



Losing control in joint ventures: the case of Building Schools for the Future

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Citation for published version (APA):

Shaoul, J., Shepherd, A., Stafford, A., & Stapleton, P. (2013). *Losing control in joint ventures: the case of Building Schools for the Future*. Institute of Chartered Accountants of Scotland.

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LOSING CONTROL IN JOINT VENTURES: THE CASE OF BUILDING SCHOOLS FOR THE FUTURE

Jean Shaoul
Alice Shepherd
Anne Stafford
Pamela Stapleton



AN ICAS
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PUBLICATION



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by

Jean Shaoul
Alice Shepherd
Anne Stafford
Pamela Stapleton

Published by

ICAS 

CA House 21 Haymarket Yards Edinburgh EH12 5BH

First published 2013



© 2013

ISBN 978-1-904574-99-6

EAN 9781904574996

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Printed and bound in Great Britain
by TJ International

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FOREWORD

Public Private Partnerships (PPP) have been used widely to deliver public sector services in the UK and elsewhere. One form of such partnerships was the Building Schools for the Future (BSF) programme introduced in 2003 to rebuild or refurbish every one of the 3,500 schools in England. This involved the use of a new complex joint venture form of partnership between the public and private sectors. Although the programme was terminated in 2010 it remains a matter of public interest as there is considerable on-going expenditure under this scheme and the broader policy of using private finance to deliver public services is likely to remain relevant as central and local governments look to deal with substantial and growing resource and service demand pressures.

The research uses case studies to examine: the nature and scope of the BSF programme; the financial reporting and transparency of these joint ventures; the accountability of public expenditure; and the broader implications for governance and disclosure.

The authors of the report identify ten key findings in relation to: the complex structure used as a delivery mechanism for this programme; the limited and aggregated financial reporting and patchy oversight and scrutiny, leading to a loss of control over public expenditure; and the loss of accountability. The report identifies some important issues about joint working involving the public and private sectors and the resultant risks to governance, public accountability and financial reporting.

The authors of the report conclude with policy recommendations for consideration by central and local governments, some of which are specific to the schools sector but others are of a more general nature. The recommendations include: the need for more transparent organisational structures for the delivery of public services; that organisations involved in PPP should be subject to freedom of information requests; the creation of a single Department for Education website location where all financial information pertaining to schools can be found; that the Education Funding Agency should review its oversight strategy and practices in relation to Academies' financial management; that Local Authorities should create a strategic plan to ensure the condition of the school's estate is maintained and ensure the scrutiny of on-going revenue expenditure under BSF; and that Local Authorities should be part of the monitoring and oversight processes for both maintained and Academy schools.

This project was funded by the Scottish Accountancy Trust for Education and Research (SATER - see page 61). The Research Committee of ICAS has also been pleased to support this project. The Committee recognises that the views expressed do not necessarily represent those of ICAS itself, but hopes that the project will lead to a wider debate about accountability in Public Private Partnerships.

Allister Wilson
Convener of ICAS Research Committee
August 2013

ACKNOWLEDGEMENTS

The researchers wish to express our gratitude to the participants in this research who gave their valuable time to share their expertise with us.

We also wish to thank Michelle Crickett, Director of Research at ICAS, Ange Wilkie, Research Coordinator and Professor Angus Duff, Research Advisor, for their support and patience throughout the project. Thanks also to the members of the Research Committee of ICAS for their thoughtful and insightful feedback during a presentation to the committee in December 2011. We are also grateful for helpful and supportive feedback on earlier versions of this work from participants at research seminars at the universities of Bristol and Cardiff, participants at the Inter-disciplinary Perspectives on Accounting conference in Cardiff in July 2012, especially Professor Christine Cooper who was a challenging but supportive discussant, and participants at the EIASM 7th International Conference on Accounting, Auditing and Management in Public Sector Reforms in Milan in September 2012.

Additionally, the researchers wish to acknowledge research assistance from Martena Docheva and Phoebe Spurr, who worked very hard helping with data collection and analysis.

Finally, the Research Committee and researchers are grateful for the financial support of The Scottish Accountancy Trust for Education and Research; without this support, the research would not have been possible.

ABBREVIATIONS

BSF	Building Schools for the Future – the policy programme
BSFI	Building Schools for the Future Investments LLP 50% owned by DfE and PUK – BSFI is the investment arm of BSF
D&B	Design and Build
DfE	Department for Education, previously DCSF (Department for Children, Schools and Family) and DfES (Department for Education and Skills)
DSG	Dedicated Schools Grant
EFA	Education Funding Agency - executive agency of DfE
FM	Facilities management company
FMGE	Financial Management and Governance Evaluation
FoI	Freedom of Information
ICT	Information and communications technology
IFRS	International Financial Reporting Standards
JV	Joint Venture
LA	Local Authority
LACSEG	LA central spend equivalent grant
LEP	Local Education Partnership – strategic partnership between a LA, private company and Partnerships for Schools/BSFI
PFI	Private Finance Initiative
PfS	Partnerships for Schools – an executive non-departmental public body managed as a joint venture between DfE and PUK – charged with delivering the BSF programme
PPP	Public Private Partnership
PUK	Partnerships UK, a PPP with the mission to support and accelerate infrastructure delivery via partnerships between public and private sectors. PUK ceased activity in 2011.
SEN	Special Educational Needs
SORP	Statements of Recommended Practice
SPA	Strategic Partnering Agreement
SPV	Special purpose vehicle
YPLA	Young People’s Learning Agency

EXECUTIVE SUMMARY

This research examines the governance, disclosure and accountability problems posed by the joint ownership form of Public Private Partnership (PPP) used to deliver the Labour government's Building Schools for the Future (BSF) programme. The programme was introduced in 2003 as a £45 billion (bn) investment programme to rebuild or refurbish every one of the 3,500 secondary schools in England. The government's aims changed over time, but were from the start wide-ranging aimed at transforming education and attracting private sector participation into educational services.

To access finance for capital investment, Local Authorities (LAs) had to establish new joint venture structures, known as Local Education Partnerships (LEPs), which would be the procurement entity. Although described as a joint venture, the LEPs are 80% owned by private sector investors and, in reality, are shell companies that serve to channel funds from central government to the subcontractors.

This research shows that BSF was one of a series of market-based policies designed generally to reduce the scale and scope of the public sector and in this policy specifically the control of LAs over education spending. It is clear that BSF has been one step in a process whereby the public sector at many levels loses control of education expenditure. BSF can now be seen as a measure that made private involvement more acceptable, paving the way for the new coalition government to move more easily to privatise the provision of education services through the Academies and Free Schools programmes.

Although the BSF programme was terminated early it remains a matter of public interest because there is considerable on-going expenditure, due to long lead times, and significant long term commitments. Furthermore, the broader policy of using joint ventures remains of interest. It is recognised that more capital investment is still needed in schools both for refurbishment and to provide additional school places and such provision will involve private finance. The increasing amount of public money now spent outside direct state control via policy mechanisms such as BSF raises questions about whether the system of public expenditure reporting can or does deliver accountability for public monies.

Research aims and approach

The purpose of the report is to examine:

- BSF as a capital investment programme in terms of the delivery mechanisms and the relationships between the key players;
- The financial reporting and transparency of these joint ventures and the extent to which it is possible to hold government to account for monies spent in this way; and
- The broader implications arising from the findings for governance and disclosure.

The report adopts a case study method. Four early schemes were chosen to ensure relevant financial information was available for the analysis. The cases cover different sizes of scheme, and alternative mechanisms for the funding and delivery of the project. The study undertook documentary analysis of the financial statements and narrative data drawn from public domain sources for the relevant public and private sector entities. This information was used to develop questions for semi-structured interviews. Interviews, which were digitally recorded and then transcribed, were carried out with 13 public sector representatives and five private partner representatives, coded as PS1-13 and PP1-5 respectively to preserve anonymity. Themes related to the key research questions were identified using content analysis.

Key findings

BSF was designed to increase private companies' involvement in the lucrative education market but it also made possible the continued use of the Private Finance Initiative (PFI) which was otherwise hard to justify in education because of high bidding costs relative to the capital cost of a school. This is important because PFI is an attractive financing method for government. Not only is expenditure deferred, but even after the adoption of International Financial Reporting Standards (IFRS) for accounting purposes, PFI liabilities may be off balance sheet in the National Accounts because they are excluded by the Office for National Statistics from the definition of Public Sector Net Debt (Shaoul *et al.*, 2008).

With the UK recognised as a global leader in the use of PPP, an analysis of the implications for the control of public resources under such joint ventures is likely to have international as well as national relevance. While the details may vary from country to country, the impacts outlined below in relation to the UK, will have

parallels elsewhere. Ten key findings, outlined in detail below, emerge from our analysis in relation to:

- The complex organisational structure used as a delivery mechanism for BSF;
- The limited and aggregated financial reporting, and patchy oversight and scrutiny, leading to a loss of day-to-day control over what is ultimately public expenditure; and
- The loss of accountability as control moves away from elected local government into the hands of the private sector and a distant national level agency of the Department for Education (DfE).

Organisational structure

First, the joint venture structures add complexity to the predecessor PFI schemes whose legal and corporate structures were already complex. Reliance on costly legal and financial advisors is thus significant. These joint venture structures are difficult to identify and they disguise where the decision-making power actually lies.

Second, despite an initial requirement for a standard organisational structure, in practice each of the four case schemes adopted a different structure. While this reduces comparability between schemes, it reflects the LAs' views that 'one size does not fit all'.

Third, interviewees indicated information sharing between LAs was limited. This should have been facilitated by Partnerships for Schools (Pfs), the national level entity established to take responsibility for BSF, but was not. One outcome was a shortage of benchmarking data reducing the LAs' ability to control costs.

Financial reporting

Fourth, reporting of BSF is both fragmented and too aggregated. It is fragmented due to the complex organisational structure, which straddles the boundary between public and private sector, including entities from central government, local government, schools, construction and facilities management companies and financiers. Whilst the adoption of IFRS by the UK government has brought more standardisation into the financial statements, assets, related liabilities and cash flows are aggregated together with other similar items in most cases.

Fifth, joint venture reporting lacks transparency for the informed user. At central government level there is no clarity about the overall cost of the programme. At local government level, it is impossible to track all money flows through the LA, LEP and special purpose vehicle (SPV) accounts as these provide minimum disclosures, reducing the usefulness of information for the public.

Oversight and scrutiny

Sixth, oversight necessarily differed between the LAs because they had different internal structures, but in each case there was a clear split of responsibility for monitoring capital and revenue expenditures, with the focus for oversight resting on the capital expenditure. Programme level boards, which established governance and monitoring arrangements, focused more on the pre-financial close and construction phases than the operations phase.

Seventh, there is a lack of strategic planning for funding and managing maintenance on conventional Design and Build (D&B) projects, due to the loose coupling between the capital and revenue expenditure systems. If schools fail to put aside a portion of their budget for maintenance, the school estate will again deteriorate over time. Whilst PFI schools have maintenance built into the contract, this is a locked-in cost that must be paid before other claims on the budget. Therefore over time affordability may become a concern as has occurred with PFI hospitals.

