ON THE OUTSIDE LOOKING IN

A healthy chunk of BSF's budget is ringfenced for ICT but only the biggest firms need apply, says **Graham Jarvis**

Information and Communications Technology (ICT) providers rubbed their hands with glee when the government first unveiled its £55 billion Building Schools for the Future (BSF) programme. The sector excitedly looked forward to juicy managed service contracts and a whole new market for the latest, high-tech teaching products. But well-integrated systems and whizzy bits of kit do not come cheap and future BSF budgets do not look as secure as they once did. With the programme now in full swing, are the sector's dreams being realised?

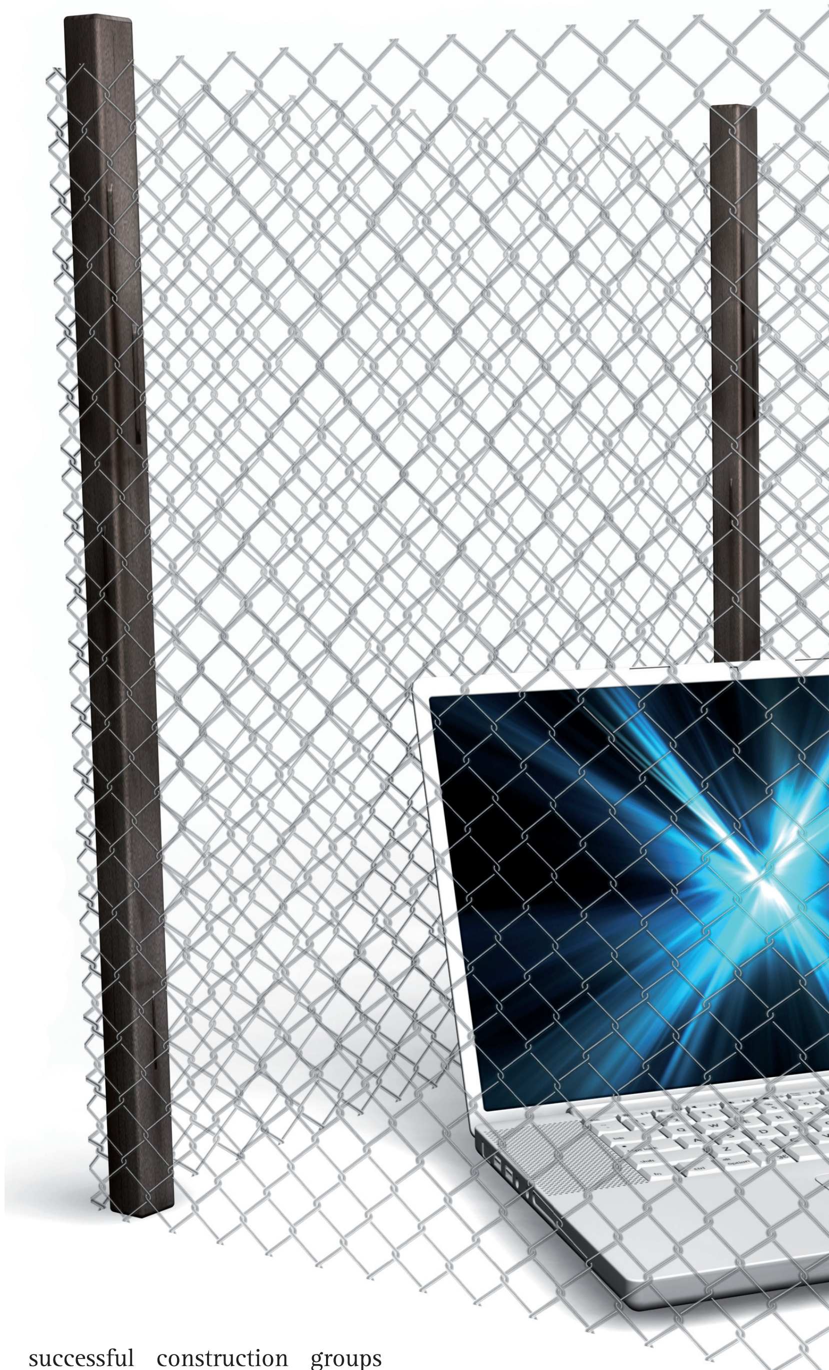
The bigger players – who typically take primary responsibility for all ICT delivery on a BSF project – are broadly happy. But many smaller firms complain that they have been excluded from bidding for the principal infrastructure, integration and managed services contracts. Moreover some argue that they are effectively barred from even supplying software or devices to BSF schools at all.

