocol explains how the limited list of survey questions has been produced. The protocol is enclosed in Appendix 6.

In the early stages of this project, organisations involved in the delivery of the four first BSF projects were approached to participate in the research. A letter of support from Mr A. Robertson (PFS) was enclosed to the formal request mailings to each of the respondents (Appendix 14.1).

Initially an internet and document search was used as a source for identifying the key persons per discipline. Subsequently, some organisations that had been interviewed referred me to other contacts. Each respondent has to be a key figure within a discipline. That denotes the *project director* in most cases, except for Supply Chain Members. A key manager involved in the design, build, operation and maintenance has been approached here. Their names are listed in the next section, but no conclusions will be connected to a particular name. Conclusions are drafted upon shared opinions.

2.7.1 Producing the survey questionnaires

Once the initial questions were formulated, each question was further developed through critical discussions during ten preliminary interviews with experts in the BSF market, related PPP/PFI markets, or research fields. The case study project has also contributed to this process. Concurrent with these meetings a series of Deming cycles was undertaken with a view to developing the questionnaire. For both the face-to-face survey and the online survey the principles of the Deming cycle (Plan, Do, Check, Act) played a significant role in the design of the questionnaire. The principles of the Deming cycle are explained in the Research Proposal.

After a meeting was planned, the current draft questionnaire was subjected to critical discussion. As a result of the meeting some questions were amended and other new ones proposed. The relevance of the questions needed to be checked against the research questions and objectives. Finally the appropriate amendments could be done.

In addition both lists of questions were discussed with and reviewed by all supervisors in terms of their appropriateness and correctness. As a result it appeared that some questions were open to multiple different interpretations or were biased. Consequently a further revision of the questionnaire was undertaken, with the final version contained within Appendix 8.

Besides the questionnaires, the following supporting tools were employed:

- formal invitation letter for face-to-face interview;
- reminder invitation for face-to-face interview;
- table of findings with the answers from a meeting which will be send to interviewee afterwards;
- formal invitation letter for online questionnaire (sent after a face-to-face meeting is confirmed);
- reminder invitation for online questionnaire;
- the respondents have been able to download their completed online survey directly afterwards submitting the answers.

Each invitation and reminder has been provided with the letter of support from PFS. The respondents were asked to print off the outputs of the online survey and bring them during the face to face meeting.

Not all of the questions and answers were suitable for further research

During the final data processing process, it was evident that a number of questions from the online questionnaire were still scientifically incorrect. Learning how to produce questionnaires correctly and through consulting literature have helped me get questions right. As a result a limited number of 30 questions were used for this research, while the initial online questionnaire had 40 questions.

2.7.2 Conducting the benchmarking interviews

All interviews were face-to-face and most of them were held in the office location. There was one telephone interview, conducted after office hours due the full agenda of the respondent. Interviews to generate benchmarking data were conducted between May and June 2006. Ultimately, all of the 16 approached respondents were interviewed. Their composition is depicted in table 2.1. All of the respondents were prepared to assist and the general atmosphere was relatively positive. Most of the meetings lasted between 1.5 and 2 hours. In a few instances, the interviewees volunteered for only 1 hour. Fortunately all questions are covered, but in one case the questionnaire had to be completed through a telephone conversation afterwards.

Details from respondents					
No.	Name:	BSF project:	Discipline:	Organisation:	Business function:
1	Matthew Cooper	Bradford	Local Authority (LA)	Bradford Council	Project director
2	Gordon Clements	Bristol	Local Authority (LA)	Bristol City Council	Project director
3	Janet Newton	Lancashire	Local Authority (LA)	Lancashire County Council	Project director
4	Penny Pennington	Sheffield	Local Authority (LA)	Sheffield City Council	Project director
5	John Houlihan	Bradford	Private Sector Partner (PSP)	Amey - Costain	Bid director
6	Henry Carruthers	Bristol	Private Sector Partner (PSP)	Skanska ID	Bid director
7	Steve Endler	Lancashire	Private Sector Partner (PSP)	Bovis Lend Lease	Bid director
8	Christian Tyson	Sheffield	Private Sector Partner (PSP)	Taylor Woodrow	Bid director
9	David Burns	Bradford	Partnerships for Schools (Pfs)	PfS	BSF director
10	Mike Coleman	Bristol	Partnerships for Schools (Pfs)	PfS	BSF director
11	Richard Barnes	Lancashire	Partnerships for Schools (Pfs)	PfS	BSF director
12	David Burns	Sheffield	Partnerships for Schools (Pfs)	PfS	BSF director
13	Keith Hill & Daniel Matthey	Bradford	Supply Chain Member (SCM)	Costain Ferrovial	Supply chain manager
14	Dale Turner	Bristol	Supply Chain Member (SCM)	Skanska	Supply chain manager
15	Peter Hill	Lancashire	Supply Chain Member (SCM)	Bovis Lend Lease	Supply chain manager
16	Andrew Percival	Sheffield	Supply Chain Member (SCM)	Taylor Woodrow	Supply chain manager

Table 2.1 – Details interview respondents

Interview instruments

A questionnaire (Appendix 9.1) has been developed to facilitate the interviewing process. It consists of a mixture of open and closed questions and is focussed on performance measurement and assessment expectations. The questionnaire has been piloted by a Projects Director of BAM PPP in Glasgow in April 2006. On the basis of the pilot interview, the questions were revised and adapted for subsequent application. The results of the pilot interview were not incorporated in the overall body of the research as at that time BAM PPP had bid for two BSF projects, one of which was unsuccessful while the other had not been determined yet.

To produce correct and detailed answering from the questionnaire, each of the interviews was recorded digitally. This also enabled me to focus more on the conversation in stead of writing down precisely all the answers. This happened in detail afterwards along with the data processing. The research diagram and an outline of the research proposal were presented to each of the respondents at the start of the interview. It helped them understanding the essence of the project as an assisting tool during the introduction.

2.7.3 The online questionnaire

About one week in advance of every meeting the 16 respondents as mentioned in table 2.1 received an online questionnaire. However this online part of the survey was answered by 11 of the respondents (about 70% of entity population). The distribution of the disciplines is determined as follows:

Discipline	No.	% (of 16)	% (of 11)
LEP: Local Authority	3	19%	27%
LEP: Private Sector Partner	2	13%	18%
LEP: Partnerships for Schools	4	25%	36%
Supply Chain Member	2	13%	18%
	11	70%	100%

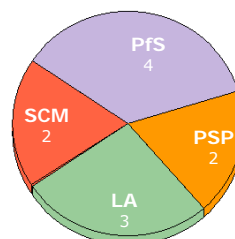


Table 2.2 – Distribution response online questionnaire

So there is a level of imbalance within the distribution of the disciplines. For the answering of research questions conclusions will not only be drafted upon these 11 respondents. Other sources of related research are consulted as well (section 2.6) in order to provide robust evidence.

Due to the limited response and the imbalance there are two limitations:

1. Percentages from the online questionnaire will vary from 0 to 100% when answered by the 11 representative respondents.
2. It is impossible to filter out average judgements per discipline as the software has not been set up for that. As a result of that average judgements can only be determined from all 11 respondents as a whole.

The average time taken to complete the online sessions was 1 hour. Some of the respondents commenced on a particular day and paused then for a few days. In fact they utilized the time flexibility offered from an online questionnaire.

Instruments online questionnaire

A paper copy of the online questionnaire is enclosed in Appendix 9.2. An online software package called NetQuestionnaires⁶ was used as a contemporary tool to gather data from respondents. The software was accessible from a server for a limited period of 6 months, which was sufficient for this project.

Every respondent was contacted in advance with an e-mail invitation. The mail contained a link with a unique username and password. So they can open the web page with the questionnaire and will see a welcome screen with some necessary instructions, such as:

- the purpose of the questionnaire;
- the content of the questions;
- what to do if extra help is needed;
- final requests (printing of the questionnaire);

The latter was very important so that we could discuss and come back to some items of the questionnaire during the face-to-face interview. The software also has a number of advantages for the data processing. As far as it concerns structured questions it can easily transfer the benchmarking data into diagrams. For the open questions data software has an export possibility to Excel. Besides there are also export possibilities to Adobe PDF and to SSPS software (Statistical Package for Social Sciences, v.14.0).

2.8 Background of data suppliers

The following subsections provide a brief on the organisations within each BSF project that provided data, their specific involvement in BSF and whether or not the respondents are involved in other PPP/PFI projects.

2.8.1 The respondents and their BSF projects

Partnerships for Schools is already working with the local authorities in waves 1, 2 and 3 of the BSF programme, as well as those selected in 2004 as 'Pathfinders' for the programme process. More about the waves and the programme process will be explained in section 4.2. However the progress reports from March 2006 in Appendix 13.2 show that during the start of the survey only three projects had reached the stage of preferred bidder. Sheffield announced their preferred bidder in May 2006. The BSF in Bristol reached financial close on 30 June 2006. This is the first ever LEP set up.

The following analysis relies on information generated by the analysis of the online survey with NetQuestionnaires software and project information available on each of the council websites.

⁶ NetQuestionnaires on www.netquestionnaires.com (2006).

The overview in table 2.3 shows that although the respondents are key figures within their organisations, they are working along with a team of professionals.

Number of staff involved in BSF	Number	Percentage
1	0	0%
2-5	0	0%
6-25	5	45%
26-50	2	18%
51-100	3	27%
101-500	0	0%
>500	0	0%

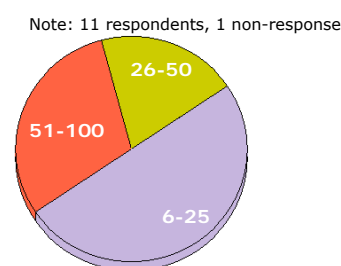


Table 2.3 – Distribution of BSF staff per respondent

From the perspective of performance in BSF the respondents were asked to keep a focus on their own discipline for the research interview. While complying with this request, some interviewees clarified that the emphasis on valuable experience sometimes needs to be shifted to other disciplines as they are not involved in a certain performance instrument. In most of these cases answers were registered as 'don't know', 'unsure' or 'not applicable'.

Table 2.4 shows the four first BSF projects that were investigated for this research. Each of them has tailored the educational vision of BSF within its own project also inspired by the Exemplar Designs for BSF produced by DfES in 2004. They all have a mixture of PFI and non-PFI procured projects. *Non-PFI projects are mainly Design and Build (D&B) or traditionally procured projects.*

Project summary ⁷				
	Bradford	Bristol	Lancashire	Sheffield
Number of schools in project	3	4	9	10
Number of pupil places in project	4.740	5.240	8.508	7.504
Project CAPEX £ million (includes ICT at 2006 prices)	71	98 (fin. close)	165	117
Number of schools funded through PFI	3	4	8	3
Next waves of investment if applicable	3	4 to 6	7 to 9	4 to 6
Estimated remaining number of mainstream secondary schools in BSF	23	6	75	14
Name preferred bidder	Integrated Bradford	Skanska	Catalyst Lend Lease	Paradigm

Table 2.4 – General project information of the first BSF projects

More detailed information about the schools, the funding, and timescales can be found in the progress reports in Appendix 13.2.

2.8.2 Involvement of interviewees in PPP/PFI projects

The mixture of PFI and non-PFI procurement strategies is proposed in the BSF programme requires a level of skills and experience from the parties involved. Some questions were asked in 'Section I' of the online questionnaire to test the resource strength from the interviewees.

Table 2.5 shows an equal spread of interviewees involved in some mixture of PFI and non-PFI procurement for other PPP/PFI projects and for BSF bids outside their current projects. However 3 respondents have never had any involvement before in this type of procurement.

⁷ Based on data progress report for August 2006, www.p4s.org.uk [visited: September 2006].

Involvement in bids characterised by a mixture of PFI and non-PFI.		
Answer	Number	Percentage
Yes, in other PPP/PFI's (e.g. NHS LIFT ⁸)	4	36%
Yes, in another BSF bid	4	36%
No	3	27%

Note: 11 respondents, 0 non-response

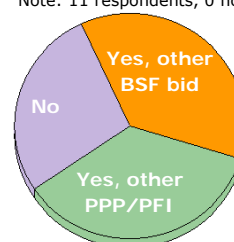


Table 2.5 – Involvement in bids with PFI and non-PFI procurement.

However the figures above imply a huge number of proficient interviewees, they do not indicate on how many projects their experience has been gained. The data in table 2.6 demonstrate that most of the interviewees (91%) have a large experience, outside their current BSF's, in combining a mixture of procurement strategies within a project. One interviewee declares not to have any experience yet.

Experience in combining PFI with non-PFI.		
No. of projects	Number	Percentage
0	1	9%
1	0	0%
2	0	0%
3	1	9%
4	2	18%
more than 5	7	64%

Note: 11 respondents, 0 non-response

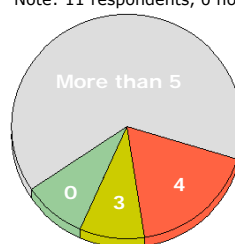
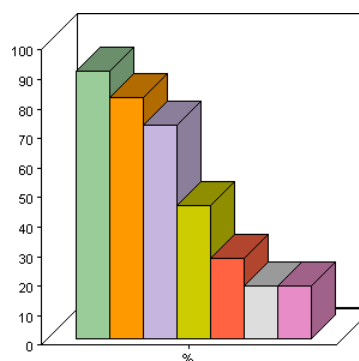


Table 2.6 – Project experience in combining PFI with non-PFI procurement.

A more in-depth discussion on the different procurement routes involved in BSF will come forward in section 4.8. The PFI procurement route allows a number of elements. For this research the following are investigated: Design, Build, Finance, hard FM, soft FM and ICT Services. The origin of the interviewees' skills and experience can be further clustered into these elements, as shown in table 2.7.

Involvement in each part of the PFI procurement route.		
Elements	Number	%
Design	10	91%
Build	9	82%
Finance	8	73%
Hard FM	5	45%
Soft FM	3	27%
ICT Services	2	18%
Other (specify): 'Strategy'	2	18%



Note: 11 respondents, 0 non-responses
Respondents were allowed to select multiple options.

Table 2.7 – Involvement in PFI clustered per element

The declining nature as shown in the diagram is partly explainable. PFI is a relatively new way of service delivery. The elements of PFI are chronologically ordered. Hence not all interviewees have achieved those stages yet.

⁸ NHS LIFT means Local Improvement Finance Trust. LIFT is a national wide renewal programme in the health sector, lead by the National Health Services and executed by Partnerships for Health. LIFT can be considered as a predecessor of BSF as this programme was launched on a similar basis in 2001.

2.9 Data analysis

A large volume of information was generated through the research interviews and internet survey. The quantitative data was analysed using the SPSS software.

The qualitative data, the major part, was analysed using Excel spreadsheet software. Large tables were produced for both the interviews and the online survey. All the data outputs are enclosed in Appendix 10 and in the CD appendix.

Table of findings

The interview tables are divided into six separate columns. Each column represents a performance mechanism. Thirteen similar questions were asked per mechanism, except the Value for Money Assessment tool. Due to the different questions for this tool, data has been processed on a separate sheet. Rows were separated out respectively for each question, discipline and each BSF project. The table of findings contains 16 variables per question. Most data was processed directly after the interview or at the latest one day after. This happened through carefully replaying the digital recordings of each meeting and rereading the completed questionnaires. The answers were transcribed into the cells of the spreadsheet. With 13 questions, 5 different performance mechanisms (and a sixth with a separate list of outputs) a database of more than 1100 variables has been accomplished.

For the online survey the NetQuestionnaires software produces separate PDF document reports for each respondent. It also benchmarks the quantitative data and produces another report for that. However the software does not report qualitative data. An export command transferred all qualitative data from NetQuestionnaires into Excel. As a consequence a new table of findings was produced for outcomes from the online survey.

Further data processing

The crude data was further processed through splitting them up in several parts:

1. Analysis of benefits and drawbacks;
2. Importance of performance conditions;
3. Quantitative value outputs;

Further discussions on each of these will follow in the coming chapters as they are needed for the provision of answers to research questions. However to achieve this goal, each of these five elements is compressed or expanded so as to reveal similar opinions coming from different sources. The results are added in Appendix 11.

2.10 Reading guideline

During the preliminary stages of this research the problem situation has been defined, along with the key problem definition, central research question, and objectives (chapter 1). In chapter 2 a detailed examination of the research methodology has been described. The next chapter will explain why the research problem exists in BSF.

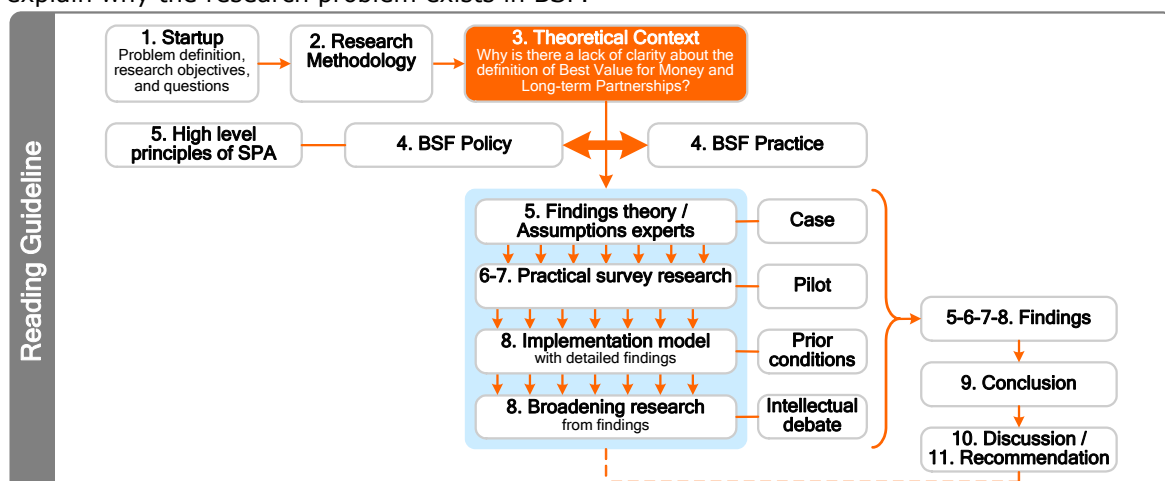


Figure 2.2 – The reading guideline

3 Defining the theoretical context

3.1 Introduction

This chapter underpins the key problem definition in chapter 1 from a theoretical perspective. The purpose is to provide an argument for the reason for the key problem.

Why is there a lack of clarity about the definition of *Best Value for Money* and *Long-term Partnerships* in the BSF programme?

A separate literature research report has been written during the preceding phases of this project.⁹ The emphasis in the literature research has been on issues related to Value for Money, contractual arrangements, competition and relationships in the organisations for construction projects. Some of the argument have been derived from that report, and are summarized in this chapter. Additional argument has been acquired while fulfilling the research through extra literature review, the preliminary meetings and investigation of the BSF standard documentation.

Three questions are discussed in order to answer the framed question:

1. **What are the critical views, new ideas or innovative approaches from researchers working on subjects (partly) corresponding with these two terms?**
2. **Are there any motives that help in getting a mutual understanding of these terms?**
3. **How do experts think that the BSF programme may contribute or hinder towards understanding these terms?**

The following sections answer each of these questions. The chapter will finish with some points for attention and a conclusion on the first part of Research Question 1: *Is it possible to have a theoretical understanding of terms 'Best Value for Money' and 'Long-term Partnerships'?*

3.2 Critical views delivered by scientists and professional bodies

The reform movement within the UK construction industry is by no means a new issue. A debate for change is supported by a huge number of publications and initiatives from The Latham Report in 1994 to the current establishment of Constructing Excellence (Fernie et al., 2006).

Among them are the Egan reports, to encourage the construction industry to focus on long term relations, supply side integration and integrated teams to increase value to the customer. *'The (construction) industry must replace competitive tendering with long term relationships based on clear measurements of performance and sustained improvements in quality and efficiency'* (Rethinking Construction, 1998; Accelerating Change, 2002).¹⁰

This statement, emphasised in two reports, seems to imply a fundamental worry for clients that what is being delivered is not meeting their expectations because of uncomfortable long-term relationships with their suppliers.

From the report; Accelerating Change, a recommendation is that: *'the (construction) industry should create an integrated project process around the four key elements of product development, project implementation, partnering the supply chain and production of components. Sustained improvement should then be delivered through use of techniques for eliminating waste and increasing value for the customer'* (Accelerating Change, 2002).

Following this statement another worry for clients might be how they can be sure that they will obtain the best possible value from their built assets.

⁹ The literature research was submitted on 12 February 2006. The report is divided into three sections:

- (I) Contractual and legal issues in the procurement of PFI projects;
- (II) Inter-supplier competition;
- (III) Temporary project organisations.

¹⁰ Both reports are chaired by Sir John Egan, and therefore they are known as the 'Egan report'.

3.2.1 Best Value for Money

The term Best Value for Money is frequently used in the BSF standard documentation. However the term in it self is not clearly defined in any of the contractual documents.

Also UK government uses the term in their latest report 'PFI: strengthening long-term partnerships' (HM Treasury, March 2006). The government uses a range of procurement structures for complex investment projects like BSF. Which route is chosen depends on which structure will offer best value for money given the particular characteristics of a project (HM Treasury, 2006, p27).

Apart from BSF the term seems to have a degree of self-interpretation and as a consequence it may become a loose and vague term. Brady et al. (2005) cite that '*...the construction industry has insufficient understanding of value whether in terms of cost, quality or whole-life value*'. This statement implies there is **no consensus** about what *value* is, not to mention how to measure and assess it.

The OGC defines Value for Money as 'the optimum combination of whole-life costs and quality (i.e. fitness for purpose) to meet the user's requirement' (OGC Procurement Guide 06, 2003). The definition of Value for Money has a similar meaning to Best Value, but implies that only money values are significant (Saxon, 2005).

Following these statements it appears that the definition refers to the *user's requirement*. Whereas in BSF the local authority is mainly representative for the end-user, they should come up with requirements of what represents Best Value for Money. On the basis of this consideration the private sector organisations will be instructed what they are to be required to do to in order to meet the best value criteria. On the other hand the private sector expertise can also take the lead in shaping project solutions.

So a major implication can be that the disciplines involved in the BSF projects might not have a common understanding due to a **lack of know-how**. Akintoye et al. (2003) suggests one possibility for the public sector to capture the existing PFI know-how is to set up a team that will move from one project to the next. It seems that the BSF programme is designed to address some of these problems, as the LEP will establish a framework of schools during the 10 to 15 years exclusivity period. Brady et al. (2005) cite in their research about integrated business solutions that '*...future research should aim to take a longitudinal approach in order to create opportunities for adequate feedback loops between different stages in the design-build-operate process.*'

Brady et al. (2005) suggest that the best opportunity for the introduction of a solution is in the context of PFI in the public sector or large clients who require repeatable solutions in the private sector. PFI contracts are now very largely standardised.

In BSF however, there is a mixture of PFI and more conventional procurement routes.

In general parties involved in PFI and non-PFI should continually bear in mind the correct adoption of Best Practice and be aware of **how to apply Value for Money tests and tools**. Ball et al. (2003) conclude that 'there is some indication that if things go well that the private sector will benefit, but if things turn out badly then the public sector client finds it hard to exact the penalty regime that was laid down'. Continued monitoring and performance measurement of current projects may help to find out more about this. However the OGC Business Guidance (2004) argues that tools to create Value for Money still need to be implemented through a number of methods. Projects within the current BSF programme are provided with these tools.

More about the definition of Best Value for Money in relation to tests and tools will be discussed in section 5.2.

Among the implication mentioned above, all parties of PFI sectors indicate that **inadequate risk management** has a diminishing impact on Best Value (Akintoye et al, 2003). Risk management could demonstrate considerable advantages for both the public and private sector partners, if conducted adequately in the PFI process in view of the Best Value expectations. Improvements are suggested in dealing with risk management such as staff training, increased risk awareness, development of databases of historic statistical data, performance measurement and

benchmarking. Akintoye et al. (2003) conclude in their research that the majority of the public and private sector respondents believe that PFI processes have to be further standardized, in order to reduce time delays, professional fees and costs involved.

In addition Akintoye et al. list the following barriers in the optimal attainment of Best Value in PFI:

- The cost of PFI procurement is high;
- The negotiations are lengthy and complex;
- There is difficulty in specifying the quality of a service compared to specifying a tangible asset;
- Pricing the FM services in a vacuum during the bidding stage;
- There are potential conflicts of interest. These could arise between different participants as they are looking at the scheme from different perspectives;
- Clients are unable to manage PFI projects properly, especially the consultants.

3.2.2 Long-term Partnerships

This term is very much consistent with the definition of a strategic partnership. The BSF programme uses the term '*long term strategic partnering*' in its standard documentation. The SPA states: 'this agreement establishes a long term strategic partnering relationship between the LEP and the local authority relating, inter alia, to the delivery of improved education facilities and services in the area' (SPA March 2006, clause D, p1). In addition the first high level principle of the SPA is '... to develop a close working relationship between the LEP and the local authority at all levels' (SPA March 2006, clause 2.3, p2).

According to Bennett and Peace (2006) strategic partnering means firms supporting project teams in partnering over a series of projects. The OGC states that strategic partnering involves the integrated supply team and the client organisation working together on a series of construction projects to promote continuous improvement (OGC Procurement Guide 05, 2003). More about the definition will be discussed in the next section.

Two major implications are in the conclusions from research by Bresnen and Marshall (2000c) about partnering in construction. '**Partnering** is becoming more and more a loose term to describe what is in fact a multi-faceted practise. They also argue that partnering is not always seen as necessary or desirable. Secondly, they mention that '...a lot of emphasis has been placed upon exploring interrelationships between formal and informal aspects of partnering'. He concludes that it is much too simple to presume that project team building, the application of tools and techniques, and strong commitment from top management, is all that is needed. Bresnen and Marshall (2000c) who cite Lewin (1951) and Kotter and Schlesinger (1979), suggest that implementing partnering may require also a sensitivity to factors that wisely empower particular ways of working, an understanding of the likely impact on individuals' and groups' motivations and interests, and a full appreciation of the complex. Their critical statements serve as a reminder that **partnering is not an easy option. It is tough**. Also Bennett and Peace (2006) note that it has to be worked out by everyone involved to achieve the full benefits of partnering. Teams undertaking partnering projects face a task of remarkable complexity and difficulty.

According to the OGC 'long-term collaborative relationships (strategic partnering) can promote better Value for Money by encouraging clients and suppliers to work together as an integrated project team' (OGC Procurement Guide 05, 2003). Partnership arrangements may take the form of charters or non-binding statements. The latter is the most usual form seen on individual PFI projects. The National Audit Office also recommends adopting a partnership approach to PFI projects based on a common vision of how parties will work together to achieve a mutually successful outcome (NAO, 2001). However in PFI partnering is also being used to bundle small projects which cannot be tendered cost effectively as individual PFI's. PFI is increasingly seen as a facilitator for projects. Also for those which initially have no PFI element (Roe, 2003). In the public sector it has become clear that **PFI is not a universal solution to all complex situations**. According to Roe in many cases the intention is to use PFI increasingly in a standardized way.

A major implication according to Bresnen and Marshall (2000a) is that **collaborative approaches do not necessarily remove conflicts at source**. Collaborative teams may need to conquer a number of practical barriers, including difficulties in providing continuity of work and overcoming feelings about long-term relationships being too 'cosy' and consequently less competitive (Bresnen and Marshall, 2000a).

Love et al. (2002) who cite Morrison and Mezentseff (1997) suggest that 'a learning alliance is crucial to a cooperative environment where learning is encouraged and reflective in nature and through which participating parties will strive together to meet the objectives of the relationships'. So they argue that **it is important to evolve and learn while working in a close cooperation**. They also cite Mintzberg et al. (1996), suggesting that within some cooperative relations, partners may begin to lose their competitiveness and vision once they become dependent on the capabilities of other parties. In BSF the continuous improvement plan is designed to deal with some of these issues.

Roe (2003) lists a number of major problems that can arise in partnering relations. Some of them might be reasons why **implications can develop while working with multiple partners**. Roe (2003) mentions:

- unwillingness to trust team members and a tendency to blame them rather than trying to resolve problems;
- resistance to communicate freely, either internally or externally, and to raise problems for early resolution;
- complacency and opportunistic behaviour;
- lack of recognition of the importance of individuals with the organisation;
- lack of individual empowerment;
- unwillingness to share detailed information, skills and people;
- deep-rooted distrust of contractual opponent parties;
- lack of commitment to improve by management and other people within the organisation.

3.3 Motives for a mutual understanding

The critical views from the previous section may not be sufficient, and there may be more. The existence of these views from researchers shows that there is a non-biased tendency that more clarity about the two terms may be required by the key participants in BSF. This is being discussed in Chapter 5.