Eighth, there is little evidence of on-going scrutiny of BSF as it is now out of the spotlight, despite the significant on-going expenditures. At national level, the Education Funding Agency's (EFA) oversight of Academies is less in terms of both scope and scale in comparison to LA maintained schools. Oversight by EFA is less personalised, and also more distanced, as the rationale for Academies is to give schools more individual freedom and independence from state control.

Accountability

Ninth, greater control over what is ultimately public money, even if some funds initially come from private sources, now rests with the private sector and the related accountability structures for education are at risk. Through BSF, once public authorities have entered into contracts with the LEPs, control passes to privately controlled joint ventures, which have become in substance public authorities, but without the commensurate responsibilities and accountability mechanisms. There are potential and actual conflicts of interest within the LEP board, due to the fact that directors from the private sector have dual roles, acting both as directors of the LEP board in addition to duties as directors of the private sector partners.

Tenth, the inclusion of Academies in BSF has shifted accountability structures from local to central government. Academies have in effect become businesses, and accordingly must adopt similar governance structures. The head teacher is the designated Accounting Officer for public accountability and the governors become Non-executive Directors. This raises the problem of attracting sufficiently qualified and experienced people to undertake these roles, especially in areas of economic deprivation. It also creates further opportunities for the private sector to offer business and governance training on how to fulfil these roles.

Policy implications

Overall, the research shows the complexity of the delivery mechanisms used in BSF, and that the financial reporting and scrutiny in the public sector is deficient in a number of areas. This undermines the ability of the public and /or its representatives to hold government to account for its decisions and use of public money. The findings from this report lead to a number of recommendations that are specific to the schools sector, but also to recommendations of more general relevance to local and central governments.

In relation to the complexity of the organisational structures and the relationships between key players:

- Consideration by government as to how policy can be implemented with more transparent organisational structures and better public sector training that both make explicit where the locus of decision-making lies and enables the public sector to retain control over the policy and practice of public services;
- Implementation of a strategy to monitor and reduce costs of using financial and legal advisors;
- Explicit recognition of the inherent conflicts of interest in joint venture arrangements and consideration by procurers as to how these can be made transparent and managed;
- Better guidance to and support for procurers in terms of cost data for benchmarking; and
- Better sharing of information and practical experience both pre- and post-implementation of policy. In particular, information sharing about the complexity of how PFI works in practice would be valuable. Improvements in the sharing of information are needed both within and between central government agencies and LAs. One example would be through the use of a mentoring scheme.

In relation to the quality of financial reporting and the oversight and scrutiny regimes that hold government to account:

- Create a single DfE website location where all financial information pertaining to schools can be found, including an extension to the existing tables for Academies to include capital information and data about the school buildings;
- Review the role of LA programme level boards to ensure that scrutiny of BSF revenue expenditure continues during the long operations phase;
- Standardised templates for post-implementation reviews, with consideration given as to which key performance indicators are useful and why;
- Creation of a strategic plan at LA level to be agreed with maintained and Academy schools to ensure that maintenance expenditure on D&B schools is sufficient to maintain the condition of the schools' estate; and
- Annual monitoring at departmental level of terminated programmes to ensure continuing control over public money.

In relation to the broader implications for governance and accountability:

- Organisations controlling large sums of expenditure which will ultimately be paid by the taxpayer should be subject to FoI;
- A review by EFA of its oversight strategy and practices in relation to Academies' financial management and the quality of their governing bodies; and
- LAs need to be part of the monitoring and oversight processes for both maintained and Academy schools, if they are to retain certain statutory responsibilities for education, such as managing the numbers of school places.

1. INTRODUCTION

Control of public expenditure has been the mantra of successive governments, with the implicit assumptions that the public sector is wasteful, bureaucratic and inefficient. The tenor of public sector reforms over the last 30 years has been to shift control from the public authorities to the private sector, with privatisation and the Private Finance Initiative (PFI) being just two of the most obvious examples. This report examines one such reform introduced by the Labour government in 2003, the use of joint ventures between the public and private sectors to deliver the Building Schools for the Future (BSF) programme. BSF was part of successive governments' broader policy of Public Private Partnerships (PPP), but it was also one stage in a reform process that paved the way for the more extensive privatisation of education in 2010 through the coalition government's Academies and Free Schools programmes.

While PPPs have taken numerous forms both in Britain and internationally, the novel feature of the BSF programme was that the partnership would involve joint ownership and would take the form of a joint venture. This report focuses, not on the differing views of the BSF programme, its merits and demerits, anticipated or actualised, but on the control issues as reflected in the governance, disclosure and accountability problems posed by such joint ventures between the public and private sectors.

BSF was launched as a £45 billion (bn) investment programme to rebuild or refurbish every one of the 3,500 secondary schools in England. It was billed as the biggest school rebuilding programme since Victorian times and the most ambitious of its kind anywhere in the world. The programme started with funding of about £2.2bn for the three years from 2005-06, as part of a wider capital strategy that would see total capital investment in schools in England increase from £6.4bn in 2007-08 to £8.2bn in 2010-11.

BSF was a new arrangement under the umbrella of the PPP policy, specifically designed to make education projects attractive to the private sector. This was because under the predominant PPP model, known as PFI, education projects were generally too small relative to the high cost of bidding for contracts to be profitable for the private sector. Whereas PFI was essentially a leasing arrangement whereby the private sector designs, builds, finances and operates infrastructure assets in return for an annual fee set to cover both the capital cost and the service charge,

capital investment in schools would, under BSF, involve a joint venture between the public and private sectors. The joint venture mechanism, known as a Local Education Partnership (LEP), would be the procurement entity through which services would be bought and delivered under BSF.

The LEP, a joint venture partnership between a Local Authority (LA), a private sector company and Partnership for Schools (PFS), a central government agency with overall responsibility for the delivery of the BSF programme, would plan, commission and deliver the entire programme of work within a LA as the sole procurer and service provider. It would deliver new investment through a mix of different procurement routes, including central government funding via the Academies programme, the pre-existing PFI and conventional funding routed through the LAs. It would integrate and manage a diverse range of services and supply chain subcontractors under a long term contractual agreement.

As with many policies, the government's aims changed over time, but were from the start grandiose and wide ranging:

- BSF would attract private sector participation in educational services;
- BSF would transform the secondary school estate;
- BSF was later extended to include primary schools;
- BSF would transform education by acting as 'a catalyst to help improve educational outcomes' (NAO 2010a:17), as LAs were required to review their vision for education, establish a change management programme for each school (NAO, 2010a), and deliver excellent teaching and learning and a commitment to personalisation (DCSF, 2009);
- LAs would work with NHS Primary Care Trusts (PCTs) and other partner organisations to drive co-location of other public services, and thereby promote children's health and well-being and effective engagement with parents and the local community (DCSF, 2008; 2009);
- BSF would support the local reorganisation of secondary schools by increasing diversity of provision including Academies (NAO, 2009a); and
- With the onset of the global financial and economic crisis in 2008, BSF's capital investment programme became a tool to stimulate the economy, with £2bn worth of deals closed promptly, 'even if this meant paying more and banks carrying less risk' (NAO 2010c:9).

This wide-ranging agenda was short on both specificity and evidence as to how these aims would be achieved. Crucially, it was unclear how construction projects would be prioritised. The Labour government acknowledged that the piecemeal delivery of BSF hampered the delivery of these objectives (DCSF, 2008) and the James Review (2011) argued that it would have been better to focus BSF on the quality of the schools estate rather than on this wider and ill-defined vision.

BSF is thus part of a broader move to transform public authorities into procurers and regulators of public services via a variety of mechanisms, including the outsourcing of “non-core” services and more recently joint venture partnerships with the private sector. The effect is that increasing amounts of public money are now spent outside direct state control which raises questions about the system of public expenditure reporting and disclosure. Can or indeed do systems, designed in earlier times and recently reformed to bring them in line with private sector corporate governance and accounting practices, provide the necessary control over public resources?

In the event, the incoming Conservative-Liberal Democrat coalition government abandoned BSF in 2010 as part of its austerity measures. While no new projects will be commissioned, considerable construction is still on-going because of the long lead times, and its long term commitments, consisting of unitary charges of £12.6bn (HM Treasury, 2012a, 2012b), will continue for up to 25 years. Moreover the broader policy of using joint ventures remains of interest for several reasons. Firstly, more capital investment is needed because only 840 out of the 3,500 secondary schools have been or will be modernised by BSF, and most schools still require investment (James, 2011). The next three years will see an additional 430,000 children enter primary schools, necessitating £4.5bn construction (Russell Andrews, EFA, Presentation at Academies Show, 16 May 2012) because of a mismatch between the existing supply and expected demand. Secondly, since the coalition government is committed to the broader PPP policy, any new investment is likely to include some kind of private finance and partnership arrangement.

The purpose of the report is to examine:

- BSF as a capital investment programme in terms of the delivery mechanisms and the relationships between the key players;
- The financial reporting, transparency and control issues posed by joint ventures and the extent to which it will be possible to hold government to account for monies spent in this way; and

- The broader implications arising from the findings for governance and disclosure.

The project adopted a case study approach, involving:

- A detailed analysis of policy documents and a review of the research literature;
- Examination of the actual financial reporting and scrutiny procedures; and
- Examination of the actual experience of LAs in implementing the policy via semi-structured interviews.

With the UK recognised as a global leader in the use of PPP, an analysis of the implications for the control of public resources under such joint ventures is likely to have international as well as national relevance.

The delivery of BSF projects entailed the establishment of new corporate entities, joint ventures that are predominantly privately owned. While the LA retained ownership and responsibility for all aspects of education provision, it passed control over day-to-day decision making in these joint venture arrangements for buildings provision and some ongoing maintenance to its private partner. The more recent Academies and Free Schools programmes reduce further the control government has over individual schools. The loss of public control is also evident at central government level, where it is difficult, if not impossible, to establish the total cost of the BSF programme.

Moreover, the joint venture structure means that there will be little useful financial reporting that will enable the public or its representatives and watchdogs to track the flow of public money. There is therefore some separation of control and responsibility at local government level, making scrutiny and accountability virtually impossible. While it may be tempting to think that this is of limited importance for a cancelled programme, in practice scrutiny is essential because the programme continues to draw on public funds; the last school is not due for completion until 2015 and many PFI contracts have 20 plus years to run.

Furthermore, the termination of the programme in 2010 does not invalidate the findings, rather it gives them greater urgency. Our analysis shows that, while the BSF policy was promoted as a mechanism for improving education, in practice it became a mechanism whereby, after the initial decision, the public sector transferred day-to-day management control of capital and some revenue expenditures on schools from the public sector to private sector companies,

retaining an oversight role only. BSF was terminated in favour of Academies and Free Schools programmes that present a more explicit mechanism for taking control of education from local government and transferring it to the private sector.

The next chapter explains the (re)organisation and funding of schools in England by successive governments in order to provide the context for BSF. The third chapter explains the BSF policy programme, including the complex ownership, funding streams and management of the LEP. The fourth chapter briefly discusses literature relating to private and public sector joint ventures. The fifth section discusses the research approach. The sixth chapter discusses the findings in relation to the complex organisational arrangements, capital investment decision making and financial reporting. The seventh chapter discusses oversight and control of BSF, and the final chapter draws some conclusions about the potential problems in tracking the flow of public monies under such joint ventures.