The stakes are high, with a lot of BSF cash up for grabs. Kable, the public sector research provider, published a document earlier this year that claimed ICT spending in schools will hit £1.29 billion per year by 2012, with a total of £1.05 billion expected in 2008-2009. Kable suggested that the £4.5 billion earmarked for ICT under BSF will help drive annual growth of 5.3 per cent over the three years following 2008-2009.

As one would expect, it's the companies that take primary 'ICT partner' status on BSF projects that profit the most. Ramesys, for example, started the year with a string of contract wins in the London Borough of Tower Hamlets, Tameside and Liverpool. In total, the contracts are worth more than £50 million over the next five years. While in January Kent County Council inked a £29 million deal with Northgate Education for the authority's first wave schemes.

It's not easy to win such contracts, however. Ramesys, for example, lost £9.3 million last year – largely as a result of high bid costs. The company also breached the terms of its bank loans as the company suffered from what financial director Robin Birch termed as "early pain" from BSF procurements. Having now secured six BSF deals Ramesys can look forward to a healthy return on that investment. "It is a long term investment and there is a significant cost in the bid and it is a relatively slow payback because of the way it has been structured," says Steve Smith, director of learning at Ramesys.

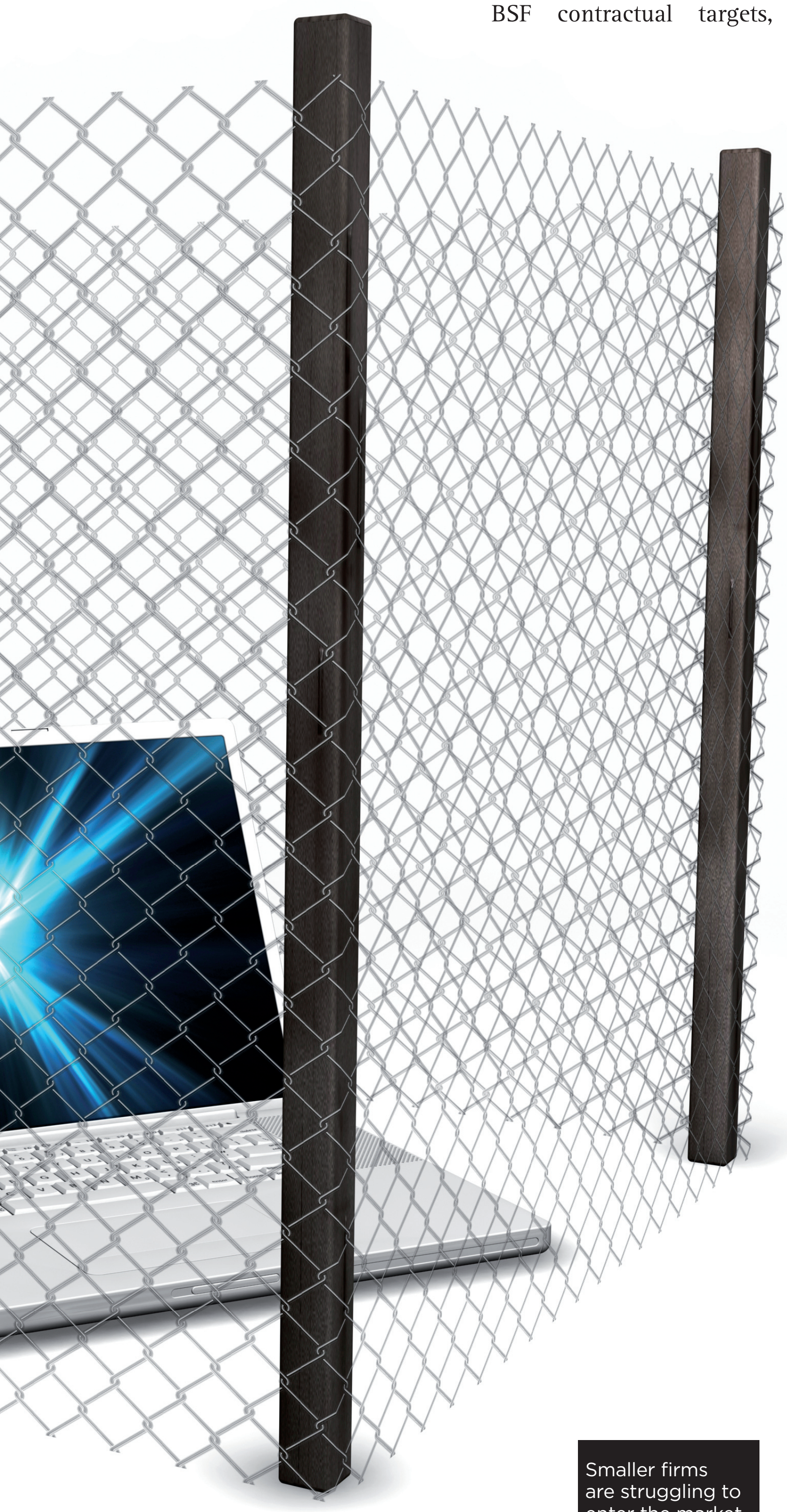
Indeed, thanks to the astronomical cost of bidding, BSF contracts represent a significant gamble for even the largest ICT firms. Many smaller firms complain that they simply don't have the balance sheets to take on such risks, and are therefore left hoping to be awarded work through a subcontracting arrangement. It is telling that those ICT groups that have linked up with the