The scientific sources do not solely come up with critical views, ideas and innovations. Some of their conclusions are discussed and summarized below. The goal is to reveal suggestions that may help getting a mutual understanding of Best Value for Money and Long-term Partnerships in construction. Therefore I have picked out the highlighted aspects from section 3.2 and provide suggestions for a better common understanding based upon various scientific sources.

3.3.1 Understanding 'Best Value for Money'

This paragraph is based on the report Be Valuable (2005)¹¹ and also research from Akintoye et al. from Glasgow Caledonian University in 2003 about 'Achieving best value in PFI project procurement' (2003). Argumentations are also provided by other reports and research articles on related subjects. In order to define Best Value for Money the term has to be divided into 'Best Value' and 'Value for Money'. Each of them is further analysed below. *In addition an in-depth review of the term 'Value' is provided in Appendix 5.1.*

¹¹ 'Be Valuable' is the title of a report by the Be/nCRISP Value Task Group from Constructing Excellence, led by Richard Saxon (2005). The report complements to work of other organisations such as the Commission for Architecture and the Built Environment (CABE) and the Office of Government Commerce (OGC).

3.3.1.1 Best Value

'Best Value' is a relative notion, which refers to the optimum outcome of a business process. Best Value is expected to help organisations improve their performance (Akintoye et al., 2003).

In 1997, the UK Labour government introduced the Best Value requirement in order to redefine the primary objectives of public sector organisations in relation to efficiency and quality of public services. As it requires a cultural change, the adoption of a Best Value regime is a gradual, long-term process, the success of which depends on a number of aspects, such as:

- the ability to adopt a critical attitude and to identify problem areas;
- accessing and acquisition of advanced knowledge for cost effective solutions;
- the establishment of proper lines of communication;
- sharing knowledge internally and externally;
- setting new targets, etc.

Akintoye et al. (2003) argue that 'despite government guidance, Best Value has remained difficult to define'. It seems that the term is useful more in relation to public sector organisations. The Be Valuable report defines 'Best Value' as follows:

"The optimum mix of benefits and sacrifices involved in the view of the decision maker. This may range from the lowest whole-life costs achievable for a standard benefit package to the most benefits available for the resources allocated."

According to the DETR (1999) there are four key principles to facilitate the implementation of Best Value: accountability, transparency, continuous improvement, and ownership. The Local Government Act (1999) imposed the duty of Best Value on councils in England and Wales. A Best Value Task Force (BVTF) was set up in Scotland in May 1997 to develop the essential elements of Best Value, and long-term arrangements for achieving it. They produced three reports in which they identified the foundations of Best Value. Their first report (July 1997) identified the main principles and elements of Best Value. It emphasised partnership, operation with minimum prescription, building on good experience, and avoiding new bureaucracy. The second report (July 1998) developed a Best Value system, called the Performance Management and Planning framework. The last report (March 1999) was a consultation paper for the long-term arrangements for further development of Best Value as a framework approach.

Akintoye et al. mention that the developed Best Value approach emphasises efficiency, Value for Money, and exact quantitative performance standards. It requires new ways of partnerships with private sector organisations. It also requires public sector organisations to serve the public in the best possible way in all aspects of service provision.

3.3.1.2 Value for Money

The Be Valuable report argues that the definition of Value for Money has a similar meaning to their definition of Best Value, but implying that only money values are significant.

HM Treasury clearly connects Best Value and Value for Money with PFI in: Meeting the Investment Challenge (2003), Value for Money Assessment Guidance (2004) and in PFI: Strengthening long-term partnerships (2006).

Assenova et al. (2002) who cite Arthur (1999) explain that Best Value is often understood as a part of the obligation of local authorities to ensure Value for Money. However it is primarily intended to guide the activities of Local Authorities, while PFI has been seen as the government's preferred procurement strategy, which, in practice, may or may not be compatible with Value for Money or Best Value requirements.

The OGC defines Value for Money as *'the optimum combination of whole-life costs and quality (i.e. fitness for purpose) to meet the user requirement'* (OGC Procurement Guide 06, 2003).

The government has emphasised that PFI would be used where it offered Best Value for Money. In order to achieve this, HM Treasury published the Value for Money Assessment Guidance (2004). HM Treasury recommend stopping PFI where it was not found to be likely to generate Value for Money as was the case for Information and Communication Technology (ICT) projects and projects

with a capital value of less than £20 million (HM Treasury, 2006). To achieve Value for Money in a PFI project it is important that it will be measured through KPIs and to ensure that testing is done on the market feasibility. Value for Money measurement and assessment is used to ensure that a particular project will achieve Best Value (Akintoye et al., 2003). Therefore the project needs to be placed in a competitive market, the proposed procurement process has to keep transaction costs to a minimum and a realistic and quick procurement timetable needs to be feasible and maintained. It can be assessed on the level of the investment programme, the procurement level and the project level (HM treasury, 2004). It is also important to ensure that during the procurement process, there is no market failure or abuse that jeopardises Value for Money (HM Treasury, 2004). More about the measurement and assessment of Value for Money in BSF will be explained in chapters 6 and 7.

Risk Transfer

Akintoye et al. (2003) argue in their book 'Public-private Partnerships' to strike a balance between Value for Money and risk transfer. The following quote is reported by the NAO (1999):

'Appropriate risk allocation between the public and private sectors is the key to achieving Value for Money on PFI projects. If the private sector is asked to accept responsibility for a risk that is within their control, they will be able to charge a price for this part of the deal which is economically appropriate. However, if the Department seeks to transfer a risk which the private sector cannot manage, then the private sector will seek to charge a premium for accepting such a risk, thereby reducing Value for Money. The Department should therefore have sought to achieve not the maximum but rather the optimum transfer of risk, which allocated individual risks to those best placed to manage them'.

The public and private sector negotiate with each other for several months to sort out the ownership of risks. The negotiations continue until all risks have been priced and allocated to one of the parties. Akintoye et al. (2003) illustrate the quest of risk transfer by means of maximising Value for Money in this figure 3.2. This research has a focus on the performance aspects. Investigation risk aspects would be a subject for future research.

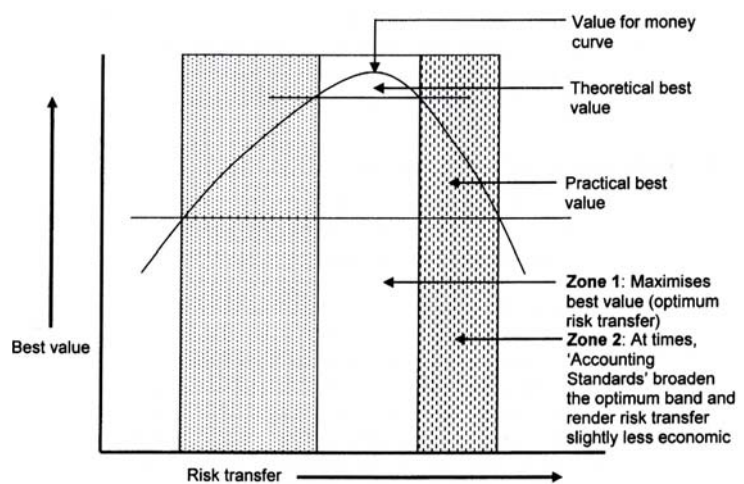


Figure 3.2 – The balance between Best Value and Risk transfer

3.3.2 Understanding 'Long-term Partnerships'

This paragraph is based on two recent publications: 'Partnering in the Construction Industry: a code of practice for strategic collaborative working' (Bennett and Peace, 2006)¹² and the report 'PFI: strengthening long-term partnerships' (HM Treasury, 2006). Argumentations are also provided by other reports and research articles on related subjects.

Green (1999) argues that whilst *partnering* is often equated with *long term relationships*, the two terms are not synonymous. Several sources make a distinction between 'project specific' partnering and 'strategic' partnering, where partners work together on several projects (Construction Industry

¹² 'Partnering in the Construction Industry: Code of Practice for Strategic Collaborative Working' is the name of a book by John Bennet and Sarah Peace (2006). The book is acknowledged by the Chartered Institute of Building (CIOB), Constructing Excellence, Institute of Civil Engineers (ICE) and Royal Institute of British Architects (RIBA). The book explains how clients and construction firms using partnering can achieve ever highest levels of efficiency and certainty to provide world class buildings and infrastructure of all kinds.

Board, 1997). This contradicts the assumption from the OGC Procurement Guide 05 (2003), quoted in section 3.2.2, that *long-term collaborative relationships* are equated with *strategic partnering*. Also the terms partnering and alliancing are often used interchangeably, although alliancing is perhaps more often used to refer to partnering on single projects. Alliancing is more detailed and considerably more formal than other partnering arrangements (Roe and Jenkins, 2003). In order to define 'Long-term Partnerships', the term is subdivided into 'partnering', 'project partnering', and 'strategic partnering'. The latter is discussed below. *A detailed discussion about the definition of the first two terms is in Appendix 5.*

3.3.2.1 Strategic partnering

Project partnering means a project team partnering on an individual project. Strategic partnering means firms supporting project teams in partnering over a series of projects. In BSF the LEP and its supply chain will be composed of those firms. *According to Bennett and Peace (2006) the purpose of strategic partnering is to enable the partners to carry out projects effectively by acting and thinking long-term.* A strategic partnering exists when two or more organisations develop a close, long-term relationship based on working together to enable them all to secure the greatest benefits.

Strategic partnering supposedly allows the benefits of continuous, measured improvement however it demands that each project exceeds the performance of the previous one (Green, 1999).

Strategic partnering is a set of actions taken by a group of clients, consultants, contractors and specialists to help them cooperate in improving their joint performance over a series of projects (Bennett and Peace, 2006).

The organisations accept that cooperative teamwork is more effective and efficient than competition. It works because the parties involved have an interest in each other's success. Strategic partnering is based on the most fundamental reason for people to cooperate. This is not that they trust each other; it is because they expect to work together again in the future. Bennett and Peace (2006) emphasise that it is entirely natural for people who expect to interact in the future to cooperate. When they expect not to interact again, they look after their own interests. It is safe to trust people to behave in that fundamentally human way.

Strategic partnering develops over repeated interactions between firms as the people they employ learn to cooperate. It usually develops as an extension of a single or initial project partnering. The set of actions from the definition are taken by the people involved. They are guided by an agreed strategy and they use feedback to ensure that they will continually improve their performance. Bennett and Peace (2006) came up with a set of actions found in best practice as shown in figure 3.4.

The actions aim to agree an overall strategy, ensure the right firms are included, financial arrangement support partnering, firms' cultures, processes and systems are integrated, the most effective project processes are used, measured performance continuously improves and the whole arrangement is guided by feedback.

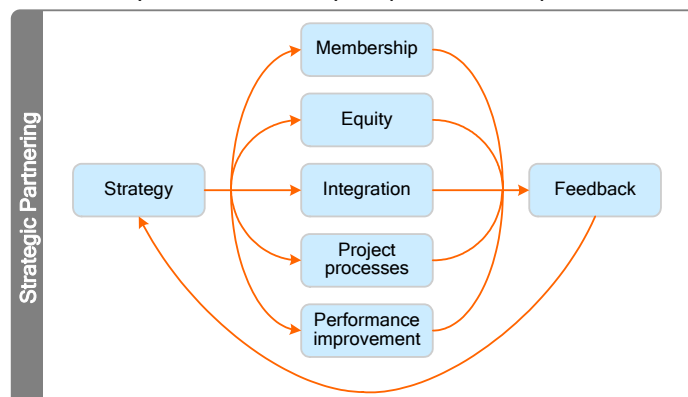


Figure 3.4 – The seven pillars of partnering (Reading Construction Forum, 1998)

3.4 Critical views about the terms by specialists

The research has been assisted by examining the issues of Best Value for Money and Long-term Partnerships in the context of the BSF programme. The programme requires procuring parties to perform well during procurement, project development and service delivery. During the preliminary

meetings I have asked specialists in BSF how they think this mixture of performance requirements will affect the Long-term Partnership relations and the achievement of Best Value for Money. This is a summary of their reactions:

<p>Best Value for Money</p> <ul style="list-style-type: none"> • It would be good to categorize the two definitions to make the requirements for it more understandable (P. Williams); • 'Best' might be different for each discipline involved so you are going to measure success in different ways (T. Neal); • There is an issue about Best Value because it is not a progressive measurement. 'Best Value' is a point in time; 'Better Value' is a continuing. You can either say 'Value for Money' or 'Best Value', not 'Best Value for Money' (T. Neal); • Best Value for Money is a requirement from the public sector. It is the ease of working with people. It is not visible on a project level, but more about the way in which people collaborate. On a project level it is common to explain it financially (C. Seabury); • There is a lot of pressure on Value for Money on every level. Every local authority will give their own view on what they mean by Value for Money (D. Hutton); • Regarding Value for Money as a separate grant of evaluation it would be worth to have a look at the PfS evaluation matrix for scoring of bids (D. Hutton);
<p>Long-term Partnerships</p> <ul style="list-style-type: none"> • PFI is no partnership, it is a funding method. If PFI would be a partnership then all other procurement routes would be partnerships too (W. Hughes); • Partnerships should work for dealing with complications and complexities, however people need to understand first what partnering is and how to do it (A. Robertson); • Every partner in a project has its own expectations and requirements. So there is no one size fits all partnering solution at all. In stead of making money while procuring for clients, partnering is a way of getting repeat business to ensure benefits for all (I. Scaife); • A PSP needs to have a clear understanding about the educational agenda and how you as a partner can work with the education authority to achieve and attain to the standards and reactivity as required in the business case (E. Baldwin);
<p>Performance</p> <ul style="list-style-type: none"> • Clients should think about what the performance parameters are (D. McDonald); • More efficiency can be created by combining whole life price with multi-tasking organisations (D. McDonald); • Continuous improvement may involve more costs for the client (D. McDonald); • Would you get a better partnership if you raise the level of performance requirements (higher standards)? How does the achieving of the requirements affect the success of a LEP? (I. Scaife); • Performance is based on you being paid. If you don't perform you will get deductions. So you <i>have to</i> measure performance (E. Baldwin); • How do you measure relationships, cultural fit, and personality to make sure they fit with the client? (E. Baldwin);

3.5 Conclusions

The term Best Value for Money consists of a combination of Best Value and Value for Money, whereby Best Value is defined as the optimum mix of benefits and sacrifices involved in the view of the decision maker. In terms of Best Value in relation to money values the curve in figure 3.2 shows that an optimum Value for Money can be reached depending on the amount of risks being transferred by the decision makers.

For BSF the definition of Best Value for Money seems to demand a more integrated solution due to the phenomenon of enabling different procurement routes and having a framework of projects. Most of the literature links Best Value or Value for Money with the PFI procurement route only.

Long-term Partnership enables the partners to carry out projects effectively by acting and thinking long-term (Bennett and Peace, 2006). In BSF the LEP enters into a long-term *strategic* partnering agreement with a local authority client. Strategic partnering means firms supporting project teams in partnering over a series of projects and exist when two or more organisations develop a close, long-term relationship based on working together to enable them all to secure the greatest benefits. Strategic partnering is one form of long-term partnership. Another form of long-term partnerships in construction can be 'project partnering' or 'partnering' (without projects).

It appears that both terms have a strong link with performance and in particular performance improvement. Best Value is expected to help organisations improve their performance and the whole point of partnering is to improve performance of the project teams.

4 A review of 'Building Schools for the Future'

4.1 The aim of BSF¹³

BSF was launched by the DfES in February 2003. Partnerships for Schools (PfS) and Partnerships UK are responsible for the delivery of this programme. PfS was established in April 2004. The key role of PfS is '...to ensure that each local BSF programme is based on strong educational vision and that BSF schools are well designed, built on time at a reasonable cost to the taxpayer, sustainable and properly maintained over their lives' (www.p4s.gov.uk). A PPP/PFI fact sheet in Appendix 14.2 shows how the Education market stands compared to the whole PPP market in the UK (PPP Forum).

"The aim of BSF is to rebuild, renew and/or refurbish all 3,500 education facilities in England over a 10 to 15 years period from 2005-2006, with all Local Education Authorities benefiting from the funding."

That is around one school every 36 hours, and over 3.3 million pupils are expected to benefit from the programme. BSF is the biggest single UK government investment in improving school buildings for over 50 years. PfS works in collaboration with 150 local authorities and the private sector parties to rebuild and renew all of England's public secondary schools to a 21st century standard during the 15-year lifetime of this programme with a Capital Expenditure of £45 billion.¹⁴

BSF will ultimately reach every part of the English secondary school system, including:

- 11-16, 11-18 and upper schools, middle schools deemed secondary, and secondary special schools;
- All categories of secondary schools: community, controlled, aided and foundation;

Besides the delivery of the grouped secondary schools through BSF, the DfES recently announced the delivery of 'one-school projects' and 200 city academies. It is also likely that the renewal of all primary schools will be added to BSF. *This research purely has a focus on the secondary schools delivery of BSF.*

PfS strongly recommends establishing local entities specifically focussed on achieving the aim of BSF, through (PfS, 2004a, p31):

1. a Long-term Partnership to achieve local strategic investment, aligned with other measures to transform secondary education;
2. integrating investment in buildings, through a variety of procurement routes to achieve Best Value for Money, with investment in ICT and ongoing maintenance of assets over their whole life; and
3. the benefits of Long-term Partnering with the private sector, achieving efficiencies in procurement and delivery to which the government is committed;

4.2 Delivery of the programme

4.2.1 Educational vision¹⁵

BSF is not just about building schools, but is focused on helping to bring about a step-change in pupil performance. BSF is long-term programme to transform secondary education. For BSF each local authority has to prepare its own educational vision to offer innovation and educational transformation. It is an approval criterion. The vision is the absolute starting point for proper stakeholder engagement and scoping of the BSF project.

¹³ BSF website: www.bsf.gov.uk (visited: February - August 2006)

¹⁴ PfS website: www.p4s.org.uk (visited: February - August 2006)

¹⁵ PfS, 2004a. BSF wave 2 overview for Local Authorities, Annex C. November 2004;

PfS, 2004c. BSF Local Authority education vision: policy guidelines for wave 2. November 2004.

In BSF projects the educational vision must include:

- high-quality curriculum options;
- ICT provision;
- sustainability;
- number of school places;
- flexible buildings and classrooms which can adapt to changing sizes or other needs;
- community use outside school hours;
- diversity and accessibility issues.

Local authorities need to submit their educational visions prior to the submission of their Strategic Business Case (SBC) as shown in figure 4.2 on page 34. DfES assists local authorities to ensure their vision for educational transformation is appropriate, robust, meets ministers' expectations for BSF and works for local children and learners. It is important that the local visions provide a clear overall strategy for raising educational standards, as well as addressing the individual policy areas.

4.2.2 BSF funding allocation¹⁶

BSF funding is available for investment in every school in a local authority that teaches secondary age pupils. The programme does not fund Further Education (FE) colleges or 6th Form centres operating under FE regulations.

The division of the BSF funding depends on locally agreed plans. Authorities can also add their own resources to BSF projects above the level supported by central government funding. At a national level DfES is providing funding based on:

- **50% of the floor area within each BSF project can be New Build**
- **35% of the floor area can be a Major Refurbishment**
- **15% of the floor area undergo Minor Refurbishment**

Each local authority's capital allocation is guided by this pattern. The proposals for each individual or group of schools must be developed by the authority and the schools together. These proposals are based on the local authority's Asset Management Plan (AMP) which have been developed for every school over the past few years, in order to assess the condition, suitability and sufficiency (net capacity) of their premises (DfES, 2004b). The proposals are also based on the submission made by the authority to DfES when BSF was first announced, which was the basis for prioritisation nationally.

The authority's strategy in deciding which and to what extent schools will be new build compared to other schools in the area, is guided by:

- 1) the greatest improvement in educational outcomes;
- 2) the best value for money on a whole-life cost basis.

As the programme needs to operate within the overall budgets, the 50:35:15 funding formula is applicable to all projects within a wave. Authorities may want to develop a greater level of new build schools by swapping them between waves. This is possible only under restricted conditions. Once the funding envelope is agreed in line with the Strategic Business Case the DfES offers no further funding for the prioritised group of schools.

The funding amount for a prioritised group of schools is generated by calculating the gross floor area for the current number of schools in the group using the proposed number of pupils registered for each school in the authority's Education Vision. The DfES Building Bulletin 98¹⁷ dictates a number of pupils per m² floor area. The number of pupils is based on a forecast of 10 years.

All BSF funding is allocated and paid to the local authority and not directly to any school. This is to ensure that the contractual relationship with the private sector partner is through the local

¹⁶ PFS, 2005a. Funding Guidance for BSF projects. Detailed guidance on how PFS will fund the BSF programme.

¹⁷ 'Building Bulletin 98' is a briefing framework for secondary school projects. This publication gives guidance for the area to be provided in both school buildings of various kinds and external facilities.

authority. Schools that have been built in the last 15 years do not require further investment, and do not count towards BSF funding allocation. Schools that have recently been remodelled can receive up to 75% of the funding allocation. However, funding can be provided where they have to be enlarged because of an expected increase in pupil numbers.

4.2.2.1 Other funding

BSF will be one of the most important sources of school funding in the future, but that is only part of the picture. The government will spend £5.1 billion on school buildings in 2005-06 but a share of £2.9 billion is spent on projects outside BSF.

4.2.3 Prioritisation and forward planning¹⁸

DfES and PFS have prioritised geographical areas by need, and consideration of BSF programming issues. They are now able to see how all the areas proposed by local authorities could be fitted within a deliverable and affordable programme.

For DfES and PFS 'deliverability' and 'affordability' are the basis for decisions on selecting projects for the BSF programme.

During the development of the pathfinder schemes DfES and PFS have received from all local authorities their expressions of interest. Although the size and timescales of the programme are very challenging, the programme is targeted to be delivered within 15 waves from 2005-06. According to DfES and PFS the programme is affordable both nationally and locally.

DfES has set constraints on the deliverability of the programme within the waves:

- Funding availability and programme length;
- Early programme capacity and risk. Larger authorities with several extraordinary high-value investment projects are limited to only one project in the first three waves;
- Managing commercial capacity. In case an authority has submitted more than one project proposal, the LEP has to be able to procure all proposals successfully;
- Managing market capacity to prevent unacceptable low competitive pressure on regional capacity and construction market;
- Large and small projects. Small projects below £50 million are grouped with larger projects so that LEPs have a continuity of business. Large projects are proposals of more than £200 million;
- Phasing the project of the largest authorities over different waves;
- Starting with areas of highest need.

DfES has also set out funding principles to demonstrate the affordability of the programme. They are summarized as:

- Up to half of the secondary schools (50% of gross floor area) will be brand new;
- An appropriate mix of school sizes, including schools within schools where it makes sense;
- Local authorities should reinvest any capital receipts into their projects;
- There is a presumption against investments built or rebuilt in the last 15 years;
- There is a presumption against supporting exceptional abnormal costs;
- Local authorities are responsible for joining up funding where other services (e.g. health or leisure) are to be delivered as part of BSF projects;
- Maintenance contracts of PFI contracts should be replicated and made appropriate for conventionally funded schools and maintenance of ICT services;
- There will be a strong drive for efficiency across the programme.

¹⁸ DfES, 2004c. Prioritisation and forward planning information. November 2004.

4.3 Structural BSF process

4.3.1 First BSF waves and pathfinder projects

The BSF programme is being introduced by 15 separate 'waves' from 2004 until 2016. About £2.4 billion becomes available in 2005-06 for the projects in wave one. The first three waves of projects were confirmed in November 2004. The projects within these waves are currently working to sign contracts in the three financial years 2005-06 to 2007-08. Local Authorities for the first three waves are:

Wave 1 (* = pathfinder)	Wave 2	Wave 3
Bradford*	Birmingham	Barnsley
Bristol*	Hackney	Bradford
Gateshead	Haringey	Derbyshire
Greenwich*	Islington	Durham
Knowsley	Kingston upon Hull	Kent
Lancashire	Lambeth	Luton
Leeds	Liverpool	North Lincolnshire
Leicester	Middlesbrough	Salford
Lewisham*	Nottingham	Sandwell
Manchester	Tower Hamlets	Southwark
Newcastle upon Tyne		Tameside
Newham		Westminster
Sheffield*		
Solihull		
South Tyneside		
Southwark* (joint-project Grw.)		
Stoke on Trent		
Sunderland		
Waltham Forest		

Table 4.1 – Local Authorities with BSF projects in Tranche A: waves 1 to 3.

The authorities in the remaining waves have all been determined by DfES. However PfS is engaged in its programming work to changing political agendas. The 15 waves are equally separated into a number of tranches: A to E. Each tranche consists of three waves. Information about future tranches and waves is very indicative. PfS is committed to provide as much future certainty as possible about future investment possibilities. The actual programme will only emerge over the coming years, and this will be subject to:

1. Future public spending decisions;
2. Refinements to BSF policy aims;
3. Updating data for prioritised areas;
4. Adjustments to the BSF programme from lessons learnt from previous waves;
5. Changes in plans, priorities and local circumstances.

The data in figure 4.1 are based upon the PfS score sheets of August 2006 (Appendix 13.2). The figure shows that 39 local authorities with BSF projects are involved in tranche A, i.e. the first three waves. The numbers in parenthesis are the local authorities that have phases of their projects in previous waves. The £2.4 billion Capital Expenditure is for the investment in wave 1, comprising 167 secondary schools.

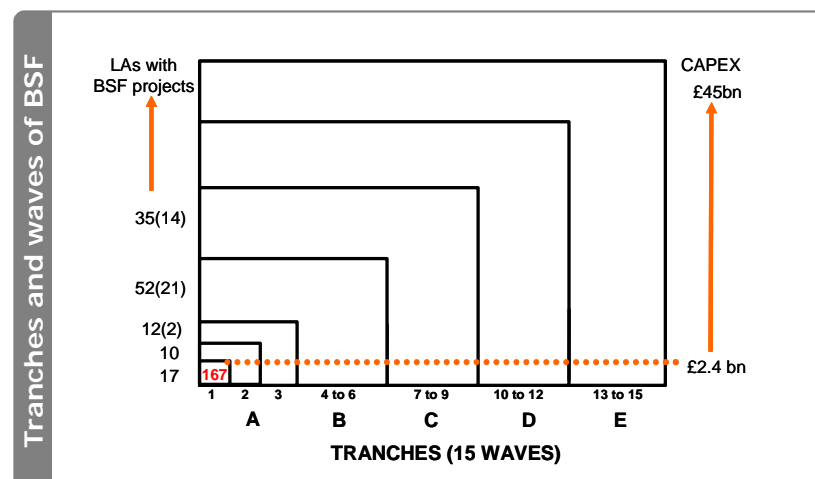


Figure 4.1 – The tranches of the programme separated into projects and CAPEX

Pathfinders

The pathfinder projects are already proceeding. In 2002 DfES invited authorities to volunteer for a joint venture pathfinder programme, as part of the 2004-05 Private Finance Initiative bidding round. The pathfinder programme was aimed at a grouped procurement of schools, which subsequently became known as BSF. DfES chose 6 projects in wave 1 to be the pathfinders. The criteria covered: educational strategy, current position and future requirements, experience and capacity to deliver. All pathfinder authorities are marked with an asterix in the table 4.1 above.

4.3.2 Current progression of the BSF programme

Whilst doing this research the programme is accelerating. The survey interviews for this research were conducted in May 2006. The progress chart below is dated at the end of April 2006.¹⁹

Number of Projects	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
Wave Percentage Complete	5.9%	11.8%	17.6%	23.5%	29.4%	35.3%	41.2%	47.1%	52.9%	58.8%	64.7%	70.6%	76.5%	82.4%	88.2%	94.1%	100.0%
Local Authority	Bradford	Bristol	Sheffield	Newcastle	Greenwich	Solihull	Knowsley	Lancs	Stoke	Lewisham	W Forest	Leeds	Leicester	Manchester	Sunderland	Newham	StAG
EDUCATION VISION SIGNED OFF	Jul-04	Aug-04	Sep-04	Sep-04	N/A	Jun-04	Mar-04	Dec-04	Jun-05	Nov-05	Jan-05	Feb-05	Mar-05	Jun-05		Nov-05	Jan-05
SBC SUBMITTED TO DfES	Sep-04	Aug-04	Jul-04	Jan-05	Dec-04	Nov-04	Jan-05	Dec-04	Jun-05	Feb-06	Jan-05	Feb-05	Mar-05	Jun-05		Feb-06	Jan-06
OBC SUBMITTED TO DfES	Sep-04	Aug-04	Oct-04	May-05	Jan-05	Nov-04	Mar-05	Jan-05	Jan-05	Feb-06	May-05	May-05	Mar-05	Jul-05		Apr-06	Feb-06
OBC TO PRG REVIEW	Sep-04	Sep-04	Oct-04	May-05	Jan-05	Nov-04	Mar-05	Jan-05	N/A	Feb-05	Jul-05	May-05	May-05	Jul-05			May-06
OJEU ISSUED	Oct-04	Oct-04	Jan-05	Dec-04	Jan-05	Mar-05	Jun-05	Apr-05	Dec-05	Apr-05	Aug-05	Aug-05	May-05	Jul-05	N/A	Jul-06	May-06
LONG LIST ANNOUNCED	Feb-05	Dec-04	Mar-05	Mar-05	Apr-05	Jun-05	Aug-05	Jun-05	Mar-06	Jul-05	Oct-05	Nov-05	Jul-05	Jul-05			
ITN ISSUED / SHORT LIST	Feb-05	Jan-05	Sep-05	Jun-05	Nov-05	Sep-05	Dec-05	Aug-05	May-06	Apr-06	Nov-05	Dec-05	Sep-05	Jul-05			
PREFERRED BIDDER ANNOUNCED	Jan-06	Dec-05	May-06		Apr-06			Feb-06									
FINANCIAL CLOSE/LEP SET UP																	
START CONSTRUCTION																	
OPENING OF FIRST SCHOOL																	
OPENING OF LAST SCHOOL																	

Table 4.1 – Progress chart Pathfinders/Wave 1, status as set at end April 2006

To illustrate the progression of wave 1, progress charts of December 2005, April 2006 and August 2006 are added in Appendix 13.2.