2. FUNDING AND ORGANISATION OF THE SCHOOL SYSTEM IN ENGLAND

Overall responsibility for educational policy and funding rests with the Department for Education (DfE), although it should be noted that it has changed its name several times over the past twenty years: from 1995 to 2001, it was the Department for Education and Employment, 2001 to 2007 the Department for Education and Skills, from 2007 to 2010, the Department for Children, Schools and Families, and from 2010 onwards the DfE, the name this report will use for the sake of simplicity.

The funding for schools' annual revenue expenditure on publicly maintained schools (henceforth maintained schools), which 93 per cent of all children attend, is largely raised through taxation at central government level, and then devolved by the DfE on an annual basis to the 137 LAs in England. LAs, which may add to central government funds from their own resources, administer the ring-fenced dedicated schools budget, albeit with increasing central government direction, but they distribute it by means of a formula determined by each LA to individual schools. The LA may only retain a small proportion to cover central services, including the monitoring of schools.

The last 30 years have seen a significant change in firstly the governance and funding of the school system, creating a more varied and fragmented educational system, and secondly in the relationship between central and local government, with the latter increasingly marginalised. The relevant changes are briefly outlined below.

In 1989, the Conservative government changed the funding and management of schools by taking the control over the schools' annual revenue budget away from local government and reducing the powers and role of local government in the context of education. Henceforth schools would control and manage their own budgets, largely based upon per capita funding, and teach according to a national curriculum. Head teachers became responsible for the cost of their staff, consumables and educational and social services provided either by local government - for central services relating to children and the estate - or outside suppliers. In effect, schools were changing to become more like businesses, with the requirement for the first time for financial reporting and accountability. Successive governments sought to encourage private involvement in the running of schools via a number of policies, not all of which were long-lived. This began with

outsourcing of “non-core” manual services and in some cases the management of schools and LAs. In addition, central government outsourced at least 22 educational projects and initiatives directly to the private sector bypassing the LAs.

The funding for capital investment is likewise provided to local government by central government, although prior to 1997 there had been little since the 1976 cuts. By the time Labour came to power in 1997, there was therefore an extensive backlog of essential maintenance and new build requirements right across the public sector. While the Conservative government had in 1993 introduced the Private Finance Initiative (PFI), it was the incoming Labour government that was to get the policy up and running. In the context of schools, relatively small projects, that were unattractive to the private sector, were “bundled” together across one or more LA in one PFI package, where the LA paid the capital element and the schools each paid the service element of the annual charge. This did not generally include refurbishment and small scale expansion of existing schools.

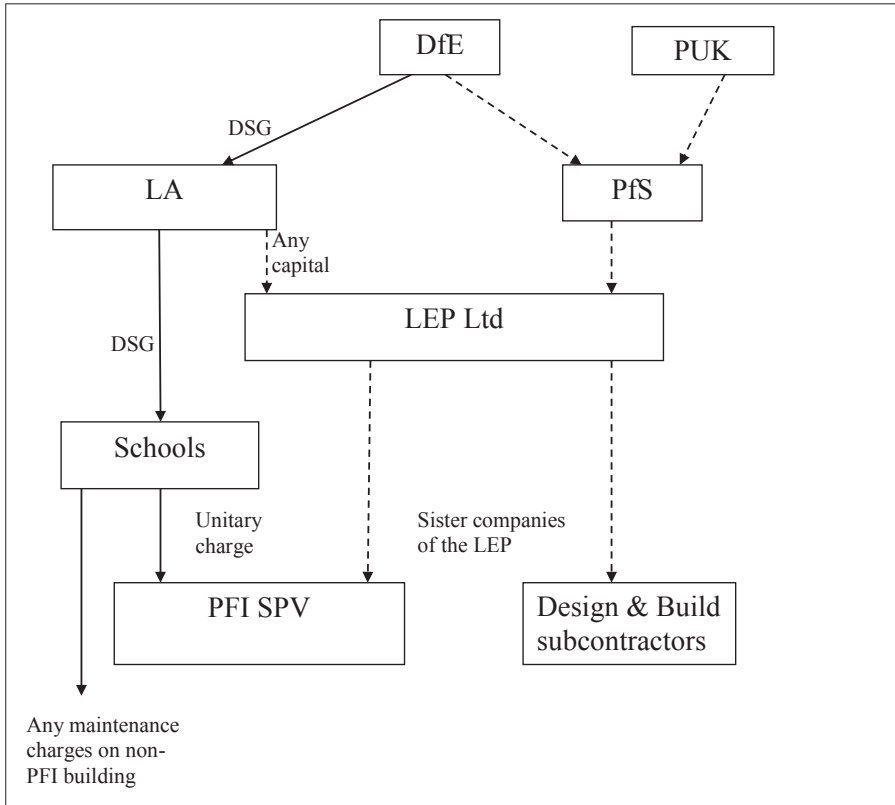
Alongside PFI, there were various attempts in the 1990s to encourage the private funding and running of schools, the two key (and still extant) policies have become the Academies and more recently, Free Schools, whose number are as yet limited. Initially, funding for Academies came direct from the DfE, for both capital and revenue expenditure. As the number of Academies increased, from 200 in 2010 to some 2,900 by May 2013, funding comes through an executive agency of the DfE. Such direct funding further reduces the money available to the LA to provide central services.

Schools are incentivised to seek Academy status because funding is, at least initially, higher than for LA-maintained schools, and they gain autonomy from the LA. They have the freedom to manage their own budgets, adapt the national curriculum, vary teachers’ pay and conditions and vary the length of the school day/year. In effect, they have now become stand-alone businesses, analogous to Hospital Foundation Trusts, with the consequent fears about their financial health and longer term sustainability (NAO, 2010d).

The BSF policy, introduced as an overarching capital investment programme, was a means of extending these policies. It was designed, according to the Treasury, to be more “flexible” than PFI and incorporate both new builds and refurbishment/expansion of the entire 3,500 secondary school estate in England, to be carried out in successive waves over a 15 to 20 year period. In effect, the LAs had to choose some combination of PFI, the Academies programme or some other private

sector route if they wanted to get BSF funds to upgrade their estate (DCSF, 2009, p25). The resulting flow of funds, both capital and revenue are shown in Figure 1. Exceptionally, BSF comes with its own funding stream. Virtually all other capital funding allocations to LAs, including PFI projects, are unringfenced capital grants from a generic pot of money, known as the Single Capital Pot.

Figure 1 Public sector revenue and capital funds flows related to BSF



Notes:

—> = Revenue flows

- - -> = Capital flows

DSG = Dedicated Schools Grant

In short, there has been continuous reform, reflecting the broader neo-liberal policies of outsourcing, privatisation, leasing and commercialisation introduced into other public services both in Britain and internationally. This has led to increasing private sector participation in school services and widely different configuration of school services and control/management structures across England. It is in this context that BSF must be seen.

3. BSF AND LEP OWNERSHIP AND MANAGEMENT

The government established Partnerships for Schools (PfS), a national level joint venture owned by the DfE and Partnerships UK (PUK), to take responsibility for the development of the BSF policy and programme. PfS' objectives were to ensure the delivery of the BSF goals and a financial return to its two members. It would provide risk capital for BSF via a limited liability partnership, Building Schools for the Future Investments LLP (BSFI) (since sold in 2011 to a global infrastructure fund), and also invest in associated PFI projects.

Locally, the LEP, which would enter into a Strategic Partnering Agreement (SPA) with the LA, would be the entity that would deliver the BSF construction programme. The LEP would have exclusive rights for ten years, with a possible five year extension, to develop proposals for and deliver the Design and Build (D&B) of BSF schools in a designated LA area. Each LEP would be structured as a joint venture between a LA, BSFI and a private sector partner chosen via a competitive process.

While BSF was presented as a method of financing construction, its brief was very much broader. The LA, as part of its case for building or refurbishing schools, had to review every aspect of its provision, including provision for older pupils aged between 14 and 19, extended school and community provision, plans for Academies and Trusts, and integrate the building programme with service delivery, including new information and communications technology (ICT) infrastructure, school management, educational support and school transport.

In essence, the BSF programme signified the extension of private capital and sponsors in education, and the transformation of schools into businesses responsible for the ownership and management of their own buildings. BSF is following through the dismantling of LA control over schools that began in the mid-1980s when schools first gained control of their revenue budgets. It further extends the role of the private sector by encouraging various forms of partnerships, contracting relationships and joint venture arrangements commonly used in the private sector.

4. JOINT VENTURES

With the exception of reports by the National Audit Office, the parliamentary watchdog, and research by Aldred, outlined below, there has been little research into PPP-style joint venture arrangements. However, it is recognised that:

- Joint ventures may not produce the intended synergy and joint development (Klijn and Teisman, 2003);
- Decision making can be dysfunctional and inefficient (Fischbacher and Beaumont, 2003); and
- Decision making can be fragmented because of the financial, institutional and strategic complexities that require huge managerial effort to control (Klijn and Teisman, 2003).

Such findings are not unexpected since literature about private sector joint ventures shows that they are challenging to manage and that the achievement of the parent organisations' goals is by no means certain. Management becomes complicated if partners have different objectives (Pearce, 1997), and provide conflicting recommendations (Beamish and Lupton, 2009). While it may be unclear what actually constitutes an appropriate measure of performance in these hybrid organisations (Griffith *et al.*, 2009), some 50 per cent of joint ventures fail to meet their parent organisations' financial and strategic goals, and the parents' share prices fall in nearly half of cases following the announcement of a new joint venture (CalPERS, 2009). In the context of joint ventures between the public and private sectors, there are varying value and ethical systems that could similarly affect operational efficiency and effectiveness, and attitudes to transparency and information disclosure (McQuaid, 2000; OECD, 2008).

In the UK health sector where arrangements are similar to those for BSF, Aldred (2008) taking a sociological perspective, found tensions and ambiguities in the approaches to and implementation of the health programme, contradictions between rhetoric and reality, and uneven risks and rewards. She concluded that the policy creates rhetorical and practical problems for a welfare regime (Aldred, 2007). These practical problems included extra layers of bureaucracy, inflexibility because the procurer is locked into long term contracts, and conflicts of interest within the partnership structures (Aldred, 2006). These findings confirm Drucker's argument (Harris, 1993) that joint venture structures inevitably cause parent

organisations to lose control, affecting the achievement of financial and strategic goals and also the processes of accountability for the underlying project. Joint venture governance is much more challenging than corporate governance in a single entity because of the joint ventures' board composition and decision-making processes, the resource flows from the shareholders, and the structure of the management team (CalPERS, 2009).

The NAO (2005) has raised similar concerns about PPPs and recommended that accountability arrangements need to be strengthened. In particular, the NAO had concerns about the oversight of Strategic Partnering Boards in the health sector and the tensions that arise because public sector employees are fulfilling several roles in the organisational structure (NAO, 2005), and noted (NAO, 2009a and b) that there had been difficulties establishing effective working arrangements in the first BSF projects.

While Beamish and Lupton's (2009) review of joint venture governance and control found mixed evidence about the impact of unequal ownership proportions on performance, they cited evidence from Dhanaraj and Beamish (2004) suggesting that in an international context, very small stakes below 20 per cent signal lack of commitment and increase the probability of joint venture failure.

