

Local government

National report

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commission



PFI in schools

The quality and cost of buildings and services provided by early Private Finance Initiative schemes

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Preface

The Private Finance Initiative (PFI) is increasingly important in the provision of public sector facilities, and is seen by the Government as a major vehicle for modernising public service delivery. To date, only a small number of new PFI schools have been completed. But commitments have been made to build many more – in the future, PFI will become the day-to-day reality for successive generations of pupils over the 25-to 30-year period of the contracts. It is crucial that these schools get the most from PFI, and that early lessons are recycled effectively during future investment. Much has already been written about the PFI procurement process, accounting treatments and costing mechanisms, but little about what PFI is actually delivering. In the context of an often polarised and emotive public debate, this report helps to shift the focus onto consideration of PFI outcomes.

Enough PFI schools are now open to review what the initiative is delivering and to put evidence in the public domain to inform its future. Even though some of these schools were initiated in the early days of PFI, and policy and practice are continually developing, it is timely to capture the learning for the benefit of future schools and their users.

The findings of the study will be of interest to:

- Schools: for headteachers, governors and those involved in facilities management there are messages about ensuring that the design of their new school meets their needs flexibly over the long term, and how best to manage relationships with their private sector partners.
- Local education authorities (LEAs): the report describes the LEA's pivotal role in all aspects of the PFI process, and how the LEA can facilitate improvements.
- The private sector: the report will help providers to become familiar with what schools require and what design experts and users think of their buildings and services.
- The Government: the report reviews how well PFI is delivering in its early days, and many of the recommendations for how to improve are directed at government level.

In addition to this report, the study's findings are summarised in a summary and briefing paper, while more detail about the methods and findings are presented on the Audit Commission's website (www.audit-commission.gov.uk). Appendix 1 lists the organisations commissioned to carry out elements of the research. A wide range of people provided helpful comments on drafts of the report. The Audit Commission is grateful to them all, and to the local authorities and schools that directly contributed as fieldwork sites. As always, however, responsibility for the contents and conclusions rests solely with the Audit Commission.

1



Introduction: a new way of working

PFI is increasingly used to build and refurbish schools. Although it is still early days, enough PFI schools are now open to review what the initiative is delivering and to put evidence in the public domain to inform future PFI projects.

The Private Finance Initiative

- 1 The Private Finance Initiative (PFI) is a form of public-private partnership (PPP^I) that has become a key element of the Government's strategy for improving and modernising public services, after an extended period of falling investment. PFI schemes differ in their details, but typically involve investment by a private consortium – the 'PFI provider' – in new, rebuilt or refurbished buildings, such as schools. The PFI provider takes responsibility not only for providing the premises but also for maintaining the buildings and, in many instances, for some or all of the facilities management (FM) services, such as caretaking and cleaning.^{II} Local authorities pay a monthly charge to use the serviced buildings, providing that the standards built in to the contract are met. At the end of the contractual period, the responsibility for the buildings will typically revert back to local authority control.

PFI in schools

- 2 The Private Finance Initiative is already making a significant contribution to improving the quality of the school estate. In England, schools account by value for one-third of the total local government PFI commitment and are the single biggest component. It is now the main source of funding from the Department for Education and Skills (DfES) for new or replacement schools. Over 500 primary and secondary schools are already part of PFI deals that are signed or are currently in procurement (covering the period 1997/98 to 2003/04).^{III} These schools are covered by 67 PFI schemes that range from provision of single small new primary schools to refurbishment of a whole school estate, with PFI credits ranging from £3 million to over £90 million per scheme.^{IV} Recently another 11 schemes have been agreed up to 2005/06, bringing the total committed up to £2.4 billion.^V In Wales six school PFI schemes are signed or in procurement, plus two already built, involving a total of 13 schools.

^I Appendix 2 provides a glossary of terms.

^{II} The private sector does not take responsibility for providing the education itself – teachers still work for the LEA in exactly the same way as those in traditionally procured schools.

^{III} In addition there are some 200 schools in three LEAs that are involved in more specific PFI schemes – for example, covering just the provision of IT or catering services, rather than involving new build or substantial refurbishment.

^{IV} Source: DfES.

^V Source: House of Commons Written Answer, 15 October 2002, 'PFI Projects'

What the report aims to do

- 3 The DfES has stated that 'Public Private Partnerships (including the Private Finance Initiative) can provide the public sector with better value for money in procuring modern, high-quality services from the private sector' (**Ref. 1**). More specifically, the anticipated advantages include:
 - *Better value for money (VFM)*: The private sector is expected to deliver projects quicker and at lower unit cost with less risk to the public purse, especially because the same PFI provider is designing, building and then operating the facility – known as 'design, build and operate (DBO) synergy'. Because the PFI tendering process is undertaken on the basis of an output specification of service requirements incorporating building design and services standards, rather than a prescriptive input specification, the private sector has more freedom to innovate, which should lead to better quality at a lower cost – the DfES has stated that 'the private sector gets the opportunity to enter into long-term contracts which are

defined in terms of outputs, so maximising the scope for innovation'. 'By using private sector skills and expertise in this way, the public sector can secure better value for money than through traditional procurement' (Ref. 2).

- *Buying services, not things:* PFI changes local authorities from being managers of buildings into purchasers of services provided by private companies. Rather than purchasing a building, with central or local government responsible for the upkeep, PFI provides serviced accommodation that is paid for only when it is delivered to the required standards.
- *Better risk management:* Better VFM should be achieved if risks are allocated to the party most able to manage or pre-empt them. In the case of a new school, for example, the risk of a structural problem in the building should be transferred to the PFI provider that has a long-term stake in the building and therefore has the incentive to design and build the school in a way that minimises structural defects.
- *Long-term legacy:* Unlike other school-related funding, such as for teaching, ear-marked funding for building maintenance is ensured for the 25- to 30-year length of the contract and is thus protected against the uncertainty of possible public sector budget cuts in future years. This should lead to a more sustainable, long-term built legacy.

4 Clearly, since the number of PFI schools fully operational is still small and the procurement arrangements are relatively new, these anticipated benefits of PFI are not yet proven in relation to schools. The purpose of this report is to review what PFI in schools had delivered by the end of 2001 – and how users were experiencing those schools during the first half of 2002 – in particular, by comparison with traditional procurement. We examined whether the first round of buildings were of good quality, what the schools' users thought about the buildings and services, and their cost.¹ At this stage, therefore, we were able mainly to look at the early evidence for the first two of the four anticipated benefits just described.

5 When considering the evidence, it is important to recognise the gestation time between first planning for a new school, and when it is open for use. Before 'Expressions of Interest' are invited from the private sector under European Union public procurement rules, a local educational authority (LEA) has already undertaken an options appraisal, developed an initial output specification and an estimate of hypothetical costs were a traditional procurement route to be followed. Although there is then room for the design and cost to change (otherwise there would be no opportunity for the private sector to attempt to deliver innovation), in practice the overall cost and some of the design options have begun to be fixed. The outputs being delivered now will reflect the procurement process and skills existing some while before the new school opened: the planning for the schools that we visited during 2002 began in the late 1990s [Exhibit 1 and Box A, overleaf]. More recent schemes may have already learnt lessons from the pioneers, and from changes in policy and process. We return to this issue in the last chapter. In addition:

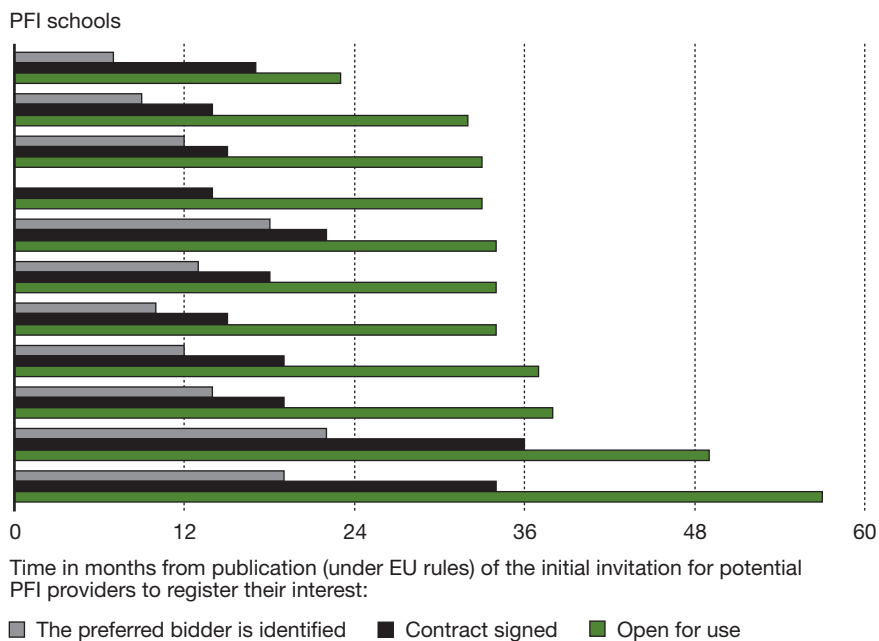
¹ The Commission has previously reported more generally on capital expenditure, and on management of the PFI procurement process (Refs. 3 and 4).

- school PFI contracts typically last for 25 to 30 years. Since even the oldest PFI school had been open for only two years at the time our research was conducted, it will be some time before a complete understanding of the impact of PFI emerges; and
- during fieldwork, we visited two-thirds of the completed and operational new-build PFI schools in existence. However, there were only about 25 such PFI schools in England and Wales at the time of our fieldwork in spring and summer 2002, and some of those had not been open long enough to be included in the research.

Exhibit 1

Critical points on the pathway to new PFI schools opening

The planning for the schools that we visited during 2002 began in the late 1990s.