4.3.3 Project process

The standard BSF project stages are clarified in detail in Appendix 13.1. They relate to the procurement of both the LEP and its first schools project. The development of subsequent projects will be shorter due to the existence of the LEP and the availability of benchmarking data when more projects are developed. This is also a major objective of the BSF programme. All stages are summarized in the schedule below. Some of the underlying activities within the stages will be explained in the following sections.

¹⁹ At preferred bidder, the Greenwich BSF project has a different structure compared to the other first projects in preferred bidder stage. The project does not work with a LEP model, and as a consequence it has not been further investigated.

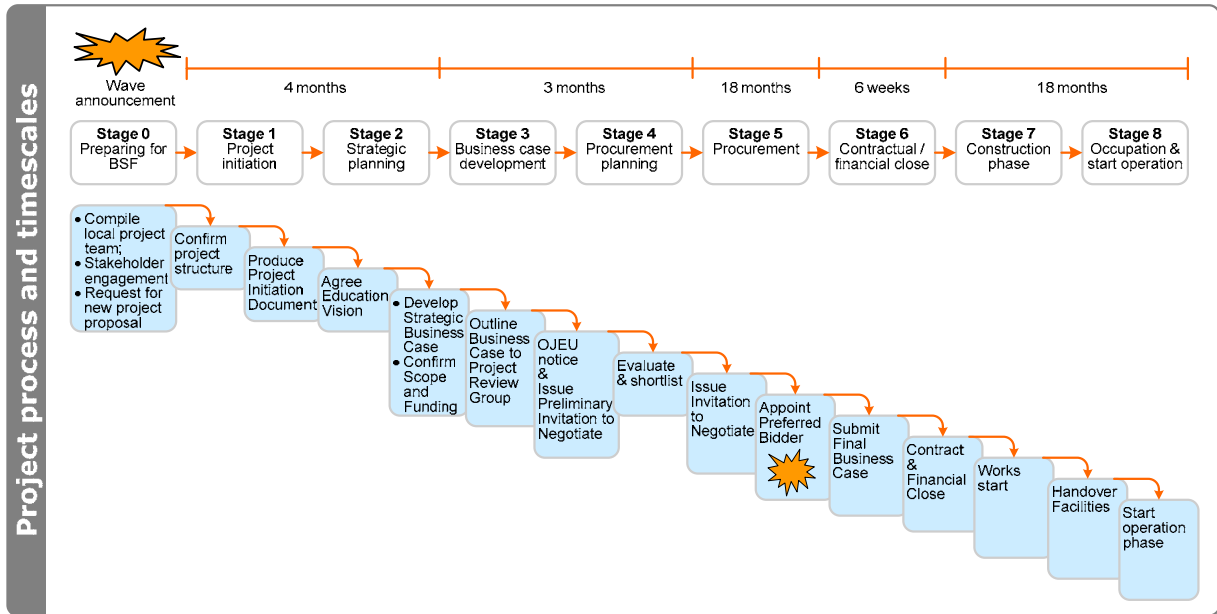


Figure 4.2 – BSF project overview (4ps, 2005)

Reverting to the research entities, the marked star clearly shows where in the process the preferred bidder is appointed. From that moment there is certainty about all partners who will represent the LEP and key members of its supply chain.

4.4 Evaluation of bids by the Local Authority

The LEP is a company limited by shares. It has a majority shareholding from the Private Sector Partner (PSP) of typically 80%. The local authority selects its PSP through the evaluation of bids according to a range of criteria. The PSP needs to reflect the priority desires of the LA. They are represented for each LA in the Evaluation Criteria. To understand the criteria PFS has developed the Scoring Matrix. The priority scorings are expressed in weighting percentages. At present the overall weightings and sub-weightings are registered in the Invitation to Continue Dialogue (ITCD) template for BSF. The competitive dialogue is a new EU procurement procedure (Directive 2004/18/EC) for use in 'particularly complex projects'. It is effective in the UK from 31st January 2006. PFS' recommendation is that the competitive dialogue procedure is now the most appropriate procedure for a BSF procurement which follows the PFS standard approach (PFS, 2006c).

Based on this template each local authority can allocate its own sub-sub-weightings with which it wants to select a PSP. For private sector bidders the scoring matrix emphasises more precisely the allocation of client's needs for their proposals. The following two tables set out the weighting criteria as depicted from the Template (PFS, 2006d).

Criteria weightings for a LEP project	
Criteria	% of Overall Weighting
LEP Partnership	40
PFI Sample School	15
Design and Build Sample School	15
ICT	20
Legal and Commercial	5
Financial	5
Total	100

Table 4.2 – Evaluation criteria for the ITCD stage: weightings for the LEP

Sub-criteria weightings for the LEP Partnership		
Sub-criteria	Sub-Criteria Weighting	% of Overall Weighting
<i>Overview of the LEP and Delivery of Partnering Services</i>	25	10
<i>Design Philosophy</i>	15	6
<i>Value for Money, Performance Monitoring and Continuous Improvement</i>	30	12
<i>LEP Business Plan</i>	15	6
<i>Interface Issues</i>	7.5	3
<i>Supply Chain Management</i>	7.5	3
Total	100	40

Table 4.3 – Evaluation criteria for the ITN stage: weightings for the Initial Projects

Due to the indicative nature here and the fact that they are different for each local authority no further judgements for this research can be done on evaluation weightings. However in relation to this research it is interesting to see how the local authority client selects its PSP. For example the first sub-criterion about 'partnering' in table 4.3. The criteria are further subdivided in table 4.4 below.

Sub sub-criteria weightings for the Delivery of Partnering Services in a LEP project			
Sub sub-criteria	Sub-Criteria Weighting	% of LEP Partnership	% of Overall Weighting
<i>Partnering ability of the LEP</i>	10	2.5	1
<i>Strategic Business Case development</i>	5	1.25	0.5
<i>New project design and development</i>	25	6.25	2.5
<i>Delivery of Approved projects</i>	20	5	2
<i>Supply Chain Management and Interface issues</i>	5	1.25	0.5
<i>Value for Money, Performance monitoring, and Continuous Improvement</i>	30	7.5	3
<i>Additional Services</i>	5	1.25	0.5
Total	100	25	10

Table 4.4 – Evaluation criteria for the ITN stage: weightings for Partnering

These sub-sub criteria correspond with the headings of the Partnering Services Specification, which are discussed in chapter 6. Scorings are illustrative examples. For this example they are roughly matched with the survey findings of the most important performance conditions of the Partnering Services Specification as represented in Appendix 11.1.

4.5 Selection of a Preferred Bidder

For this research the first four BSF projects to have reached the stage of *preferred bidder* have been investigated. Procurement of these projects was before January 2006. Hence selection of the preferred bidder on those projects was based upon the Invitation to Negotiate (ITN) evaluation criteria. They are described in the scoring matrix as a part of the ITN documents. After the local authority has issued the ITN documents to the shortlisted bidders they are invited to develop and submit the proposals. There are four main types of competitive procedure which may be used to procure a project. These are the open, restricted, competitive dialogue and competitive negotiated procedure. The latter has been applied on the projects for this research. The competitive negotiated procedure allows contracting authorities to draw up a shortlist of interested parties by undertaking a selection/prequalification stage prior to the issue of the ITN documents which starts the negotiation phase. The general principles require openness, transparency and equal treatment of all tenderers to apply together with a requirement that the process is not conducted in such a way as to distort competition (PFS, 2006e).

4.6 Overview of the Local Education Partnership model

4.6.1 Understanding the LEP²⁰

In chapter 1 of this report the Local Education Partnership has already been mentioned as the key delivery model for BSF. Ownership and responsibility for all aspects of local education delivery (including BSF capital investment) remains with the local authorities. The LEP model creates a local development and delivery company through which strategic BSF capital investment can be efficiently and effectively deployed by local authorities into their secondary schools estate (PfS, 2004a). The LEP model is a Public Private Partnership (PPP) between a local authority, PfS and a private sector partner selected in open competition under EU procurement rules (PfS, 2004a).

The purpose of the LEP is to create a local business which provides long-term partnering services for the local authority so that the aims of BSF can be realised (4ps, 2005).

The model in its most basic structure is represented in figure 1.1 on page 1.

The reasons for the development of a LEP

LEPs help to achieve the ambitions of BSF because they:

1. Aim to reduce costs by reducing the number of competitive procurements that have to be carried out and by streamlining the procurement process;
2. Procure a strategic partner to deliver the long-term programme;
3. Group schools together into larger, higher value packages than previously;
4. Integrate these complex packages; they may include design, construction, ICT, maintenance and other premises related services;
5. Optimise impact on educational outcomes by integration of building design and ICT
6. Use both Design & Build and PFI contracts;
7. May have more than one wave of work, with several years between the waves;
8. Include only a small number of schools in the initial competitive procurement process to speed up the initial procurement and save bidding costs.

Rationale for the LEP as a joint venture company

The core rationale for the LEP being a joint venture company, with public sector investment alongside the private sector, is to:

- embed partnership working;
- establish local entities specifically focussed on achieving the aim of BSF;
- combine what public and private sectors can best contribute;
- be a vehicle where the public and private sectors can work together;
- secure transparency of working;
- incentivise both public and private sectors to achieve success together.

The participants in the LEP

Each of the three partners will nominate directors to the LEP Board. As the LEP is effectively a private sector-led organisation, the PSP has four members and the local authority and PfS one each. The directors have to deal carefully with any potential conflicts of interest, and both the authority and PfS have certain minority rights in the conduct of business.

Each LEP is classified as a private sector entity. As a limited liability company, the LEP partners share capital and have a structure appropriate to such a company. The PSP owns 80% of the shares in the LEP. The remaining 20% is split equally between the local authority (10%) and PfS (10%). PSPs include a wide range of construction contractors, finance institutions, project managers and ICT providers.

²⁰ Sources for this section are: PfS (2004a), 4ps (2005) and The Projects Partnerships & Capsticks (2004).

The role of the LEP

The LEP's role is to:

- work with the local authority and other local stakeholders to develop strategic investment plans for secondary education for the area;
- act as the single point of contact for the procurement and delivery of all the services needed to deliver the investment programme ranging from design, construction, project management and maintenance to ICT services;
- enable delivery of projects through a mix of procurement routes – PFI and non-PFI conventionally funded.
- integrate and manage a diverse range of supply chain sub-contractors – ranging from building contractors and FM services providers to ICT suppliers;

The activities

A LEP has two main strands of activity:

1. New Project Development: through the provision of Partnering Services to the local authority, where it will work with the local authority and other local stakeholders to identify suitable projects for subsequent programme phases.
2. Delivery of Approved Projects: *procuring* and *delivering* approved projects through a supply chain. The LEP will also manage the on-going performance of the supply chain through benchmarking and periodically market testing.

The two activities are visible in the standard business model in figure 4.3.

4.6.2 Standard business model for the LEP²¹

The SPA and the Shareholders Agreement (SHA) set out the business of the LEP and the services to be provided by the LEP to the local authority. As explained in section 4.6.1 the purpose of the LEP is to provide the Partnering Services as set out in the SPA and to deliver them in conjunction with its supply chain.

The provision and achievement of the Partnering Services are the business activities of the LEP. They are to be conducted in the best interests of the LEP, on sound commercial principles, with a view to profit at all times and in accordance with the Business Plan (PfS, 2004d. The LEP model; PfS, 2006a. Shareholders Agreement).

The BSF programme offers a standard business model for a LEP company, named the '*Integrated Services Provider with SPVs*'. The model relates to the extent to which the LEP takes commercial risk in delivering approved projects. The model enables a series of waves of investment in schools estate without the need for repetitive separate procurement. This structure meets the objectives of BSF effectively, whilst being commercially deliverable.

²¹ Sources for this section are: PfS, 2005c. *BSF Guidance note: Economics of the LEP*, and PfS, 2004d. *The Local Education Partnership (LEP) model*.

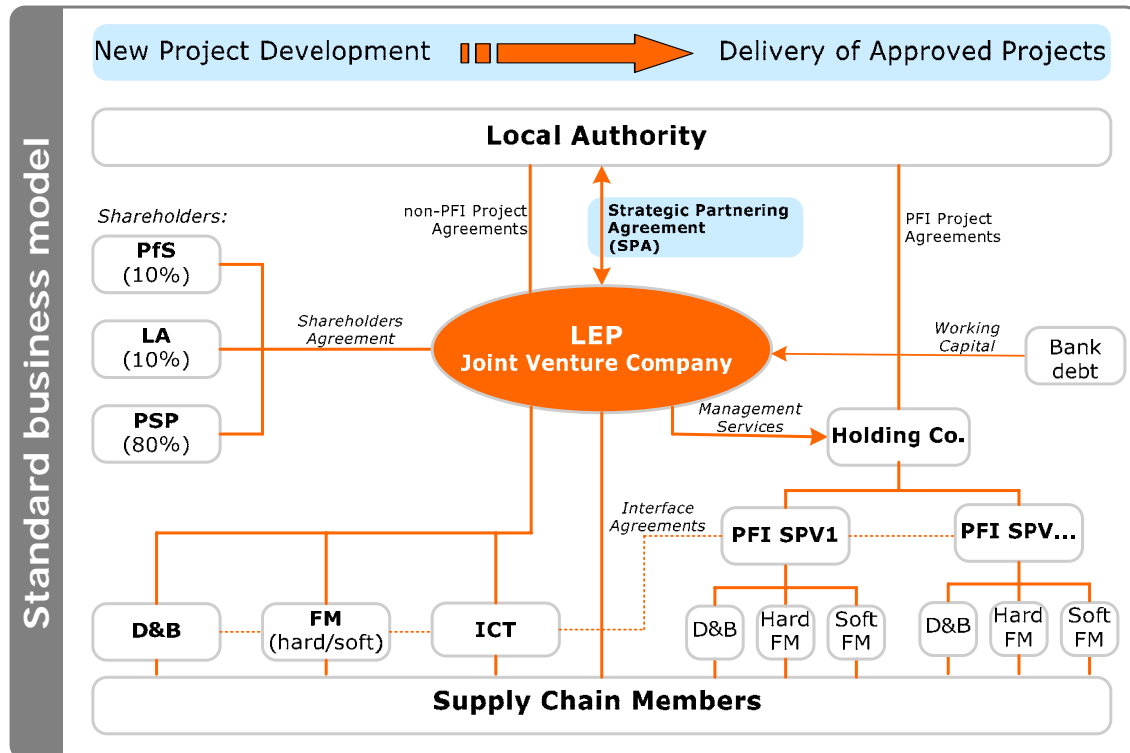


Figure 4.3 – Standard business model for developing and delivering BSF projects²²

The SPA allows the LEP to deliver approved projects either itself through conventional procurement or through Special Purpose Vehicles (SPVs) in case of PFI procurement. These SPVs are jointly owned by the LEP and the PSP although the LEP is granted a controlling interest in the SPV during the construction phase and a number of years post construction. This gives the LEP the control it needs to ensure good performance across all the contracts for approved projects, which in turn helps the LEP maintain its exclusivity and ability to secure future work.

The LEP is also responsible for the integration and management of its supply chain in delivering PFI and non-PFI contracts and for the management of risks inherent in those contracts and arising from the interfaces between those contracts.

From a lenders point of view, this business model can create more efficiencies in financial structuring as it preserves the standardized PFI contract arrangement while enabling them debt financing of a number of PFI projects on a portfolio basis.

From a private equity investor point of view, the model provides the flexibility for them to be a part of the PSP and invest directly into a series of SPVs set up for approved projects in addition to investing in the LEP itself. Defaults on any single contract or activity can bring the LEP down and prevent the delivery of future projects. However, the model allows the PSP to manage risks, by structuring the business activities in a way that allows them to ring-fence and limit the exposure to a defined set of risks. By passing down all other risks to the supply chain the PSP within the LEP can ensure that contractual losses on one particular contract have minimal effect on the ability to deliver others.

A capitalised Holding Company can invest further into specific SPVs for particular PFI projects. A Holding Company is responsible for investing in the PFI SPV(s).

The risks passed to the private sector in PFI and non-PFI contracts are broadly well-established and set out in the project agreements. How the LEP can capitalise Holding Companies and SPVs to limit risk exposure is an important issue underpinning the commercial viability of the joint venture. This is one of the key commercial skills a local authority is expecting the PSP to offer. As already explained in section 3.6 investigating risk aspects is not a part of this research.

²² PfS, 2004d; The Projects Partnership & Capsticks, 2004.

4.7 The Supply Chain

A critical factor in determining the success of the BSF programme is the extent to which the LEP can develop effective partnering relationships with the supply chain members to deliver the services under the SPA. The four main areas in which the LEP must develop these supply chain relationships are determined by the involvement of the LEP in (PfS, 2005b; 4ps, 2005; The Projects partnership & Capsticks, 2004):

- 1) PFI contracts;
- 2) Design and Build contracts;
- 3) Facilities Management contracts for soft FM and hard FM;
- 4) ICT contracts.

Each of these will be further discussed below in section 4.8.

4.8 Contracts for project delivery through the LEP

For most local authorities the standard approach strongly recommended by the DfES and PfS is to set up a LEP. The BSF procurement process includes the requirement for bidders to submit proposals for both the LEP and for a sample of the different types of projects that the LEP will be required to deliver over its lifetime, for example new-build PFIs, Design and Build for new build and refurbishment projects and ICT services. For some local authorities a LEP is not required or appropriate.

4.8.1 Contractual structure for PFI contracts in BSF

The BSF standard business model for a LEP requires no real alternation to the PFI model contract. Investors into PFI SPVs in BSF projects have the same protections and risks as equity sponsors into existing PFI SPVs in England. The BSF PFI project agreement has been approved by HM Treasury and is consistent with the SoPC3²³ (Standardisation of PFI Contracts). The exception to this are the contractual provisions within the SPA pertaining to the performance of the PFI SPVs and their impact on either the exclusivity rights of the LEP or termination of the SPA (PfS, 2005c).

In general the contractual structure of PFI school contracts in BSF look like this:

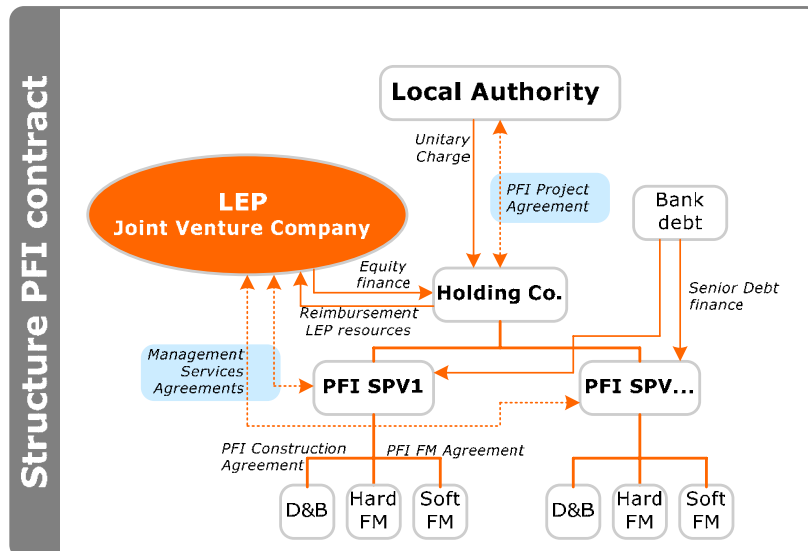


Figure 4.4 – Contractual structure/money streams for PFI projects (PfS, 2005b)

The Local Authority enters into *PFI Project Agreements* for the delivery of schools projects through PFI. These contracts will be design, build, finance, operate and maintain (DBFOM) arrangements, under which the PFI SPV will take responsibility over a 25 to 30 year period for the schools

²³ The SoPC3 (HM Treasury, April 2004) provides the basis of public sector specific guidance and contracts in health, education, defence, prisons, transport and local authorities' buildings.

facilities. To recover the capital invested in these facilities, the SPV gets paid a Unitary Charge every year of the contract, subject to performance against the mechanisms set out in the PFI Project Agreement. Deductions are made from the Unitary Charge for shortfalls in performance. Equity finance from the LEP and other investors is to cover risk, running costs, fixed costs and overheads procured at LEP level and provided to SPVs. The PFI SPVs reimburse the LEP for resources, such as:

- The LEP Management Fee (recovery of set up, development and running costs with a LEP Margin of about 15%);
- Management Services Fee (recovery of running costs of active PFIs with a margin of about 5%);
- Sponsor returns from being equity investor in the underlying PFI SPVs.

The LEP is required to enter into Management Service Agreements with any SPV project companies that it sets up, for the management of such companies. They have to be subsidiaries of the LEP for a fixed period. Through this the LEP has overall control of performance for each project across the BSF programme.

PFI credits²⁴

Once a contract is signed, the local authority receives financial support towards the cost of the project through PFI Credits from the government, under the Local Government (Capital Finance) Regulations 1997. This contribution is intended to cover only the repayment of capital and life cycle maintenance. The local authority will need to cover the remainder of the charge, often referred to as the authority's Affordability Gap. The revenue support is a contribution to the unitary charge that the local authority will be contractually committed to paying to its PFI contractor.

4.8.2 Contractual structure for Conventional Projects in BSF

The assumption of BSF is that the conventionally funded projects will involve the major and minor refurbishment projects and some small new-build schools.

For conventionally funded projects, the local authority enters into a *Design and Build (D&B) Contract* with the LEP for the delivery of conventionally funded works and/or services projects.

In a D&B Contract the local authority prepares a performance specification for the building works required and invites the LEP to state how it proposes to meet those requirements. So these contracts require the LEP to design and build the schools facilities to the local authority's specifications. The D&B Contract provides for the LEP to subcontract the works. The sub-contract passes through all significant risks and obligations undertaken by the LEP under the main D&B Contract. In effect, the LEP is acting here as a management contractor, employing the D&B sub-contractor.

The D&B Contract is based on a form of contract that fits in the context of PFI. Payment will be made by the local authority to the LEP on the achievement of milestones set out in the contract. A Guaranteed Maximum Cost (GMC) and a Target Cost has to be agreed between the LEP and the local authority.

The obligations of the LEP under the D&B contract are to carry out or procure the design, construction, completion, commissioning and testing of the works so that each facility is completed on or before its relevant date of completion complying with the facilities requirements.

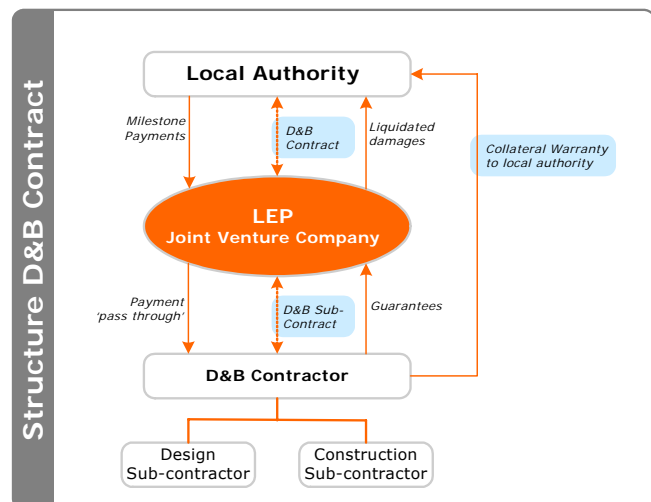


Figure 4.5 – Contractual structure/money streams for D&B projects (PFS, 2005b)

²⁴ DfES, 2004c. *Prioritisation and forward planning information*. November 2004.

4.8.3 Contractual structure for FM Services

Once a BSF school has been procured under a conventionally funded D&B Contract, there may be on-going maintenance requirements which may involve the local authority requiring the LEP to price and contract for such facilities management services. These *FM contracts* would need to be developed on a project-specific basis reflecting local decisions on scope and funding for FM services, and existing local arrangements for these services.

4.8.4 Contractual structure for Managed ICT Services

A carefully specified and procured managed ICT service is intended to allow schools to get on with their core business and not be distracted by technical challenges. LEPs can be responsible for procuring these services for the schools. The LEP may sub-contract the obligations to a specialist ICT provider. The ICT contract involves the provision of managed services, including: design, installation, and management and training of the operational services.

The LEP is required to deliver a collateral warranty from any ICT sub-contractor. The *ICT Services Contract* follows a traditional commercial approach, rather than a PFI model. Payment for the installation phase will be made in milestones against completion, and payments for the operational service period will be paid through on-going service charges against pre-set performance standards. The LEP may also receive payment deduction for underperformance and/or unavailability of the managed ICT services.

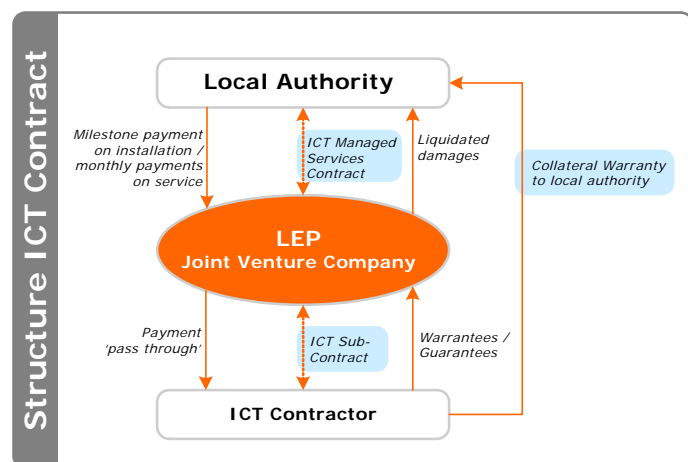


Figure 4.6 – Contractual structure/money streams for ICT projects (PFS, 2005b)

4.9 The Strategic Partnering Agreement

The LEP model operates at three tier levels. The first level is to create a long-term partnership with a local authority. Contracts involved here are the Shareholders Agreement (SHA) and the Strategic Partnering Agreement (SPA). The second tier level contracts are for the delivering of BSF projects through the long-term partnership. Contract documents involved here can be PFI documents, Design & Build documents and ICT documents (PFS, 2005b). The supply chain of sub-contractors, specialist contractors, FM providers, designers and consultants is the third tier level.

Following the selection of a preferred PSP, the LEP will work up to financial close as indicated in stage 6 of figure 4.2. For a particular BSF area the three shareholders will need to sign the Shareholders Agreement. This establishes the joint venture company, and provides a framework within which it is to operate, including a business plan approved by all shareholders. The agreement also provides the minority shareholders (PFS and the local authority) with consent rights over some important reserved matters like business planning, project structures, market testing, management controls and dividend policies.

When financial close has been reached and a LEP is formed it will enter into a long-term Strategic Partnering Agreement with a local authority.

Purpose of the SPA

The LEP enters into a long-term SPA with the local authority for 10 years. The agreement has an option of extension for a further period of 5 years. Clause 2 of the SPA explains the principal purposes of the agreement (PfS, 2006b):

1. to establish a long-term partnership between the LEP and the local authority and for the LEP to provide or procure the provision of appropriate accommodation and related services to the local authority for the purposes of the local authority providing Education Services;
2. to foster the provision of High Quality Education Services by the development and provision of high quality schools accommodation and services to the education community in the most cost effective manner.

In addition when the two parties (local authority and the LEP) enter into the SPA, the agreement sets out (PfS, 2005b):

- A) The exclusivity granted to the LEP to develop and deliver future schools projects in the area (following the Strategic Business Case for that area), and
- B) The conditions under which the exclusivity is granted including the provision of Partnering Services, compliance with a two-stage approval process for each project and demonstration of optimal Value for Money and continuous improvement.

The subject about exclusivity as a part of the SPA is further argued in section 4.10. The essential topics and conditions under which the SPA is valid are explained in more detail in Appendix 13.4.