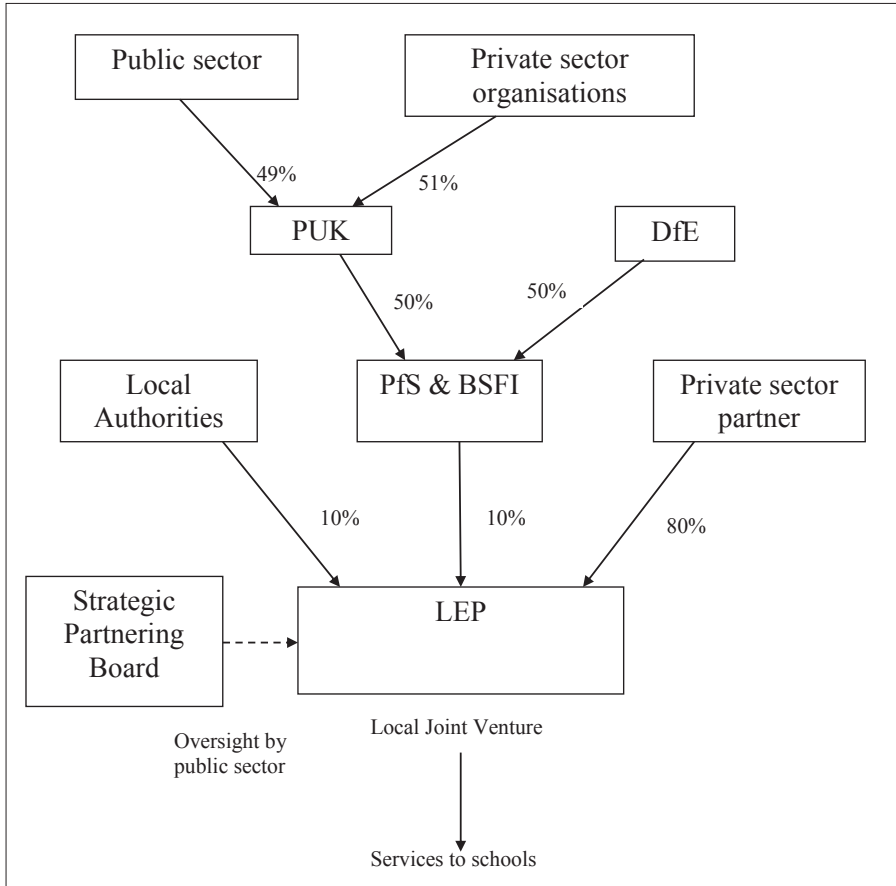
It is interesting to note that the NAO (2009b) attributed the failure of Metronet, the corporate entity that managed two of the three London Underground PPP projects, to its corporate structure, governance and leadership, highlighting issues relevant to joint ventures in schools. Metronet was essentially a joint venture between five shareholders. They had to agree many of the decisions unanimously, but with shareholder-dominated supply chains, they had conflicting interests depending on their roles. The top management was therefore in an impossible situation, changed frequently and was unable to manage the work effectively.

These findings from both the public and private sectors raise questions about both the ability of the BSF model to deliver the infrastructure and services, and transparency about the public money invested in this programme. But there is a further issue.

The government's rhetoric is one of a joint venture partnership suggesting joint ownership and control. However, as Figure 2 shows, the extremely complex organisational structure of the planning and commissioning process of BSF is not a joint venture in accounting terms. The ownership proportions show that the LEP is

in fact 80 per cent owned by the private partner, suggesting that it is a subsidiary controlled by the private sector, and should be accounted for as such.

Figure 2 Structure of LEP public private partnership



Note:

1. BSFI was sold to a global infrastructure fund in August 2011.

Source: Adapted from National Audit Office (2005).

Although the total public sector stake of 20 per cent would trigger equity accounting as an associate ownership relationship, in line with generally accepted accounting practice, in fact, as Figure 2 shows, the public sector investment is divided between LAs and BSFI, each with a holding of only 10 per cent, making it unlikely that LAs will account for their BSF investment under equity accounting. Instead, they provide less information by recognising the investment at original cost only. That is, stakeholders are denied the fuller, if incomplete, information provided by equity accounting which updates the value of the investment on an annual basis.

Furthermore the LEP, whilst majority owned by the private sector, is in substance a public authority. However the ownership of the assets and responsibility for all aspects of education and the budget remains with the legally recognised public authorities, thereby separating responsibility on the one hand from management and day-to-day control on the other. This is important, given the intention of the then government that up to £45bn of capital expenditure would pass through the LEPs over BSF's full intended life.

In short, there is a contrast between the rhetoric of partnership and an ownership structure that blurs the role of control between the LA and the private sector.

5. RESEARCH APPROACH

The research focuses on the organisational structures at LA level, as it is here that the shifts in control over public money are taking place, leaving the LA with continued responsibilities towards the provision of education, but with less day-to-day control and diminished resources.

A case study approach is adopted for the research examining the financial reporting of and scrutiny procedures for four joint ventures in detail. This necessitated choosing early schemes which, having completed some construction projects, had produced the necessary financial statements. Within that overall constraint, the cases were chosen to include both small and large LAs, and a variety of mechanisms for funding and delivering the project.

Documentary analysis and semi-structured interviews are used for each case. Copies of the financial statements for the private sector partners, LAs, PfS and its related bodies BSFI and Partnerships UK (PUK), DfE and the Academies were obtained and examined for details of the accounting methods and disclosure of information relating to BSF projects. Narrative data was collected by searching the websites of the LAs, DfE, PfS and private sector partners for relevant reports and documents. This information, together with relevant information from NAO and other public and private bodies' reports, was then used to develop questions for semi-structured interviews. Interviews with 13 LA representatives and five private partner representatives were carried out, digitally recorded and then transcribed, being coded as PS1-13 and PP1-5 respectively to preserve anonymity. Content analysis was used to identify relevant themes.

6. FINDINGS

Organisational structures

The organisational structures of BSF are important because they affect the management of the project, the transparency of reporting and thus ultimately accountability. The anticipated organisational arrangements are as discussed previously and set out in Figure 2.

While the stated purpose of the LEP was to generate efficiency and overcome the high bidding costs associated with PFI, the set up costs were very high. Some LEPs were “fat”, incorporating service management while others were “thin” structures with fewer staff and more limited objectives. On average, PFS estimated that public sector set up costs were £10.9 million (m) (James, 2011), a conservative estimate as some costs were not quantifiable, such as the time diverted from other capital projects work to build the LEP relationships. Moreover, because of the early termination of the programme and thus the failure of the pipeline of further projects, any benefits from the long term relationship between contractor and LA are unlikely to be realised. Indeed, one private sector contractor (PP1) commented that its LEP was a loss-leader.

The four LAs were designated as Hill Town, River Town, Sea Town and Shire Town to preserve anonymity. River Town was initially included because it did not have a LEP, despite the government’s original intention that all LAs would create a LEP. It was thus to function as a “control group” for the purpose of comparison. In fact, River Town was not alone, with two LAs in this study saying that a ‘one size fits all’ approach to the joint venture was not appropriate. Their approach was not unusual, nationally only about 30 per cent of LAs have a LEP, far less than anticipated.

Table 1 The case studies

LA	LA population 000's	LEP / Non-LEP	Funding	Capital cost	Interviews
Hill	556	Thin LEP (Hill Town LEP Ltd)	Mix of PFI and conventional design build (D&B): Early wave: 3 PFI and 6 D&B schools Later wave: 1 PFI and 11 D&B schools	£400m over two phases	2 from LA (capital projects) 1 from LEP
River	499, but receives a precept ¹ from a larger population	Non-LEP	All D&B: 37 schools over 2 early waves	£500m over two waves	5 from LA (3 x capital projects) (2 x finance)
Sea	441	Thin LEP (Sea Town LEP Ltd)	All PFI in early wave: 4 PFI schools Later wave: 6 D&B schools	£110m	1 from LA (children's services) 2 from LEP
Shire	206	Non-LEP	Mix of PFI and conventional Early wave: 3 PFI, 1 D&B	£63m	5 from LA (1 x councillor) (2 x projects) (1 x finance) (1 x children's services) 2 from PFI SPV

Notes:

1. River Town is a precepting authority implying that it is granted power by the Local Government Finance Act 1992 to instruct neighbouring authorities to collect tax, known as a precept, on its behalf.
2. An interview was also requested with a representative of PFS but this was declined.
3. All waves referred to in this table have taken place.

Population source: ONS Population estimates mid-2010.

Table 1, which provides some information about each LA, its BSF programme, and the number of interviews carried out, shows that:

- Hill Town, River Town and Sea Town are fairly large LAs;
- Hill Town used the LEP mechanism to procure three PFI and six conventionally funded D&B schools, with one further PFI and 11 D&B schools in a later national wave;
- Sea Town signed an initial BSF scheme for four schools, all to be procured under PFI using the standard LEP mechanism. A further national wave comprised another six D&B schools, and Sea Town continues to work with the LEP on primary schools capital projects;

- River Town’s BSF programme was much larger and split over two early national waves - waves one and four. 20 schools were complete by 2011 with the remaining 17 due for completion by 2013. All schools were funded conventionally at River Town which did not use the LEP mechanism; and
- Shire Town is a relatively small LA which signed a BSF scheme for four schools, procuring three PFI and one D&B school. The remaining schools were to be dealt with in national waves 13 and 15, but were never signed. Shire Town did not use a LEP.

Although the government intended that the LEP would carry out the procurement, in practice, the four LAs adopted quite different organisational arrangements from that anticipated. These are summarised in Table 2.