Source: Audit Commission, based on LEA documentation and visit information

Box A

The gestation time from first planning for a new school until its opening – a typical example

- 1997** Statement of case for new school to DfEE.
Provisional government approval.
- 1998** Options appraisal, including first cost estimates and definition of type of facilities and services wanted.
Outline Business Case (OBC), including a comparison with the hypothetical cost of procurement via traditional means, approved by the council and submitted to DfEE.
Provisional central approval for PFI route.
Expressions of Interest from the private sector invited via Official Journal of the European Community.
'Long-list' of bidders selected from responses received and initial project submissions invited.
'Short-list' selected and priced bids invited.
- 1999** 'Best and final offers' invited.
Preferred bidder identified.
- 2000** Planning permission granted.
Design, construction and operation cost freeze.
Contract signed.
Work commenced.
- 2001** School opened.

Source: Audit Commission, based on LEA documentation and visit information

- 6 We have drawn on a broad range of evidence, including interviews with those involved in setting up schemes, financial data, building quality surveys and questionnaires completed by users of new buildings [Box B, overleaf].

Box B

The evidence gathered by the Audit Commission to evaluate PFI in schools

The LEAs and schools for each aspect of the study were randomly sampled and reflected a rural/urban and geographical balance, and a similar range when compared with the national distribution of schools' sizes (pupil numbers) and pupil ages. We drew the sample of traditional and PFI schools, wherever possible from within the same LEAs – given the recent history of funding, inevitably the sample of traditional schools was slightly older than the PFI sample (the traditional schools opened between 1997 and 2001; the PFI schools between 1999 and 2002).

Fieldwork

The Audit Commission team visited nine LEAs across England and Wales with PFI schemes that had been delivering FM services for close to a year or more. Local authority and school staff were interviewed in conjunction with private consortia members.

User views about quality

MORI administered a questionnaire on our behalf, based on a design evaluation tool developed by the Construction Industry Council (CIC), to a range of teaching and support staff and older pupils in 18 new-build schools – ten traditional and eight PFI, including a mix of primary and secondary schools. In total 95 users were interviewed (35 in PFI schools and 59 in traditional schools).

Building quality, DBO synergies and whole-life considerations

The Building Research Establishment (BRE) assessed the quality, on our behalf, of ten traditional and eight PFI schools against recognised benchmarks and accepted good practice; eight of the traditional and five of the PFI schools were included in both the MORI and BRE surveys. In total, therefore, the two externally assessed aspects of the research contained 12 different traditional and 11 PFI schools, with the fieldwork visits bringing the total number of new-build PFI schools covered in the research to 17.

Costs

The capital costs of replacement and new-build PFI schools were collated from LEAs and private contractors, including the costs of contract variations where possible. These costs were then compared with the outturn costs of traditionally financed schemes. Costs were adjusted to enable, as far as possible, like-for-like comparisons. For facilities management costs, data on existing schools was obtained from an existing Audit Commission database of actual running costs for over 5,000 schools. The projected running costs of PFI schools were obtained from LEAs or PFI providers. It must be emphasised that this information is based on self-report and is, of its nature, not actual expenditure – it should be interpreted with caution as the only information available to us at this time. (Chapter 4 discusses further the potential difficulties of a developing 'information gap' for LEAs and schools.)

Other data: affordability, VFM, competition, numbers and types of schemes

Data were collected from the final business cases (FBCs) for operational schemes. The Public Private Partnerships Programme (4ps) database of projects was made available to us, and the PFI report database accessed (www.publicprivatefinance.com/pfi). The DfES and Welsh Assembly Government also supplied data on the number of PFI schemes and their costs.

Source: Audit Commission

How the report is structured

7 The remaining chapters set out our findings:

- **Chapter 2** assesses quality, cost and timeliness. It focuses on the results of the BRE survey, which provided an objective assessment by experts of the quality of design and build of new schools, and provision for services within them, and the MORI survey, which recorded what users thought. The chapter then compares the capital and running costs of schools under different procurement options, and ends by describing improvements. Importantly, the lessons we identify are not just about PFI, but about school design and whole-life cost management more generally.
- **Chapter 3** sets out the lessons that can be learnt from the early experiences of schools, LEAs and PFI providers involved in implementing PFI and running services locally.
- **Chapter 4** reviews how VFM is currently measured for PFI and how changes to the system at a national level might help to promote better outputs, both in terms of quality and cost.
- **Chapter 5** sets out the overarching conclusions and the way forward.

2



The quality and cost of new school buildings and services

Most school users were pleased to have a brand new school however it was financed, but were less happy with some specific aspects of their buildings. The quality of the early PFI schools in our sample was, statistically speaking, not as good as schools built via more traditional means. Some of the problems were not so much due to PFI, but reflected the need to build and run schools better no matter how they were procured. The capital cost and the amount set aside to spend in future years for maintenance varied widely between schools.

Putting school buildings in context

- 8 Most UK schools in use today were built in one of two eras – either the latter part of the 19th century or the post-war era (1945 to 1975) **(Ref. 5)**. Only 14 per cent of current schools were built within the last 25 years **(Ref. 6)**. Many schools are now costly to maintain, and...

Our current buildings are below the standard we have a right to expect. Many are at or near the end of their expected life. Many others are in poor condition; others still are not suitable for the needs of the modern curriculum. Simply to tackle the most urgent priorities requires a huge increase in the resources devoted to school capital.

Charles Clarke, as Parliamentary under Secretary of State for School Standards, foreword to Schools Capital Strategy, January 1999.

- 9 Addressing this backlog presents a significant challenge for both local and national government. If PFI is to succeed in the long term, it has to prove that it can provide a good balance between the initial cost and quality of buildings and future maintenance burdens. This chapter reviews whether PFI is beginning to deliver this challenging agenda. First, it reviews the evidence about quality, cost and timeliness of delivery. Then it assesses whether any deficiencies in performance are covered by the PFI contract terms, and draws out lessons for the future.
- 10 In our fieldwork for this report, we visited a number of new PFI schools to obtain a first hand impression of what PFI had delivered on the ground. Although not a technical appraisal, these visits enabled the BRE and MORI findings to be put into context. Two schools in particular were recommended by the DfES as displaying some impressive features of school design and have been enthusiastically welcomed by the headteachers **[Case studies 1 and 2, overleaf]**.

Case study 1

A new county secondary school

The school governing body and the LEA believe that the environment in which students and staff work can promote effective teaching and learning and the achievement of high standards. The headteacher was involved in project negotiations from the start, and worked very closely with the architects and builders, to ensure that the finished building offered the range and quality of provision that the school and its stakeholders required.

Key design features include:

- a design that fits into its green belt environment, including major sculpting of a domed site. For example, the site layout sought to minimise the potential visual impact by the choice of the building location, with the school, car parking and hard surfaces at lower levels, while the flattened top of the dome forms the cricket pitch;
- well-used public areas grouped around the main entrance which has a top lit entrance hall;

- a building that can be expanded in a way that will keep faculties together. This is achieved by using a ‘finger plan’ approach, where the school departments are organised into separate blocks or wings, linked to a shared main circulation ‘street’. Thus, any one or all departments can be expanded by adding further structural bays to the ends of the department wings;
- sustainability, for example, cedar boarding, pedestrian and bicycle friendly, green tinted, solar controlled glazing;
- ICT provision throughout the school, including radio systems and electronic registration; and
- a 600m² community resource base and nursery. This provides for the needs of an area that was deficient in such facilities. Half of the base houses a private nursery, while the remainder is available for general community use and will provide income for the school over a level agreed with the PFI provider.

Source: DfES

Case study 2

A replacement inner-city (metropolitan district) secondary school

The driving factor has been the commitment of the head teacher who describes the project as her ‘dream come true’. Her involvement at every stage, from the creation of the vision, through the procurement process and building of the school, has contributed in no small measure to the end product fulfilling the requirements of its users. All stakeholders – school, LEA and contractor - showed commitment to making the partnership work. Flexibility during the development and building phases enabled the building to be fine tuned as it has progressed. Evidence shows that staff morale has increased, along with pupil pride in the environment.

The key design features are:

- a new single building replaces the previous school, which was split across three sites. This represents an important part of the rejuvenation of an inner city, multi-ethnic area that previously had no community focal point;
- the grouping together of all classrooms in a curve down one side of the school, and communal areas such as assembly hall, sports hall, performing arts and library down the other, is an effective and practical use of space;
- the two sides are linked by a large atrium with spiral staircase, large glass areas and plants topped by a roof garden; and
- computer facilities in classrooms enable teachers to deal more effectively with administration, exchange ideas and materials electronically and, in some cases, enhance teaching styles through interactive whiteboards.

Source: DfES

Technical quality

- 11 Experienced construction professionals from BRE assessed schools against five ‘design quality matrices’ specific to school buildings. The matrices covered a wide range of individual elements of building quality, including whether the architectural design made the best use of space and was innovative; temperature, light and acoustic qualities; and the quality of materials and furnishings and their likely long-term maintenance costs. Where appropriate, the measures used published standards and guidance from, for example, the DfES, Building Regulations and the Chartered Institution of Building Services Engineers (CIBSE).
- 12 Overall, BRE found that the quality of all the schools, however funded, fell below ‘best practice’ [Exhibit 2a, overleaf]. The quality of the PFI sample of schools was, statistically speaking, significantly worse than that of the traditionally funded sample on four of the five matrices [Exhibit 2b, overleaf]ⁱ. There were no significant differences between primary and secondary schools.
- 13 Taking the different matrices in turn, the main findings are:
- *Architectural design:* The difference between PFI and traditional schools was particularly marked in external architectural merit – one of the six elements that make up this matrix (an average score of 1.8 compared with 3.0). This measure is not solely about aesthetic merit, but includes an assessment of type of materials and whether there was adequate shelter from rain and sun. BRE found few examples of innovation, and these were confined to the sample of traditionally funded schools. For example, BRE described one such school as:

Probably the most imaginative architectural design visited. The curving roofs clad in cedar shingles represent waves, a suitable nautical symbolism this close to the sea. They also make for dramatic interior spaces and aid daylight strategies with clerestoriesⁱⁱ under the ‘crest of the wave’... An exemplar primary school...
 - *Building services design:* Across the whole sample of schools, assessments were worse on this matrix than any of the other four matrices – indeed none of the 18 schools scored better than 2.3 (out of a ‘best practice’ possible score of 4.0), with the worst schools scoring only 1.4. Overall, there was little difference between schools built under the different procurement routes, but the crucial area of architectural integration was assessed as better in the sample of traditionally funded schools. For example, in one traditionally funded school:

Traditional materials with features such as brick chimneys encasing boiler flues and triangular ‘dormer’ windows to the sports hall give the building a feeling of domestic scale entirely appropriate to a primary school.
 - *User productivity:* Audible and visual intrusion, acoustics and air quality were on average better in the traditionally funded schools sample.