4.9.1 The high level principles of the SPA

The aim of this clause 2 is to identify the high level principles which underpin the delivery the parties' obligations under the SPA and set out the key factors for a successful relationship between the parties (PfS, 2006b). The principles are very aspirational and are therefore not legally binding. The high level principles are:

1. Close working relationships between the LEP and the local authority at all levels;
2. A focus on achieving Best Value for Money operational performance within agreed timescales;
3. Setting in place business and cultural processes to enable the parties to meet time and performance objectives;
4. Recognising each other's needs, constraints, limitations, capabilities, roles and responsibilities to achieve mutually beneficial outcomes;
5. Identifying weaknesses and strengths in the relationships amongst the parties;
6. A commitment to early recognition and resolution of differences, conflicts and disputes;
7. Support, defend and promote the long-term strategic partnering at senior level;
8. Developing openness and trust in a transparent data sharing environment;
9. Promoting equal opportunities by combating discrimination and promoting good relations between all sections of the local community.

The SPA recognises that the high level principles are difficult to measure in isolation.

Clause 2.2 of the SPA cites that '...successful implementation of the Project Agreements, the Shareholders Agreement and the SPA will depend on the parties' ability effectively to co-ordinate and combine their expertise, manpower and resources in order to deliver an integrated approach to the provision of education services in the area and the services under this agreement.'

4.9.2 Strategic Partnering Board (SPB)

The SPB is established to ensure that a number of important stakeholders have some influence over the operation of the LEP in their area. School representation is essential to this. Members of the SPB are:

- a representative nominated by the local authority from time to time;
- a representative agreed by the board of directors of the LEP;
- a non-executive, to be the independent non-voting chairman of the SPB, appointed by agreement of the parties; and
- other representatives of stakeholders within the local secondary education community and any other co-opted persons the local authority may nominate, not exceeding 6 in number, e.g. governors or headteachers.

The role of the SPB is stated in BSF guidance as:

- acting as the primary mechanism for managing the LEP's performance, based on reports provided by the LEP;
- serving as a forum for the open exchange of ideas, to enable the Local Authority and the LEP to discuss forthcoming accommodation and service delivery requirements;
- giving guidance on and approving which new projects should be progressed, by whom and on what basis.

(The Projects Partnership & Capsticks, 2004.)

4.10 Exclusivity granted to the LEP²⁵

The LEP has the first exclusive right to propose solutions and develop New Projects identified in the authority's strategic plan. This right of 'exclusivity' is contingent on the performance of the LEP in procurement and delivery activities (as mentioned in section 4.6.1). According to clause 7 of the SPA the LEP has the exclusive right to:

1. provide all Partnering Services to the local authority of projects within the area;
2. carry out any future capital project within the area having a capital value of over £100,000;
3. provide the project works and services for any Approved New Project.

For the supply chain the LEP has effectively the exclusive right to supply the initial projects for the first 5 years. From year 5, the services supplied by the LEP and its supply chain have to be benchmarked and market tested due to European procurement regulations.

Loss of exclusivity

If the LEP does not perform adequately it can also lose its exclusivity. In circumstances where the LEP's underperformance has resulted in a loss of exclusivity the local authority shall remove the exclusive rights to the LEP in relation to the re-tendering of any project to which the LEP was a party (PfS, 2006b; clause 7.5).

The LEP's performance is monitored by the local authority on a project level, and at a national level by PfS. The contract contains a number of remedies to protect the interests of the client if the LEP's performance is below the required standard. These range from payment deductions, through loss of exclusivity, to termination of the contract (4ps, 2005). The LEP could lose its exclusivity if (PfS, 2006b; clause 7.5):

- A. the Approval Criteria for New Projects are not met;
- B. there is a LEP default;
- C. there is a default by one of the LEP's project companies.

²⁵ Source for this section is: PfS, 2006b. Standard form Strategic Partnering Agreement.

4.10.1 Incentives for the LEP

For the local authority client exclusivity is a method that can help them incentivise the LEP to provide Best Value for Money performance in BSF projects, without jeopardizing the Long-term Partnership. The SPA also has some other performance thresholds to be reached by the LEP.

Approval Criteria for New Projects

The LEP's sole exclusive right to procure and deliver any projects identified in the strategic plan of the local authority is subject to meeting the Approval Criteria set out in the SPA. These criteria involve (PFS, 2004a):

- Demonstrating a good track record performance on the delivery of projects previously approved by the local authority;
- Demonstrating that the LEP's proposals meet the strategic requirements of the local authority, offer Best Value for Money and affordability, and are compliant with law and regulations; and
- Demonstrating performance against a Continuous Improvement Plan from the initial procurement, and reviewed from time to time.

LEP event of default

On the occurrence of a LEP event of default the local authority may act following the table below (PFS, 2006b; SPA clause 13):

	<i>Brief description:</i>	<i>Consequence:</i>
a.	Termination of a PFI Project Agreement or D&B Contract	Right to remove exclusivity
b.	Termination of Project Agreements	Right to remove exclusivity
c.	Occurrence of any significant performance failure pursuant to KPI tests	Opportunity to remedy
d.	Material breach of the SPA pursuant to Collective Partnership Targets	Opportunity to remedy
e.	LEP ceasing to supply all or a substantial part of the Partnering Services	Opportunity to remedy
f.	Non payment of amounts by the LEP	Right to remove exclusivity
g.	Insolvency event in relation to the LEP	Right to remove exclusivity

Table 4.5 – LEP events of default

If a LEP event of default occurs, there is a hierarchy of remedies. First, payment deductions at project agreement level. Then, replacement of supply chain member. Then, termination of project agreement(s). Then, replacement of the PSP; and finally, removal of exclusivity and termination of SPA (PFS, 2005b).

Miscellaneous

Besides the incentives for maintaining its exclusivity the LEP is incentivised to provide Best Value for Money and successful partnering relationships by (4ps, 2005):

- LEP benchmarking and market testing provisions in the SPA;
- Supply chain benchmarking and market testing provisions in Project Agreements;
- High level principles of the SPA. They can be pointed out as an incentive too. Albeit the non-binding nature of the principles as referred to in section 1.1.1 and 4.9.1;
- The fact that costs are only recovered from successful project delivery.

5 Delivering performance in BSF

5.1 Introduction

The principle purposes of the SPA between the LEP and the local authority client have been summarized in section 4.9. This chapter elaborates on these purposes as a starting point for answering the research questions. Reviewing chapters 3 and 4 it seems that the terms *Best Value for Money* and *Long-term Partnerships* have a strong connection with performance both in theory and in the context of BSF. This chapter will separate out each of the terms in more detail. This is also illustrated in Figure 1.2 on page 4.

This chapter provides a response to Research Questions 1 and 2:

'The contextual meaning of Best Value for Money and Long-term Partnerships in BSF Projects' (part 2, Research Question 1);

'An investigation into how Best Value for Money and Long-term Partnerships can be identified at BSF programme level and at project level' (Research Question 2).

Chapter 5 concludes with a list of performance instruments that the LEP and its supply chain need to apply in order to perform well for the client following BSF standards and thereby keep the exclusivity status in their BSF project.

5.2 Defining Best Value for Money in the context of BSF

The UK Government has been using the terms 'Best Value' and 'Value for Money' for many years. As BSF is a huge government programme it is not surprising that a combination of these terms appears in the BSF standard documentation. In BSF the term is being used consistently:

- 1) *As a rationale for the LEP to achieve the aims of BSF (section 4.1, p29);*
- 2) *As a strategy for the local authority in their decision-making of BSF funding allocation (section 4.2.2, p.30);*
- 3) *As one of the conditions in the SPA under which the exclusivity is granted (section 4.9, p42).*
- 4) *As one of the nine high level principles of the SPA (section 4.9.1, p42);*
- 5) *As one of the Approval Criteria for New Projects (section 4.10.1, p44);*

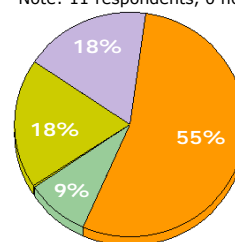
The nature of these references implies that the term must have a fundamental meaning in the BSF programme. The research entities have been asked for their opinions on how they would define the term. Their answers are gathered from the outputs of the online survey questionnaire (Appendix 9.2). As referred to in section 2.7.3 judgement is based upon 11 respondents. The following questions relate to the respondents' views about the terms as referred to in section 3.3.1 from page 24.

'Best Value is the optimum mix of benefits and sacrifices involved in the view of the decision maker' (Be/nCRISP Value Task Group, 2005).

1) What is your opinion about this definition of Best Value?			
Answer	Number	%	
Strongly agree	1	9%	
Agree	6	55%	
No opinion	2	18%	
Disagree	2	18%	
Strongly disagree	0	0%	

Table 5.1 – Respondent's opinions about Best Value

Note: 11 respondents, 0 non-response



'Value for Money means the optimum combination of whole-life costs and quality (i.e. fitness for purpose) to meet the user requirement' (OGC Procurement Guide 6, 2003).

2) What is your opinion about this definition of Value for Money?			
Answer	Number	%	
Strongly agree	1	9%	
Agree	5	45%	
No opinion	2	18%	
Disagree	3	27%	
Strongly disagree	0	0%	

Note: 11 respondents, 0 non-response

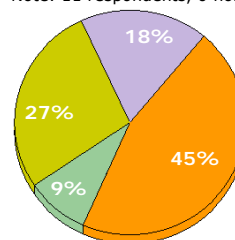


Table 5.2 – Respondent's opinions about Value for Money

The answers from the respondents are varied. Still 7 respondents agree with the definition of Best Value and 6 respondents agree with the one for Value for Money. However a significant number of respondents do not agree with either definition or have no opinion.

Nearly all respondents are well experienced in delivering long-term projects with a whole-life approach (e.g. PPP/PFI). That is why I have also asked them to come up with a definition of Best Value for Money for their own BSF project. The answers here are again diverse. In 5 cases respondents have explained that they do not work with project specific definitions. They have reported that they either use the definition from the OGC or the HM Treasury Green Book²⁶. I have also asked if they would adopt the Green Book as a tool to define Best Value for Money. Here a convincing output of 9 respondents said that the Green Book is being used so far as its use is relevant to the specific BSF project.

The Value Task Group states that 'Value for Money' is a phrase carrying a similar meaning to 'Best Value', but implying that only money values are significant.

What is your opinion about this similar meaning?			
Answer	Number	%	
Strongly agree	1	9%	
Agree	2	18%	
No opinion	3	27%	
Disagree	5	45%	
Strongly disagree	0	0%	

Note: 11 respondents, 0 non-response

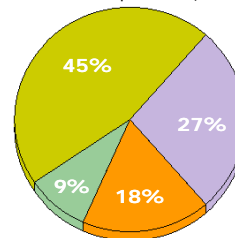


Table 5.3 – Respondent's opinions about similarity in the terms

Although Best Value and Value for Money have a strong link with each other, it is remarkable that almost half of the respondents do not consider that the terms have similar definitions.

About the question: 'Are issues related to Best Value for Money discussed within the LEP parties and the local authority during the project development and procurement?'

Truly all 11 respondents have said yes. These are some arguments:

- Because we are appointing a long-term strategic partner; (LA)
- This needs to be clear before contracting with a PSP; (PFS)
- Objectives in relation to this needs to be clarified as part of the procurement; (PFS)
- For clear understanding of aspirations and what can be achieved; (SCM);
- To explain why certain substantial decisions have been made; (SCM)
- To understanding the client's requirements; (SCM)

²⁶ The Green Book (2003) describes how the economic, financial, social and environmental assessments of a policy, programme or project should be combined. The Green Book is a best practice guide for all central departments and executive agencies, and covers projects of all types and size. It aims to make the appraisal process throughout government more consistent and transparent.

About the question: 'Would you change your perception of Best Value for Money in a later stage of the BSF project process (i.e. operational stage)?'

- 5 respondents have said they would not change perception. Their arguments vary from:
 - In the context of a project the definition is absolute; (PfS)
 - Maintaining the philosophy of making educational transformation truly work; (SCM)
 - A sustainable definition of Value for Money is a part of the project review; (SCM)
- 4 respondents have said that they would change their perception in later stages, because:
 - Project's focus will change from financial close, construction to operation; (PfS)
 - Expectations, performance KPI's and CIP's will change through the years; (SCM)
- A non-response of 2.

Conclusion:

In the context of BSF 'Best Value for Money' is a widely used and fundamental term. However, the BSF policy documentation does not include a specific definition. Based on the judgements by key disciplines it can be concluded that there is a lot of variety in the interpretation and definition of Best Value for Money in the first BSF projects.

5.3 Defining Long-term Partnerships in the context of BSF

It is remarkable that in BSF this term does not have a fixed definition within the standard documentation. However in BSF 'Long-term Partnerships' is being used in a consistent manner:

1. As a rationale for the LEP to achieve the aims of BSF (section 4.1, p29);
2. As a main characteristic of the LEP (section 4.6.1, p36);
3. As one of the two principal purposes of the SPA (section 4.9, p42);
4. As one of the nine high level principles of the SPA (section 4.9.1, p42).

Also here the nature of these references implies that the term must have a fundamental meaning for the programme. The term is recorded in several parts of the Strategic Partnering Agreement as listed above. No survey questions have been produced on how the entities would define a Long-term Partnership, because in BSF the definition clearly relates to a Public Private Partnership (PPP). In section 4.6.1 is stated that the LEP model creates a PPP (PfS, 2004a). The definition is that 'Public Private Partnerships bring public and private sectors together in long-term partnership for mutual benefit. The PPP label covers a wide range of different types of partnership...' (HM Treasury, 2000).

One of the high level principles of the SPA is 'to support, defend and promote the long-term strategic partnering at senior level.' Here the strategic element of partnering is emphasised. All the research entities are senior representatives. One of the questions was to categorize the importance of this principle for their discipline in BSF.

How would you categorize the importance of this high level principle?			
Answer	Number	%	
Highly important	4	36%	
Fairly important	5	45%	
Satisfactory	2	18%	
Marginal	0	0%	
Not important	0	0%	

Note: 11 respondents, 0 non-response

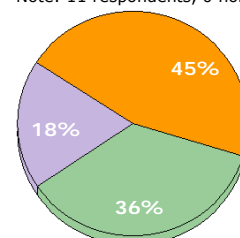


Table 5.4 – Importance of high level principle for 'Long-term strategic partnering'

A vast majority of the 11 respondents say that long-term strategic partnering is a fairly to highly important principle in creating successful relationships which deliver mutual benefits for all parties. Another key factor for a successful partnering is the high level principle to 'develop close working relationships between the LEP and the local authority at all levels'. This principle is worth mentioning because it underpins the relationships between the partners. Table 5.5 clearly shows that close working relationships really are highly important for successful partnering.

How would you categorize the importance of this high level principle?			
Answer	Number	%	
Highly important	10	91%	
Fairly important	1	9%	
Satisfactory	0	0%	
Marginal	0	0%	
Not important	0	0%	

Note: 11 respondents, 0 non-response

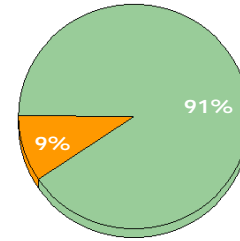


Table 5.5 – Importance of high level principle for ‘Close working relationships’

Conclusion:

In the context of BSF ‘Long-term Partnership’ is a fundamental and widely used term. The BSF policy documentation does not include a specific definition. However BSF projects with a LEP are related to HM Treasury’s definition of a Public Private Partnership. Further judgement indicates common confirmation by key disciplines that the high level principles about ‘long-term strategic partnering’ and ‘close working relationships’ have a great deal of importance for a successful partnering relationship.

5.4 Identifying Best Value for Money in relation to performance

This section and section 5.5 focus on the incentives for the LEP to perform whilst maintaining its exclusivity as listed in section 4.10.1. From there a number of instruments are identified which will be discussed below. *It is important to stress that within the BSF process (figure 4.2) this only reflects the instruments adopted once a PSP has been selected.* That denotes that no judgements can be made about the approval process and business case development of the initial BSF project. However judgements are made about performance requirements in any future projects once the LEP is established.

5.4.1 The BSF performance mechanisms

In terms of *procurement* and *delivery* of any approved projects, Approval Criteria in the SPA set out the performance requirements for the LEP:

1. Track Record and KPI Test (SPA, Schedule 14 – part 2); to demonstrate a good track record performance on the delivery of previously approved projects.
2. Benchmarking Procedure (SPA, Schedule 21); to demonstrate whether the LEP’s proposals can meet the strategic requirements, offer Value for Money and affordability, and are compliant with law and regulations.
3. Market Testing Procedure (SPA, Schedule 4); same purpose as Benchmarking Procedure. In addition this retendering procedure is a European requirement every five year so as to protect the client in paying market prices based on fair competition.
4. Continuous Improvement Plan (SPA, Schedule 15); to demonstrate performance against continuous improvement targets as defined from the initial procurement, and revised from time to time.

Once a project has been accepted by the local authority exclusivity is granted. The exclusivity may be removed in case of any LEP event of default (4.10.1). The only serious threshold for the LEP to lose exclusivity is the occurrence of any significant performance failure pursuant to the Track Record and KPI Test.

PfS has developed a Value for Money Assessment Tool for local authority clients, to help them decide whether proposals for BSF offer optimal Value for Money on a procurement level. The local authority clients can also use it on a project level to assess on-going Value for Money. Finally PfS is adopting this tool on a BSF programme level in a similar way.

5.5 Identifying Long-term Partnerships in relation to performance

5.5.1 The BSF performance mechanisms

In terms of New Project Development the SPA sets out performance requirements for the LEP in terms of:

1. Partnering Services Specification (SPA, Schedule 12); to support the local authority in the strategic planning of accommodation services for the entire secondary schools estate in the area. Also to add value to achieve the aims of the BSF programme.
2. Collective Partnership Targets (SPA, Schedule 14 – part 1); to demonstrate the LEP’s performance in the context of targets and objectives in the Strategic Business Case. Also to reflect performance in relation to the objectives of the BSF programme.

The right of exclusivity is contingent upon the development of New Projects within the local authorities’ Strategic Business Case. The exclusivity may be removed in case of any LEP event of default (4.10.1). The SPA points out the threat of a loss of exclusivity if the LEP is ceasing to supply Partnering Services and in case of any material breach pursuant to Collective Partnership Targets.

5.6 General findings on a BSF project level

The views of the research entities have been investigated by asking them which mechanisms of the SPA they use for identifying performance. Their assumptions have resulted in indications of a differentiating level of significance for each of the performance mechanisms as described above.

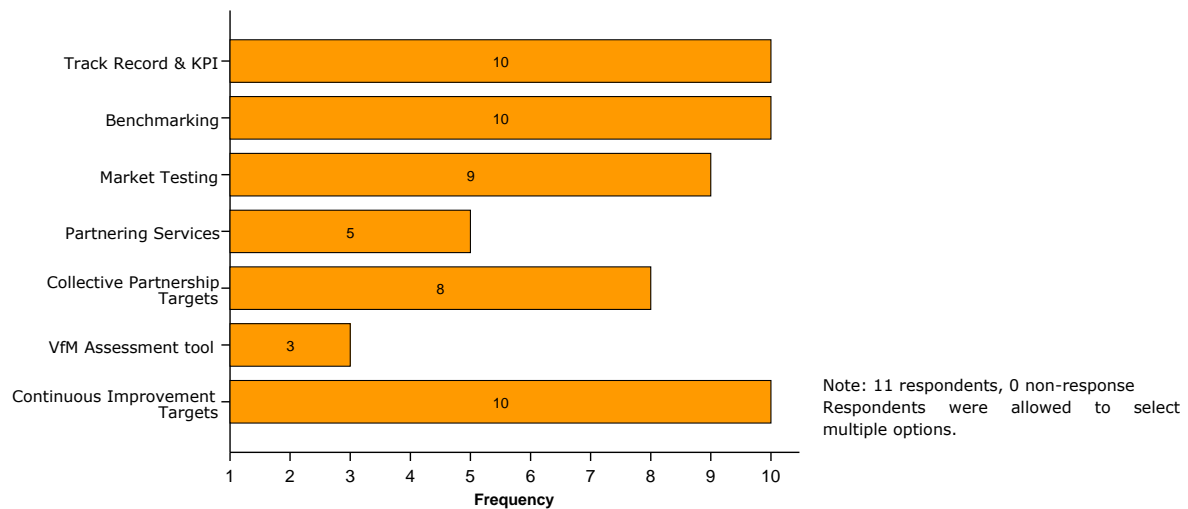


Figure 5.1 – Instruments for identifying performance in the first BSF projects

The views of the respondents in figure 5.1 clearly indicate that the mechanisms related to Best Value for Money are the most significant in identifying performance in a project circumstance. Mechanisms related to Long-term Partnerships have also been indicated to identify performance, in particular the Collective Partnership Targets.

There are two exceptions. The reason for the low rate for the Value for Money Assessment tool is because it is only used by local authorities, and therefore not well-known by other disciplines.

The low response in relation to the Partnering Services may be due to the fact that this specification also sets out the partners’ roles and responsibilities. These may not be very well-defined in the beginning stages of the project but more aspirational.

5.7 Conclusions

Research Question 1

The terms 'Best Value for Money' and 'Long-term Partnerships' are common in the BSF programme. It is remarkable that both terms are not specifically defined within the BSF policy documentations.

Although not literally defined in the context of BSF the term 'Best Value for Money' carries a similar definition as to that adopted by the UK Government. The term is stated in the SPA and in BSF guidance documents. UK government has been using the terms 'Best Value' and 'Value for Money' for years, so a combination of the terms in BSF is not surprising. Although the term can be derived from its theoretical definition, on a BSF project level there is no common clarity. There is a lot of variety in the interpretation. The term seems to be interpretable in more than one way.

In the context of BSF the term 'Long-term Partnership' is also stated in the SPA and BSF guidance documents. BSF does not come up with a clear statement about the definition of a Long-term Partnership. However in case of the establishment of a LEP the SPA connects the term to a Public Private Partnership (PPP). Also here UK Government has been using the term as a key characteristic in their definition of a PPP for a number of years.

Research Question 2

At BSF programme level Best Value for Money in relation to performance can be identified by the following instruments:

- Track Record and KPI Test (SPA, Schedule 14 – part 2);
- Benchmarking Procedure (SPA, Schedule 21);
- Market Testing Procedure (SPA, Schedule 4);
- Continuous Improvement Plan (SPA, Schedule 15);
- Value for Money Assessment Tool (PfS and DfES).

At BSF programme level Long-term Partnerships in relation to performance can be identified by these instruments:

- Partnering Services Specification (SPA, Schedule 12);
- Collective Partnership Targets (SPA, Schedule 14 – part 1).

The identification of those instruments is recognized by the several key disciplines working on the first BSF projects. However few respondents are aware of the Value for Money Assessment Tool as a performance assessment instrument by the client. Recognition of the Partnering Services Specification as a performance instrument is also low. At the moment the purpose of this instrument is fairly aspirational. The performance side of this mechanism may grow once a BSF project is progressing.

6 Findings: Measuring performance requirements

6.1 Introduction

The performance mechanisms identified in Chapter 5 have been further investigated. This chapter examines the measurement aspects of each mechanism to consider:

1. *The required adoption of each mechanism by the LEP;*
2. *Respondents' views about the appearance in relation to each project stage / procurement route;*
3. *Respondents' views about the importance of performance conditions;*
4. *A list of assumed benefits / drawbacks for each mechanism based on initial considerations;*
5. *A list of respondents' suggestions for improvement.*

These performance instruments have a measurement function. However some also have an assessment purpose. Issues around performance assessment are raised in Chapter 7.

This chapter gives a response to Research Question 3:

'The criteria to measure Best Value for Money and Long-term Partnerships objectively in BSF projects at the different project stages and procurement routes.'

Necessary remarks

Some remarks have been made in relation to some of the points listed above and their specific rationales argued in order to achieve reliable outputs:

1. No survey questions have been asked about the Continuous Improvement Plan, however this instrument has been identified as a performance mechanism in the previous chapter. The argument is that the Plan does not set out targets in a predefined or very standardized way. Not all Continuous Improvement targets are project specific. PSPs and their supply chain partners can develop a set of generic targets and add these to the Plan with project specific targets in response to the particular local authority client's project objectives.
In spite of the incomplete survey findings, only point 1 and 2 from the list above can be discussed in relation to the Continuous Improvement Plan.
2. Respondents have been able to select multiple options for the survey question about the appearance of a performance mechanism in certain project stages.
3. Regarding point 3 about the importance of performance conditions:
 - Questions have been asked about the most important and least conditions only. No attempts were made beyond this to determine other levels of importance in the range.
 - For instruments with more than 20 topics the research entities were asked to list the three most and three least important topics for their discipline.
For instruments having less than 20 topics the research entities were asked to list the single most and least important conditions for their discipline.
 - The most important conditions mentioned by 4 or more respondents are discussed in detail;
 - During the survey interviews some interviewees had serious difficulties in identifying the most important ones. In those cases the interviewees were allowed to pick out a category heading, to give a broad indication. Unfortunately no further judgements can be drafted from those answers here as category headings are not conditions.
4. Regarding point 5 about benefits and drawbacks:
 - A benefit or disadvantage is *generally shared* when it is expressed by two or more respondents. A *generally single* benefit (or disadvantage) is mentioned only once by one single respondent.
 - Only the biggest mean parts are listed in this report. Appendix 11.2 contains a more detailed table with the smallest mean parts, i.e. it separates out the shared and single benefits/drawbacks for each discipline.

6.2 Performance mechanisms in relation to Best Value for Money

6.2.1 Track Record & KPI Test

6.2.1.1 Adoption of the instrument (SPA, Schedule 14 – part 2)

The Key Performance Indicators (KPIs) govern the Track Record test set out in the SPA. The exclusivity granted to the LEP is contingent upon the LEP being able to meet all the KPIs. The KPIs are reviewed annually by the Strategic Partnering Board. The LEP has to communicate the results in a transparent manner. Indicators can be set higher or lower where both parties believe that the partnership would benefit from a change to the KPIs. The performance mechanism also identifies whether or not KPIs have a National Priority. However for National Priority KPIs, a change also requires PFS approval. These national KPI's are developed by Constructing Excellence and widely used in the UK construction industry to measure the benefits from partnering projects and frameworks and to support Best Value (Constructing Excellence, 2006). Finally the mechanism defines which KPI should be added to the Continuous Improvement plan and on what manner.

The KPIs are based on a BSF standard and need to be adjusted and revised at a local level to be consistent with the Strategic Business Case for the area, and the profile of the local investment programme. The local authority determines the target setting of the KPIs. It may take a few years of LEP operation to achieve any meaningful targets. Targets that are either unachievable or too easy to reach can have a negative effect on project performance.

The mechanism is classified into 6 categories which constitute the area of assessment. Each area has its objectives in order to fulfil the aims of BSF. Each objective is connected to a number of KPIs. The schedule clarifies for each KPI how it should be measured and over which period. Some KPIs are referred to specific guidance on particular targets.

For each KPI there are Track Record Targets set out for New Build, Refurbishment and for FM and ICT Services. There are Level 1 targets and Level 2 targets. In brief these targets mean that for example more than 90% of a KPI has to be achieved.

Failure on any one of the Track Record Target Level 1 KPIs means the local authority may remove the LEP's exclusive right to provide Partnering Services and project services for the next project due to be brought forward to the LEP. Failure on any one of the Track Record Target Level 2 KPIs counts as a 'Significant Performance Failure' and may possibly lead to termination of the SPA or removal of the LEP's exclusivity.

6.2.1.2 Appearance

One of the questions from the online questionnaire was: *In which project stages are you using the performance measurement mechanism?*

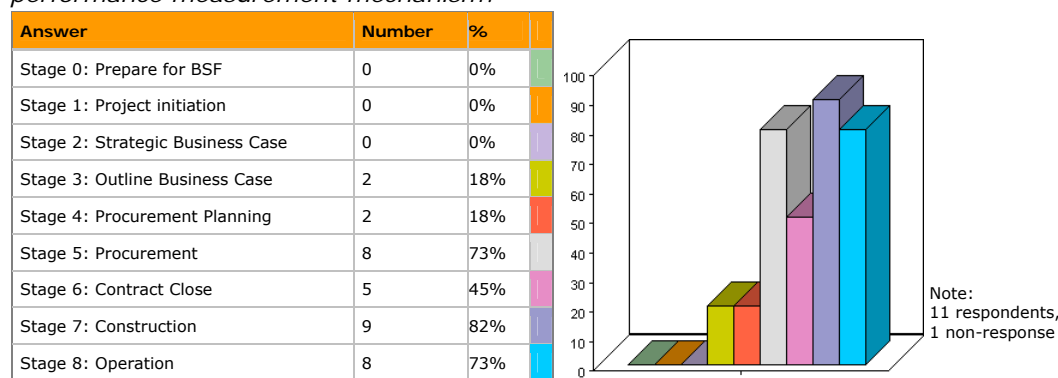


Table 6.1 – Respondent's views on using Track Record & KPI Tests in project stages

This instrument comes into effect once a LEP is established and involves all activities of the LEP. They vary from the work under New Project Development to the project stages of design, construction, maintenance and operation. This mechanism is to be applied by the LEP and therefore all procurement routes are included. The views of the research entities feature a similar picture, emphasized by the table and its diagram. The KPIs can be different in each project.