successful construction groups have done particularly well in BSF. Ramesys, for example, has joined forces with Bouygues on three projects – Waltham Forest, Westminster and Tower Hamlets – and partnered Carillion on Nottingham

City and Thameside. And, unfortunately for the smaller firms, the building giants tend to favour the lower cost, more reliable solutions that tend to be offered by the bigger ICT players.

Granted, it isn't terribly unusual for the bigger firms to be wining all the big contracts. But it is surprising that smaller firms are struggling to find some sort of solace from the BSF supply chain. There are two underlying causes: Price pressure and BSF contract penalties. The latter are incurred for missing BSF contractual targets, such as implementation timetables and system reliability. The threat of such penalties can mean that primary contractors often feel the need to take the safer option of tried and tested, widely available products rather than adding riskier, more innovative products into the mix.



Smaller firms are struggling to enter the market

For example, Alistair Hayward – the head of strategic business at Promethean, thinks that the vast majority of schools remain PC-based. "I would say 20 per cent of schools are going down the PDA and mobile route, and laptops are a pervading technology", he explains. It is a shame, says Hayward, that BSF is not providing the ICT revolution that it originally promised, especially as the technology to provide 'transformational learning spaces' has come on leaps and bounds in recent years. Devices such as interactive whiteboards are allowing teachers much more flexibility and, increasingly, are helping to extend teaching and learning beyond the classroom.

While such technologies look great at open days, their popularity is clearly being constrained by cold economic reality. And when you look at the BSF bidding process, it is easy to understand why tight-fisted Local Education Partnership (Lep) procurement is being felt all the way down the ICT supply chain. Competition for contracts has been fierce and, despite promises of a new dawn for schools ICT, the deciding factor for most successful bid tends to be money. And price pressure is further exacerbated by the industry trend towards coupling up with building contractors. With ICT only forming 10 per cent of the bid, technology firms can struggle to make their voices heard – and it is often their margins that get squeezed as consortia scrabble to win contracts. "ICT is a secondary consideration regarding who wins the business; the main decision is made based on the development of the bricks and mortar infrastructure," says Dave Leach, BSF operations director at RM.

Innovation comes at a price, but with little enough margin to play with already, principal ICT contractors are simply neither willing nor able to pay for more expensive, niche solutions offered by firms like Qwizdom. "The concern is that the main contractor is not motivated by best practice, but by a profit motive", says Morrison. Some suppliers, he explains, tend to offer products that maximise their own profitability rather than deliver added value benefits for the schools and their students. Subsequently he claims that many of the primary suppliers offer cheap, high profit margin, and low quality solutions.

Nevertheless, from a supplier's perspective, Morrison describes the BSF programmes as being "the lifeboat of the education sector", securing the future of suppliers with access to a market worth more than £2bn per year for the next 10-15 years. In spite of this Qwizdom, which also sells directly to schools, is now looking overseas for growth – citing low margins and the difficulty the company has had in accessing BSF contracts.

On the whole BSF contracts are moving the industry forward from a supplier's viewpoint, although more consideration needs to be given perhaps to the voice of the smaller but more specialised contractors. They form the majority of the companies within the education market, after all. Most of the suppliers want to create long-term relationships with the Leps and the schools, but there is clearly some work to do to ensure that schools get the ICT solutions that they really need, rather than what a local authority wants them to have. ■