ⁱ Deficiencies in the design of some early PFI schools have also been identified by the Commission for Architecture and the Built Environment (Ref. 7).

ⁱⁱ Clerestories are the upper part of a wall that contains windows.

Exhibit 2

Technical assessment of the building design quality of a sample of traditionally-funded and early PFI schools

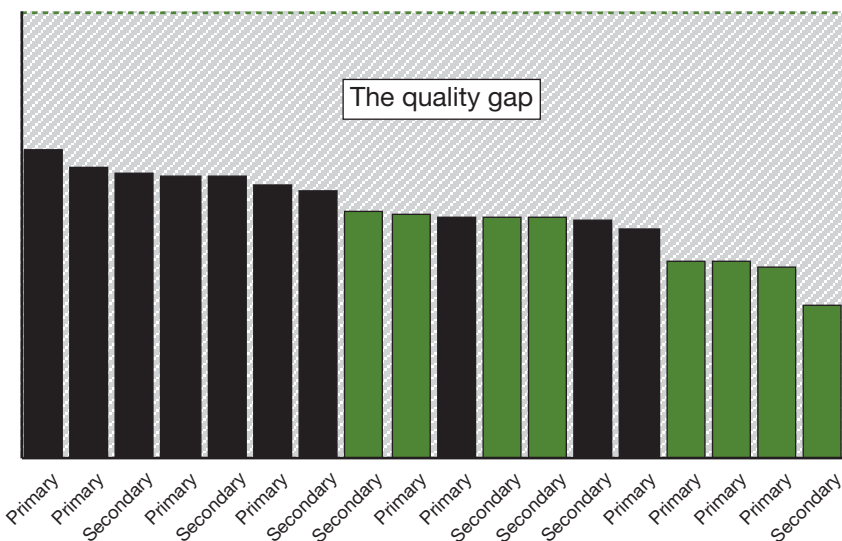
(a) Aggregate scores for the individual schools: the quality of all the schools, however funded, fell below 'best practice'.

(b) Average performance on each of the five matrices: the quality of the PFI sample of schools was, statistically speaking, significantly worse than that of the traditionally funded sample on four of the five matrices.

To reach the level of 'best practice' on the matrices, a school had to meet all of the DfES and other relevant guidance.

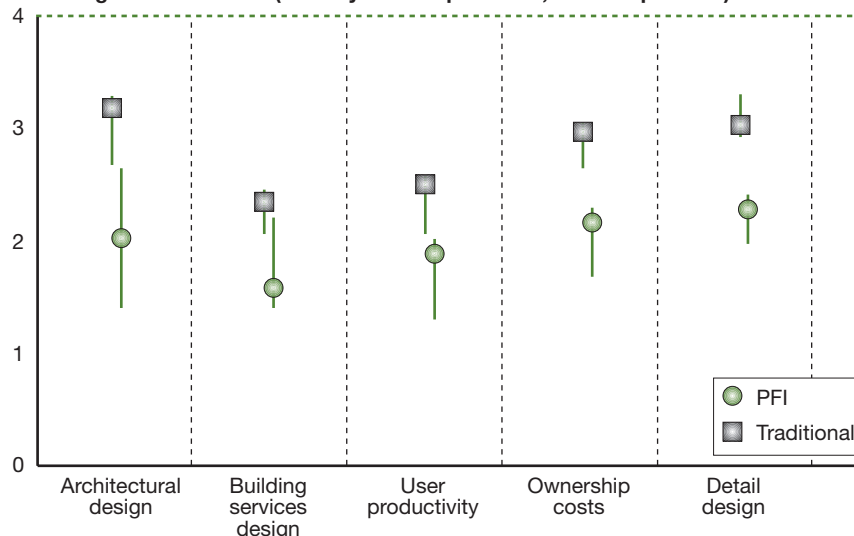
Aggregate score from five 'design quality' matrices

-- Best practice
 ■ PFI
 ■ Traditional



Despite the small number of PFI schools in existence and involved in the research (the sample included 8 of the 25 or so already built and operating in spring 2002), the difference between the traditional and PFI sample was statistically significant overall (Kruskal-Wallis test of the equality of medians, $p < 0.01$ – there is less than a 1 per cent likelihood that the difference was due to chance) and on four of the five matrices. The squares and circles in Exhibit 1b plot the average score on each matrix for the sample of traditional schools, and the sample of PFI schools. The vertical bars show the variability about these averages (the 95 per cent confidence interval). PFI and traditional schools are of significantly different quality if these bars do not overlap – that is, one type of school was assessed to be of higher quality and the difference is unlikely to be due to chance. On four of the measures, the bars do not overlap, and traditionally funded schools score better than PFI schools. On one measure – services design – the bars overlap, showing that the difference between the two types of school on this aspect of quality was probably more apparent than real.

Average school scores (0 = very serious problems; 4 = best practice)



Source: Audit Commission analysis of data supplied by BRE for eight PFI and ten traditionally funded schools

- *Ownership costs:* Exterior materials and internal fabric and finishes with lower costs of ownership were more frequently chosen for traditionally-funded schools. For example, in one PFI school, assessors stated that the ‘choice of paving flags as a floor finish is unfortunate, as they are wearing badly and are stained and cracked.’ The best examples of the type of innovation that can improve fitness for purpose and minimise running costs over a school’s lifetime came in traditional schools within LEAs with a long-established track record of excellence in school design.
- *Detail design:* The final matrix reviewed external, internal and junction details (all of which were on average better in the sample of traditionally funded schools), furnishings, fittings, safety and security. Rectifying and coping with failures will increase maintenance and occupancy costs, which will fall to the PFI provider if they are covered by the contract output specification (as discussed later in this chapter).

Users’ views on quality

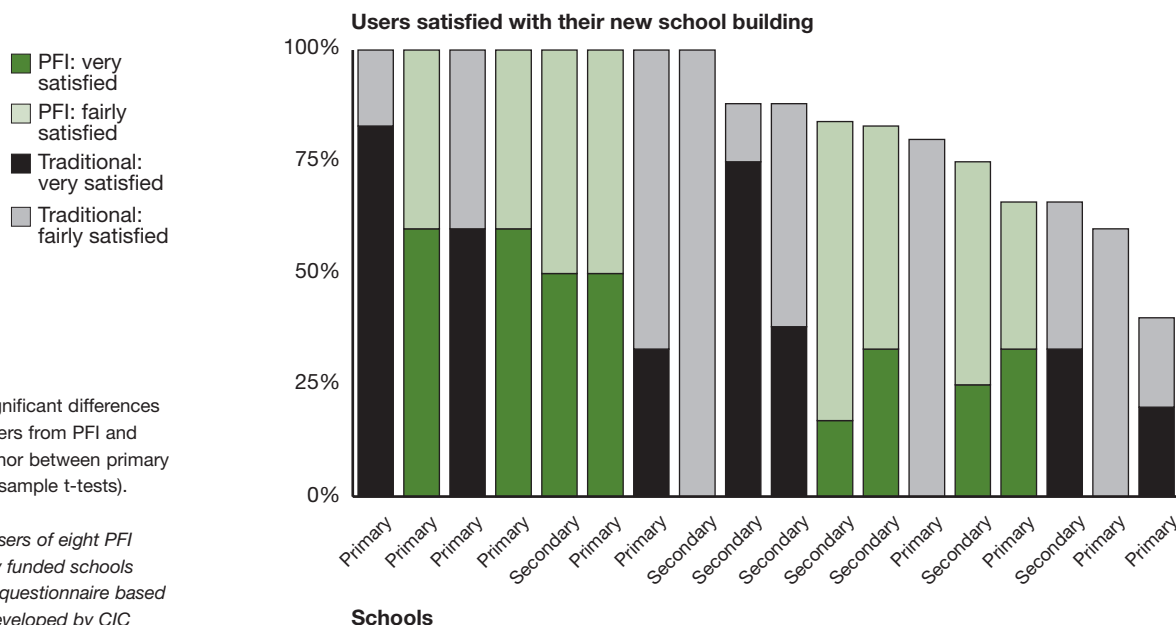
- 14 Users’ views about new school buildings were explored through a questionnaire developed by CIC and administered by MORI. The questionnaire began by asking about overall satisfaction with the new building. Most users, irrespective of whether they were a pupil, teacher, governor or caretaker, were pleased overall with their new schools – across the whole sample the ‘net satisfaction’ level was 81 per cent. This is not surprising given the advantages of being in a modern building, compared with the probably dilapidated and outdated school it replaced. There were no statistically significant differences between PFI and traditionally funded schools, or between primary and secondary schools, in this overall satisfaction **[Exhibit 3, overleaf]**.
- 15 The questionnaire then asked whether users agreed or disagreed with 100 statements about specific aspects of their buildings’ design and operation. Answers to these questions sometimes revealed lower satisfaction, but there were no statistically significant differences between the types of school on any of these measures:¹
- *Meeting different needs:* The majority of users were satisfied with such issues as signage, circulation and common areas, but lack of space was mentioned as one of the most frequent reasons for dissatisfaction with the building. Access for wheelchair users was judged satisfactory, but few agreed that the buildings would meet the needs of those with impaired sight or hearing. A majority of users thought that their buildings were adaptable to changing needs.
 - *Look and feel:* The majority of users agreed their schools offered a positive image (for example, their building ‘contributed to the neighbourhood’; it ‘lifted the spirits’). By contrast, fewer agreed that environmental aspects such as temperature control, ventilation and acoustics were good.
 - *Construction issues:* These questions covered perceptions about building faults, ‘cleanability’ and durability. The majority of school users agreed that their schools were easily cleaned and maintained.