6.2.1.3 Importance of performance conditions

The LEP needs to monitor and report its working performance against each of the KPIs on a regular basis. Appendix 11.1 gives a list of the standard KPIs as stated in the SPA. The research entities were asked to list the most and least important conditions from the Track Record and KPI Test for their discipline within the BSF project. Across all disciplines these are the four most important KPIs:

1. **Average total cost of construction (4.1)**; the objective of this KPI is to control whole life costs of BSF schools across the programme, and to produce long term cost efficiency. It can be measured through a mean total cost per m², calculated as the actual final total cost for new build construction (at financial close for PFI, at completion for D&B) divided by the gross floor area. This is a Level 2 Track Record Target for new build only, to be determined locally.
2. **Client satisfaction of Design Quality (2.1)**; the purpose of to this KPI is to achieve a high quality of design in all BSF schools. It can be measured as an average percentage achieved across all completed schools in the post-occupancy Design Quality Indicators (DQI) for schools. Track Record Targets have been set for two categories of DQIs: 'Fundamental' and 'Across all DQI criteria'. There are predefined Level 1 and level 2 Track Record Targets for new build and refurbishment projects. The BSF specific DQIs are developed by DfES and PfS.
3. **Satisfaction with Partnering Services (1.3)**; the objective of to this KPI is to produce high quality proposals that meet the requirements of the local authority and other stakeholders. It can be measured as an average percentage score of annual surveys, as measured in accordance with survey guidance. The survey is conducted every three year. Predefined Level 1 Targets are applicable for new build and half of the refurbishment projects. Level 2 Targets are applicable for half of the refurbishment projects and all FM and ICT projects.
4. **Predictability of total project (3.5/6)**; the objective belonging to this KPI is to increase the efficiency of procuring new schools infrastructure, in terms of procurement timescales and predictability of outcome. For the design and construction of schools it is measured as a percentage between planned months and actual months between financial close and service commencement. This works the same for the total project but then a percentage between planned months and actual months between Stage 1 approval and service commencement. There are predefined Level 1 and Level 2 Track Record Targets for new build projects and refurbishment projects.

6.2.1.4 Benefits / Drawbacks

According to the respondents this is a list of generally anticipated benefits and drawbacks of the Track Record & KPI test.

Generally shared benefits:	Generally shared disadvantages:
1 Achieving high quality education.	1 There are too many KPIs to be measured
2 Getting comfort from a PSP.	2 It is difficult to agree all the KPIs with a PSP.
3 Demonstrating evidence of target delivery.	3 No real bonus or positive incentive in the KPIs for a PSP.
4 Keeping you on track.	
5 Enabler for continuous improvement.	

6.2.1.5 Suggestions for improvement by the respondents

In order to improve the effectiveness of this performance mechanism some modifications are suggested by the respondents:

- A better definition of the KPI's for *Schools Accessibility* (2.3) and *Popularity of Schools* (6.3). We do not understand what it means and we cannot affect it because they are not our issues (PSP);
- I would suggest to add a KPI about travel distance to schools (PFS);
- The KPI's under Costumer Satisfaction (5.0) and Others (6.0) should be added to the CPTs (PFS);
- Some of the KPI's are a perception that you cannot mark, e.g. asking about satisfaction, school popularity, interaction within the community is a personal thing and something that the school needs to measure. They are outside of our control and very subjective (SCM);
- The KPI *Average total cost of construction* (4.1) is what we would prefer to make applicable to where you have several schools being built. Then you can spread the average over a larger number: not only the 1st wave schools, also 2nd waves (SCM);
- Measuring *Environmental Performance* (2.7) is sometimes difficult to measure year on year. Some very good targets for this KPI would be BREEAM and WRAP targets (SCM);
- There are too many KPIs in general to measure. There needs to be some form of grading of importance and it should be cut down to 20 (SCM).

6.2.2 Benchmarking Procedure

6.2.2.1 Adoption of the instrument (SPA Schedule, 21)

Benchmarking is a key mechanism through which the LEP can demonstrate Value for Money to the local authority, and satisfy one of the approval criteria for New Projects set out in the SPA. The LEP needs to demonstrate Value for Money to the satisfaction of the Strategic Partnering Board by comparing the cost of any New Project to (PfS, 2006b; clause 8.3):

1. The initial projects;
 2. The anticipated cost of future projects as set out in the Continuous Improvement Plan;
 3. The costs for equivalent projects based on the benchmarking data and indices provided by PfS.
- PfS has developed a set of pro-forma schemes for LEPs to process all benchmarking data for a BSF project. PfS will supply the information required to conduct benchmarking, but the exercise will be carried out by LEPs. The final decision on Value for Money rests with the local authority. PfS provides a Target Range for each Benchmark Measure in respect of a particular new project. If the actual summary and elemental measures of that project fall within the PfS Target Range, then the project is judged Value for Money.

Benchmarking works best for new build or largely new build BSF projects, and to a considerable extent for refurbishment projects that do not involve large structural alternations. For more complex refurbishments and for ICT assets and services, some form of market testing within the LEP supply chain will provide a more practical route to demonstrating Value for Money.

The LEP carries out a benchmarking analysis by comparing the Benchmark Measures of the new proposal with the PfS Benchmark Target Ranges. For each Benchmark Measure, PfS has set a Target Range, using a mean value, an upper limit and lower limit. The benchmarking analysis needs to be done on a *school by school* basis for whole life costs, and on a *project* basis for funding and LEP related costs.

For each Benchmark Measure, the LEP's proposal can either fall within the Target Range or outside of it. Where the proposal falls outside the Target Range, the LEP needs to provide an explanation for why that is the case, and this will be considered by the Local Authority as part of its Value for Money review at Stage 1 and Stage 2 Approval.

6.2.2.2 Appearance

The table below gives the outputs of the following question from the online questionnaire: *In which project stages are you using the performance measurement mechanism?*

Answer	Number	%
Stage 0: Prepare for BSF	1	10%
Stage 1: Project initiation	0	0%
Stage 2: Strategic Business Case	0	0%
Stage 3: Outline Business Case	2	20%
Stage 4: Procurement Planning	3	30%
Stage 5: Procurement	8	80%
Stage 6: Contract Close	5	50%
Stage 7: Construction	7	70%
Stage 8: Operation	7	70%

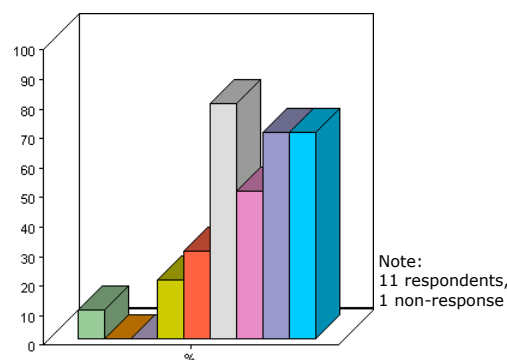


Table 6.2 – Respondent's views on using a Benchmarking Procedure in project stages

For the LEP benchmarking should be applied during the procurement of New Projects which receive Stage 1 approval on or before the 5th anniversary of the date of the SPA. This is what 8 respondents have indicated too. From the survey 7 respondents have also said that benchmarking is carried out during the operational phase of PFI contracts. This applies to the benchmarking of PFI projects at specified times in the PFI Project Agreement. This form of benchmarking is not a part of the SPA and therefore no further investigation has been done. The PFI SPV must benchmark some of the soft FM services provided under the PFI Agreement to ascertain the quality and competitiveness of the services in question.

6.2.2.3 Importance of performance conditions

Each category of costs is covered through two types of benchmark measures: Summary Benchmark Measures and Elemental Benchmark Measures. The latter are further sub-divided into greater level of detail. The Summary Benchmark Measures are listed in the Benchmarking Procedure. Findings about the importance of Benchmark Measures are added in Appendix 11.1. The research entities were asked to list the most and least important Summary Benchmark Measures from the Benchmarking Procedure for their discipline within the BSF project.

According to 16 respondents the most important measure is clearly: **Total Construction Costs (1.2)**; it includes all the Initial Construction Costs and is measured in pounds per m². This measure is divided into the following 10 Elemental Benchmark Measures:

Elemental Benchmark	Parameter
Substructure	£/m ²
Superstructure	£/m ²
Internal Finishes	£/m ²
Building Fitting and Furnishings	£/m ²
Services	£/m ²
External Works	£/m ²
Abnormal Costs	£/m ²
Contractor's preliminaries	%
Contingencies and Inflation	%
Professional Fees	%

6.2.2.4 Benefits / Drawbacks

According to the respondents this is a list of generally anticipated benefits and drawbacks of the Benchmarking Procedure.

Generally shared benefits:	Generally shared disadvantages:
1 Gives assurance to achieve better Value for Money.	1 Difficult to benchmark as not every project is comparable and can deliver useful relevant data.
2 Higher level of client satisfaction.	2 Benchmarking only works with new buildings.
3 No riskful costly tender competition.	
4 Achieving cost benefits within your BSF projects.	
5 If you perform well you will keep your competitive advantage.	

6.2.2.5 Suggestions for improvement by the respondents

In order to improve the effectiveness of this performance mechanism some modifications are suggested by the respondents:

- There should be a higher quality of benchmarking data. At the moment it does not give a complete picture of what financial commitments are because construction firms do not necessarily build up their costs like that. It is based upon a lot of assumptions (LA);
- It might be more appropriate to purely benchmark on a regional basis in stead of nationally. I think you can only compare the building costs, total construction costs and FM costs on regional factors (LA);
- The extent and timing of the benchmarking and when that takes place. Further benchmarking should only take place at the start of the project, not when it is being developed. So no continuous benchmarking (PSP);
- We embrace the principle but it is still in embryonic stage. A loss of trust between the parties and a loss of time to bring in New Projects to signed are big issues to make this procedure work (PSP);
- At the moment the procedure benchmarks from a cost competitive perspective. PFS is preparing to benchmark quality and performance as well;
- The Benchmarking Procedure does not capture the Refurbishment of schools. Theoretically this instrument works well, but I have doubts of the practice. PFS is still developing the instrument (PFS);
- There should be a way to benchmark little schools against the larger ones (SCM).

6.2.3 Market Testing Procedure

6.2.3.1 Adoption of the instrument (SPA, Schedule 4)

Market Testing is a retendering procedure during the procurement of New Projects as defined in the Strategic Business Case. Depending on the lifespan of the LEP it is their choice as to which approach to adopt, benchmarking or market testing, in order to demonstrate Best Value for Money in respect of a New Project proposal. The Partnering Services activities of the LEP are not subject to Market Testing. After the 5th year of the SPA the LEP needs to satisfy the requirements of market testing in relation to (PFS, 2006b; SPA, clause 8.2 'Demonstration of Value for Money'):

1. The first representative New Project of each type (PFI, D&B, FM, ICT, etc.);
2. Any other New Project for which Stage 1 Approval is sought prior to the representative New Project having become approved;
3. Any other New Project for which Stage 1 Approval is sought and where the LEP decides to Market Test that project.

In addition pursuant to clause 8.2c the LEP needs to Market Test any New Project brought forward in the period between the start of the SPA and the 5th anniversary where the such New Projects is not of the same type as the initial project(s).

In advance of the market testing date the LEP needs to discuss and agree:

- a) The Market Tested Services which will optimize the opportunity for the local authority to obtain Best Value for Money.
- b) The appropriate media for advertising and identify the prospective tenderers;
- c) The basis on which tenderers shall be selected;
- d) The tender requirements to determine the preferred bidder.

Market Tested Services means the relevant Project Services and any other service.

Following a tendering process the LEP determines which tenderer offers the compliant tender. Unless the LEP can demonstrate to the local authority that it will optimize its ability to obtain Best Value for Money, other tenderers may submit any of the Market Tested Services.

PfS has created a framework Tender Evaluation Methodology. The chief executive of the LEP will establish the Market Testing project team and take overall responsibility for the management of the tender evaluation process. The methodology argues that achieving local authority requirements, quality standards and service benchmarks is equally as important as achieving the lowest tender price. A balanced assessment of each of the criteria is to be carried out ensuring that the optimal offer is selected.

Value for money is the essential test against which any market testing exercise is to be justified. It is essential that the evaluation methodology offers a robust, objective, transparent and equitable process against which bid submissions are evaluated.

6.2.3.2 Appearance

The following table comes from outputs about a question from the online survey: *In which BSF project stages are you using this performance measurement mechanism?*

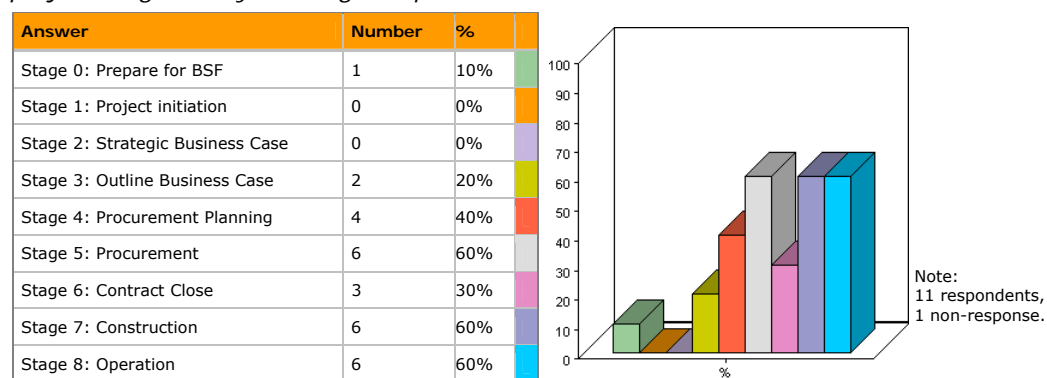


Table 6.3 – Respondent's views on using a Market Testing Procedure in project stages

Market Testing only comes into play after year 5 following the establishment of the LEP. The procedure happens in the procurement of New Projects. This is what 6 respondents have indicated too. As with benchmarking Market Testing may also happen in a PFI contract within the local BSF programme. In case the price paid by the authority should change on the basis of a benchmarking exercise and the parties are unable to agree this cost change then a market testing exercise will be undertaken. This involves tendering for the provision of the existing services in the open market after 5 years of operation. That is the reason why also 6 respondents have referred to this during the operational stage.

6.2.3.3 Importance of performance conditions

Tenders must be evaluated consistently against agreed evaluation criteria. The evaluation happens by a weighted matrix analysis. A scored approach allows for each part of the bid to be considered individually, providing an objective basis for ranking tenderers and providing a comprehensive audit trail of the process.

The research entities were asked to list the most and least important evaluation criteria from the Market Testing Procedure for their discipline within the BSF project. These can be found in Appendix 11.1. Across all disciplines these are the two most important ones:

1. **Finance and prices (1)**; financial standing, tender price and total costs.
2. **Technical (5)**; assessment of the ability to deliver the required services.

Unfortunately the Market Testing Procedure does not set out a detailed description of the tender evaluation criteria. Hence no further details can be mentioned here.

6.2.3.4 Benefits / Drawbacks

According to the respondents this is a list of generally anticipated benefits and drawbacks of the application of the Market Testing Procedure.

Generally shared benefits:	Generally shared disadvantages:
1 It gives a benchmarking review to compare yourself with the rest of the sector and other projects.	1 Less price certainty for client and end users.
2 Delivery of Value for Money for the local authority and PSP	2 LEP members working in the supply chain have to prove their competitive position every 5 years.
3 Cost certainty in the supply chain before you submit your bid, because it allows the local authority to seek market prices.	3 Changing supply chain members is a breakdown of High Level Principle about long-term partnership.
4 Supply chain confidence. It can demonstrate that the previous bid has a good market price.	4 High bidding costs

6.2.3.5 Suggestions for improvement by the respondents

Finally listed below are some modifications suggested by the respondents to improve the effectiveness of this performance mechanism:

- I think the whole instrument needs to be more defined. It is a bit too theoretical at the moment. The market testing in BSF is on a higher level, i.e. more aspects will be market tested compared to PFIs (LA);
- It would be good to add conditions about Education and Safety (LA);
- The management of the supply chain needs to be maintained by the LEP. If the management splits against Market Testing then you will lose overall control. I would suggest a non-market tested supply chain management layer underneath the LEP (PSP);
- Cultural fit is a relevant question but difficult to measure. It is more visionary and aspirational. When you are Market Testing you are actually looking for a specific service solution. Cultural fit is not as relevant as choosing a LEP partner (PFS);
- I think the schedule is reasonably well understood because it is derived from the established PFI procedure. However the Market Testing in BSF also applies the subjective measures (Legal, Human resources and Cultural fit) (PFS);
- It should be better defined what they are trying to get out from the 'Legal' and 'Human Resources' in terms of Value for Money. I don't understand how that works (SCM);
- So we are going to assure a policy that can maximize the local employment, we are looking to employ school neighbours and school leavers within the area, we are looking to reinvest local authority money in the local community too. These aspects should be measured as well while market testing (SCM);
- Procedure is ill defined, which I think is right because you need the flexibility. But if the next New Project is a PFI, how do you deal with that? You cannot break up a PFI in elements very well (SCM).

6.2.4 Continuous Improvement Plan (CIP)

6.2.4.1 Adoption of the instrument (Schedule 15, SPA)

Another key requirement for the LEP is to demonstrate Value for Money by putting forward proposals in relation to continuous improvement of:

- the initial project (PFS, 2006b; SPA clause 8.2a)
- any new project (PFS, 2006b; SPA Schedule 3, clause 4.4b).

The LEP is expected to demonstrate long-term Value for Money to the local authority. This has to be achieved and developed against the Continuous Improvement Plan for each phase of BSF investment in order to reflecting best practice, knowledge and experience gained over time and across the projects.

The Continuous Improvement Plan has to be developed by private sector bidders as part of the original procurement of a PSP. Once developed it will be revised from time to time during the lifespan of the LEP. The LEP periodically reviews this plan with other members of the SPB. Amendments and improvements need to be made to reflect current circumstances. Targets are set for each element of the Continuous Improvement Plan, and changes to these targets will need the joint approval of the LEP and the local authority.

The Plan contains strategies and targets for improvements in the following areas:

- **General**; reduction construction waste, no disruption to teaching, improvements in design quality, reductions in average construction costs, maximising economies of scale and scope.
- **PFI contracts**; faster timescales, improved performance in the PFI schemes, maximising efficiencies.
- **Design and Build contracts**; faster timescales, greater cost certainty, maximising efficiencies.
- **Maintenance Services contracts**; improved performance of KPI targets, maximising efficiencies.
- **ICT contracts**; faster timescales, greater cost certainty, improved performance in the ICT contracts, improvements in design quality, improvements in BREEAM ratings and Asset Management Plan scores, improvements in energy efficiency.

For the local authority the LEP has to explain and demonstrate clearly the identified targets set for each element of the Continuous Improvement Plan. Each LEP has to set out its detailed methodology for ensuring that these targets will be achieved. The LEP also needs to explain how they motivate its supply chain to meet the targets.

6.2.4.2 Appearance

The table below gives the answers to a question from the online questionnaire: *In which project stages are you using the performance measurement mechanism?*

Answer	Number	%
Stage 0: Prepare for BSF	1	10%
Stage 1: Project initiation	1	10%
Stage 2: Strategic Business Case	1	10%
Stage 3: Outline Business Case	3	30%
Stage 4: Procurement Planning	4	40%
Stage 5: Procurement	7	70%
Stage 6: Contract Close	6	60%
Stage 7: Construction	6	60%
Stage 8: Operation	8	80%

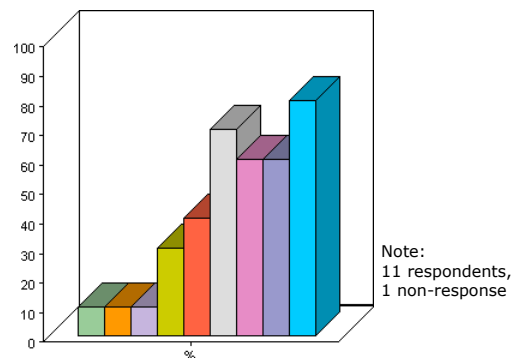


Table 6.4 – Respondent's views on using the Continuous Improvement Plan in project stages

As supported by the respondents it will be obvious that the Continuous Improvement Plan goes through all project stages from procurement. However the emphasis lies in stage 8: Operation.

6.3 Performance mechanisms in relation to Long-term Partnerships

6.3.1 Partnering Services Specification

6.3.1.1 Adoption of the instrument

The main focus of the Partnering Services Specification (PFS, 2006b; SPA Schedule 12) is to achieve transformational change in educational achievement which is in line with the aims of BSF. As explained in section 4.6.1 the provision of Partnering Services for New Projects to the local authority is one of the main activities of the LEP. The LEP provides the Partnering Services subject to the SPA, New Project Approval Procedure and the Partnering Services Specification.

The Partnering Services Specification sets out the respective roles and responsibilities of both the LEP and the local authority in the partnership. The LEP needs to work closely with the local authority and other local stakeholders, particularly end-users such as school governing bodies, head teachers, school staff, pupils, parents and the community.

The schedule encourages the LEP to add value to the programme by complementing and supplementing local expertise and capacity. The LEP is free to subcontract the whole or any part of the Partnering Services to one or more Partnering Services providers. Regardless the resources the PSP and PFS put into the LEP, through this mechanism sufficient local authority client side representation must be retained to fulfil a very strong client role.

The SPA (Schedule 11) sets out the following Partnering Services Obligations for the LEP:

- Work with the local authority in a supportive manner;
- Deliver and demonstrate to the SPB the satisfaction of long-term Value for Money targets set out in the SBC, the SPA and the Continuous Improvement Plan;
- Adopt and demonstrate open book accounting;
- Report the performance and monitoring of the LEP in the provision of Project Services;
- Develop and implement the management of the Partnering Services Providers;
- Produce reports and documentation to the SPB.

The Specification is classified into four columns. The first column sets out a description of each area of activity related to the local BSF programme. The second column sets out the role and responsibilities of the local authority, and what it would commit to do ensuring that the partnership objectives of BSF, set out in the Collective Partnership Targets, are met. The third column then does this for the LEP's role and responsibilities. The fourth column details the output required for that area of activity to which the LEP and the local authority will each contribute.

6.3.1.2 Appearance

For this performance mechanism the respondents have been questioned again in which BSF project stages they are using it. These are the outcomes:

Answer	Number	%
Stage 0: Prepare for BSF	2	20%
Stage 1: Project initiation	3	30%
Stage 2: Strategic Business Case	3	30%
Stage 3: Outline Business Case	4	40%
Stage 4: Procurement Planning	7	70%
Stage 5: Procurement	9	90%
Stage 6: Contract Close	5	50%
Stage 7: Construction	5	50%
Stage 8: Operation	7	70%

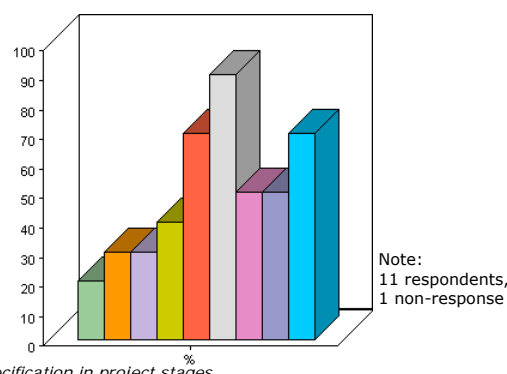


Table 6.5 – Respondent's views on using a Partnering Services Specification in project stages

The Partnering Services Specification is a template for local authorities considering their role in the procurement of a LEP and its projects. That is why many respondents have answered stage 4: Procurement Planning and stage 5: Procurement.

For the LEP partners the Specification sets out the responsibilities and that the provisions of the Partnering Services are at all times performed during the exclusivity period. That explains why 7 respondents have also indicated that the Operation stage is relevant.

6.3.1.3 Importance of performance conditions

The Specification therefore sets out clearly for each area of activity the partnering services the local authority will expect the LEP to provide, and the role and responsibilities of the local authority itself. All the areas of activity are shown in Appendix 11.1.

According to the outcomes of the interview survey the partners in the LEP and its supply chain were asked to list the most and least important conditions from the Partnering Services Specification for their discipline within the BSF project. Through all disciplines these are the three most important activities:

1. **Delivery of services that provides teachers and pupils with a 21st century learning environment (4.1);** therefore the local authority has to work as a client with the LEP to ensure smooth delivery of services on the ground. The LEP has to:
 - provide the single point management for all Supply Chain Members;
 - provide Management Services to any project companies established for New Projects;
 - provide effective single liaison to manage the relationship with schools and the authority;
 - ensure that supply chain capacity and risk management arrangements are robust;
 - ensure that the supply chain remains competitive if used in successive projects.

The result of this activity would be efficient delivery of New Projects, consistent high performance through the life of the contracts, successful project delivery and demonstration of Value for Money in each New Project.
2. **Achieve Value for Money (5.1);** therefore the local authority has to work with the LEP to agree acceptable processes for demonstrating Value for Money. The LEP has to:
 - understand the key drivers for Value for Money;
 - collect and analyse performance data from existing LEP projects across the country;
 - Market Test within the supply chain where it would prove better Value for Money;
 - discuss costings of New Projects with the local authority on an open book basis.

The result of this activity would be local benchmarking data shared with the local authority, market testing if benchmarking does not provide a convincing Value for Money, and transparent pricing of New Projects.
3. **Develop detailed proposals for New Project Approval (3.7);** therefore the local authority has to co-operate with the LEP in developing detailed proposals. The LEP has to develop detailed design proposals in consultation with stakeholders.

The result of this activity would be detailed design proposals reflecting the requirements of the SBC and the aspirations of the school.

6.3.1.4 Benefits / Drawbacks

This is a list of generally anticipated benefits and drawbacks of the Partnering Services Specification, derived from the face-to-face interview survey.

Generally Shared Benefits:	Generally shared disadvantages:
1 Common understanding of the LEP's roles and responsibilities in early stages.	1 Theory is good, but no practical experience yet.
2 It defines the partnership	
3 Clarity of what partnering structure is expected	
4 To help the client selecting a bidder.	
5 Partners will think how to be involved in the LEP.	
6 Starting point to get a relationship working correctly.	

6.3.1.5 Suggestions for improvement by the respondents

In order to improve the effectiveness of this performance mechanism some modifications are suggested by the respondents:

- It will be difficult to assess condition *Learning and teaching curriculum* (1.2) because I don't think we let our PSP very near to that (LA);
- *School organisation* (1.8) is more a local authority function than a LEP function. We made the decision not to transfer too much of the educational aspects to the PSP. However the PSP has to understand what we are doing and support us as much as they can (LA);
- *Running change management programmes* (6.3) should be put elsewhere because it is aimed about senior leadership and middle management within the schools and we do not deal with that (PSP);
- They are not at the core of our SPA. It is more a consequence of all the other things we do that we will achieve those Partnering Services. It is not that someone is saying 'you have got to do that service now' (PSP);
- We encourage the local authorities to change as much as they want; the schedule is non-binding (PFS);
- There has to be an appreciation that the LEP has limited control over the Partnering Services. I worry that some local authorities will think that this is for the LEP because they might think that the LEP has more responsibilities. The local authority owns the delivery of these factors (PFS).

6.3.2 Collective Partnership Targets

6.3.2.1 Adoption of the instrument

The local authority and the LEP commit themselves to the establishment of a long term capital programme as described in the SBC and the achievement of Collective Partnership Targets (CPTs). The CPTs reflect the objectives of the BSF programme for a BSF project. They are collective targets in the sense that it is acknowledged and recognised by the authority and the LEP that the achievement of these targets requires the initiative, co-operation and effort of all parties. It is important that the CPTs are communicated in a transparent manner to local authority stakeholders and LEP staff. The review of the CPTs should bring about an open and constructive dialogue between the authority, local stakeholders and the LEP.

If there is any failure of the targets then the local authority and the LEP will negotiate in good faith to agree an Action Plan. If any CPTs continue not to be achieved then the parties will negotiate again to rectify the Action Plan. However if the rectification has not been implemented pursuant to the plan, then the local authority is able to treat the LEP failure as a LEP Event of Default where it might lose the exclusivity under an opportunity to remedy.