Table 2 Control and reporting

LA	Control structure	Reporting of LEP by private sector parent(s)	Reporting of LEP by LAs
Hill	LEP, with SPV for PFI projects	(i) Construction contractor - equity accounting, with no reference to controlling parties (ii) Fund management LLP – does not report publicly.	No separate reporting of LEP. As investment in LEP is very small, it is aggregated with other items.
River	Direct LA control over projects via contract framework agreements with constructors. No PFI projects. No SPV.	N/A	N/A
Sea	LEP, with separate SPVs for PFI and D&B projects respectively.	Equity accounting – described as joint control while acknowledging 80% voting control.	No separate reporting of LEP. As investment in LEP is very small, it is aggregated with other items.
Shire	SPV for PFI projects	N/A	N/A

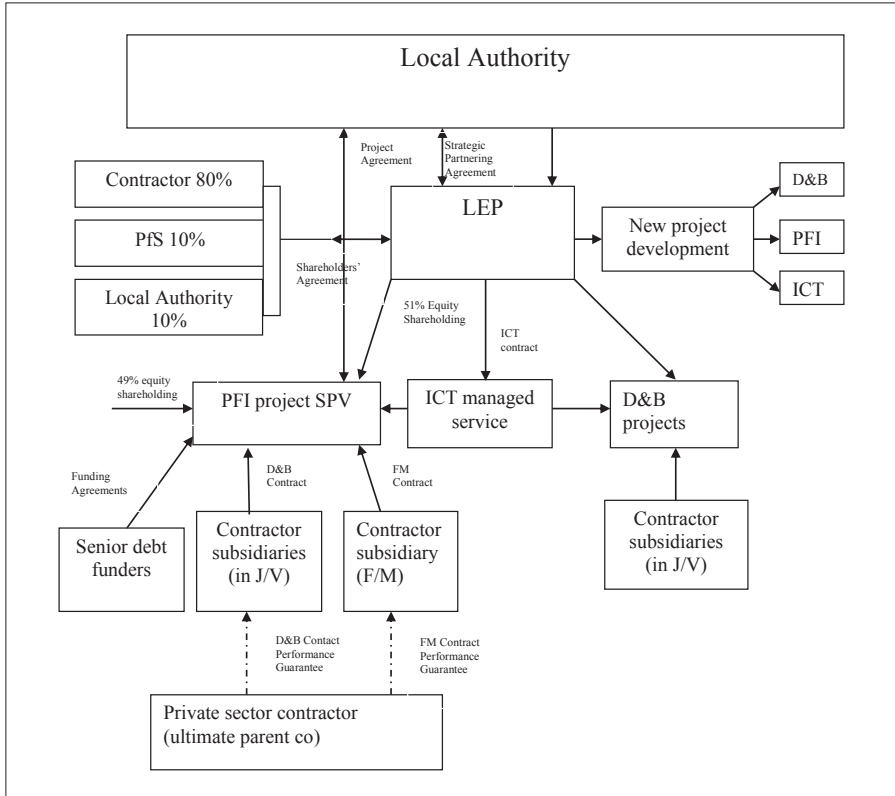
River Town devised an unincorporated organisational structure, intended to complement not duplicate River Town’s capabilities and capacity. Officers (PS4 and 5) argued that since the LA possessed the necessary expertise and resources to manage risk on large construction projects, they did not want to pay a risk premium to transfer risk to the private sector. It maintained direct control over BSF projects via long-term framework agreements with its construction, ICT and facilities management (FM) partners, claiming that it gave ‘clear and early risk identification’

(PS5), and prevented conflicts of interest due to commercial pressures. Officers (PS4 and 5) argued that partners would not be trying to generate profits through the LEP, but would be incentivised by the continuing opportunities arising with the LA. Whereas the standard LEP involves an arm's length approach that 'allows the contractor to take short cuts' (PS9), River Town retained control as a signatory to the contracts that would deliver BSF. This LA largely used its own in-house expertise to plan and budget for BSF without PFI because it would be 'easier to understand for everybody' (PS1). However, this was most unusual because it was believed that only large LAs, such as River Town, could use their bargaining power to avoid the Pfs's insistence on the PFI route.

Shire Town believed that the LEP structure would be too expensive to gain any advantage from repeat work given the small scale of its BSF, and particularly since there was a long gap between the first schools in national wave 1 and the later schools in national waves 13 and 15. It essentially managed BSF at LA level.

All three LAs with PFI projects used an additional organisation, a special purpose vehicle (SPV), at the banks' behest, to ensure that the providers of senior debt had control of the project, since the SPV is the legal signatory to the contracts. By way of example, the organisational structure of Sea Town is shown in Figure 3. This LA also established an additional SPV to manage its D&B projects. Thus despite the government's stated intention, BSF did not avoid the complexities of PFI and both public and private partners confirmed the perception that BSF projects required too many costly advisors (PS6, PS11, PP4).

Figure 3 Organisational structure of Sea Town LEP



Source: Provided by Sea Town LEP and adapted.

As anticipated both Hill and Sea Town LEPs were 80% owned by the private sector, suggesting subsidiary company status, but equity accounting for joint arrangements was used in both cases suggesting that they did not have control for accounting purposes. Sea Town LEP Ltd stated in its notes that the company was jointly controlled by its shareholders and therefore did not have a controlling party. Its ultimate parent treated it as a joint venture and used the equity method of consolidation, but did note that it had 80 per cent of the voting power.

Hill Town LEP Ltd was 40 per cent owned by the construction contractor and 40 per cent owned by a fund management LLP. The financial statements of Hill Town LEP Ltd made no direct comment about controlling parties or joint control but, as would be expected with a 40% shareholding, the equity method of accounting was used for this joint venture. In the note on investments in its 2011 accounts, the

construction parent showed details of the assets, liabilities, equity, revenue and profit of the Hill Town LEP. The LLP does not make its financial statements publicly available.

Furthermore, in contrast to expectations, neither BSFI nor the LAs reported their investment in the LEP separately in their financial statements as, due to its small size, it is aggregated with other investments.

Capital investment decision making

All four LAs followed the DfE requirements, as referred to in chapter three above, for carrying out consultations with school staff and governors, involving head teachers in the process and documenting the preferred options through the different stages of the process. Shire Town in particular produced very clear evidence as to how they had identified the schools from the north of the borough, being noted as an example of best practice for commitment to the BSF ethos. Shire Town also noted that they followed the advice from their financial advisors, a Big Four accounting firm, to use PFI, although it had one voluntary aided school which objected and succeeded in its wish to use conventional procurement. Hill Town and Sea Town also stated that PFI was to be used for new builds. River Town did not use PFI, but set out its non-LEP and non-PFI case based on its size and track record to date.

Both Hill Town and Sea Town identified affordability gaps early on, to be met by the LA providing additional funds. That the schemes may have presented affordability problems, as was known to be the case in PFI hospitals and the Glasgow schools PFI, is further evidenced by some rationalisation of the school estate. Some relocation took place, for example, Special Educational Needs (SEN) schools were relocated adjacent to secondary schools. Shire Town, which also provided additional capital funding from its own resources, explicitly stated that new buildings might be smaller and that facilities, for example, swimming pools, might be reduced or not included in new designs.

Three LAs recognised the need to include at least one conversion to Academy status in their BSF scheme, but two gave little detail as to how this would be achieved. River Town gave more detail, as its model saw the LA take a leading role as sponsor in all its proposed Academies. Shire Town did not include an Academy, but just prior to the approval of its BSF scheme it had allowed one of the first sponsored UK Academies to replace a maintained school in the authority. An interviewee (PS5) noted that some LAs did come under government pressure to include Academies in BSF.

Financial reporting of expenditure

The reporting of BSF may best be described as both fragmented and overly aggregated. This is due to the choice of organisational structures and the limited capability of internal reporting systems. This section first traces the reporting of capital funds through the organisational structure before considering revenue expenditure and the additional reporting complications caused by some schools converting to Academies during the period under review (2007-2011).

Reporting of capital expenditure

Capital funds for BSF came from two sources. Capital grants flowed from the DfE through PfS to the LEP, or its LA equivalent, for conventional procurement, whilst private finance was raised for the PFI schemes. Whilst the rhetoric is one of joint ventures, in reality the LEP is a shell company that serves to channel funds from central government to the subcontractors, and as such, it provides little substantive reporting. As Edwards *et al.* (2004) noted in relation to PFI SPVs, it is not possible to determine what level of profits is being earned by subcontractors.

It was impossible to find definitive capital values for BSF investment on a per school basis because information from different sources is inconsistent. BFS funding allocations were made per LA, not school. As PfS and DfE only show aggregated grants in their annual financial statements, a list of funding allocations per LA, and schools benefiting through each LA, was provided by the DfE following a Freedom of Information (Fol) request, although this is incomplete, as, for example, it omits a Warrington school which received £22m through BFS. Recognised sources for PFI capital values are the Treasury PFI databases (HM Treasury, 2012a, 2012b), which provided capital values for PFI projects on a per wave per LA basis, however these do not match the figures that are available from LAs. In part this is because some LAs have added to the BSF grants from central government as either these were insufficient to cover the cost of the investment, or because additional leisure facilities were added.

Even though the programme was halted in May 2010 many projects are still under construction, with the last school (Frederick Gough, North Lincolnshire) having an expected completion date of 2015. Table 3 shows actual and future estimated capital spend for the programme, which totals an estimated £11.2bn, including £5.1bn of PFI credits (funding supplied by the government to LAs to support the capital element over the life of the investment). Moreover, although the Labour government brought some expenditure forward as it sought to use BSF as a fiscal

stimulus programme, Table 3 shows that 30 per cent of the total is due to be spent between April 2012 and 2015.

Table 3 Expenditure under BSF

Year ending 31 March	BSF costs (£m)
2005	0
2006	0
2007	3
2008	6
2009	13
2010	1,197
2011	1,556
Total all years	2,775
Estimated spend still in procurement	3,300
Total PFI credits (split per year not available)	5,130
Total estimated programme expenditure	11,205

Sources: PFS Financial Statements, various years; researchers' calculations; DfE Fol request.

These figures exclude the cost of running PFS¹ itself, which amounted to £16m in its first 2 years, including £3.8m advisors' costs. PFS costs totalled £55m on BSF to March 2009, of which £7m related to advisors' costs. After April 2009 PFS took on additional responsibilities so that its BSF related costs cannot be separately identified, and in any case accounting changes due to IFRS adoption mean information is not directly comparable.

The LAs' actual reporting of capital grants and assets varied considerably:

- Sea Town provides details in relation to the total BSF capital grants received in the relevant years and reports any PFI elements on a per wave basis in line with accounting regulations. This means that initially the PFI schools were off balance sheet, but then came on balance sheet in 2009/10, in line with IFRS requirements;
- Shire Town reports its BSF PFI scheme in the same way as Sea Town. Its BSF capital grant in relation to one Voluntary Aided schools is not listed separately;
- Hill Town discloses its grant received as a significant transaction during the years in question, but, although following accounting regulations correctly, aggregated BSF PFI details with its other PFI schemes;

- River Town, which procured all its schools by conventional funding, provides no identifiable information about its BSF programme. It aggregates these capital assets with all its other non-current assets.

This inconsistent presentation is compounded because BSF is a mix of PFI and conventional procurement in three of the four LAs.

Reporting of revenue expenditure

LA maintained schools are required to produce revenue accounts which are aggregated by their LA into an annual report for submission to the DfE. However, detailed individual school data is not publicly available, the level of aggregation means it is not possible to see the impact of BSF on revenue costs. Variations in pupil numbers and the complexity of other grant spending further complicate any attempt at cost comparison over time.

Academies are both charitable bodies and, for the purpose of official statistics on public expenditure, public sector bodies. Initially it was common for Academies financial statements to be available on the Charities Commission website but in 2011 Academies began to take advantage of their status as exempt charities and therefore financial information is no longer available at this source. The Young People's Learning Agency (YPLA) published an Academies Accounts direction in 2010/2011 to assist Academies prepare their financial statements in accordance with the Charities Statements of Recommended Practice (SORP), and this strongly advised Academies to publish their accounts on their own websites to maintain transparency and openness.

The reporting of Academies also raises some transparency issues. Firstly, Sea Town and Shire Town each had BSF Academies open during the period of the study, but neither provided their accounts on their websites and these were instead purchased from Companies House. Secondly, where several schools have the same sponsor, they may produce consolidated accounts so there may be no individual school accounts. The Sea Town Academies became part of a federation, which did in fact provide financial information about the individual Academies in the notes to the accounts. Thirdly, Academies have typically adopted a 31 August year end, the same as the school year but different from the government year end, which may create problems for making comparisons with maintained schools and for national reporting.