¹ This was the case whether using the net agreement score for the users of a school as a whole (N = eight PFI and ten traditional schools), or using the individual users as the base (N = 35 PFI school users and 59 traditional), or selecting only the headteachers (N = eight PFI and eight traditional).

Exhibit 3

Overall satisfaction of users with their new school building

Most users, irrespective of whether they were a pupil, teacher, governor or caretaker, were pleased overall with their new schools. There was no statistically significant difference between PFI and traditionally funded schools.



There were no statistically significant differences between the responses of users from PFI and traditionally funded schools, nor between primary and secondary schools (two-sample t-tests).

Source: MORI survey of 94 users of eight PFI (35 users) and ten traditionally funded schools (59 users), using an interview questionnaire based on a design evaluation tool developed by CIC

Key aspects of quality

- 16 Our visits, and the BRE and MORI surveys confirmed that there were some excellent aspects amongst both new traditional and PFI schools. But so that improvement lessons can be learnt, this section also brings together the results of the two surveys to explore in more depth some specific problems in relation to environmental control, building size and longer-term maintenance costs. All the new-build schools sampled fell short of the ideal in key areas such as space, heating, lighting and acoustics.

Environmental control

- 17 Failures here are particularly worrying, since fundamental aspects such as the quality of the lighting, temperature and ventilation control, and acoustics directly impact on day-to-day learning conditions [Box C]. Most of these are areas where users expressed least satisfaction – with only a minority agreeing, for example, that the temperature was appropriate in all seasons, despite users rating this as one of the most important environmental factors. On the other hand, despite the technical

assessment calling into question the quality of light, a majority of users were satisfied with this aspect. However, for those schools where the users did express reservations, the technical assessment also tended to be lower.



Box C

Examples of environmental control in schools

Poor daylight and summertime environment. BRE noted that 'no school was visited which did not have the vast majority of its artificial lighting switched on'. For example, in one PFI school low window height severely limited daylight penetration to less than 15 per cent of the school hall width. The occupants' solution was to leave artificial lighting on all day. In the summer, hot air collected at ceiling level and could not escape. The ceiling then became a large radiator and added to discomfort from overheating. One way to avoid both problems would have been to ensure that there were high level opening windows. A second PFI school was, by contrast, one of the best schools for quality of daylight, which was adequately and uniformly distributed throughout the classrooms by clerestory lights. The latter were positioned to bounce light off the back wall of the classroom (as shown in the photograph).

Source: BRE

Size and storage

- 18 Users rated size and storage space among the most important factors. In some schools, users agreed that their school was the right size for its functions, but in others small classrooms and limited storage space were the second and third most commonly cited causes of dissatisfaction. There was no statistically significant difference between procurement routes in satisfaction with aspects of size [Box D and Exhibit 4, overleaf].



Box D

Example of storage problems in a school

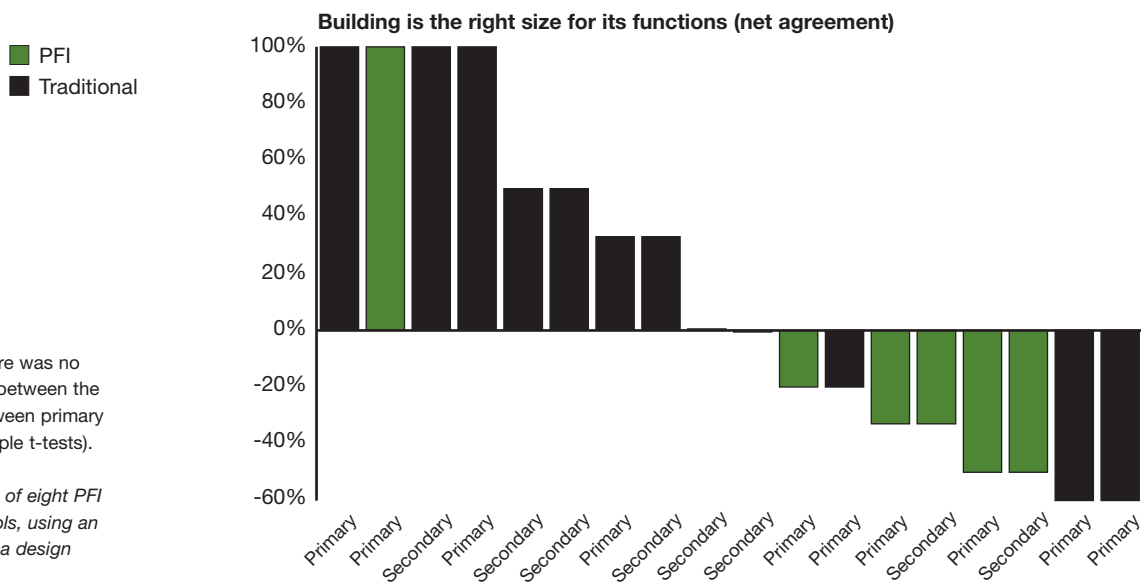
Pupils' belongings spilled onto the floor because of inadequate storage facilities. A solution would be to have more pegs, ensure the pegs are big enough, and provide more shelving for bags and shoes.

Source: BRE

Exhibit 4

Whether users agreed that their school was the right size for its functions

Small classrooms and limited storage space were the second and third most commonly cited causes of dissatisfaction by users.



Despite the apparent pattern, there was no statistically significant difference between the two procurement routes (nor between primary and secondary schools; two-sample t-tests).

Source: MORI survey of 94 users of eight PFI and ten traditionally funded schools, using an interview questionnaire based on a design evaluation tool developed by CIC

Whole-life maintenance, repair and adaptability

19 A major feature of PFI is the undertaking by the PFI provider to keep the school buildings in a good state of repair over many years. PFI should concentrate minds onto a whole-life (or ‘lifecycle’) approach to building maintenance in a way that traditional procurement processes may not do. Those bidding for PFI schemes have an incentive to consider whole-life costs, and to try to minimise them wherever possible so that their bids are competitive and year-on-year maintenance costs are not higher than expected.

20 Yet the technical assessment found not only that few schools came out well in terms of the buildings’ cost of ownership,ⁱ but that the PFI sample scored, statistically speaking, significantly worse than the traditionally funded sample. There is little evidence so far that more investment had been made upfront to reduce longer-term maintenance costs in the majority of the PFI schools reviewed than is usually the case in traditionally funded schools.ⁱⁱ BRE commented on the maintenance consequences for PFI schemes arising from the workmanship and materials used in initial construction:

ⁱ The average scores for the six elements that make up this matrix varied from 2.0 to 2.8, where 4.0 means best practice standards.

ⁱⁱ This could also be a consequence of affordability and the PFI evaluation process. These issues are considered further in Chapter 4.

Recent industry standards suggest that about 1.5 to 4 per cent of the capital cost of a school should be spent on annual maintenance costs, averaged over the first two decades of the buildings' life.^I This includes decoration; fabric and services maintenance; cleaning; utilities; and administrative costs. BRE's review suggests that many of the schools would need maintenance budgets towards the top of the recommended range, and this may have implications for the residual value of the building at the end of the concession period.

- 21 BRE has confirmed that whole-life considerations were evident in the design of some of the traditionally funded schools in our sample. Indeed, our fieldwork suggested that local authority architects and surveyors were only too aware that schools may not be properly maintained in the future because of lack of funding, and therefore said that they looked to pre-empt problems through appropriate design and use of materials where funding permitted. However, ear-marked provision for future maintenance over 30 years is one of the main anticipated benefits of PFI over traditional procurement – this issue is returned to later in the chapter.

Costs

- 22 Little detailed financial information is available on a like-for-like basis about both PFI and non-PFI new schools. What information there is showed considerable variation between schools in unit capital costs, but no statistically significant differences between PFI and traditionally funded schools.
- 23 At present it is too early to make any judgements about the extent to which PFI contractors will keep schools in good repair. But it was possible to examine their plans for the future by looking at projected maintenance costs in relation to capital costs. There was four-fold variation in both construction and lifecycle unit costs, and a positive correlation between initial capital costs and provision for whole-life maintenance [**Exhibit 5, overleaf**], where a negative correlation might be expected if decisions were being made to trade one off against the other.
- 24 We also compared the cost of FM services under PFI schemes (as defined in the financial model and therefore underpinning the monthly payment) with that of traditionally funded schools, to see whether the early PFI schemes had achieved lower costs. The comparisons were made against a database of the running costs of non-PFI schools, updated annually by the Audit Commission.^{II} There were no statistically significant differences between PFI and other schools in the costs of buildings maintenance, grounds maintenance, water and sewerage or fuel.