6.3.2.2 Appearance

The table below gives the outputs of the following question from the online questionnaire: *'In which project stages are you using the performance measurement mechanism?'*

Answer	Number	%
Stage 0: Prepare for BSF	2	20%
Stage 1: Project initiation	1	10%
Stage 2: Strategic Business Case	3	30%
Stage 3: Outline Business Case	5	50%
Stage 4: Procurement Planning	4	40%
Stage 5: Procurement	8	80%
Stage 6: Contract Close	4	40%
Stage 7: Construction	2	20%
Stage 8: Operation	6	60%

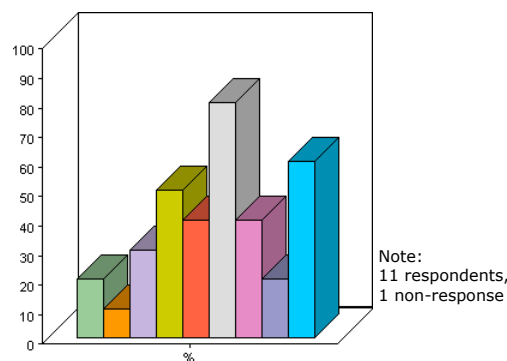


Table 6.6 – Respondent's views on using Collective Partnership Targets in project stages

The initial CPTs are formulated during the development of a LEP in the procurement stage. In this way most respondents are familiar with the CPTs. Following the SPA (Clause 6.9) CPTs have to be reviewed at least annually. It is recommended that the first review is carried out about 3-4 years after the establishment of a LEP. The effects of the BSF investment on the CPTs are expected to become visible once a reasonable period has passed. Still 6 respondents shared this view and have indicated the use and review and CPTs during the operational stage.

6.3.2.3 Importance of performance conditions

These targets are suggested by PFS, and intended for guidance and illustration. Local authorities should review and set these partnership targets in the light of their local educational vision and Strategic Business Case. The targets are listed in Appendix 11.1. The research entities were asked to list the most and least important targets from the CPTs for their discipline within the BSF project. According to 16 respondents the most important targets are:

- **Overarching Objectives (1)**; the 5 outcomes under 'Every Child Matters' are: pupils' enjoy and achieve, stay safe, keep healthy, make a contribution and achieve economic well being. In order to achieve these overarching objectives schools' self evaluation (SEF) grades have to be met for one or more of the KPIs. The target for these KPIs could be that for BSF schools, the schools' self evaluations give improved grades or maintain grades 1/2. This could be achieved in one year, three years, etc. which will be in consultation with the local authority.
- **Teaching and learning (2)**; in terms of improvement in: the range and appropriateness learning and teaching approaches; use of assessment for learning; achievement at key stages (KS) 3 and 4; achievements by underachieving groups; curriculum provision at 14-19 education; more pupils participating in post-16 education; achievement at post 16 education; use of ICT; and more young people participating in sport. In order to achieve these objectives for Teaching and Learning a number of detailed KPIs have to be met. The targets for these KPIs would need to be set annually in relation to a baseline survey on a BSF school's teachers and pupils' views on the effectiveness of teaching/learning approaches and assessment for learning. The targets could be set for the end of the first academic year following completion of capital works at the school, for a three year timescale. They would then need to be renewed throughout the lifetime of the scheme. However some of the targets can only be reached at least three years after completion of the buildings.

6.3.2.4 Benefits / Drawbacks

For the Collective Partnership Targets this is a list of generally anticipated benefits and drawbacks, derived from the face-to-face interview survey.

Generally shared benefits:		Generally shared disadvantages:	
1	It helps to keep a strategic overview of BSF key principles to deliver improvement in education.	1	CPTs have too subjective values.
2	You can demonstrate whether or not you are successfully applying the objectives of BSF.	2	PSP cannot be fully responsible as they have a limited influence in the CPTs.
		3	It is another instrument a PSP has to comply with or the local authority or PFS have something to hit.

6.3.2.5 Suggestions for improvement by the respondents

Finally in order to improve the effectiveness of this performance mechanism some modifications are suggested by the respondents:

- There is a lot of confusion and cross-over about the Collective Partnership Targets, KPIs and Continuous Improvement Targets. I think it could be more simplified (LA);
- There are too many KPIs and they are not properly thought through. There seems to be increase in category (LA);
- The PSP has minimum influence on targets 2, 4 and 5. Unless the aspect of Educational Support (6.4) of the Partnering Services could be added to topic 2 'Teaching and Learning' (PSP);
- This is an evolving procedure and very soft test at the moment. We are preparing that the CPTs will get stiffened up. We will take some risks for increased educational attainment at some point. But we will be an element of it, which will be only a bit of different elements (PSP);
- There should be a rule within this schedule that assures that the LEP does not forget that these targets are at the fundamentals of BSF (PFS);
- Our own particular part of the process does not get involved in lots of these targets, so you can image that it is not a problem to us (SCM);
- It would be better to merge some of the topics. Also different people will have got different views. This instrument will probably work better after 5 years (SCM);
- We are not sure if what has been satisfied by PFS is compulsory or not. At the end the CPTs should be developed between the local authority and the PSP to implement the specifics of the client and the way in which they measure data for any of both (SCM).

7 Findings: Assessing performance requirements

7.1 Introduction

The assessment of performance requirements is the next step in the sequence: definition, identification, measurement, assessment and improvement of performance. Any judgment about assessment is based on the performance measurement mechanisms.

This chapter reviews the assessment aspects of the mechanisms concerned, explicates the assessment obligations and sets out the different views from respondents, including the client's.

Not all of the performance instruments as discussed in detail in chapter 6 consist of an assessment function. In addition PfS has developed an assessment tool for local authorities to decide whether the BSF programme, project proposals and ongoing projects represent good Value for Money.

This chapter gives a respond to Research Question 4:

'An investigation of the client's expectations about the assessment of performance requirements of their PSP and supply chain in relation to Best Value for Money and Long-term Partnership criteria in BSF projects.'

7.2 Assessment of performance conditions

The table below displays list of all performance mechanisms applicable in BSF and details who will assess the performance. For all the instruments the LEP and its supply chain are in a position to measure performance. However the assessment of performance works slightly differently and other parties can be involved. Assessment of performance can be a joint activity for the LEP because the local authority, the PSP and PfS are a part of the joint venture company. In other cases the Strategic Partnering Board (SPB) will assess whether performance standards have been reached. Also the local authority can act as a client rather than a member of the LEP.

Table 7.1 below returns to some of the aspects mentioned in the previous chapter: i.e. who should assess the performance, when this would happen, what has to be assessed, how that happens and what can be the consequence of the assessment. The Partnering Services Specification is omitted from the table because it does not set out targets to be assessed, but rather, specifies the roles and responsibilities for the LEP and the local authority.

Assessment aspects about the performance instruments					
Performance instrument:	Who:	When:	What:	How:	Consequence:
Track Record & KPI test	SPB	Annually	A review of whether each KPI has been achieved or not at both Target level 1 and 2.	The LEP has to issue to the SPB a Performance Report against the KPIs	Update KPIs so that they accurately reflect any changes specified in the Continuous Improvement Plan.
Benchmarking Procedure	LA & SPB	At New Project Approval Stage 1&2	The cost performance of the LEP relative to others in the BSF programme	The pro-forma schemes are included in the New Project approval procedure.	The scorecards are the basis for reviewing the LEP's Continuous Improvement Plans.
Market Testing Procedure	LA	Every 5 yrs after start LEP at New Project Approval.	Balanced assessment of LA requirements, quality standards, service benchmarks and total costs.	Standard retendering procedure with framework Tender Evaluation Methodology: a weighted matrix analysis.	Market Testing in itself is a strong assessment instrument for the LEP to see where it stands.
Continuous Improvement Plan	SPB	Annually	As part of New Project Approval Process, and through assessment of the Track Record Test of the KPI Schedule.	Periodical review with the LEP and the SPB. Improvements have to meet the joint approval of the LEP and the LA.	Amendments and improvements will be made to reflect current circumstances.
Collective Partnership Targets	SPB	Annually	A review of whether each target has been achieved or not.	The LEP has to issue to the SPB a Performance Report against the targets.	Update targets so that they accurately reflect any changes specified in the Continuous Improvement Plan.

Table 7.1 – Assessment aspects about the performance instruments

7.3 Value for Money Assessment tool

7.3.1 Understanding the Tool

In August 2004, HM Treasury introduced a new approach for appraising the Value for Money of investment proposals to be procured under PFI. This was to encourage departments, authorities and projects to assess Value for Money at the earliest practical stage of any decision-making process, and to ensure that departments have the flexibility to pursue alternative procurement routes, if at any stage PFI does not offer the Best Value for Money.

The central proposition is that PFI should only be pursued where it delivers Value for Money, where Value for Money is the optimum combination of whole life cost and quality (or fitness for purpose) to meet the user's requirement, and does not always mean choosing the lowest-cost bid. It should not be chosen to secure a particular balance sheet treatment (HM Treasury, 2004a).

It is important to stress that BSF is more than a PFI programme, as it uses both PFI credits and conventional capital. Rather it is a Public Private Partnership (PPP) programme, where projects are developed through several procurement routes. PFI is only one of those routes. As such, Treasury's PFI Value for Money Assessment guidance does not fit exactly its circumstances in every respect (DfES, 2005).

For the assessment of Value for Money you need to look particularly at:

- Impact of good design quality;
- The expense of workers' terms and conditions;
- Realistic affordable calculation and the inclusion of optimism bias;
- Other non-market factors which indirectly might affect the Value for Money and conditions, e.g. environmental impact or strategic risk that do not directly affect the project.

HM Treasury has introduced a Value for Money assessment tool in 2004, which incorporates the principles of the Green Book. *It is a three-stage decision-making tool of the potential Value for Money of procurement options.* The stages represent an assessment at (1) Programme level, (2) Project level, and (3) Procurement level. HM Treasury requires all departments and authorities in England to do these assessments as part of the spending review process.

The Department for Education and Skills has published their stage 1 programme level assessment of the Value for Money of PFI in BSF. It is also for the project team of each local authority with a project in a wave of BSF. Those local authorities are then responsible for completing stages 2 and 3 of the Value for Money assessment for each individual project. On a BSF programme level the outcomes of the assessment:

- a) Shows that PFI is likely to provide Value for Money for schools projects in BSF;
- b) Sets out the assumptions of which procurement routes should apply for individual BSF projects – whether by PFI in whole, in part, or not at all;
- c) Increases transparency and deal flow;
- d) Shows that BSF investments made using PFI are affordable; and
- e) Shows that BSF includes the necessary framework to ensure Best Value for Money and minimise transaction costs for both the public and private sectors.

Remark

The local authority is responsible for completing stages 2 and 3 for individual BSF projects. They should update the analysis done at the programme level assessment. The projects investigated for this research are wave 1 pathfinders. In the light of their status HM Treasury does not require those projects to be precluded by stage 2 and 3 assessments. Hence for the interview survey it was impossible to ask a similar series of questions like the performance mechanisms on the previous page. A separate downsized list of questions has been used here.

7.3.1.1 Appearance in BSF projects

The table below gives the outputs of the following question from the online questionnaire: 'In which project stages are you using the performance mechanism?'

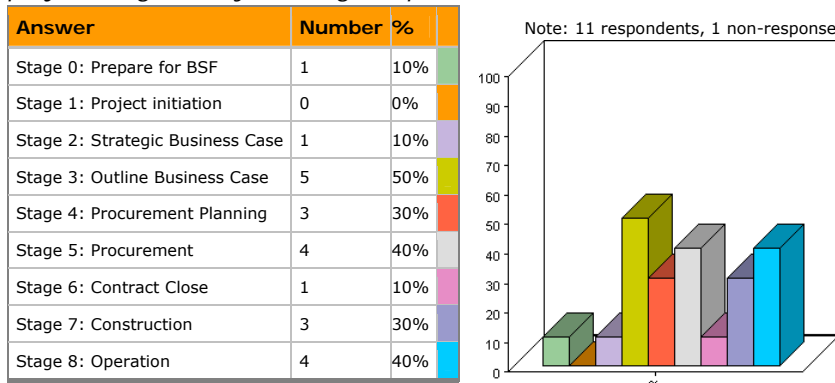


Table 7.2 – Respondent's views on using a Value for Money assessment in project stages

No clear opinions about the three levels of assessment are visible in table 7.2. However there is some little increase in the project stages involved. This lack of clarity is no surprise as the assessment tool only pertains to local authorities; private sector organisations are not involved.

The programme level assessment should be applied during the annual budgeting round when the BSF programme of investment is being considered and for which PFI may be a suitable procurement route. The project level assessment is a part of the Outline Business Case in BSF projects before OJEU is issued. Finally, the procurement level assessment begins immediately post Outline Business Case and continues through to Contract Close. In particular the project level assessments are important considerations for New Project Development of future work by the LEP.

7.3.1.2 LEP's involvement in Value for Money Assessment

Value for Money assessment comes into play during the operation of the LEP as part of the New Project Approval procedure. In both Stage 1 and Stage 2 Approval the LEP has to submit New Project Proposals which also contain an assessment explaining why the LEP's proposals represent Value for Money, taking into account both estimated Capital Cost and Whole Life Cost following the HM Treasury guidance. For Stage 1 Approval the LEP has to submit an assessment as to the most appropriate route to deliver a New Project (PFI or conventional funded) based upon the Value for Money assessment guidance (PFS, 2006b; SPA Schedule 3, clause 3.1, 4.3).

A question from the interview survey to the LEP partners and their supply chain was:

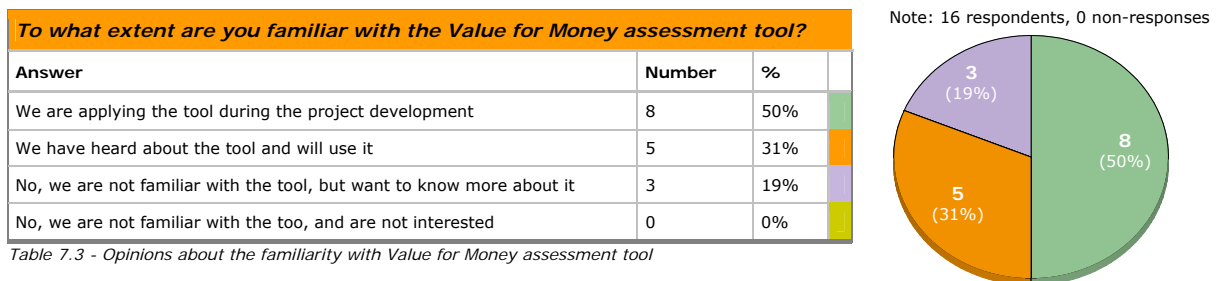


Table 7.3 - Opinions about the familiarity with Value for Money assessment tool

Indications from the respondents show that there is no common familiarity with this tool. It is remarkable that only two local authorities declare having applied the tool during the development of the project. All the PFS directors indicated that they will apply the tool together with local authorities in the future and are now gathering information on how to use it. Due to the recent introduction of the assessment tool by HM Treasury and Partnerships UK the first BSF projects cannot be fully involved in this from the earliest stages.

7.3.2 Application of the tool at project level

In particular the Stage 2 Project Level Assessment is applicable to the LEP and its supply chain during the development of New Projects.

At Outline Business Case the project team has the opportunity to verify that the programme level assumptions apply to the project. As with stage 1 assessment it encompasses both qualitative assumptions, relating to the Viability, Desirability and Achievability criteria, and quantitative assumptions behind quantitative inputs. In addition a formal consideration has to be given of the overall affordability of the project. Fundamental to any assessment is a realistic affordable calculation. Value for Money calculations do not drive affordability calculations. If a project is not affordable, it should not be pursued regardless of the Value for Money assessment.

7.3.2.1 Qualitative assessment

Factors that need to be considered are those that have a differential impact on PFI versus conventional procurement. The assessment is a set of questions about the following issues:

Qualitative assessment
<p>VIABILITY (Programme level objectives and outputs, operational flexibility, equity, efficiency and accountability) Investment objectives and desired outcomes need to be translatable into outputs that can be contracted for, measured and agreed. Many service areas can be described in contractual terms, but some areas will be 'non-contractible'.</p>
<p>DESIRABILITY (Risk Management, Innovation, Service Provision, Incentive Monitoring, Lifecycle cost, residual value) Better risk management in PFI results in a greater proportion of assets being delivered on time and to budget. By integrating the life-cycle and operation costs with the design and construction, PFI can provide better risk management and incentives to develop innovative approaches to output delivery. Consistent high quality services can be achieved through performance and payment mechanisms. However, risk transfer is priced into the contract. The purpose of these questions is to consider whether the benefits of PFI are likely to outweigh this additional cost.</p>
<p>ACHIEVABILITY (Transaction costs, client capacity, and competition) Determining the rules that will govern the relationship between public and private sectors does involve significant transaction costs. In particular, the procurement process can be complex and significant resources may be required for project development and the ongoing monitoring of service delivery. Client capability will have direct consequences for procurement times and will also affect the level and quality of market interest. The structure of proposals and the choice of procurement route should be informed by an assessment of the likely market appetite.</p>

Table 7.4 – Qualitative VIM assessment following HM Treasury guidance

7.3.2.2 Quantitative assessment

This methodology prescribes the use of the quantitative evaluation spreadsheet as a means of crudely assessing the Value for Money of a PFI procurement option. The quantitative assessment involves estimating values for the capital and operating costs attached to BSF projects and its benefits, and adjusting these for any inherent optimism bias and/or specific risks, as well as the expected transaction costs.

It considers how quantifiable costs and benefits of using PFI as the procurement route in BSF are likely to compare with conventional procurement. For the PFI option, it calculates the cost of a project, if it would be funded through private finance, adjusting relevant factors accordingly. HM Treasury has produced a generic spreadsheet developed by Partnerships UK to capture these values, and to enable sensitivity testing. The sensitivity testing computes the effect of different assumptions on the relative Value for Money of the procurement routes. PfS has defined the assumptions to be implemented by each local authority in their programme level assessment. From wave 3 and onward PfS will update these assumptions reflecting changes in macro-economic situations and information built up from previous BSF projects (DfES, 2005).

The results of the assessment include a set of graphs illustrating the percentage change required in the value of individual inputs to affect to zero the net present value difference between the conventional procurement and PFI estimates, and therefore make the procurer indifferent between the two procurement options (HM Treasury 2004a).

The quantitative results and the decision to proceed with a PFI option should always be considered in the light of the qualitative assessment. HM Treasury emphasises that it is important to recognise the part that judgement necessarily plays in any decision and that this cannot be reflected in a single figure based on quantitative assumptions.

The percentage change required is called a “crude” Value for Money. A positive crude PFI Value for Money only is no sufficient justification for proceeding with a PFI procurement route. Particularly if it is close to the tolerance levels for the project. Similarly a small negative is not sufficient evidence against (HM Treasury, 2004b).

From the research entities, three local authority project directors have argued in favour of using the Value for Money assessment tool with its quantitative assessment evaluation spreadsheet, because they are required to use it and it would secure the PFI credits as a part of the Final Business Case.

In addition two of the PFS directors indicated that they have applied the spreadsheet within their first wave BSF pathfinders. None of the private sector organisations (PSP and SCM) apply this HM Treasury tool because it is not applicable to their discipline.

7.3.3 Procurement Level Assessment

Stage 3 Procurement Level Assessment involves ongoing checks on Value for Money by the local authority. In BSF the SPA does not set out related performance obligations for the LEP. There are three main Value for Money drivers:

- The quality of competition;
- The success of achievement in transferring to the private sector an appropriate level of risk; and
- The reasonableness and stability of costs emerging from competition following an efficient procurement process.

For the assessment the HM Treasury Guidance sets out performance indicators which should be considered during the key procurement stages (OJEU notice, Pre-qualification, ITN/ITCD, Post ITN/ITCD) of projects, and which actions should be done. The assessment of the procurement process forms a part of the Final Business Case development, before contractual close.

HM Treasury is currently producing detailed supporting guidance to bid evaluation and supporting tool like in Stage 2 assessment (HM Treasury, 2004a; pp29-27).

If market interest drops below a competitive level, procuring authorities need to reconsider their approach. The qualitative assumptions made against the viability, desirability and achievability criteria should be reassessed at all Value for Money assessment stages.

7.3.4 Commitment by the LEP and its supply chain

The conclusions of the programme level assessment, and the proposed flow of BSF projects for the spending period are summarised in existing publicly available documents on the PFS website www.p4s.gov.uk. The departmental investment strategies can be found on the website of the DfES. The results of the project level assessment need to be clearly communicated to the individual project directors and managers from local authorities, so that they are aware of the expected procurement routes to follow for each of the projects within their BSF portfolio. It also helps them to understand the basis of this decision and the potential for flexibility to choose another route if the detailed assessment at the project level indicates that this is desirable (HM Treasury, 2004a).

Another question to the LEP and its supply chain from the interview survey was:

Are you familiar with VfM assessment tools in other procurement routes?			
Answer	Number	%	
Traditional Procurement	2	9.5%	
Design and Build	2	9.5%	
PFI	5	24%	
As a mixture of PFI and non-PFI (all in BSF only)	6	28.5%	
Other procurement route (a MoD project and a non-PFI partnering scheme)	2	9.5%	
Not familiar	4	19%	

Note: 16 respondents, 0 non-responses
Respondents were allowed to select multiple options.

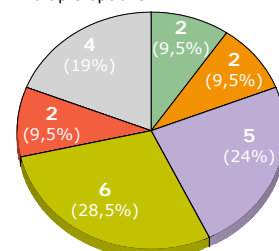


Table 7.5 - Opinions about familiarity with VfM assessment tools in other procurement routes

There seems to be a lack of clarity about whether Value for Money can only be assessed for PFI procurement, conventional procurement, or a combination of both.

The assessment does not apply to all types of procurement. It only applies to PFI schemes. Because PFI is characterised by a long term, whole-life commitment by the private sector to deliver and maintain new public infrastructure, it will only be suitable for this type of investment, naturally limiting its use (HM Treasury, 2004). This implies that there is no formal tool for the assessment of Value for Money on conventional ways of procurement, and so the assessment by the local authority is purely price based. The OGC provides separate advice on conventional procurement options on their website www.ogc.gov.uk.

The research entities were asked to give an explanation of how Value for Money assessment on projects with different procurement routes involved could be done. These are the answers gathered from the interview survey:

- You can compare the risks for a delivery, build and maintenance by the local authority, with the whole-life cost under a PFI. It is still a preference for us to procure things ourselves (LA);
- We know that is going to be very difficult to assess what is being offered through a conventional contract. Especially on refurbishment contracts there is no national guidance on how to get Value for Money (LA);
- At present it is only possible for PFIs. For our BSF we took it from the programme level on to procurement level, and we will do it on a project level as well during the FBC (PFS);
- I think that the D&B and Refurbishments will be assessed on a same way as a PFI. However I think that the practice will be very difficult (SCM);

Again it is remarkable that private sector organisations involved do not really have an opinion or are not sure about the way Value for Money assessment can work with PFI and non-PFI projects involved because it is a matter for the client.

With reference to the LEP's involvement in Value for Money assessment and the other ways of performance assessment from section 7.2 another question from the interview survey was in relation to their commitment: *'Will Value for Money within your BSF project be assessed on an on-going basis, i.e. after the establishment of the LEP?'*

A convincing number of 15 respondents have declared to continue with the assessment of Value for Money during the lifetime of the LEP. There was only one ignorant Supply Chain Member.

These are their arguments:

- Although we have reached financial close, we still want to assess whether or not we feel we are getting value, e.g. on the FM side (LA);
- Yes, because before we sign a contract for three projects with the LEP, we are also preparing a number of other projects as well (LA);
- It will be on the initial project and any future New Projects that we have (LA, PSP, PFS);
- By the assessment we can ensure that the parameters and assumptions we have worked through in the beginning of our first phase of projects are realized, and if not, why not. The output of that may be put back into the new Track Record tests and benchmarks (PSP);
- Because we want to secure our continuity of work (PSP);
- Partly through the KPIs and partly on the same criteria is the assessment tool, because each of our phases will have a separate OBC. The assessment is a part of the OBC (PSP);
- Each time central government gives money to the local authority they will have to demonstrate that the project is achieving Value for Money (PFS);
- In order to move on to the next phases of projects. The client will see it as a milestone (SCM);
- It is all a part of providing evidence in succeeding. Therefore you have to measure the outcomes all the way through the project (SCM).

8 Meeting client's value objectives

8.1 Introduction

The drive for performance improvement is a key element for both terms Best Value for Money and Long-term Partnerships (section 3.5). Therefore an implementation model has been developed for this research, the Value Enhancement Matrix (VEM). The purpose of this model is to come up with a list of substantial and evidence based hypotheses for the PSP and its supply chain to improve their working performance. This 'wish list' may drive the development and delivery effort of their BSF projects.

Any rationales as to why the use of this model is considered as most appropriate as well as its basic principles are explained in chapter 2 about the research methodology, sections 2.6.5.3 and 2.6.5.4.

This chapter gives a response to Research Question 5:

'The creation of an implementation model for the LEP and its supply chain to help them improve the working performance of the LEP in BSF projects.'

This chapter provides an investigation of the effectiveness of performance mechanisms within the SPA in the delivery of the client's value objectives by private sector organisations. Research question 5 comes into play in order to investigate this effectiveness. **Effectiveness within this research very much depends on the ability of the LEP and its supply chain to meet the client's expectations in relation to the achievement of Best Value for Money performance and Long-term Partnership criteria.**

All previous chapters are related to research objective 1 and a part of research objective 2 (section 1.3, pp. 3). For private sector organisations they give an indication of:

- A. How performance requirements are measured and assessed objectively in the BSF programme;
- B. What the client's key performance requirements are;
- C. How performance mechanisms are judged by the LEP partners and their supply chains in order to meet the client's expectations.

It is important to note that this chapter works with the answers to research questions 1 to 4. These answers are gathered from the conclusions and the contents of the previous chapters which turned out to be essential in answering the complete central research question and with that, in fulfilling research objective 2:

- C. To give an indication of how performance mechanisms are judged by the LEP partners and their supply chains in order to meet the client's expectations.
- D. To give private sector organisations an indication what their value objectives are in order to meet the client's expectations;

For part C the tables about the importance of performance conditions are essential. They represent what the partner's demanded values are: *a WHAT element*. These are listed in chapter 6 for each mechanism. Only the conditions indicated as important by the respondents are used for further research so as to judge the ability of the LEP and its supply chain to meet the client's expectations.

For Part D a list of 10 questions (Value Measures) has been produced so as to investigate how performance mechanisms are being judged in terms of the desired value objectives by the research entities. They represent the partner's value measures: *a HOW element*. On the one hand judgements are based on several assumed expectations from key disciplines in BSF due to the multi-dimensional character of the research. It picks out the expectations of the local authority client and benchmarks those against the other disciplines involved: the PSP director, PFS director and a key Supply Chain Member. On the other hand each of these disciplines represents four interviewees working on a different BSF project. In order to come up with the most robust expectations an average common expectation has been derived for each discipline.

Necessary remarks

These remarks have been made in order to achieve reliable outcomes from the VEM model:

1. Judgments are expressed in assumed expectations only. All questions from the survey questionnaire are asked in terms of how the respondent thinks it *will* be/happen/occur.
2. In contrast to the theoretical figure 2.4 on page 14 a single expectation within a discipline about the importance of performance conditions (WHAT element) is considered to be robust when it is mentioned across one or more BSF projects. The argument is that the respondents were only asked to list the most important ones. There has been no subdivision on the extent to which factors are more or less important than each other.
3. A single expectation within a discipline about the value measures (HOW element) is considered to be robust when the opinion is shared across 2 or more BSF projects. So no single judgements are based on one single respondent.
4. The final lists of value objectives are based upon the assumed expectations by the respondents about their own BSF projects.

8.2 Working of the VEM model

This section explains the elements of the Value Enhancement Model as shown in the figure below. The model consists of seven elements, which will be discussed below. The data is organized into an L-type matrix as shown in figure 8.1.