However, the level of detail required for the published accounts is minimal. It is not possible to identify for example the maintenance costs of new BSF buildings.

Since Academies receive funding on a different basis to LA maintained schools this further limits comparability of information, as the DfE (2012a) emphasises. For example, Academies receive additional funding to cover their wider responsibilities, and also report some of their capital grants in aggregated form in their income.

The conversion of some PFI schools to Academies has caused further inconsistencies in reporting, as well as additional complications. In Sea Town, where two PFI schools have converted to Academies, responsibility for the schools has passed to the Academy but the private sector has refused to likewise transfer the liabilities under the PFI agreement, so that responsibility for the liability remains with the LA. Sea Town LA reports the assets and related liabilities on its balance sheet, with the Academies making a contribution for facilities management on a per capita basis. In another case, the DfE reports an unquantifiable contingent liability as it has had to provide an indemnity to Sea Town LA due to an Academy using a LA building with an existing PFI contract. However in Shire Town, the Academy treats its building as an operating lease with Shire Town LA, showing a rental payment in its financial statements.

In short, the reporting of these joint ventures lacks transparency. At central government level it is not at all clear what the overall cost of the programme is, as information to establish this has to be collected from a number of different sources. In the two LAs that used a LEP structure, it is impossible for the informed user to aggregate the total or on-going costs of BSF. It is impossible to track all money flows through the LEP and SPV accounts as, although these are transparent to the LA due to its observer role on the LEP, they provide minimum disclosures, leading to a lack of useful information for taxpayers and the general public.

The paucity of information available from the financial statements is matched by a lack of information sharing between LAs. Although there is informal contact between LAs, our interviewees (PS3 and PS10) said there was little formal information sharing about the costs or the processes of BSF. For example, in 2009 the NAO (2009a) criticised Pfs for slow collection of cost data for benchmarking purposes. This is important because, as the NAO acknowledged, effective cost control of BSF, which is challenging given contractors' exclusivity for developing projects, requires effective use of benchmarking data. While failure to share information could be a particular issue for pathfinder and wave one LAs, in

practice there was little formalised information-sharing throughout the programme. Although the DfE envisaged such a role for PfS, the consensus view was that PfS had not done this. Indeed, one interviewee (PS9) suggested that this was deliberate and that PfS operated a divide and conquer philosophy designed to isolate each LA to weaken its negotiating power with PfS.

In contrast, the private sector contractors were clearly learning from their BSF experiences with different LAs and drawing on their pre-BSF PFI experiences, with the result that they appeared to have better processes to understand, track and monitor both capital and revenue budgets. This asymmetry in learning may have disadvantaged the LAs when negotiating BSF contracts.

7. OVERSIGHT AND CONTROL OF BSF

While there are several layers of oversight and control within the public sector hierarchy, including from the DfE and PFS, the focus here is at LA level and the implications of the Academies programme. As maintained schools belong to a LA, the relevant LA has oversight mechanisms in place to ensure that schools create balanced budgets and operate suitable procedures to ensure financial probity. The LA will also have educational assessment procedures in place, although these are likely to be loosely coupled to the financial oversight mechanisms (Edwards *et al.*, 2005). Responsibility for capital budgets rests with the LAs.

This study identified five issues in relation to the LAs' oversight of the BSF programme that reduce their ability to scrutinise the programme and that impact unfavourably on both control and public accountability:

- Multiple organisational structures that varied between authorities;
- A lack of continuity in monitoring capital and revenue expenditures;
- Conflicts of interest within the LEAs;
- Limited project monitoring by LAs after construction; and a
- Lack of guidance on funding and managing maintenance on conventional builds.

Each of these is considered in turn.

While there are similarities in the LAs' approach to oversight, as Table 4 shows each authority had different structures. Both Hill and River Town organised BSF through their capital projects units and treated BSF much like other capital projects under a responsible project manager. Shire Town, perhaps because of its smaller size, managed its BSF projects at LA level. Sea Town designated a BSF capital projects manager within the Children's Services department.

Table 4 Oversight and governance

	Project management	Programme level board	Governance
Hill	Specialised Capital Projects Unit	LEP Board reports to the LA annually	Capital projects manager reports on arrangements for individual projects.
River	Specialised Capital Projects Unit	LA provides admin support and owns the board. Reliant on own personnel	A big hierarchy of boards: - Senior - Programme steering - Project steering
Sea	Children’s Services Projects Manager	LEP Board reports to the LA annually	Arrangements for individual projects. Concerns raised about conflicts of interest.
Shire	LA level Project Manager reporting to Council Cabinet	Dependent on financial advisor for information	Small core team - arrangements for individual projects.

Revenue expenditures were controlled independently of capital. Each LA had a finance person based in Children’s Services liaising with the schools which hold the revenue budget. That is, in all four LAs, there was a clear split of responsibility for capital and revenue expenditures, mirroring the split in the funding process, but this silo effect limits continuity of control between the construction and operational phases of the project. Significantly, the finance function’s involvement tended to be at a routine level because in financial accounting terms BSF was simply a routine recording of incoming funds and outgoing expenditures.

At the start of BSF, each authority established a programme level board, chaired by the Council leader and reporting to cabinet. Membership typically includes councillors and officials with functional responsibilities in education, capital projects and finance, as well as representatives from PfS, and Local Partnerships, a joint venture organisation established between HM Treasury and local government to provide commercial expertise to the public sector. These boards typically established strategy, defined the programme, and set up the governance and monitoring arrangements. They oversaw risk registers and standards of practice and protocols around construction.

A River Town interviewee (PS9) insisted that this board, which he described as the ‘Partnering Board’, was owned by River Town Council, which provides administrative support for meetings and circulates agendas. Shire Town’s board was established to ‘capture all the stakeholders’ (PS6) and included representation from all political parties, and the BSF schools. Interviewees (PS6 and 7) said the

board focused mainly on issues with budget or reputational implications, and any changes to timelines. Whereas Shire Town's board was essentially dependent on their Big 4 advisor for information to enable financial monitoring, River Town relied on their own personnel, with integrated finance and project systems to control actual capital expenditure and future commitments.

However, some interviewees (PS10 and PS11) suggested that there was a lack of oversight at programme level. For example, one LA became interested in the details of projects only after PfS had demanded savings, while another focused on the detail rather than strategic oversight. One interviewee (PS10) was concerned that the board was continually changing, both in membership and in purpose.

Below programme level, River Town had a governance structure described as 'a big hierarchy' (PS5), while each of the other LAs had oversight arrangements for individual projects. At an intermediate level, River Town had four programme steering groups one each for BSF waves one and four, and two for other schools related projects. Below this, each school had its own project steering group. The other LAs were less hierarchical in their approach. At Shire Town, a small core team, led by the project director and 'served by three leading consultants' (PS13) managed individual projects, with governance described as 'a very open process' (PS7). Its officers spoke about tripartite working involving the schools, the council and the private sector contractor. It built links with the Borough-wide Schools Forum where concerns were raised about the amount of resource, including the authority's own resource, that was going into a project that only serves the Council's North districts. At Hill Town, the capital projects manager in charge of BSF regularly updated the cabinet member for Children and Young People, although formal reports to cabinet or council diminished over time as the construction phase ended.

The existence of governance mechanisms does not ensure strong governance. This study found that these programme boards focused on the pre-financial close and construction phases rather than the operations phase post-construction. This reduces oversight of expenditure over the long life of the school. For example, at River Town, once the construction phase was completed, the programme level Partnering Board's role was reduced, and by the time of the interviews the four steering groups had been folded into a single Programme Steering Group reflecting the perception of reducing work-loads. Issues would subsequently get dealt with at project level. Similarly, at the time of the interviews in Shire Town, the programme level board's role seemed to have ended after the completion of the schools,

although officers (PS7 and PS13) indicated they were reconsidering its role to oversee the operations phase. Subsequently, an interviewee (PS7) confirmed that the board did continue to meet to monitor the performance of the facilities management and IT contracts.

At Sea and Hill Town, where there was a LEP structure in place, the nature of the structure creates a conflict of interest for the private sector directors. A group level director (PP1) of the Sea Town’s private sector partner spoke at some length about the conflict of interest in his roles on the board of the LEP. He owes a fiduciary duty to ensure the LEP’s obligations under the contract are met, while at the same time owing a fiduciary duty to the shareholders of the PFI company. He was also a division level director of the construction and FM companies that deliver the project. Interviewees from both LEPs confirmed that these different roles cause confusion, requiring them to wear a number of different hats (PP3 and PP4). In Hill and Sea Town, such conflicts and confusion matter because the private sector essentially runs the day-to-day operations, whereas at River and Shire Town the LA and private partner are on opposite sides of contract negotiations.

For the LEPs, the Strategic Partnering Agreement requires the LEP Board to report to the LA on an annual basis, so that oversight is on-going. At Sea Town, in addition to annual reviews focusing on performance the LEP provides what are described as:

Very comprehensive Board reports, which go into all sorts of KPIs and how everything performs and all the issues. (PP1)

Procedures for monitoring capital budgets were in place at all four LAs, but as Table 5 summarises there are some differences in the nature of control between the PFI and the D&B schools.

Table 5 Monitoring and maintenance of PFI and D&B projects

BSF projects	PFI contracts	D&B contracts
Monitoring of budgets – during construction	Regular meetings of project boards	Regular meetings of project boards
Monitoring of budgets – during operations phase	Approval processes for annual unitary charge require some monitoring of individual projects	BSF schools are not separable from LAs’ general capital assets.
Maintenance	Included as part of the unitary charge	Becomes the responsibility of individual schools – drawn from the school’s general revenue budget

During construction project boards at all LAs met on a monthly or quarterly basis while construction was on-going and there was a general consensus that construction costs were well managed for both PFI and D&B schools although interviewees were less happy about control over the level of legal and professional fees (PS6 and PS11).

River Town interviewees (PS1 and PS12) provided very positive responses to questions about their control over budgets and the quality of information forthcoming from their contractors. They describe officers as quizzing the contractors about capital costs at monthly meetings so that project managers understood clearly the reasons for any fluctuations in forecast costs and were able to examine alternative solutions. They view this as a very proactive approach, although concede that their size and the prospect of future pipeline work might be important in attaining this level of control.

In terms of accountability of officers to elected members and elected members to the public, a River Town interviewee (PS5) argues everything of strategic importance has gone through a transparent route. However, just as many authors have noted the conflict between commercial confidentiality in relation to PFI, this conflict is also evident in BSF, even in River Town which procured all its capital projects conventionally, as their attitude towards FoI requests demonstrates. River Town said that if they were to receive an FoI request, any response could be restricted in order that disclosures do not prejudice the commercial interests of its partners (PS1 and PS12).

While a post-implementation review would normally be carried out as a matter of course to capture lessons learned on private sector capital projects, this has not occurred uniformly across LAs with BSF. At Hill Town where 'lessons learnt' (PS3 and PP3) reviews were conducted by the LA working alongside the LEP, one interviewee, who had developed a process for post-project review, commented that:

Everyone had developed their own process because it wasn't clear in the Strategic Partnering Agreement, we've all had to invent our own. (PS3)

It was unclear what action would be taken as a result of these reviews. Therefore, future LA projects will be reinventing the wheel.