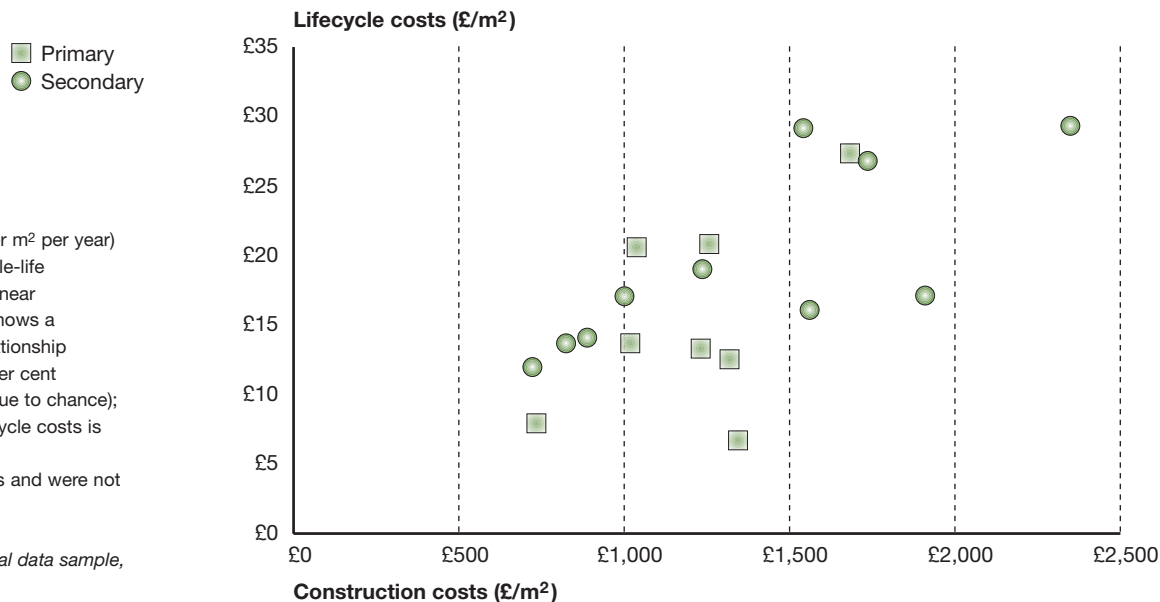
I 'Various BMI (Building Maintenance Information) and SCALA (Society of Chief Architects of Local Authorities) sources. This range represents estimated typical LA approved expenditure to recommended expenditure. It varies according to the type of school, i.e. nursery; primary; secondary; special school, and may well be considerably above this range in the advent of major defects.'

II Available at www.schools.audit-commission.gov.uk

Exhibit 5

Relationship between lifecycle and capital costs in school PFI schemes

There was a positive correlation between initial capital costs and provision for whole-life maintenance.



Lifecycle costs are the amount (per m² per year) set aside by PFI providers for whole-life maintenance in PFI schools. The linear regression for the whole sample shows a statistically significant positive relationship ($p < 0.01$ – there is less than a 1 per cent likelihood that the relationship is due to chance); 45 per cent of the variation in lifecycle costs is explained by construction costs. The data are self-reported by LEAs and were not audited as part of this study.

Source: Audit Commission financial data sample, repriced to third quarter of 2001

- 25 However, the average cost of cleaning and caretaking – on the limited evidence available – appeared to be higher in PFI schools [Exhibit 6]. This reflects interview findings, with PFI schools often reporting that their cleaning service was to a higher standard than before. This probably results from changed circumstances and incentives. Previously, compulsory competitive tendering (CCT) often resulted in reduced service levels and costs, reflected in the traditional schools’ average costs. Under PFI however, while contractors still have an incentive to be competitive in overall bid price, they also have an incentive to offer a better level of service in return for higher charges. And the client side will be keen to specify as high a level of service as possible for the given price. This different combination of incentives under PFI may explain the above average costs. A more expensive service is justifiable if service levels are of a higher quality than those received by schools that pay less, and if the school and LEA have decided that they wish to pay for a higher-quality service as a priority for expenditure.

Exhibit 6

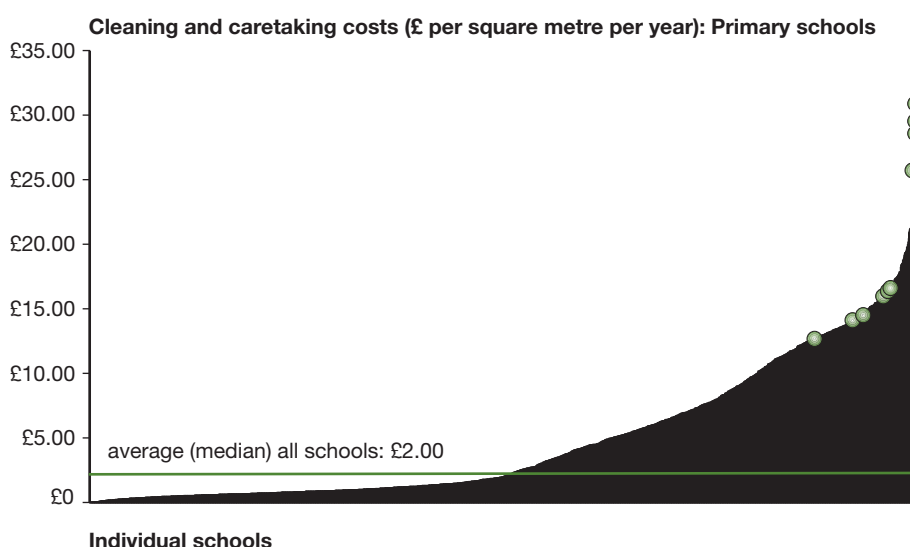
The cost of cleaning and caretaking in PFI and traditionally funded schools

The average cost of cleaning and caretaking is higher in PFI schools.

- PFI schools (10)
- Traditional schools (2,332)

Secondary schools – not depicted in the exhibit – show a similar distribution, with PFI schools on average more expensive. Traditional costs are actuals reported by schools. PFI costs were derived from providers' financial models and therefore represent the estimated costs underpinning the actual unitary charge. Costs have been adjusted to a comparable price base (2000/01).

Source: Audit Commission schools running costs database and PFI sample



Timescales for delivery of new-build schools

- 26 We found no evidence that PFI schemes delivered schools more quickly than projects funded by more traditional ways. One explanation may be that the early PFI schemes were protracted as those involved from all sides learnt how to apply the new process. The DfES anticipates that this should improve in future as experience increases. A second reason may be that historically there were fewer time over-runs in the educational sector than with other public schemes, such as hospitals and prisons, because LEAs have always needed to manage school building timescales carefully to ensure that school places are ready for the beginning of a term.

Lessons for future school design

- 27 A feature of PFI is that providers suffer financial deductions if they do not put certain failures right, and so the system builds in maintenance safeguards that are not always there under traditional procurement. But this is only the case if the failures contravene the agreed contract output specification, and defined availability and performance criteria. Some of the problems described in this chapter were covered by specifications (for example, a leaking roof). But others were not typically specified in the early wave school PFI schemes. They were often the difficult-to-define aspects of

design that make the difference between something that is adequate and something that is best practice – for example, poor acoustics if this has not been exactly specified. This issue has been noted before – four specific examples where the output specification failed to clarify intentions have been described by the 4ps (**Ref. 8**). It is a considerable challenge to translate all these aspects into a useable specification, and then make it work as a performance monitoring tool.

- 28 There are a number of reasons why quality may not have reached best practice levels. Because the private sector has always built schools, with LEAs project-managing the process and specifying the detailed design, some of these reasons will be common to any type of procurement. The following sections deal with the most important lessons: the need for updated design standards, learning from experience, involving users effectively, improving whole-life management and taking account of wider construction industry problems.¹

Updated design standards

- 29 Unambiguous, practical and measurable design standards are needed, which should then be used to define the performance specification. But a common concern expressed during visits was that DfES standards, and the budget set by the DfES PFI 'toolkit', needed to be updated to reflect the demands of the modern curriculum, the needs of today's children and the growing expectation that schools will become more of a community resource. PFI providers are required to meet the outputs agreed in the contract specification – but if these are based on outdated ideas of what constitutes best practice, then problems will persist. Lack of space was the most commonly cited problem. Some schools argued, for example, that they needed two halls because the growing use of pupil testing meant that a hall could be unavailable for other purposes for significant periods. The DfES intends to publish new guidance (available in draft; and, for example, **Ref. 9**) that should, if incorporated into future specifications, improve this.

Learning from experience

- 30 Naturally, in the early schemes there was inexperience on both sides. LEAs and contractors without recent experience of building new schools had to learn how to apply DfES guidance for the first time. An informed client is also needed to ensure design quality – the client representative who can provide this experience might come from the LEA or school staff, or both, and should have knowledge of good practice in all areas that relate to school management and pupil productivity. Usually they will have gained this knowledge via long-lasting links with specific schools. The need for independent, expert advice for clients has been identified as being vital to providing wider solutions to clients' needs (for example, **Ref. 4**). But such experienced individuals were thin on the ground.

Involving users during the design stage

- 31 The DfES will approve an outline business case for a PFI scheme only if the schools have been consulted and given their agreement to a scheme proceeding. But we

¹ Affordability – which can also affect quality – is considered in Chapters 4 and 5.

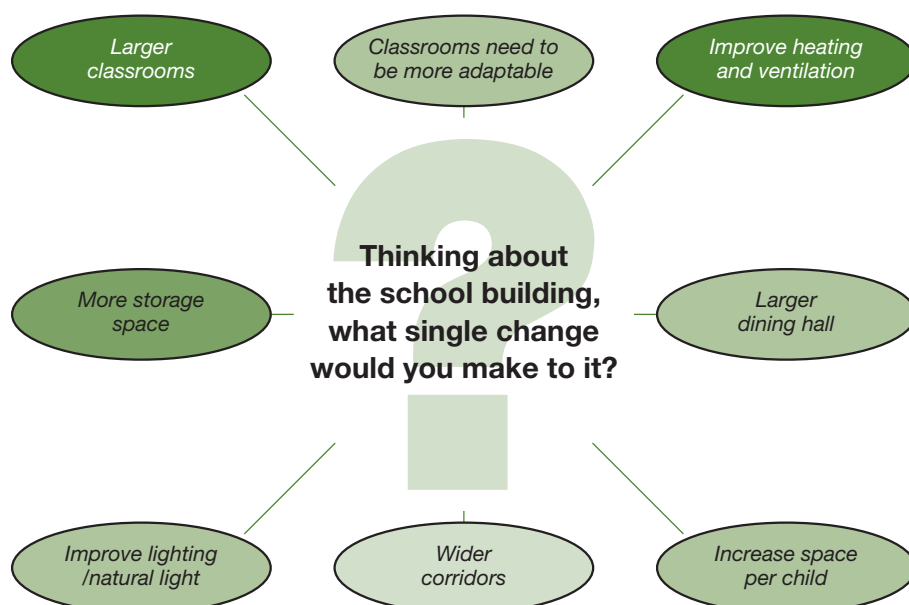
found that the level of involvement varied across the early schemes. The MORI survey found that, overall, only 16 per cent of users stated that they were involved in the procurement process ‘a great deal’ or ‘a fair amount’, with no statistically significant difference between the users of traditional and PFI schools. Even among the category of users with the highest involvement – head teachers – only just over one-third said they were involved in the procurement, while 57 per cent agreed that they had been consulted over the design. Those users who expressed less overall satisfaction with their new school also said that they had little involvement in the design phase. We were told that user consultation may be becoming more common, but effective involvement means more than just consultation. A project that emphasised user involvement and partnership in a traditional procurement has been described, and a toolkit is now available – its use could help to improve matters (Ref. 5). The two case study schools described at the start of this chapter also emphasise how crucial such involvement is to a successful outcome.