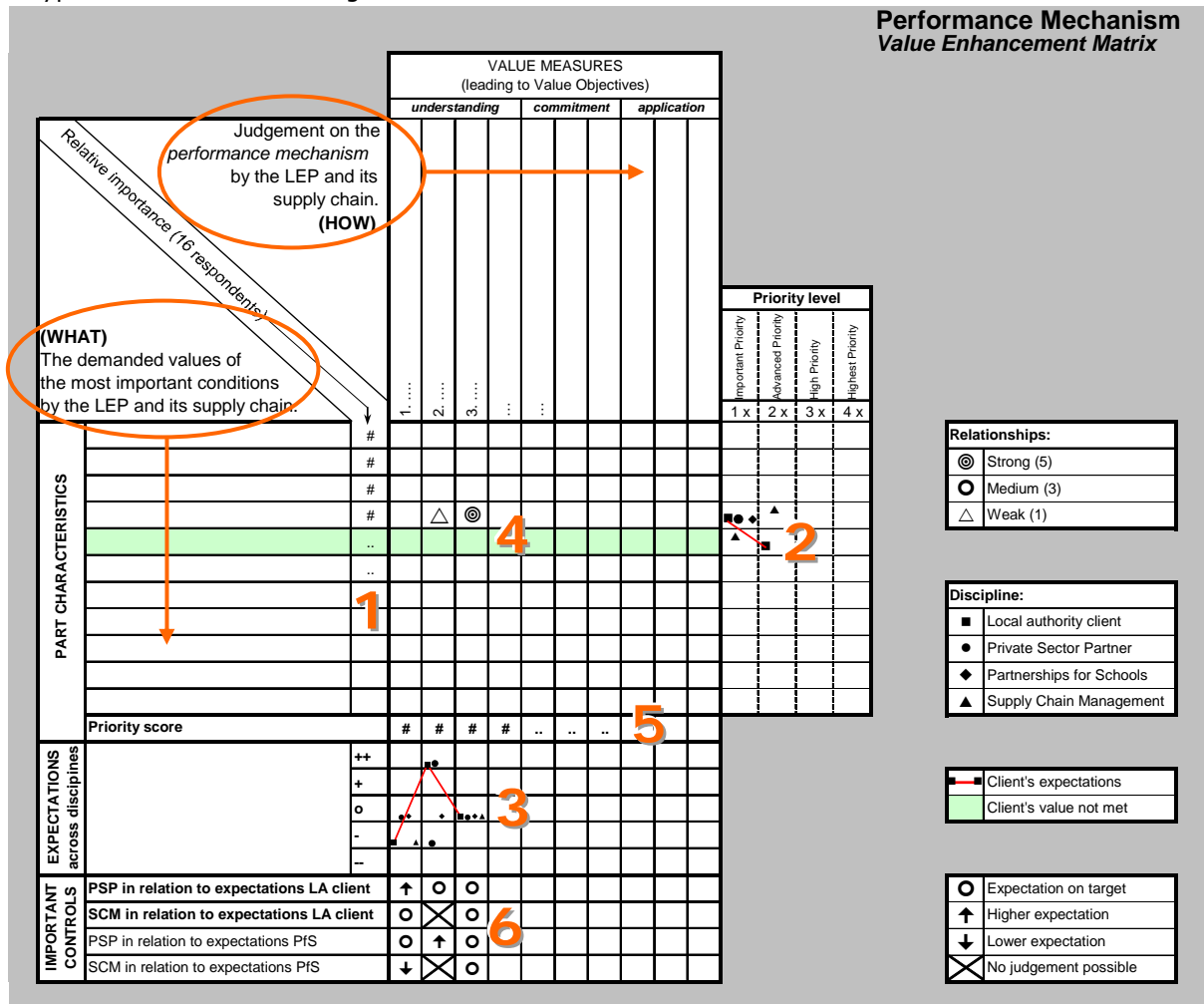


Figure 8.1 – Basic structure of the Value Enhancement Matrix model

8.2.1 Data input

On the vertical axis the WHAT elements are listed. Three remarks are made here:

- 1) Questions about the most important performance conditions are not answered by all respondents. Any non-response is indicated in the tables in Appendix 11.1;
- 2) If any Part Characteristic is marked in *italic* it means that a particular instrument has a heading comprising a number of performance conditions. Those headings have been added in case respondents were not able to mention the most important specific conditions. In this way it was still possible to obtain an answer, albeit in a very broad manner.
- 3) If a topic is marked in light green it means that there is no PSP that has shared the view of the local authority client, that it is an important aspect of the performance mechanism. The particular condition/heading can be mentioned as important by one or more clients, but none of the PSPs fulfil the client's wants.

On the horizontal axis the HOW elements are listed. Also a few remarks are made here:

- 1) Value measures are the answers to 10 closed questions about the way the research entities:
 - think about the *understanding* of the requirements within performance mechanisms;
 - will spread their *commitment* to the performance obligations;
 - are expecting to *apply* the performance mechanisms.
- 2) All value measures are answered by 16 respondents except (1) Familiarity, and (2) Clarity. These stem from 12 respondents: 11 from the online survey and 1 delayed reply by post.
- 3) There is some non-response to the questions about the value measures because some of the research entities do not have an opinion. These are defined in a separate table in Appendix 12.1
- 4) Questions about the value measures have been composed following a formal survey strategy as explained in section 2.7 and a survey protocol in Appendix 6.1. The questions have been brought forward during the preliminary meetings with experts and as a result of a case study.
- 5) The questions and their answering categories are listed in the questionnaires in Appendix 9.1. All crude outputs from the respondents are listed in Appendix 10 and the CD appendix.

8.2.2 Data implementation through the VEM model

A number of elements are distinguished to implement data through the VEM model in figure 8.1. The elements of the VEM model on each of the performance mechanisms are explained as follows:

- 1. A level of relative importance of the most important performance conditions;**

This is a summary of the tables in chapter 6 about the importance of performance conditions. The relative importance is the sum of the respondents having indicated particular conditions as the most important for their discipline.
- 2. The extent to which the client's expectations about the most important conditions are shared by other disciplines;**
 - Each of the disciplines is separated out here. Therefore each discipline has its own symbol.
 - If for a discipline a performance condition is rewarded as important in more than one BSF project, it will have a higher priority, ranging from: Important (1x), Advanced (2x), High Priority (3x), and Highest Priority (4x).
 - The red line sets out client's expectation about the most important performance conditions.
- 3. The shared expectation for each of the partners about the 10 value measures;**
 - Each of the disciplines is separated out here too. The same symbols are being used as in 2.
 - Positioning of the symbols depends on the specific answering categories. They can have 5 categories; however some of them have 3 or 2 answering categories.
 - The numbers above each discipline's symbol show across how many BSF projects a particular answering category is shared.
 - Grey symbols show the occurrence that a certain answering category is shared across 2 BSF projects, and another answering category is also shared across 2 BSF projects.
 - The red line sets out the client's expectation about the value measures being shared.

4. The extent to which the client's expectations about the 10 value measures are shared by other disciplines;

This matrix makes a translation from the demanded values for each discipline into value measures. The purpose of this matrix is to categorize the strength of relationships between value measures and performance conditions. That denotes the extent to which client's expectations are shared by other disciplines, in relation to performance conditions and value measures. There are three categories to point out the strength of the relationships:

Strong means that a client's expectation is shared by the PSP, SCM and PfS.

Medium means that a client's expectation is shared by the PSP, PfS or SCM.

Weak means that a client's expectation is shared by the PSP only.

It is important to note that the decisions about relationships are purely based upon the shared expectation across disciplines. There has been no other judgment base, i.e. identifying which performance conditions should receive what value resources in terms of the 10 value measures, so that in the end the instrument's resources are allocated in such a way as to create a situation that the partners perform in a manner with the greatest positive impact on particular performance conditions. This would require too detailed an investigation for each of the conditions. Albeit it is possible to implement data for the performance mechanism as a whole.

By looking at the relationships only in terms of expectations being shared by the client, it will be possible to say at least something about the impact of certain value measures on certain performance conditions and the other way around.

5. A level of priority based on the shared judgements of disciplines across the first BSF projects to meet the client's expectations about the value measures in relation to the most important performance conditions

The purpose of this part is to set out priorities of value measures that have the greatest positive impact on the performance mechanism as a whole, because it contains the most shared expectations across disciplines.

Within one performance mechanism more performance conditions can be identified as important across disciplines. As a result there may be more shared expectations about a value measure. The cumulative strength of relationships within a column can be counted. A value has been given to each category of relationship: Strong = 5, Medium = 3, and Weak = 1.

The priority score of a certain value measure can be calculated as follows:

$$\text{Priority score} = \sum ((\text{value relative importance performance condition } 1) * (\text{strength relationship})) + ((\text{value relative importance performance condition } n) * (\text{strength relationship}))$$

The highest priority scores will, at the end, form the top of a 'wish list' of key value objectives for private sector organisations in order to meet the client's expectations. Lower priority scores will follow and the list will end up with any value objectives without direct relationships because the local authority client or the PSP have different expectations about the value measures and/or importance of performance conditions.

6. The important controls leading to value objectives that the LEP and its supply chain need to deliver in order to meet the client's value objectives.

The purpose of this part is to compare judgement about the value measures of partners from either side, to see what the differences are. These controls are separated into four categories. Only the private sector organisations in relation to the local authority client are being used in this research. With the VEM model you can compare expectations against other disciplines too. The expectations of a PSP (or SCM) can be:

- On target with the local authority client;
- Higher than the local authority client;
- Lower than the local authority client.

It may occur that for certain disciplines there are no common expectations due to a lack of shared opinions or the absence of opinions. In that case no further judgments are possible.

7. A separate table connected to this model shows the average judgement outputs for the 10 value measures (Appendix 12.1);

This table sets out how many respondents have answered each of the answering categories. It also shows the answering range (e.g. from 'Very hard' to 'Excellent').

8.2.3 The value measures

Questions have been designed based on 10 key value measures by the client. Each of these value measures has been developed from a perspective of the client's needs and wants. The measures are developed as survey questions in a questionnaire. The following questions with closed answering categories have been asked for each performance mechanism:

- 1) How familiar are you with the performance mechanism in your BSF project?²⁷
- 2) Does the performance mechanism accurately specify the services required?²⁸
- 3) How do you think the performance mechanism will work in genera to achieve its conditions?
- 4) Are all the conditions as stated in the mechanism understood by the staff of your discipline involved in BSF?
- 5) How will the performance conditions be communicated between the LEP and the local authority?
- 6) How will the performance conditions be communicated between the LEP and the supply chain?
- 7) Would you be prepared to share outputs of this performance mechanism?
- 8) Will you use the methods and policies as described per element?
- 9) How extensive is your attempt to use this performance mechanism?
- 10) Will you use software in using the performance mechanism?

A full version of the questionnaire with the answering categories included is added to Appendix 9.

8.3 Outputs from the VEM model

Each of the performance measurement mechanisms has been investigated by a VEM model, except the Continuous Improvement Plan as explained in section 6.1 on page 51. The results are presented below, sometimes assisted by illustrative bar charts. For each performance mechanism the VEM models are added in Appendix 12.1.

8.3.1 Meeting the client's most important performance conditions

8.3.1.1 The Track Record & KPI Test

Clients from the first four BSF projects have pointed out what they regard as the most important conditions. The table below shows the ones indicated by the client and also by the PSP and other disciplines. At the bottom it shows remaining conditions indicated as important by the client, but *not* by the PSP. These are the topics marked in light green in the VEM model.

Track Record & KPI Test			
	<i>Client's most important conditions:</i>	<i>Shared by:</i>	<i>Client's Priority</i>
1.	<i>Average total cost of Construction (4.1)</i>	<i>All</i>	<i>Advanced priority</i>
2.	<i>Satisfaction of Design Quality (2.1)</i>	<i>All</i>	<i>Important</i>
3.	<i>Quality of New Project Proposals (1.1/2)</i>	<i>PSP, SCM</i>	<i>Important</i>
4.	<i>Quality (2.0, heading)</i>	<i>PSP, Pfs</i>	<i>Important</i>
1.	<i>Construction quality (2.4)</i>	<i>SCM</i>	<i>Advanced priority</i>
2.	<i>Operational phase (5.3)</i>	<i>Pfs, SCM</i>	<i>Important</i>
3.	<i>Disruption of school operations (2.8)</i>	<i>None</i>	<i>Important</i>
4.	<i>Detailed D&B (2.2)</i>	<i>None</i>	<i>Important</i>
5.	<i>Cost (4.0, heading)</i>	<i>SCM</i>	<i>Important</i>

Table 8.1 – Meeting client's performance conditions of the Track Record & KPI test

²⁷ Judgments based on 12 respondents: 11 from online survey, plus 1 delayed reply by post.

²⁸ Judgments based on 12 respondents: 11 from online survey, plus 1 delayed reply by post.

8.3.1.2 Benchmarking Procedure

For the Benchmarking Procedure the clients have pointed out what they regard as the most important conditions.

As a part of benchmarking the *Total construction costs (1.2)* have been argued by three LA clients as an aspect with high priority. This judgment is shared by all other disciplines, including: 3 PSPs, 4 PfS directors and a Supply Chain Member.

The *LEP related costs (3.0)* are another element of benchmarking which has been indicated as important by one LA client. However, none of the other disciplines have indicated this. Perhaps because project management fee is a part of the LEP related costs, which has been marked as the least important element by 9 respondents.

8.3.1.3 Market Testing Procedure

For this Procedure current clients in BSF have indicated three important performance conditions. Two clients have mentioned the aspect of *Finance and prices (1)*. It therefore has an advanced priority for the client. A similar view applies to two PSP bid directors and even four Supply Chain Members.

One client has pointed out the importance of the *Education and safety (2)* aspect within the Market Testing procedure. In addition there is one PfS director sharing the client's view, but none of the PSP bid directors.

Finally one of the clients recognises the importance of the market testing of *Technical (5)* aspects. This view is convincingly being shared by three PfS directors. None of the PSPs has indicated this as the most important element of Market Testing.

8.3.1.4 Partnering Services Specification

In the table below the most important topics of the Partnering Services Specification are indicated by the client. The table shows the extent to which other disciplines have a similar view. The second part shows the categories being indicated as important by the client, however not by the PSP. They could focus on these aspects in order to meet client's expectations about this performance instrument.

Partnering Services Specification			
	<i>Client's most important conditions:</i>	<i>Shared by:</i>	<i>Client's Priority</i>
1.	<i>Delivery of services that provide teachers and pupils with 21st century learning environment (4.1)</i>	All	Advanced priority
2.	<i>Working with the local authority and the Strategic Partnering Board (1.1)</i>	PSP	Important
3.	<i>New Project Development (3.0, heading)</i>	PSP	Important
4.	<i>Delivery of Approved Projects (4.0, heading)</i>	PSP	Important
5.	<i>Value for Money & Continuous Improvement (5.0, heading)</i>	PSP	Important
1.	<i>Achieve Value for Money (5.1)</i>	PfS, SCM	Advanced priority
2.	<i>Develop detailed proposals for New Projects (3.7)</i>	PfS, SCM	Important
3.	<i>Continuous Improvement (5.3)</i>	PfS, SCM	Important
4.	<i>Customer satisfaction (5.4)</i>	SCM	Important

Table 8.2 – Meeting client's performance conditions of the Partnering Services Specification

8.3.1.5 Collective Partnership Targets

For the CPTs in the first BSF projects the clients have indicated two important performance conditions. Three clients have observed the topic of *Teaching and learning (2)*. It therefore has a high priority for the client. In addition a PSP and a PfS director have mentioned this topic.

One client has pointed out the importance of the *Programme management (7)* aspect of the CPTs. The PSP and any other disciplines do not see it as the most important element of the instrument.

8.3.2 Delivery of the client's value objectives

The client's value objectives have been determined and the table below illustrates for each performance mechanism whether they are on target or exceeded by private sector organisations. It also provides an overview of those to be adjusted by PSPs or SCMs.

Where private sector organisations can deliver or need to adjust to client's value objectives											
	<i>Client's value objective</i>	<i>Track Record & KPI Test</i>		<i>Benchmarking Procedure</i>		<i>Market Testing Procedure</i>		<i>Partnering Services Spec.</i>		<i>Collective P.ship Targets</i>	
Understanding	1. Familiarity with the instrument	(7) Good	PSP ✓ SCM ✓	(7) Little bit	SCM ✓			(7) Good	PSP ✓ SCM ✓	(5) Good	PSP ✓ SCM ✓
	2. Clarity (accuracy on the level of services required)									(4) Frequent	PSP ✓
	3. Feasibility (working with the performance mechanism)	(3) Good	PSP ✓ SCM ✓	(4) Difficult	PSP ✓ SCM ✓			(5) Good	PSP ✓	(3) Good	PSP ✓ SCM X
	4. Understanding of performance conditions by staff involved	(6) All	PSP ✓ SCM X	(5) Few	PSP ✓ SCM ✓	(4) Few	PSP ✓ SCM ✓	(2) Most	PSP ✓ SCM X	(6) Most	PSP X SCM ✓
Commitment	5. Communication between the LEP and local authority	(8) Marginal	PSP ✓ SCM ✓								
	6. Communication between the LEP and Supply Chain	(4) Good	PSP ✓ SCM ✓	(6) Marginal	PSP ✓ SCM ✓						
Application	7. Willingness to share outputs with other LEP partners	(1) All	PSP ✓ SCM ✓	(2) All	PSP ✓ SCM X	(3) All	PSP ✓ SCM X	(4) All	PSP ✓	(1) All	PSP ✓
	8. Adoption of PFS methods and policies	(2) All	SCM ✓	(1) All	PSP ✓	(1) All	PSP ✓ SCM X	(3) All	PSP ✓	(7) All	SCM X
	9. Implementation level of the instrument					(2) Scant	PSP ✓ SCM ✓	(6) In-depth	PSP X SCM X		
	10. Application of software	(5) Yes	PSP ✓ SCM ✓	(3) Yes	PSP ✓				(1) No	SCM ✓	(2) Yes

Table 8.3 – Delivering the client's value objectives

An initial conclusion is that many value objectives by private sector organisations are either in line with or exceed those of the client. These are clearly ticked in the schedule above. The further reasoning is listed in the 'Value objective' tables of Appendix 12.2. Clients working on the first four BSF projects have stated their expected value objectives in order to improve the working performance of their BSF projects. The tables in Appendix 12.2 show the extent to which client's expectations about performance mechanisms match with other key disciplines in BSF projects, i.e. the Private Sector Partner, the PFS project director and key Supply Chain Member.

Objectives with the *highest priority score* will form the top of the 'wish list' for private sector organisations. The argument is that these objectives are shared by more disciplines and therefore have a higher impact on certain performance conditions within a performance mechanism. In situations where expectations from the PSP differ from the LA client, illustrative diagrams are added in Appendix 12.2.

The tables also indicate that the client's top-listed value objectives primarily denote that PSPs and the supply chain members are confident about performance mechanisms, but not necessarily. In general the PFS directors on BSF projects have higher expectations about the mechanisms than the other disciplines.

The existence of any alarming value objectives by local authority clients are distinguished and considered, sometimes even being shared by other disciplines too. Each of the value objectives that need to be adjusted to the client's needs and wants are further argued below.

8.3.2.1 Points of alert for private sector organisations

In general the *Track Record & KPI test* is well received by the key disciplines in BSF projects. On the high level principle of openness and transparency there is a full willingness to share the outputs by both clients and private organisations. According to BSF clients, all PFS methods and policies as described per KPI in guidance will be used. The argument is that the local authorities agree with the national BSF objectives and it is a standard industry business to benchmark KPIs nationally to compare information across LEPs and authorities. Supply chain members feature views in line with the clients. Finally one remarkable indication by the clients is that communication of KPIs between the LEP and the local authority is expected to be marginal. This implies that there is still much work to be done to lead KPIs through the LEP down to the supply chain. PFS project directors do not share this view and believe that communication will be good.

In terms of the *Benchmarking Procedure* both local authority clients as well as PSPs indicate adopting all PfS methods and policies, sharing all the outputs from the Procedure and applying software for it. Of all instruments the Benchmarking Procedure provides the most alarming value objectives by clients of BSF projects; especially those clustered to 'Understanding'. For this Procedure clients and PSPs indicate a strong belief that the working of the procedure will be difficult. This may be because of the uniqueness of projects, different agendas, cost changes and the fact that many BSF projects are arising within a short period. Both PSPs and SCMs point out an understanding of the benchmarking process; however the results for clients show a concerning lack of understanding of many elements of the Procedure among staff involved in BSF. Although the assessment is a task of the authority, it is argued that PfS is not yet using this instrument in BSF. In this light it is remarkable that 3 PfS directors indicate only a partial understanding of some elements of the Procedure. Another concerning judgement by BSF clients is the indication of a marginal communication of the Procedure between the LEP and the local authority. Whereas PSPs and SCMs indicate that communication will be either acceptable or good. It can be concluded that there is a fair indication of a little familiarity with the Benchmarking Procedure by clients currently.

In addition for the *Market Testing Procedure* both local authority clients as well as PSPs indicate adopting all PfS methods and policies and sharing all the outputs from the Procedure. For market testing at LEP level, PSPs are prepared to share tailored outputs because there is a partnership so there should be total transparency. However the people in the market tested supply chains are more careful in their judgements as this procedure is more a way of working. SCMs think that anything within the supply chain package is market tested all the time to obtain cost certainty for the client. SCMs do not seem to have problems with sharing information but it will be limited so as not to lose competitive advantage.

The scant use of the Procedure by local authorities may be because it comes into play from 5 years after the birth of the LEP. Authorities still have to improve the shape of their projects and this explains the apparent lack of understanding of the Procedure by the client's staff involved. Private sector organisations said they understood most elements.

The instrument with most optimistic value objectives is the *Partnering Services Specification*. It does not set out targets to be assessed but more aspirational areas of activity of both the LEP and the local authority, whereby clients indicate to not use any software. There is an indication that most of the elements are understood by the client's and PSP's staff involved in BSF, albeit the SCMs think only some of the elements are understood. Therefore the Specification could better include the supply chain as a part of the partnership. Apart from that both clients and PSPs generally indicate adopting all PfS methods and policies, to share all the outputs from the Procedure and expect the working of the Specification to be good. Both parties seem to be familiar with this performance mechanism. However there is a strong indication that clients will make in-depth use of this Specification since this approach has been through procurement, whereas PSPs believe they will use it on a scant basis; SCMs on a modest basis.

Clients, PSPs and PfS project directors give a strong indication that all outputs of the *Collective Partnership Targets* will be shared with other LEP partners. Clients collect most of the data for this schedule during the course of the LEP and have their own software systems for that. This will be linked to KPIs and benchmarking systems from PfS. The PSPs generally deliver the client's value objectives in terms of good feasibility, an indication that the CPTs frequently set out an accurate level of services required, and a good overall familiarity with the instruments.

Some of the SCMs and PfS project directors expect that the CPTs will work difficult to very hard to achieve them, because of the very subjective nature of targets. The BSF clients and some SCMs also indicate that most of the CPTs are understood by the staff involved in BSF, whilst PSPs say that only some of the targets are understood. Even the PfS project directors admit to understanding just a few of these targets. In order to meet the client's value objectives private sector organisations should improve their knowledge of these targets. Regarding the application of CPTs in the supply chain, there is a suggestion that PfS methods and policies will not always be used because only a small part of the CPTs is applicable to supply chain partners.

9 Conclusions

The conclusions are observed from the Central Research Question. In BSF projects the assumed effectiveness of each performance mechanism in the SPA to measure and assess performance is diverse.

In terms of Best Value for Money performance in the SPA the following conclusions are made:

Conclusions on the effectiveness of the performance mechanisms in the SPA				
(0) General judgements	(1) Criteria for Measuring & Assessing performance in BSF projects	(2) The client's key performance requirements	(3) Ability of private sector organisations to deliver the client's value objectives	(!) Points of alert for private sector organisations
A) TRACK RECORD & KPI TEST				
<p>Very effective. <i>Well received across key disciplines in the first BSF projects.</i></p> <p><i>KPIs measure the benefits from partnering projects and support Best Value.</i></p>	<ul style="list-style-type: none"> Approval criterion to demonstrate a good track record performance on the delivery of previously approved projects; Exclusivity is granted when the LEP can meet all KPIs; Annually assessed at SPB; Effective from procurement up to operation stage of a BSF project. 	<ol style="list-style-type: none"> Average total cost of construction (4.1); <i>Construction Quality (2.4)</i>; Client satisfaction of Design Quality (2.1); Quality of New Project Proposals (1.1/2); <i>Operational phase (5.3)</i>; <i>Disruption of school operations (2.8)</i>; <i>Detailed D&B (2.2)</i>. 	<ul style="list-style-type: none"> A full willingness to share outputs; Adoption of all PFS methods and policies; A good working mechanism; A good communication of KPIs between the LEP and its Supply Chain; A full understanding of all KPIs by the staff of your discipline. 	<ul style="list-style-type: none"> Some clients expect a marginal communication of KPIs between the LEP and local authority; The <i>italic marked</i> KPIs are not indicated as important by PSPs.
B) BENCHMARKING PROCEDURE				
<p>Limited effect. <i>It works from a cost-competitive perspective for new Build only.</i></p> <p><i>Refurbishment and ICT projects are excluded.</i></p> <p><i>Quality and KPI performance are not benchmarked yet.</i></p>	<ul style="list-style-type: none"> Approval criterion to demonstrate BVfM for any New Project by comparing cost to the: <ul style="list-style-type: none"> - costs of initial projects, - costs of future projects, - PFS benchmarking data. Exclusivity is granted when LEP's proposals offer BVfM; Assessed by the LA & SPB; Effective at procurement of New Projects which receive Stage 1 approval up to the 5th anniversary of the SPA. 	<ol style="list-style-type: none"> Total construction costs (1.2); <i>LEP related costs (3.0)</i>. 	<p>For PSPs only:</p> <ul style="list-style-type: none"> Adoption of all PFS methods and policies; A full willingness to share all outputs with other partners; Use of 'pro-forma schemes' benchmark software by LEP; <p>For PSPs and SCMs:</p> <ul style="list-style-type: none"> An understanding of most of the benchmarking process; An indication that communication with the LEP will be either acceptable or good. 	<ul style="list-style-type: none"> SCMs indicate they are willing to share only some of the benchmarking data; Clients and PSPs indicate a strong relief that the Procedure will work difficult; There is a concerning lack of understanding by clients and PFS project directors; Clients indicate a concerning marginal communication of the Procedure with the LEP; Clients indicate a little familiarity with the Procedure.
C) MARKET TESTING PROCEDURE				
<p>Very effective. <i>It is a European requirement to market test every five years so as to protect the client in paying market prices based on fair competition.</i></p> <p><i>Besides costs it also applies subjective measures.</i></p>	<ul style="list-style-type: none"> Approval criterion to demonstrate BVfM for any New Project by retendering - the first representative New Project of each type, - any other New Project for which stage 1 Approval is sought. Exclusivity is granted when LEP's proposals offer BVfM; Assessed by the LA; Effective at procurement of New Projects from 5 years after the birth of the SPA. 	<ol style="list-style-type: none"> Finance and prices (1); <i>Education and safety (2)</i>; <i>Technical ability (5)</i>. 	<p>For PSPs only:</p> <ul style="list-style-type: none"> Adoption of all PFS methods and policies; A full willingness to share all outputs with other partners; <p>For PSPs and SCMs:</p> <ul style="list-style-type: none"> An understanding of most of the elements. 	<ul style="list-style-type: none"> SCMs indicate they are willing to use this Procedure on a modest basis, to only use some of the PFS methods, and to share some outputs. Supply chain market testing involves other procedures; Some clients indicate a scant use of the Procedure as it is not yet on their agendas; An apparent lack of understanding by the client's staff involved.
D) CONTINUOUS IMPROVEMENT PLAN				
<p>Effective. <i>A plan for each phase of BSF Investment in order to reflect best practice, knowledge, and experience gained over time and across projects.</i></p>	<ul style="list-style-type: none"> Approval criterion to demonstrate long-term VfM against Continuous Improvement Targets for: <ul style="list-style-type: none"> - the initial project, and - any New Project. Exclusivity is granted when all Targets are met; Annual review by SPB; Effective from procurement stage up to operation. 	<p>[No conclusions] <i>No further conclusions are made because of the fact that not all the continuous improvement targets are project specific.</i></p>	<p>[No conclusions] <i>Private sector organisations can develop a set of generic targets and add these to the Plan with project-specific targets in response to the particular local authority client's project objectives.</i></p>	<p>[No points of alert]</p>
E) VALUE FOR MONEY ASSESSMENT TOOL				
<p>Limited effect. <i>Only applicable for PFIs.</i> <i>BSF projects in this research are not required to undergo VM assessments because of their pathfinder status.</i></p>	<ul style="list-style-type: none"> 3-stage decision making Tool of the potential VfM of procurement option at BSF programme, project and procurement level; Assessed by the LA as part of the Approval Procedure; Effective during the operation of the LEP at New Project Development. 	<p>[No conclusions] <i>Due to the recent introduction of the assessment tool by HM Treasury and Partnerships UK the first BSF projects cannot be fully involved in this from the earliest stages.</i></p>	<p>[No conclusions] <i>Value objectives for private sector organisations are not produced as it mainly involves the local authority and PFS.</i></p>	<ul style="list-style-type: none"> Respondents indicate a lack of common familiarity with this Tool; There is a lack of clarity over which project stages the Tool comes into play; There seems to be a lack of clarity whether VM can be assessed for PFI, conventional procurement, or for both.