Although the lack of oversight of PFI projects post-construction is known to be problematic (Shaoul *et al.*, 2008), there is some on-going oversight of BSF's operational phase because the LA has a long-term contract with the private partner and the annual unitary charge includes an element for maintenance. The LA therefore needs a monitoring/reporting mechanism as part of its payment approval processes. However, there is no such requirement for the D&B BSF projects, which fall back into the normal routine maintenance mode where maintenance is the responsibility of each individual school.

There is a lack of strategic planning for maintenance on conventional builds because the capital monitoring process is only loosely coupled with the related revenue expenditure. There is apparently no central guidance for conventional procurement regarding how to fund and manage on-going maintenance programmes. For example, these new schools have complex computerised air conditioning systems that need specialist input to operate and maintain. Whereas PFI schools have maintenance built into the contract, locking in maintenance expenditure for the long term, this is not done for the conventional builds. LAs have asked schools to set aside portions of their budgets for maintenance, but if the head teacher and governing body choose to use these funds for other purposes, the condition of the estate will deteriorate once again, outside the control of the LA.

Officers at Hill Town were so concerned about this that they prepared a life cycle model for each school and sought formal commitment from each governing body to ensure that buildings are properly maintained:

There's no point in spending millions and millions of pounds rebuilding schools if they're just going to be left to deteriorate over the next 15 years. (PS3)

Officers (PS1, PS3, PS4 and PS12) argued that although they had limited central resource to support schools that get into financial difficulties, the LA would be morally obliged to step in as it remains responsible for education. While none of the four LAs have thus far had problems, they were very aware that maintenance issues would not emerge until some years after construction.

As Table 6 summarises, the inclusion of Academies in the BSF programme presents further accountability issues.

Table 6 Maintained and Academy schools

	Maintained	Academy
Funding	Allocated by LA – using a funding formula	Direct from EFA – based on the local funding formula plus freedom to spend additional resources
Monitoring	Personalised local monitoring by LA plus formal reporting to EFA	Formal reporting to EFA only. Balance between independence and oversight
Accounting Officer Role	Held by LA	Head teacher of each school

Each Academy receives its grant directly from the Education Funding Agency (EFA), thereby bypassing the relevant LA. Their funding has two elements: core funding and the LA central spend equivalent grant (LACSEG). The core funding replicates the funding formula allocation to maintained schools in the same LA, while the LACSEG is to cover education services that the LA provides to maintained schools but which the Academy can now buy elsewhere.

The funding shift from local to central government in the form of the EFA brings with it a change in the oversight arrangements. EFA acts for the Secretary of State in matters relating to compliance with funding agreements. Each Academy must submit its budget, financial statements including an abbreviated annual return, a Whole of Government Accounts Return, and a self-assessed Financial Management and Governance Evaluation (FMGE) to the EFA on an annual basis. Any budgetary deficit must be accompanied by a recovery plan. Inevitably, because the number of Academies has increased so rapidly, EFA focuses on documentary returns rather than visits and inspections. That is, scrutiny takes the form of a desk top review of financial statements and the FMGE, although for a sample of about 5% of Academies this will be followed up by validation visits.

Thus oversight for Academies differs from that of community schools in two important ways. Firstly, it is less personalised than the traditional relationship between the LAs and their maintained schools, although the nature of this latter relationship is also changing. More than one quarter of LAs are planning to reduce internal audit coverage of maintained schools (NAO, 2011), in response to budget cuts. Secondly, EFA officials in a workshop session at the Academies Show (16 May 2012) note that their relationship with the Academies must balance the independence, freedom and flexibility schools receive as Academies with the need for accountability for public money. This creates both opportunities and huge

challenges in terms of both scale and practicability, as the EFA argues it must be responsive to Academies' needs and show transparency in budget setting (personal communication with Peter Lauener, EFA Chief Executive, at the Academies Show, 16 May 2012).

Head teachers of Academies are not only education entrepreneurs, they are also designated as Accounting Officers for public accountability purposes, implying that they may be held to account before the Public Accounts Committee. These are massive changes. In this environment the role of governors is key: they now have essentially the same authority and responsibilities as non-executive directors (NEDs) (Nielsen, 2011). Clearly this raises the possibility that not all schools, especially those in areas of socio-economic deprivation, will be able to attract chairs, governors and head teachers² with the relevant financial, business and legal skills and experience.

This scenario opens the door for further private sector input. The Institute of Directors is now offering training courses for governors on how to fulfil these NED-style roles, while professional firms of accountants are offering packages to cover the role of 'responsible officer', whose function is to provide the governing body with independent on-going oversight of the Academy's financial affairs.

8. CONCLUSIONS

This research has examined the policy of joint ventures in the context of schools under the BSF programme, from the perspective of governance and accountability. The BSF policy encouraged private companies to become involved in the lucrative education market by providing school infrastructure, IT services and some on-going facilities management. International construction companies have been able to expand their long term presence in the UK infrastructure market, and advisors have now moved into education, despite concerns about their cost elsewhere in the public sector. BSF has provided a mechanism to re-ignite interest in using PFI in schools, which previously had proved too expensive because of high bidding costs relative to the value of projects. The inclusion of PFI in BSF schemes gives a greater role to the financiers and thus adds to the complexity of LEP-based schemes, because financiers insist upon the creation of a SPV to protect their senior debt investment.

Despite this added complexity, the use of PFI was an important policy outcome for government because it is an attractive financing method that defers expenditure to future periods. Furthermore, even after the adoption of International Financial Reporting Standards (IFRS) for accounting purposes, some PFI liabilities may be off balance sheet in the National Accounts because they are excluded by the Office for National Statistics from the definition of Public Sector Net Debt (Shaoul *et al.*, 2008).

The analysis has shown that BSF was one of a series of market-based policies designed generally to reduce the scale and scope of the public sector in favour of the private sector and in this policy specifically the control of LAs over education spending. It is clear that BSF has been one step in a process whereby the public sector at many levels loses control of education expenditure. BSF can now be seen as a measure that made private sector involvement in schools more acceptable, paving the way for the new coalition government to move more easily to privatise the delivery of education through the Academies and Free Schools programmes.

Although joint venture arrangements have been considered here in the context of England and the particular service area of schools, the findings have international relevance since governments in many countries are adopting or considering similar modus operandi to attract private sector finance to provide various public services and the related infrastructure. Although BSF was terminated early it raises issues

with wide-reaching implications and although the details may vary from country to country, the impacts on public accountability, outlined below in relation to the UK, will have parallels elsewhere.

Before discussing in detail the key findings it is important to recognise the limitations of the research. Using a small number of cases, chosen to provide diversity of size and a variety of mechanisms for funding and delivering the projects, raises questions about whether the findings can support the drawing of wider conclusions. The cases were from the early waves, and as interviewees made clear, these LAs probably were less constrained by PFS, which eventually introduced some standardisation of the BSF processes. Size of the LA did impact on the choice of mechanism for funding and delivering the project – the largest and smallest LAs did not, for varying reasons, use a LEP. However, there is no reason to believe that these early cases varied from the later schemes in terms of the complexities of the schemes, the lack of transparency in financial reporting or the lack of oversight with the follow on effects on accountability, discussed below.

Ten key findings, discussed in detail below, emerge from the research and lead to several policy recommendations. The research began with three objectives. Firstly, it investigated the delivery mechanisms and the relationships between the key players in BSF. The first group of findings below explain the significance and complexity of the organisational structures created to deliver BSF and their potential for creating conflicts of interest. Secondly, the research examined the financial reporting and transparency of the joint ventures arrangements with a view to understanding whether it is possible to hold government to account for BSF expenditure. The second and third groups of findings below explain that financial reporting is limited and aggregated and that oversight is patchy, especially in the operations phase. The result is that day-to-day control over large expenditures can be lost. Thirdly, the research sought to consider the broader implications arising from the findings for governance and disclosure. The final group of findings explain that accountability structures are at risk as they move from local control to the national level.

Key findings - Organisational structure

First, the joint venture structures add complexity to the predecessor PFI schemes whose legal and corporate structures and ensuing relationships were already complex. Reliance on costly legal and financial advisors is thus significant. These joint venture structures are difficult to identify and because each network involves several organisations structured as joint venture based PPPs, they disguise where

the decision-making power actually lies. That is, the organisational structures of BSF add opacity but effectively pass control to the private sector partners. Whilst the LEP is set up to be a joint venture structure, in practice the private sector owned 80% of the voting rights and the 20% public sector ownership was diluted by its division between central and local government. In August 2011 BSF1, the central government stake, was sold to the private sector, increasing their ownership to 90%. The effect is to disperse the provision of services through a whole network of both public and private organisations. This creates the potential for conflict of interest, which was identified in practice by the interviewees, and reduces accountability.

Policy recommendations are:

- Consideration by government as to how policy can be implemented with more transparent organisational structures and better public sector training that both make explicit where the locus of decision-making lies and enables the public sector to retain control over the policy and practice of public services;
- Implementation of a strategy to monitor and reduce costs of using financial and legal advisors; and
- Explicit recognition of the inherent conflicts of interest in joint venture arrangements and consideration by procurers as to how these can be made transparent and managed.

Second, BSF takes place in a context that is continually changing at every level, including funding and policy, and while the policy dictated standardisation of organisational structure, this study shows that the LEP model was not enforced and LAs have chosen different organisational routes through the policy maze. The outcome of the LAs' view that 'one size does not fit all' is that comparability between schemes is limited.

Third, there is little evidence that PfS actively facilitated the sharing of lessons learnt between the different LAs, so that in these complex structures the private sector probably had an advantage over their public sector partners.

Many calls have been made for better dissemination of lessons learned through the public sector. These findings add to those calls for greater transparency and sharing of experiences and expertise. Specifically there should be:

- Better guidance to and support for procurers in terms of cost data for benchmarking;
- Better sharing of information and practical experience both pre- and post-implementation of policy. In particular, information sharing about the complexity of how PFI works in practice would be valuable. Improvements in the sharing of information are needed both within and between central government agencies and LAs. One example would be through the use of a mentoring scheme.

Key findings - Financial reporting

Fourth, the financial reporting of these joint venture partnerships is both limited and fragmented because it is held in multiple organisations, so that it is dispersed over multiple sets of financial statements, websites or other information sources. The findings show different accounting practices for similar transactions, and in one LEP the unexpected use of equity accounting when a subsidiary relationship appears to exist. All this is compounded by inconsistency and aggregation in presentation. In most cases BSF assets, liabilities and cash flows are aggregated with other items, so that it is impossible to track all money flows. However, the adoption of IFRS has brought some standardisation into financial statements.

Fifth, the downside of this accounting practice is that control is lost. In addition to the problems at local government level in point four above, the FoI request to the DfE showed that central government does not clearly have an understanding of the overall cost of the BSF programme. The fact that private equity funds are now shareholders in some of the private sector partners investing in the LEP reduces transparency still further, as there is no legal requirement for their financial statements to be publicly available. All this lack of transparency in reporting makes it difficult to hold government to account for its spending of public money.

Previous research has called for greater transparency of reporting around PFI/PPP arrangements, and in particular for the costs of major projects to be clearly reported. These prior policy recommendations are supported by the findings of this research and are echoed here. In particular:

- Creation of a single DfE website location where all financial information pertaining to schools can be found, including an extension to the existing tables for Academies to include capital information and data about the school buildings.