- 32 When users were asked to identify the one single aspect that they would like to change most about their school, the themes, irrespective of how their schools were funded, tended to be about size, layout and environmental control [Exhibit 7]. All these aspects represent some of the classic issues regarding school design. They are not specific to PFI, and emphasise just how important it is to involve users appropriately from the early stages.

Exhibit 7

Changes that users would most like to make to their new school buildings

The themes tended to be about size, layout and environmental control.



The darker the box is shaded, the more users mentioned that factor.

Source: MORI survey of 94 users of eight PFI and ten traditionally-funded schools, using an interview questionnaire based on a design evaluation tool developed by CIC

33 Getting user involvement right is a challenge, and therefore it is not surprising that users sometimes felt disenfranchised or became wise after the event, even though LEAs had tried to engage them. The aim should be to involve them in aspects of direct relevance, not just in developing the output specification, but also in those aspects of detailed designs most critical to the educational environment. Examples of difficulties reported from schemes included:

- reconciling the desires of different groups of users, and then aligning them with property experts' views and with design, practical, health and safety and affordability considerations;
- some users opting out of the process because of other pressures and priorities, or postponing their involvement until it was too late; and
- the multi-stakeholder base creating difficulties about who was to be accorded ultimate client status and given the final authority on specific decisions.

Whole-life considerations

34 The residual value and the ultimate life of schools will depend on the adequate manufacture, installation, maintenance, repair and replacement of key components. BRE stated that most of the schools in our sample should have a typical lifetime of 50 to 60 years and beyond, if adequately maintained and free from major defects. However, there are differences in the incentives and pressures at work under PFI and traditional procurement in relation to long-term maintenance and its costs:

- Under the traditional route, the choice of whether to carry out maintenance remains with the LEA and the school, and wider budget pressures will tend to encourage deferment of expenditure until an obvious need arises. This will tend to lead to lower costs in the short term. On the other hand, especially if there are design inadequacies, deferment of expenditure could lead to a rising backlog and risk of component failure that might reduce the life-expectancy of the school and could lead to higher costs in the long term.
- Under PFI, the PFI provider should pick up the maintenance cost consequences of design inadequacies (provided they are contained in the output specification) through the risk transfer arrangements. However, schemes in which low capital investment is combined with high maintenance costs could store up problems and tensions for later, as debates begin to occur about what maintenance work needs to be undertaken to meet the original specification. PFI funders will therefore seek assurance that potential future maintenance costs have been identified, and that the annual charge to the LEA does not underestimate the risks that the PFI provider has taken on. Since future prediction is an uncertain activity, there is an incentive for providers to estimate on the high side, and so this could act as a driver for higher costs. Unlike under traditional arrangements, even if these risks do not in fact materialise, the LEA will still pay via the monthly charge. Counter-balancing this, competition between PFI bidders should act in the other direction as a driver to keep costs down.

35 Although the balance between the above variables in PFI and non-PFI procurement is different, our results show that they did not result in clear-cut differences in most types of cost in the early schemes. But there could be a different kind of benefit from PFI. A limitation of the traditional approach has tended to be a less comprehensive and transparent consideration of all of these issues, with more implicit trade-offs being made. By contrast, a bonus of the PFI process should be that these variables are better defined, far more explicit and the subject of discussion and scrutiny by a range of professionals in the public and private sectors. In our fieldwork, this was sometimes felt to be the case, but others interviewed felt that this potential PFI benefit had not been fully realised in their schemes, for example, because some PFI providers referred to commercial confidentiality in being reluctant to disclose actual costs.

Does the quality of school buildings affect learning?

36 All the schools visited, however funded, left room for design improvements. But does this matter? It could be argued that lower, but adequate, design standards give better value for money and allow scarce resources to be spread more widely. Conversely, if in the long run poorer design leads to greater costs and, particularly, to poorer educational outcomes, then clearly it does matter. It is important therefore to establish the links between the built environment and learning. The newness of PFI schools means that there is no research available to assess any effects yet on the educational outcomes of children who attend them. But it was certainly the case that the majority of users of both PFI and traditionally funded schools in the Audit Commission sample believed there was a link between environment, pupil behaviour and 'productivity'. The requirement for business cases under PFI should therefore encompass a more explicit link between buildings and educational performance – and, commendably, current bidding guidance from the DfES states that expressions of interest from potential PFI providers should demonstrate this link, and that this is one of the criteria on which bids will be assessed for provisional approval.

37 This chapter has described many factors that combine to explain why the early wave school PFI schemes have not produced all the benefits described in Chapter 1 that the DfES expects. But perhaps the most significant messages coming through are that if we want good-quality schools, we must give design sufficient emphasis in the procurement process regardless of the procurement method; and that success is more likely when good partnerships are forged between all the many people involved, including the close involvement of school users right from the start. This theme of communicating and teamworking is developed further in the next chapter.

3



Implementing the contract and running services

There are many lessons that can be learnt about improving the way PFI is implemented at the local level. The need to create partnerships within robust governance, incentive and compliance frameworks, and improve communication between the many different people involved, are the most important.

38 With contracts lasting for 25 to 30 years, PFI will affect the school life of successive generations. It is difficult for those involved in developing projects to predict the practical implementation issues that will lie beyond the technicalities of doing a deal. But it is crucial that they try to do so, because PFI providers will ultimately be remembered for the longer-term quality of their FM services and any design defects, rather than the initial excitement of a new school building. The focus of this chapter is, therefore, on how to manage local processes better.¹ We start with the difficulties that can arise when implementing the contract, and how implementation could be improved. These issues are dealt with in sequence, starting with how best to manage relationships among the many different people who begin to be involved right from the start, and ending with what happens after the buildings are open if services are not provided to the specified standards. The chapter then considers how to manage the provision of FM services and how to achieve design, build and operate (DBO) synergies.

Implementation

Managing teamwork and relationships

39 The PFI process encourages a collaborative relationship between the public and private sectors, which is a welcome step forward from the adversarial claims culture that characterised some procurement in the past, particularly where local authorities were reluctant customers under CCT legislation. However, PFI introduced a steep learning curve for those involved in this new, labour-intensive procurement system. Some interviewees felt that in their schemes this led to relationship difficulties between those involved from the different sides – LEA, school and PFI provider (itself a coalition of partners with some difference in their interests) – because, for example:

- the large number of people involved made communication complex – new individuals came in and out of involvement at the different stages (justifiably, as different skills were needed); and
- last minute changes to the deal left those not involved feeling disenfranchised.

40 These problems were not reported in all schemes, and as experience builds and guidance matures, they may become less frequent. Nevertheless there needs to be attention to relationship-building at all stages, to make sure that if such problems arise they are well managed. Crucially, this needs to begin right at the start, to avoid creating early tension and to put relationships on a sound basis. While improving relationships is the responsibility of everyone involved, the pivotal role of the LEA means that it can take a number of steps to promote improved working and successful implementation. The aim should be to manage the contract so that it becomes a true partnership. LEAs, elected members, schools and PFI providers need to:

- see each other as partners and not adversaries or competitors;
- agree and commit to a shared vision of the school environment, paying attention to the need for it to change as policy and educational outcomes evolve;
- maintain regular dialogue, openly sharing all relevant information;

¹ Some of these lessons would also apply to traditional procurement, but this chapter focuses mainly on their application to PFI schemes.

- recognise that services and interface issues cannot be fragmented into neat parcels, and that boundary issues between the LEA, the school and the PFI provider must be dealt with constructively and collaboratively;
- remain involved and committed over the years (one way to help to ensure this is to develop informal ways of ‘refreshing’ the relationship between all the different parties);
- have a governance structure that engenders public confidence and embraces the complete range of stakeholders, including elected members; and
- commission regular, external reviews of the scheme over its life to measure the degree to which agreed outputs are being delivered.

Design, build and equipment issues

- 41 Several areas were consistently mentioned as problematic for stakeholders, and this section deals with the most important examples.

Furniture and equipment

- 42 Problems in some early schemes arose from the PFI providers’ lack of understanding of what schools needed, coupled with a lack of information to help them. With the benefit of hindsight, specialist advisers within the LEA could have made clearer specifications of furniture and fittings at the ‘requirement specification’ stage. There is now guidance available from 4ps on furniture and equipment that could help. Some schools stated that specialist equipment installed by the PFI provider was out of date. Equipment obsolescence is a risk that needs to be factored in to the financial calculations.
- 43 Another problem in some schemes was that last minute paring down of the specification to fit affordability constraints led to some components and design ‘desirables’ being sacrificed. Some of the affected schools then installed additional furniture and equipment at their own expense. Where such mixing happens, detailed itemised inventories, differentiating between what is ‘fixed’ (integral to the building) and freestanding, and clear identification of who is responsible for which furniture, are necessary to avoid problems. For example, without inventories, if a table is broken there could be confusion over whether its repair is covered by the PFI contract. The emphasis on such issues within PFI should lead to future improvements.