Table 9.1 – Conclusions from the Central Research Question

The SPA also sets out performance requirements for the LEP in terms of Long-term Partnerships:

Conclusions on the effectiveness of the performance mechanisms in the SPA				
(0) General judgement	(1) Criteria for Measuring & Assessing performance in BSF projects	(2) The client's key performance requirements	(3) Ability of private sector organisations to deliver the client's value objectives	(!) Points of alert for private sector organisations
F) PARTNERING SERVICES SPECIFICATION				
<p>Very effective. <i>To achieve the transformational change in educational achievement.</i></p> <p><i>To support local authorities in the strategic planning of accommodation services for the entire secondary schools estate in the area.</i></p>	<ul style="list-style-type: none"> Provision of Partnering Services subject to the New Project Approval Procedure and the Specification; Exclusivity is granted when all or substantial part of the Services are supplied; It does not set out targets to be assessed; Template is developed from procurement and effective from during the operation of the LEP. 	<ol style="list-style-type: none"> Delivery of services that provide teachers and pupils with 21st century learning environment (4.1); <i>Achieve Value for Money (5.1);</i> Working with the local authority and the Strategic Partnering Board (1.1); <i>Develop detailed proposals for New Projects (3.7);</i> <i>Continuous Improvement (5.3);</i> <i>Customer satisfaction (5.4).</i> 	<ul style="list-style-type: none"> Targets set out aspirational areas of activity of the LEP and LA, whereby no software is used; A good familiarity with this Specification. <p>For PSPs only:</p> <ul style="list-style-type: none"> An understanding of most elements of the Specification; Adoption of all PFS methods and policies; A full willingness to share all outputs with other partners; It is expected that the Specification will work good. 	<ul style="list-style-type: none"> SCMs think that only some elements are understood by their staff involved; A strong indication that clients will make in-depth use whereas PSPs believe they will use it on a scant basis; The <i>italic marked Services</i> are not indicated as important by PSPs.
G) COLLECTIVE PARTNERSHIP TARGETS				
<p>Limited effect. <i>Because aspirational targets have a very subjective nature.</i></p> <p><i>Private sector organisations cannot be fully responsible as they have a limited influence in CPTs.</i></p>	<ul style="list-style-type: none"> To demonstrate the LEP's performance in the context of targets and objectives in the SBC as well as to reflect performance in relation to the objectives of the BSF programme; Exclusivity is granted by staying out of any material breach pursuant to CPTs; Assessed annually at SPB; CPTs are formulated during the development of a LEP and will take effect after 3 to 4 years LEP operation. 	<ol style="list-style-type: none"> Teaching and learning (1); <i>Programme management (7).</i> 	<ul style="list-style-type: none"> A good overall familiarity. <p>For PSPs only:</p> <ul style="list-style-type: none"> A strong indication that all outputs will be shared with other LEP partners; A good feasibility level; The CPTs frequently set out an accurate level of services required. <p>For SCMs only:</p> <ul style="list-style-type: none"> An indication that most of the targets are understood. 	<ul style="list-style-type: none"> Clients collect most data and have their own software, but SCMs do not share this view; Some of the SCMs and PFS directors expect that the CPTs will strive to achieve them; PSPs say that only some of the targets are understood, and even some PFS directors argue to understand just a few; Only a small part of the CPTs is applicable to supply chain partners.

Table 9.1 – Conclusions from the Central Research Question

The exclusivity granted to the LEP may be removed in the occurrence of any significant failure pursuant to performance requirements for its two strands of activity: New Project Development and Procurement and Delivery of Approved Projects.

Although both surveys (face-to-face and online) are not highly statistical in any sense, the responses are drawn from a cross-section of different disciplines in different BSF projects and provide an interesting snapshot of recent opinion. Some of the points of alert are further argued in chapter 10: Discussion. In chapter 11 new ideas are raised and any solutions are proposed to private sector organisations.

10 Discussion

10.1 Theoretical debate

The requirement on public client organisations to perform is not a new phenomenon in the construction industry. The BSF policy documentation and the four project-specific studies have shown that, participants in the LEP place a very high priority on the requirement to perform.

The reform movement to performance improvement (Rethinking Construction, 1998; Accelerating Change, 2002) can be problematic for clients, who may be concerned that what is being delivered is not meeting their expectations because of unsatisfactory long-term relationships with their suppliers. Another issue for concern for clients is how they can obtain the best possible value for their built assets.

It is apparent that there is a lack of consensus within the construction industry about what value constitutes (Best Value, Value for Money, Best Value for Money) or how to measure and assess it (Brady et al., 2005; Akintoye et al., 2003; Ball et al., 2003). Additionally, in relation to the phrase 'long-term partnerships', whether in the form of partnering, project partnering or strategic partnering, there is an indication that it is applied increasingly loosely to describe what is in fact a multi-faceted practice (Bresnen and Marshall, 2000c). Partnering is not an easy option. Teams undertaking partnering projects face a task of remarkable complexity and difficulty (Bennett and Peace, 2006).

Notwithstanding the perceived lack of clarity, it is still argued that both terms are strongly tied in with performance and in particular performance improvement.

10.2 Practical debate

To ensure that the LEP and its supply chain will perform adequately for the duration of the exclusivity period in BSF projects the effectiveness of the performance mechanisms in the SPA is investigated.

Effectiveness within this research very much depends on the ability of the LEP and its supply chain to meet the client's expectations in relation to the achievement of Best Value for Money performance and Long-term Partnership criteria.

The formulation of the performance conditions is not the sole responsibility of the client and is often a joint activity involving the potential PSPs and PfS directors too. Accordingly once a LEP exists the review of performance conditions is an activity together with the authority and the SPB. The identification of all performance mechanisms is recognised by the many key disciplines working on the first BSF projects; however few respondents are aware of the Value for Money Assessment Tool as a performance assessment instrument by the client. Recognition of the Partnering Services Specification as a performance instrument is also low. Currently the purpose of this instrument is fairly aspirational. The performance side of this mechanism may grow once a BSF project is progressing.

In BSF the exclusivity of the LEP is contingent upon performance standards being achieved in a number of performance mechanisms. If the LEP does not perform according to the performance conditions it might lose the exclusivity. This leads to a great incentive for the private sector organisations to perform. Underperformance in mechanisms such as the Track Record & KPI test, Partnering Services Specification and Collective Partnership Targets, leads to an opportunity to remedy before it comes to a right to remove exclusivity on the part of the client. Any termination of Project Agreements, non-payment of funds by the LEP and insolvency in relation to the LEP gives the authority the right to remove exclusivity. In addition to the exclusivity a LEP can only perform if it meets the Approval Criteria for New Projects set out in the SPA. Performance instruments such as Track Record & KPI Test, Value for Money Assessment and a Continuous Improvement Plan are required. Finally the LEP is incentivised to demonstrate Best Value for Money in its BSF projects by Benchmarking and Market Testing provisions, the non-binding high level principles of the SPA and the recovery of costs from successful project delivery only.

11 Recommendation

11.1 Recommendation to private sector organisations

The national BSF programme is in its infancy and strategic partnerships are just beginning to take shape. Much work still needs to be done to fully develop the processes by which BSF will be successfully undertaken. The challenge to private sector organisations wanting to break into the BSF programme is to create LEPs that can package and deliver effectively and efficiently the performance mechanisms in the SPA to meet growing customer demand. Previous research has shown that performance in integrated projects depends on how quickly and successfully firms can find repeatable solutions (Davies and Brady, 2000).

Private Sector Partners:

- PSPs should attempt to understand the 'business' of their clients in relation to delivering educational services and managing the education estate;
- PSPs should improve their knowledge of the areas covered by the Collective Partnership Targets;
- PSPs should broaden the scope of the Continuous Improvement Plan;
- PSPs should improve their skills in integration and risk management in order to achieve high level performance in relation to the LEP;
- PSPs should improve the involvement of the supply chain in the delivery of Partnering Services;
- PSPs should ensure that risk and reward sharing mechanisms 'upstream' and 'downstream' are understood and developed to enable commitment to the project can be maximised by all.

Supply Chain Members:

- SCMs should show greater willingness to become involved as stakeholders in order to exert greater influence;
- SCMs should maximise effort to manage risk and integrate activities with other disciplines;
- SCMs should endeavour to understand the delivery of Partnering Services, Collective Partnership Target and continuous improvement by the LEP and to assist the PSP in relation to those standards;
- SCMs should be prepared to submit their performance to periodic benchmarking and market testing checks.

11.2 Recommendation for future research

- It would be useful to do similar research in the next few years on a greater number of BSF projects, to ascertain whether expectations and opinions within this research are changing. The framework of projects being carried out within a LEP and the benchmarking of LEPs create a mutual possibility to capture existing know-how in terms performance requirements. Future research should aim to take a longitudinal approach in order to create opportunities for adequate feedback loops between different stages in the development of BSF projects.
- This research is focused on the performance aspects in relation to Best Value for Money and Long-term Partnerships. Both terms carry a strong relation with *performance improvement* and also with *risk transfer*. Investigating the risk aspects (apportionment, mitigation, transfer and management) in relation to those terms would be a new subject for research.
- There is a tendency for an increasing number of local authorities who are refusing to use the LEP for its BSF programme, because of the fear of breaking existing joint-venture arrangements and uncertainty of what happened to opted-out schools built under PFI. The authorities who have not used the LEP-model have had existing partnerships in place to provide the benefits of exclusivity and Best Value for Money. In the future it may be that the LEP will be one of the delivery models, and therefore other (new) options can be considered as better fit for purpose. Research on the effectiveness of alternative delivery models to achieve the BSF objectives would be an interesting theme for future research.
- There needs to be a greater certainty about the future of projects. In BSF the public sector is to give a relative certainty about the kind of infrastructure required, but can be less certain about the scale or timing of work. Central Government and local authorities need to be able to set more definite plans for investment, along with the intended procurement methods and timescales, to enable the PSP and its SCMs to focus on deliverability, cost reduction, quality and continuous improvement.

12 Figures & tables

12.1 List of figures

Figure 1.1 – Basic LEP model structure (BSF-standard, March 2005).....	1
Figure 1.2 – Conceptual Model of the research with causal relationships.....	4
Figure 1.3 – Primary research routing	4
Figure 1.4 – Integrated Services (Royal BAM Group, 2006)	5
Figure 2.1 – Research stages	8
Figure 2.4 – L-type matrix with several relationships.....	14
Figure 2.2 – The reading guideline.....	20
Figure 3.2 – The balance between Best Value and Risk transfer	26
Figure 3.4 – The seven pillars of partnering (Reading Construction Forum, 1998)	27
Figure 4.1 – The tranches of the programme separated into projects and CAPEX.....	32
Figure 4.2 – BSF project overview (4ps, 2005)	34
Figure 4.3 – Standard business model for developing and delivering BSF projects.....	38
Figure 4.4 – Contractual structure/money streams for PFI projects (PfS, 2005b)	39
Figure 4.5 – Contractual structure/money streams for D&B projects (PfS, 2005b).....	40
Figure 4.6 – Contractual structure/money streams for ICT projects (PfS, 2005b).....	41
Figure 5.1 – Instruments for identifying performance in the first BSF projects.....	49
Figure 8.1 – Basic structure of the Value Enhancement Matrix model	70

12.2 List of tables

Table 1.1 – Validation and consolidation of methodologies.....	6
Table 2.1 – Details interview respondents	16
Table 2.2 – Distribution response online questionnaire.....	16
Table 2.3 – Distribution of BSF staff per respondent	18
Table 2.4 – General project information of the first BSF projects	18
Table 2.5 – Involvement in bids with PFI and non-PFI procurement.	19
Table 2.6 – Project experience in combining PFI with non-PFI procurement.....	19
Table 2.7 – Involvement in PFI clustered per element.....	19
Table 4.1 – Local Authorities with BSF projects in Tranche A: waves 1 to 3.....	32
Table 4.2 – Evaluation criteria for the ITCD stage: weightings for the LEP.....	34
Table 4.3 – Evaluation criteria for the ITN stage: weightings for the Initial Projects.....	35
Table 4.4 – Evaluation criteria for the ITN stage: weightings for Partnering.....	35
Table 4.5 – LEP events of default.....	44
Table 5.1 – Respondent’s opinions about Best Value.....	45
Table 5.2 – Respondent’s opinions about Value for Money	46
Table 5.3 – Respondent’s opinions about similarity in the terms	46
Table 5.4 – Importance of high level principle for ‘Long-term strategic partnering’	47
Table 5.5 – Importance of high level principle for ‘Close working relationships’	48
Table 6.1 – Respondent’s views on using Track Record & KPI Tests in project stages.....	52
Table 6.2 – Respondent’s views on using a Benchmarking Procedure in project stages	54
Table 6.3 – Respondent’s views on using a Market Testing Procedure in project stages.....	56
Table 6.4 – Respondent’s views on using the Continuous Improvement Plan in project stages	58
Table 6.5 – Respondent’s views on using a Partnering Services Specification in project stages.....	59
Table 6.6 – Respondent’s views on using Collective Partnership Targets in project stages	61
Table 7.1 – Assessment aspects about the performance instruments	63
Table 7.2 – Respondent’s views on using a Value for Money assessment in project stages	65
Table 7.3 – Opinions about the familiarity with Value for Money assessment tool	65
Table 7.4 – Qualitative VfM assessment following HM Treasury guidance	66
Table 7.5 – Opinions about familiarity with VfM assessment tools in other procurement routes.....	67
Table 8.1 – Meeting client’s performance conditions of the Track Record & KPI test.....	73
Table 8.2 – Meeting client’s performance conditions of the Partnering Services Specification	74



Table 8.3 – Delivering the client’s value objectives.....	75
Table 9.1 – Conclusions from the Central Research Question	77
Table 9.1 – Conclusions from the Central Research Question	78

13 Reference list

Books

01. AKINTOYE, A., BECK, M., HARDCASTLE, C., 2003. *Public-Private Partnerships: Managing risks and opportunities*. Oxford: Blackwell Science Ltd.
02. ANTONY, J., PREECE, D., 2002. *Understanding, Managing and Implementing Quality: frameworks, techniques and cases*. London: Routledge.
03. BELL, D., McBRIDGE, P. WILSON, G., 1994. *Managing Quality*. Oxford: Butterworth-Heinemann.
04. BENDELL, T., BOULTER, L., KELLY, J., 1993. *Benchmarking for Competitive Advantage*. London: Pitman Publishing.
05. BENNETT, J., PEACE, S., 2006. *Partnering in the Construction Industry: code for practice for strategic collaborative working*. Oxford: Elsevier Ltd.
06. DfES, 2004a. *BSF Exemplar Designs: concepts and ideas*. London: DfES.
07. DfES, 2004b. *BSF Transforming Schools: an aspirational guide to remodelling secondary schools*. London: DfES.
08. FOWLER, J.F., Jr., 2002. *Survey Research Methods*. 3rd edition. London: SAGE Publications.
09. LOWE, D., LEIRINGER, R., 2006. *Commercial Management of Projects: defining the discipline*. Oxford: Blackwell Publishing Ltd.
10. OAKLAND, J., MAROSSZEKY, M., 2006. *Total Quality in the Construction Supply Chain*. 1st edition. Oxford: Elsevier Ltd.
11. REVELLE, J.B., MORAN, J.W., COX, C.A., 1998. *The QFD handbook*. New York: John Wiley & Sons, Inc.
12. ROBSON, C., 2002. *Real World Research: a Resource for Social Scientists and Practitioner-Researchers*. 2nd edition. Oxford: Blackwell Publishing.
13. ROE, S., JENKINS, J., 2003. *Partnering and Alliancing in Construction Projects*. London: Sweet & Maxwell.
14. THOMAS, G., THOMAS, M., 2005. *Construction Partnering & Integrated Teamworking*. Oxford: Blackwell Publishing Ltd.
15. YIN, R.K., 2003. *Case study research: Design and Methods*. 3rd edition. London: SAGE Publications.

Reports

01. 4PS, 2005. *Building Schools for the Future: a guide for school governors and headteachers*. London: 4PS
02. AKINTOYE, et al., 2001. *Framework for Risk Assessment and Management of Private Finance Initiative Projects*. Glasgow: Glasgow Caledonian University.
03. BENNETT, J., TAYES, S., 1995. *Trusting the Team: the best practice guide to partnering in construction*. Reading Construction Forum. London: Thomas Telford.
04. BENNETT, J., JAYES, S., 1998. *The Seven Pillars of Partnering*. Reading Construction Forum. London: Thomas Telford.
05. CIB, 1997. *Partnering in the Team*. Construction Industry Board. London: Thomas Telford.
06. CIB & PSIBouw, 2005. *Conference report 'Revaluing Construction 2005': The Challenge of Change*. Rotterdam: SBR.
07. DELOITTE, 2006. *Building Flexibility: new delivery models for public infrastructure projects*. London: Deloitte & Touche LLP.
08. DETR, 1998. *Rethinking Construction*. London: DETR.
09. DETR, 1999. *Implementing Best Value: a consultation paper on draft guidance*. HMSO: London.
10. ERNST&YOUNG, 2004. *Optimising the Value of PFI Assets*. London: Ernst & Young LLP.
11. HM TREASURY, 2006. *PFI: strengthening long-term partnerships*. London: Crown.
12. HM TREASURY, 2004a. *Value for Money Assessment Guidance*. London: Crown.
13. HM TREASURY, 2004b. *Quantitative Assessment User Guide*. London: Crown.
14. HM TREASURY, 2003. *PFI: meeting the investment challenge*. London: Crown.
15. HM TREASURY, 2003. *The Green Book: appraisal in evaluation of central government*. London: Crown.

16. HM TREASURY, 2000. *Public Private Partnerships: The Government's Approach*. London: Crown.
17. HUGHES W., GRUNEBERG S., 2006. *Understanding Construction Consortia*. RICS: Research.
18. KPMG, 2005. *Effectiveness of operational contracts in PFI*.
19. NAO, 2001. *Managing the relationship to secure a successful partnership in PFI projects*. London: The Stationery Office.
20. NAO, 1999. *Examining the value for money of deals under the Private Finance Initiative*. London: HMSO.
21. OGC, 2004. *Business Guidance: Value for Money Measurement*. London: Crown.
22. OGC, 2003. *Procurement Guide 05: The integrated project team*. London: Crown.
23. OGC, 2003. *Procurement Guide 06: Procurement and contract strategies*. London: Crown.
24. OGC, 2003. *Procurement Guide 08: Improving Performance*. London: Crown.
25. SAXON, R., 2005. *Be Valuable: A guide in creating value in the built environment*. London: Constructing Excellence.
26. STRATEGIC FORUM FOR CONSTRUCTION (2002). *Accelerating Change*. Rethinking Construction. London.
27. THE PROJECTS PARTNERSHIP & CAPSTICKS, 2004. *The BSF Handbook*. 2nd edition. London.

Scientific articles

01. AKINTOYE, A., et al., 2003. Achieving best value in private finance initiative project procurement. *Construction Management and Economics*, 21, pp461-470.
02. ASSENOVA, D., et al., 2002. Partnership, Value for Money and Best Value in PFI projects: obstacles and opportunities. *Public Policy and Administration*, 17, pp5-19.
03. BALL, R., et al., 2003. Risk transfer and Value for Money in PFI projects. *Public Management Review*, 5(2), pp279-290.
04. BRADY, T., et al., 2005. Can integrated solutions business models work in construction? *Building Research & Information*, 33(6), pp571-579.
05. BRESNEN, M., MARSHALL, N., 2000a. Building partnerships: case studies of client-contractor collaboration in the UK construction industry. *Construction Management and Economics*, 18, pp19-832.
06. BRESNEN, M., MARSHALL, N., 2000b. Motivation, commitment and the use of incentives in partnerships and alliances. *Construction Management and Economics*, 18, pp 587-598.
07. BRESNEN, M., MARSHALL, N., 2000c. Partnering in construction: a critical review of issues problems and dilemmas. *Construction Management and Economics*, 18, pp229-237.
08. DAVIES, A., BRADY, T., 2000. Organisational capabilities and learning in complex product system: towards repeatable solutions. *Research Policy*, 29, pp931-953.
09. FERNIE, et al., 2006. Change in construction: a critical perspective. *Building Research & Information*, 34, pp91-103.
10. GREEN, S.D., 1999. Partnering: the propaganda of corporatism? *Journal of Construction Procurement*, 5(2), pp177-186.
11. LOVE, P.E.D., et al., 2002. A model for supporting inter-organisational relations in the supply chain. *Engineering, Construction and Architectural Management*, 9(1), pp2-15.
12. WOOD, G.D., ELLIS, R.C.T., 2005. Main contractor experience of partnering relationships on UK construction project. *Construction Management and Economics*, 23, pp317-325.

BSF Standard Documentation and guidance

01. 4ps, 2005. *BSF projects in Local Government: emerging lessons from 4ps Gateway Reviews*. No.5, 4ps Gateways. November 2005.
02. DfES, 2005. *PFI Value for Money Stage 1 assessment*. December 2005.
03. DfES, 2004c. *Prioritisation and forward planning information*. November 2004.
04. PfS, 2006a. *Standard form Shareholders Agreement*. March 2006.
05. PfS, 2006b. *Standard form Strategic Partnering Agreement*. March 2006.
06. PfS, 2006c. *Guidance Note: How to Conduct a Competitive Dialogue Procedure*. January 2006.
07. PfS, 2006d. *Invitation to Continue Dialogue: Volume 1 – Instructions and Guidance to Bidders*. May 2006.

08. PfS, 2006e. *Guidance Note on Classification of the Contract and Choice of Procedure under the EU Procurement Rules for the BSF programme*. February 2006.
09. PfS, 2005a. *Funding Guidance for BSF Projects*. November 2005.
10. PfS, 2005b. *Introduction to the BSF standard documents*. March 2005.
11. PfS, 2005c. *BSF guidance note: Economics of the LEP*. August 2005.
12. PfS, 2005d. *Benchmarking Procedure for demonstrating the Value for Money of non-sample schemes*. V10.0. August 2005.
13. PfS, 2004a. *BSF Wave 2: overview for local authorities*. November 2004.
14. PfS, 2004c. *BSF Local Authority education vision: policy guidelines for wave 2*. November 2004.
15. PfS, 2004d. *The Local Education Partnership (LEP) model: detailed description of the LEP model*. Volume 2. April 2004.

Magazines

01. PfS, 2006. *Transformation Magazine*. January 2006.
02. PfS, 2005. *Transformation Magazine*. Spring 2005.
03. Constructing Excellence & DTI, 2006. *UK Construction Industry Key Performance Indicators*. May 2006.
04. Contract Journal, 2006. *Design given more weight in BSF bids*. 22 February 2006.
05. Contract Journal, 2006. *The heat is on for academy deals*. 12 April 2006.
06. Public Private Finance, 2006. *Rebel rebel*. October 2006.
07. Public Private Finance, 2005. *Talking about the BSF generation*. 4 September 2005

Websites

01. Building Schools for the Future, www.bsf.gov.uk [Visited: February-August 2006].
02. Constructing Excellence, www.constructingexcellence.org.uk [Visited: February-August 2006].
03. Department for Education and Skills, www.teachernet.gov.uk [Visited: July-September 2006].
04. Office of Government Commerce, www.ogc.gov.uk [Visited: February-August 2006].
05. Partnerships for Schools, www.p4s.org.uk [Visited: February-August 2006].
06. Partnerships UK, www.partnershipsuk.org.uk [Visited: February-August 2006].
07. PPP Forum, www.pppforum.com [Visited: August-September 2006].

Interviews

Preliminary meetings during identification phase:

01. BALDWIN, E., MSc MBIFM, 12 May 2006. Partner, EC Harris Consultancy (London).
02. EDDIE, P., 12 May 2006. Director in Project Finance, Head of Private sector advisory for PFI/PPP, Ernst & Young (London).
03. HUTTON, D., 26 April 2006. Partner, Bevan Brittan Legal Consultancy (Birmingham).
04. MAC DONALD, D., 28 March 2006. Director of Facilities Management, HBG Facilities Management (Glasgow).
05. NEAL, T., MBA MRICS, 21 April 2006. Partner, EC Harris Consultancy (London).
06. ROBERTSON, A., 25 April 2006. Deputy Chief Executive, and Commercial & Financial Director, Partnerships for Schools (London).
07. SCAIFE, I., FRICS, 27 April 2006. Partner, Gleeds Construction Consultants (Nottingham).
08. SEABURY, C., 25 April 2006. Former chief executive APM UK, Association for Project Management (Ipswich).
09. WILKIE, D., FCIQB, 27 April 2006. Director Purchasing Excellence Programme, HBG Construction (London).
10. WILLIAMS, P., 7 April 2006. Supply chain performance manager, HBG UK (Leeds).

Case study interviews 'West Lothian College PFI':

11. MAC KENDRICK, A., 8 May 2006. Operations Director, BAM PPP (Livingston).
12. MURRAY, D., 8 May 2006. Principal, West Lothian College (Livingston).
13. WATKINS, G., MCIQB, 8 May 2006. Operations Manager, BAM PPP (Livingston).
14. WILSON, C., 8 May 2006. Facilities Manager, Interserve (Livingston).

Formal interview survey about BSF projects:

15. BARNES, R., 21 June 2006. BSF director *PfS*, Partnerships for Schools (Manchester).
16. BURNS, D., 8 June 2006. BSF director *PfS*, Partnerships for Schools (Bradford, Sheffield).
17. CARRUTHERS, H., 12 May 2006. Bid director *PSP*, Skanska Infrastructure Development (London).
18. CLEMENTS, G., 6 July 2006. Project director *LA*, Bristol City Council (Bristol).
19. COLEMAN, M., 7 June 2006. BSF director *PfS*, Partnerships for Schools (London).
20. COOPER, M., 15 June 2006. Project director *LA*, Bradford City Council (Bradford).
21. ENDLER, S., 7 July 2006. Bid director *PSP*, Bovis Lend Lease (Manchester).
22. HILL, K., MATTEY, D., 4 July 2006. Supply chain member *SCM*, Costain – Ferroviaal (Leeds).
23. HILL, P., 26 June 2006. Supply chain member *SCM*, Bovis Lend Lease (Burnley).
24. HOULIHAN, J., 6 July 2006. Bid director *PSP*, Amey – Costain (Bristol).
25. NEWTON, J., 16 June 2006. Project director *LA*, Lancashire County Council (Preston).
26. PENNINGTON, P., 7 June 2006. Project director *LA*, Sheffield City Council (Sheffield).
27. PERCIVAL, A., 3 July 2006. Supply chain member *SCM*, Taylor Woodrow (Watford).
28. TURNER, D., 27 June 2006. Supply chain member *SCM*, Skanska (Hertfordshire).
29. TYSON, C., 4 July 2006. Bid director *PSP*, Taylor Woodrow (telephone meeting).

Additional preliminary meetings:

30. ARSHAD, A., Chief Executive Oxford Infracare LIFT (telephone meeting).
31. BALDWIN, R. 27 July 2006. Professor at the School of Construction & Property Management, University of Salford, Project Director Partnerships for Health. Geoffrey Osborne Ltd (Redhill).
32. FERNIE, S., BSc PhD, 23 February 2006. Researcher, School of Construction Management and Engineering. University of Reading (Reading).
33. FLANAGAN, R. 20 July 2006. Professor of Construction Management at School of Construction Management and Engineering, President CIOB, Member of the Board of Directors of Skanska. University of Reading (Reading).
34. GREEN, S.D., 20 July 2006. Professor in Construction Management at School of Construction Management and Engineering, University of Reading (Reading).
35. GRUNEBERG, S., 20 July 2006. Doctor at Innovation Construction Research Centre. University of Reading (Reading).
36. HUGHES, W., 24 April 2006, 20 July 2006. Professor in Construction Management and Economics, Head School of Construction Management and Engineering, Editor Construction Management and Economics, University of Reading (Reading).
37. JONES, M., 26 April 2006. Lecturer in Construction Project Management, Regional Manager Constructing Excellence. University of the West of England (Bristol).
38. MARTIN, L., 22 June 2006. Finance manager, BAM PPP (Glasgow).
39. PARKER, P., Head of Strategy Schools Capital. Department for Education and Skills (telephone meeting).
40. PARKES, B., MCIQB MIMgt, 1 March 2006. Lecturer in Construction Management. School of Construction Management and Engineering. The University of Reading (Reading).
41. RELIHAN, R., 4 August 2006. LIFT project manager, Oxford Primary Care Trust (Oxford).
42. WELLS, D., 2 May 2006. Regional Director, Northcroft Consultants (London).

Conferences and seminars

01. APM Inspire Seminar: An introduction to lean thinking and Six Sigma, 75 attendees, APM, London. 2 August 2006
02. Be Valuable Launch: Guide to creating value in the built environment, 150 attendees, Constructing Excellence, Delfina, London. November 2005.
03. BSEC2006: Building Schools Exhibition and Conference, 500 attendees, Harrogate International Centre, Harrogate. 14-15 February 2006.
04. BSF Preview Bidders' Day, 250 attendees, One Great George Street, London. 2 May 2006.
05. Building Schools: Success in Planning and Procurement, 100 attendees, Glaziers Hall, London. 8 November 2005.
06. KPI Launch 2006, Constructing Excellence. DTI Conference Centre, London. 6 June 2006.