Key findings - Oversight and scrutiny

Sixth, the focus of oversight within LAs is on capital expenditure. Governance and monitoring arrangements focus on pre-financial close and construction phases rather than operations. The findings indicate that procedures for monitoring of revenue and the operations phase are weaker. Furthermore, the post-implementation review of projects was not conducted uniformly across LAs reducing the possibility of lesson learning.

Seventh, the capital and revenue expenditure systems are loosely coupled. In general terms revenue expenditure is controlled by individual schools, which raises questions about the robustness of financial and management controls within schools. There are contrasting implications depending on the BSF procurement method. Schools with conventionally procured buildings are responsible for their own maintenance. Financial control and the capacity to contract may be limited at school level. To give just one example, as has been widely reported in the media (Kynoch, 2012) and acknowledged by the Finance and Leasing Association (2012), some schools have entered into unattractive leasing arrangements for IT and office equipment without understanding the full implications for their budgets. Similarly, schools may lack the expert knowledge needed to maintain complex systems in new buildings. There is a risk that buildings will again be allowed to fall into disrepair over time, with a consequent need for further capital expenditure. Strategic planning of the funding and managing of maintenance is needed for these schools.

Schools with PFI buildings on the other hand are locked into service contracts over 25 years. This gives them less flexibility as to how to spend their budgets, and may lead to affordability issues, given that budgets are dependent on pupil numbers. Whilst maintained schools have some support from the LA in the form of expertise in dealing with PFI contracts, Academies may be more vulnerable. There is the potential for crises similar to the South London Healthcare NHS Trust occurring in Academies or federations.

Eighth, there is little evidence of on-going scrutiny of BSF as a specific programme at a national level as it is now out of the spotlight. This is despite the significant on-going expenditures; the vast majority of schools will be constructed after the date of termination, and the PFI payments run throughout the 25 year contract life. Policy recommendations are:

- Review of the role of LA programme level boards to ensure that scrutiny of BSF revenue expenditure continues during the long operations phase;
- Standardised templates for post-implementation reviews, with consideration given as to which key performance indicators are useful and why.
- Creation of a strategic plan at LA level to be agreed with maintained and Academy schools to ensure that maintenance expenditure on D&B schools is sufficient to maintain the condition of the schools' estate; and
- Annual monitoring at departmental level of terminated programmes to ensure continuing control over public money.

Key findings - Accountability

Ninth, accountability structures for education are now at risk. Once public authorities have entered into contracts with the LEPs, these privately controlled joint ventures have gained control over what are ultimately substantial sums of public money, even if some funds initially come from private sources. They have become in substance public authorities, but without the commensurate responsibilities and accountability mechanisms. Although the relevant legislation permits the extension of the FoI provisions to cover these organisations, the government has failed to approve such an extension.

Tenth, in direct contrast to the coalition government's localism agenda, accountability structures are moving from a local to a national level. Previously the LA was accountable for the provision and delivery of education within its geographical remit, but the requirement under BSF for at least one Academy in each scheme has decreased local accountability. This erosion has accelerated with the rapid expansion of the Academies programme after 2010. The ultimate consequence is that LAs will be left with a reduced role and much reduced funding in relation to education services. Although their precise role in the future remains unclear, it appears, for example, that they will retain responsibility for ensuring there are sufficient school places to meet local demand.

Due to its limited resources EFA oversight of individual schools is less in terms of both scope and scale in comparison to LAs. Given that EFA's oversight is limited, such a thin accountability structure raises a question of adequacy, particularly given that head teachers, officers and governors of Academies are now required to be competent in managing the much greater responsibilities and duties of what in effect amounts to a business. Such concerns are not trivial. There is a shift towards

more national federations of Academies, which may report only consolidated information about their schools further reducing transparency. Already one case has been reported (DfE, 2012b) where DfE internal auditors investigated the Priority Federations of Academies Trust, finding a number of serious shortcomings in relation to the CEO and financial management of the Trust.

In all of this it is striking that River Town, a large LA with experience of managing large capital projects, has been able to steer a different path through the BSF policy. It was firstly, able to persuade PfS that it should implement its own capital projects directly through its own capital division without a LEP, and secondly, has not entered into any BSF PFI schemes. This strategy has proved very successful for River Town, as it was one of only a handful of LAs able to achieve funding for all their schools before the programme was terminated. However, although River Town has sought to retain some control over Academies by acting as a sponsor in all cases, the rapid rise in the numbers of Academies will reduce its centrally retained resource, and will necessarily reduce its influence over education.

Policy recommendations are:

- Organisations controlling large sums of expenditure which will ultimately be paid by the taxpayer should be subject to FoI;
- A review by EFA of its oversight strategy and practices in relation to Academies' financial management and the quality of their governing bodies; and
- LAs need to be part of the monitoring and oversight processes for both maintained and Academy schools, if they are to retain certain statutory responsibilities for education, such as managing the numbers of school places.

Overall the research shows how the BSF programme has contributed to the on-going fragmentation of LA involvement in education services in England. There is now more involvement by the private sector at a strategic level through the use of financial advisors, at an infrastructure level through financing and maintaining more PFI schools and there is potential for further involvement at an operational level through assisting Academies to organise their governance and financial management. There is limited evidence that the public sector gained by working in these joint venture partnerships. Whilst there is general agreement that the quality of buildings is good, River Town claimed that procuring them in-house delivered cheaper buildings than if a LEP and PFI had been used.

While tracking public expenditure has never been easy, the ever increasing expenditure of public monies outside the direct control of the public sector creates additional reporting problems that make scrutiny, control and thus accountability for the informed user difficult, if not impossible. This in turn creates the potential for waste, mismanagement, corruption and fraud. The absence of accountability militates against an informed public debate about public policy.

ENDNOTES

1. PfS was an executive non-departmental public body which acted as the administrator of grants for BSF. As such it prepares separate financial statements which are not consolidated into the DfE Resource Accounts. PfS was replaced by the EFA, an executive agency, on 1 April 2012. As an Executive Agency the EFA does not have a separate identity from the DfE.
2. Following the implementation of school budgeting under Local Management of Schools in the 1980s there was a national shortage of head teachers, and the National Association of Head Teachers reported (on 13 December 2011) that schools were struggling to recruit leaders (<http://www.naht.org.uk/welcome/news-and-media/key-topics/school-management/lack-of-head-teachers-could-become-urgent-issue/>, accessed 21 September 2012).

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ABOUT THE AUTHORS

Jean Shaoul is Professor of Public Accountability at Manchester Business School. She focuses on public accountability and social distributional issues in the context of business and public policy. She has written and researched widely on: the privatisation of infrastructure industries; the use of private finance under the UK's Private Finance Initiative and Public Private Partnerships, particularly in transport and health; food safety; international regulatory reform; and public expenditure.

Alice Shepherd is Senior Teaching Fellow in Accounting and Finance at Leeds University Business School. She was previously a Manager in the Risk Assurance practice at PricewaterhouseCoopers LLP in Leeds, and a Teaching Fellow in Accounting at Manchester Business School. After completing her ACA training contract with PwC in Sheffield in 2005, she worked in the firm's London technical team, before moving into professional training and then into higher education. Her research and scholarship interests include governance and accountability and educational technology.

Anne Stafford is Senior Lecturer in Accounting and Finance at Manchester Business School. She is a fellow of the Association of Chartered Certified Accountants, and worked in industry and commerce for five years. Her research interests include financial analysis of public policy, particularly in relation to PFI/PPP, public sector corporate governance and accountability, and disciplinary perspectives on the relationship between professional development and academic knowledge in accounting.

Pam Stapleton is Professor of Accounting at the Manchester Business School. She is a fellow of the Institute of Chartered Accountants in England and Wales. Her research focuses on the cost to the public purse of financing PPPs, the transparency of the accounting information that is publicly available about these projects, and the role and attitudes to risk of financiers of PPP projects. This work has led to a number of recommendations about how financial (and non-financial) reporting should be extended to ensure that informed citizens can hold government to account. Pam also pursues, with her PhD students, research interests in the implementation of IFRS and corporate governance regimes in developing countries.

ABOUT SATER

The research project, which culminated in this publication, was funded by a grant from The Scottish Accountancy Trust for Education & Research (SATER) – a registered Scottish Charity (SC034836). The SATER Trustees are pleased to have been able to support this project and hope that the results are of interest and relevance to a broad range of users.

SATER's objective is to promote research into, and education of, accountancy, finance and management together with all subjects in any way related. In fulfilling its charitable objectives, it also seeks to provide public benefit by making grants for research projects which result in reliable evidence for use in the development of policy – by professional bodies, standard setters, regulators or governments.

SATER is happy to receive grant applications for research projects from within and outwith the University sector, so long as these utilise sufficiently robust research methodology and the results from the project are likely to provide public benefit.

SATER considers a broad range of grant applications from anywhere in the world. These do not have to be solely for research projects but can be for other research or education initiatives within SATER's specific subject areas, and must be expected to provide public benefit.

The Trustees would like to thank the ICAS Research Committee and Research Centre staff for their support, through liaison with the academic team and the provision of advice and assistance at various stages of the project. Their role in reviewing publication drafts and providing constructive comments to the authors has been invaluable in producing publications which are easily accessible and of interest to ICAS members, the interested public and policy makers.

Further details about SATER and the ICAS research programme can be found from the SATER and ICAS websites: scottishaccountancytrust.org.uk/research.html and icas.org.uk/research.

David Spence
Chairman of SATER
August 2013

Public Private Partnerships have been used widely to deliver public sector services in the UK and elsewhere. One form of such partnerships was the Building Schools for the Future (BSF) programme introduced in 2003 to rebuild or refurbish every one of the 3,500 schools in England. This involved the use of a new complex joint venture form of partnership between the public and private sectors. Although the programme was terminated in 2010, it remains a matter of public interest as there is considerable ongoing expenditure under this scheme and the broader policy of using private finance to deliver public services is likely to remain relevant, as central and local governments look to deal with substantial and growing resource and service demand pressures.

The research uses case studies to examine: the nature and scope of the BSF programme; the financial reporting and transparency of these joint ventures; the accountability of public expenditure; and the broader implications for governance and disclosure.

This research shows that BSF was one of a series of market-based policies designed generally to reduce the scale and scope of the public sector and in this policy specifically the control of Local Authorities over education spending. It is clear that BSF has been one step in a process whereby the public sector at many levels loses control of education expenditure.

The authors of the report identify ten key findings in relation to: the complex structure used as a delivery mechanism for this programme; the limited and aggregated financial reporting and patchy oversight and scrutiny, leading to a loss of control over public expenditure; and the loss of accountability. The report identifies some important issues about joint working involving the public and private sectors and the resultant risks to governance, public accountability and financial reporting. The authors conclude the report with policy recommendations for consideration by central and local governments.

ISBN 978-1-904574-99-6

EAN 9781904574996

Price: £10.00



CA House 21 Haymarket Yards Edinburgh EH12 5BH

research@icas.org.uk +44 (0)131 347 0237 icas.org.uk/research



The Scottish
Accountancy Trust
for Education and
Research

Registered Scottish Charity No: SC034836