Innovation

- 44 We witnessed little service innovation in our fieldwork. On some larger schemes, PFI providers sought economies of scale by pooling FM resources across schools. In the early schemes examined there were few examples of better asset utilisation – with only a few notable exceptions (where there are sports facilities, or a community centre/nursery) there was little emphasis on income generation. However, there are indications that innovation is becoming more apparent in some of the newer school PFI schemes – we return to this in the final chapter.

The realities of risk management

- 45 In early wave school PFI schemes, it was difficult for those developing contracts to be sure that the real risks had been identified. Some issues have emerged that have taken those involved by surprise – for example, in some schemes the scale and cost of vandalism has been a problem unanticipated by the PFI provider.¹ It would be wrong to criticise the private sector for lack of foresight, as some LEAs did not keep historical data on the costs, frequency and nature of incidents of vandalism. PFI begins to make these particular costs more transparent. Vandalism is a difficult risk to allocate between the school and the PFI provider, because it is not easy to identify, for example, how much damage could be avoided by better design features or surveillance by the PFI provider, or how much by better staff supervision. PFI providers will need to think more creatively in design terms as their experience of the school sector increases, so that vandalism can be pre-empted, rather than merely look to transfer the risk back to LEAs or to charge a higher risk premium. The DfES stated that every school PFI risk register now refers to vandalism, with the usual apportionment of risk being that vandalism is the responsibility of the LEA if it occurs during school hours, and the responsibility of the contractor if it occurs outside school hours.
- 46 There are a number of areas where unplanned risks could emerge during the contractual period. For example, the popularity of new-build schools can lead to increased demand risk, with pressure to extend pupil capacity very quickly. While this is a positive sign, the LEA must deal with the consequent financial demands that arise from a variation to a PFI contract. There is also a possible risk to neighbouring schools from a drop in demand that could create additional financial pressures for the LEA. Early signs of this risk materialising were reported during site visits.
- 47 LEAs need to consider from the outset how best to mitigate these risks and how to factor them in during contract development. A comprehensive risk register and active management of risks throughout the procurement and contractual period was needed in these early schemes – a template for such a register is now available via 4ps. But in addition there is a statutory risk that LEAs must bear, and cannot transfer to PFI providers. If there is a major problem with a school building, the bottom line is that the LEA must step in if the PFI provider fails to respond appropriately, because it is the LEA's responsibility to provide the education service.

Variations to the contract

- 48 To allow for future flexibility, as circumstances and needs change, the potential to negotiate variations to a PFI contract is essential (and indeed to traditional contracts). There were many unanticipated small variations across the early wave school schemes, rather than a few large ones. This partly happened because providers wanted to accommodate some of the schools' more detailed requirements as far as design and financial constraints and risk transfer permitted. But the main reason was the availability of extra funds, arising from a separate DfES initiative to devolve capital directly to schools, which came into force during early PFI negotiations. The extra funding led to many small variations as schools sought to use their additional

¹ Example statements during the Audit Commission visits: '£70,000 has been spent in one year on replacing windows'; '60 fire extinguishers were let off in one month in one school'; 'new toilets lasted two days: copper pipes were bent and the partitions taken down. Children also stole the toilet seats'.

resources to best effect. All parties quickly recognised that the standard contractual clauses covering variations did not allow for a streamlined, cost-efficient and rapid processing of high-volume, small-value transactions, but had been geared to less frequent, more major changes. Recent revisions to the guidance on Standardisation of PFI Contracts should now facilitate improvements.

Payment mechanisms

- 49 The payment mechanism is the primary vehicle for ensuring that the PFI provider performs to the standards set out in the output specification and therefore for achieving good VFM. The mechanism is based on a complex formula that links payment levels to a range of availability and performance criteria that have to be met in full, otherwise deductions are made. PFI payment mechanisms represent a significant change to the way FM services are monitored in terms of their sophistication and complexity. Given the novelty of these arrangements, it is not surprising that there has been a mixed picture during their implementation and few deductions in the early years of most school schemes. One commendable reason for few deductions could be that the strong financial incentives for PFI providers to avoid them means that services have been provided to the output specification. However, the payment mechanism was not enforced rigorously in some instances, for example, because teething problems with the provider's information system meant that the LEA had no information base for deductions. There also needs to be further work to ensure that payment deductions are a proper reflection of the impact of the non-delivery of a service and not just a pro rata apportionment. For example, a deduction of £268.82 was made out of a monthly payment of about £150,000, for two days' non-availability of an athletics field. This sum may not be high enough to act as an effective incentive, and probably cost more to calculate and administer than the value of the deduction. The true 'cost' to the school in terms of disruption and cancelled lessons may have been substantial.¹ A standard payment mechanism will be introduced as part of a school procurement pack being produced by 4ps – this should provide an opportunity to improve the operation of the payment mechanism.

Schools' responses to FM services

- 50 Users in most of the schools visited had noted changes to the FM services they received compared with their old schools [Box E]. Service improvements under PFI included greater levels of responsiveness, particularly for day-to-day building maintenance. Most PFI providers offered a help-desk service for schools to report problems, and arranged for contractors to correct problems within agreed timescales. Many of the primary heads welcomed this development as taking a burden off them. However, some secondary heads were less enthusiastic as they were used to having their own on-site team that provided this service as and when it was required. Some LEAs used PFI as an opportunity to provide additional but increasingly necessary services. For example, security provision of some description was common in early PFI contracts.

Box E

Examples of user reactions to FM in PFI schools

The positive...

- 'Toilets are cleaned three times a day.'
- 'The food is of much higher quality.'
- 'Windows were cleaned once a year, now it is once a day and there is more glass now.'
- 'All equipment is properly maintained for the first time!'
- 'I no longer have to wear three pairs of socks'

And the less positive...

- 'Support from LEAs has not been enough.'
- 'We're not sure what to do with these kitchen areas.'
- 'First days of term, belongings were piled up in reception area and it looked like Gatwick airport.'
- 'Ninety per cent of my time has been devoted to PFI.'
- 'We have had to teach the contractor how to do his job.'

Source: Audit Commission interviews

Achieving DBO synergies

- 51 The limited involvement of FM experts during the procurement process of some early PFI schemes led to inappropriate FM decisions and a lack of focus on realising DBO synergies. Part of the problem derived from the position of FM providers as a junior partner or subcontractor in the provider consortium. The providers in these examples stated that they were now improving – many are developing FM businesses in their own right and ensuring that FM staff are better involved in the bidding process. We were told that the construction arms of consortia are increasingly buying products and working to specifications agreed with FM managers.
- 52 When evaluating bids, LEAs should check on the relative position of FM within a consortium, and whether FM and other key parts of the supply chain (for example, specialist equipment subcontractors) are integrated early on into the design process. LEAs also need to consider how affordability considerations may undermine the scope for DBO synergies; for example, in one school low emissivity glass was not used because of the cost,¹ with the result that the school ran the risk of overheating in summer.

¹ Revised Building Regulations will prevent this in future.

Conclusions

- 53 PFI delivery should improve with time as lessons are learnt, but LEAs need to make sure that it does happen, and not just on providers' terms. Some PFI schools visited told us that FM services were more responsive than those previously provided – but due more to client specification than innovation by PFI providers. But contract terms should not be so elaborate that the management time required to put arrangements in place and then monitor them outweighs the return in improved FM services.
- 54 Some providers interviewed said that, having learnt from early schemes, some issues will become heavier negotiating points in future procurements. Combined with the greater emphasis on design, changes to the standard terms, and new LEAs becoming involved, it may be unrealistic to expect significant reductions in procurement timescales. But LEAs could reduce the cost and length of the process by preparing better – for example, by providing better basic information to providers, such as existing inventories of equipment. But there is also scope for delivering improvement at the local level by improving the framework at the national level – and that is the subject of the next chapter.

4



The PFI framework

The credibility of the way in which value for money (VFM) is measured within the PFI framework is hotly debated. It is time to rethink how VFM is assessed in a rapidly maturing PFI marketplace and to allow PFI to demonstrate its worth against other procurement routes.

55 Chapters 2 and 3 have identified ways in which school PFI implementation can be improved at local levels. But some of the barriers to achieving optimal VFM need national attention. These are the focus for this chapter, which examines whether the current framework for evaluating PFI bids can in itself become one of the barriers. The chapter then considers the wider issue of whether affordability considerations may be limiting the achievement of VFM.

The Public Sector Comparator

56 As part of the decision about whether to proceed with a scheme under PFI, the Government requires that local authorities develop a financial benchmark – the Public Sector Comparator (PSC). This is intended to show whether a PFI scheme will cost less than a similar scheme involving the same outputs, funded in the traditional way. Development of the PSC challenges public sector managers to understand and project the revenue, capital and risk costs that will be generated by their strategic decisions. The calculation is complex and involves estimating construction costs, running costs and the value of risks transferred over the PFI contract length.¹ Demonstrating VFM in this manner is one of the keys to securing government subsidy via PFI credits, and provides a benchmark for PFI providers to beat. It is officially described as one of the significant inputs to inform judgement about whether a project will achieve good VFM, but it falls short in two important ways because it:

- compares a PFI scheme's cost with a hypothetical alternative, rather than an actual set of costs from comparable schemes; and
- considers the projected PFI contract cost before the design is finalised rather than the actual outcomes of the final contract negotiations.

The cost of PFI schemes compared with the PSC

57 Findings from our sample of early wave school schemes suggest that the differences between the PFI solution and the PSC varied but were often low. In every case PFI was judged to offer a saving, ranging from 0.1 to 10 per cent of the total scheme cost [Exhibit 8]. Similar findings have been reported before, for example, for school PFI schemes in Scotland (Ref. 10). These findings would suggest that the VFM of school PFI has already been proven. But the report by Audit Scotland raised doubts as to whether this was in fact the case, and our findings are consistent with this. The PSC has excited much technical debate – the issues have been well set out in a range of reports and academic papers (for example, Ref. 11) and some arose during the fieldwork for this study, including:

- Some economists stated that the PSC methodology overestimated the cost of borrowing for councils. Others disagreed and claimed that the cost of public sector borrowing was in fact higher than often stated, because it involved hidden costs, and therefore that this criticism of the PSC was unfounded.
- If a PFI scheme's costs were not lower than the PSC estimate, it was unlikely to receive permission to proceed, and the opportunity to obtain new buildings or

¹ That is, placing a value on the likely cost of future risks, such as a major repair bill, actually occurring.

In five out of six Scottish school PFI schemes, construction costs were higher than the PSC, and in all six cases the operating costs were higher under PFI – but the risk adjustment tipped the balance back in favour of the PFI schemes. In some schemes, each type of risk had been carefully identified, and cost estimates had been rigorously analysed and documented. But in others, the validity of the risk calculations was not clear and the size of risk transfer (for example, equivalent to 20 per cent of total costs) was considered by Audit Scotland not to be plausible (Ref. 10).

refurbishment would have been lost. Some interviewees claimed that the incentive to estimate on the high side for the PSC in order to obtain the government funding was strong. We could not validate this view, but it was the case that in all but two schemes in our sample the cost advantage of the PFI option relied on the estimate of the cost of risks transferred. And the size of risks transferred was related to the difference between the PFI cost and the PSC estimate – where the PSC estimate of construction and running costs was much below the PFI cost, the cost of risk transfer added on was on average higher [Exhibit 8]. Again, similar results were found for the school schemes in Scotland.¹

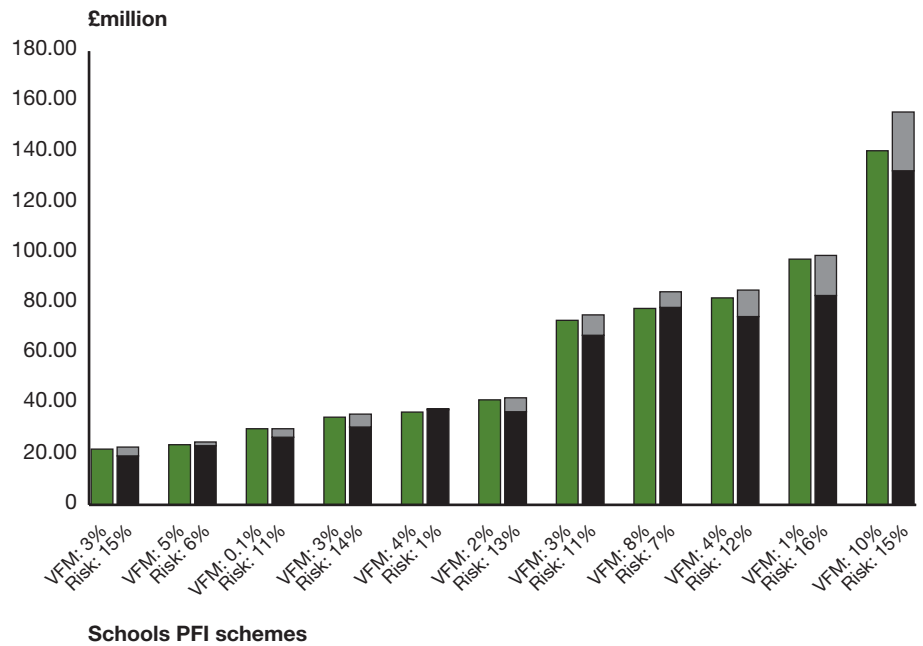
Exhibit 8

Estimates of the costs saved by using PFI rather than traditional procurement for a sample of school schemes, according to calculations via the Public Sector Comparator (PSC); and the value of risks transferred

The costs of PFI schemes were often close to the PSC, but in every case PFI was predicted to offer a saving, ranging from 0.1 to 10 per cent. The size of risks transferred was related to the size of the difference between the PFI cost and the PSC estimate.

■ Cost of PFI
 ■ PSC risk adjustment
 ■ Other PSC costs

'Cost advantage' in this context means the estimated cost advantage of choosing the PFI option over the estimated costs of a traditional procurement as calculated by the PSC. There were no statistically significant relationships between the size of the cost advantage, or of risks transferred, and the type of scheme (single or group) or the date of scheme completion. 'Cost of PFI' and 'Other PSC costs' are the estimated construction and running costs. The accuracy of the predicted savings in these schemes was not independently audited as part of this study.



Source: Audit Commission sample

Improving the way the PSC is calculated

- 58 Whatever the rights and wrongs of these arguments, it is clear that the process has become controversial. One way to enhance the PSC's credibility would be to incorporate more transparent and robust data. LEAs, often with the help of external advisers, did try to construct credible PSCs, but they faced difficulties caused by data shortages. There was a lack of real benchmarks, partly because there had been no recent major investment in new schools to provide them, but also because PFI is an essentially different product (for example, in the schemes examined some of the specified outputs – for example, cleaning – were set at a level of quality and consistency not previously delivered).
- 59 Under PFI, information about the actual costs of building schools rests with the private sector and will not be automatically available for LEAs to use as benchmarks. Moreover, these are the prices that are the product of the current PFI marketplace, and are not necessarily representative of the wider construction and FM marketplace, or of an LEA commissioning the same product via other means. Unless LEAs are able to commission similar products from the marketplace – using the same PFI principles of whole-life costing, optimal risk transfer, payment incentives and output specifications, but via different procurement and financing routes – it will not be possible to assess what costs LEAs would really incur.

Affordability considerations under PFI

- 60 For many years LEAs and the DfES have held different views on the design standards of new-build schools. In the past, many local authorities topped up the capital allocations provided by DfES on traditional build schemes. Most of the LEA officers interviewed stated that affordability gaps under PFI had grown as a result of some of the improvements introduced, such as whole-life maintenance and more professionally managed FM services. But, as Chapters 2 and 3 have shown, the additional cost of these improvements was not off-set in the early schemes by the hoped for efficiency gains in schools' capital and running costs resulting from DBO synergies, innovation or service efficiencies. Consequences of affordability gaps include:
- protracted deal negotiations; and
 - 'horse-trading' about what to take out, or about who pays or who carries a risk, often at a very late stage in the negotiations and sometimes, through pressure of time, excluding users from decisions.
- 61 LEAs and PFI providers also expressed concern about the DfES mechanism for calculating PFI credits via the 'toolkit' (Ref. 12). Proposed legislative changes could make it difficult for authorities to find additional money locally to fund PFI schemes unless it is allowable to make inroads into the relevant standard spending assessment (SSA) block. Schools that are not receiving, for example, the higher level of cleaning service provided under PFI may be reluctant to see additional financial support provided to those schools that benefit. The problem increases as LEAs try to embark on second or third PFI schools projects. In principle, it makes every sense to build on

PFI learning within individual LEAs by doing more PFI, but some LEAs said that affordability problems may limit the number that can be undertaken.

Moving the debate on

- 62 Although the PSC methodology could be improved, there is a need in any case to move the debate on further. Some of the arguments about the PSC will continue, because experts fundamentally disagree over some of the issues. The PSC has lost the confidence of many people, and risks being seen more as a hoop to jump through on the way to government funding than a valuable exercise that can help to ensure better VFM.
- 63 Affordability issues can be a barrier to optimal VFM and potentially compromise some of the basic tenets of PFI. Any funding mechanism has to be adequate, and the risk with PFI is that the impact of under-funding may well surface several years into the contract, allowing LEAs little room for manoeuvre. Such considerations also fit with the Prime Minister's emphasis that good design should not be seen as a costly luxury – indeed it 'delivers better value for money as well as better buildings, particularly when attention is paid to the full costs of a building over its whole lifetime' (**Ref. 13**). So, what next for PFI? This is the subject of the final chapter.

5



PFI into the future

PFI has yet to come of age and prove its potential for improving VFM and providing better schools. Consistent with the Government's current moves to free up local decision-making from central control, there is a strong case for changing capital funding incentives to enable options other than PFI to be pursued equally advantageously. This would open up the PFI mechanism itself to competition. Further hard work is needed to ensure that new schools meet the Prime Minister's call for a lasting legacy of fine civic buildings that play their part in improving educational attainment.

Redefining the PFI debate

- 64 The public debate remains polarised and concerned with whether PFI is ‘a good thing’. But the time has now come to start focusing on what PFI is delivering for education, now and in the future. Because PFI attracts controversy, there is always a danger that it could be blamed for more generic problems, such as general inexperience in modern school design. Equally though, the uniqueness and cost-effectiveness of its benefits have to be proven. That is why we assessed PFI against a control group of traditionally funded schools, so that the strengths and weaknesses that relate specifically to PFI can begin to be teased out. Our results show that by the end of 2001 PFI had not yet delivered some of the most important benefits expected of it. For example, the early PFI schools in our sample were not better designed, and were not achieving efficiency savings in terms of the cost and quality of FM services. But neither was the quality of traditionally funded schools as good as it should be. Our results demonstrate that there were shortcomings that apply to all school design, regardless of the procurement route.

Opening up the procurement market

- 65 PFI needs to be given an opportunity to prove itself properly against other procurement routes and to come of age. PFI promotes contestability and competition in the provision of public services, but that principle should be extended so that it is allowed to compete against other procurement tools – this is a more complete test of VFM than the theoretical calculation of the PSC. Other areas of government policy increasingly recognise that it is not possible to deliver strong public services that meet public expectations using a top-down, ‘one-size-fits-all’ solution, but that delivery needs to be via local choice and flexibility (for example, **Ref. 14**).
- 66 Although all procurement options are technically open to LEAs, the practical barrier is the lack of an even financial playing field. It is time to review this lack of parity, particularly in light of the imminent introduction of prudential borrowing guidelines for local authorities and the concerted efforts being made to introduce new forms of PPP. It also fits well with the further development of Asset Management Plans, which the DfES wishes to see become more strategic statements that join up funding schemes (**Ref. 15**). A more multi-choice procurement regime might also encourage new private sector companies to enter, which will be good for competition and help develop a stronger, more diverse base of expertise in a fundamental public service. The options might include private sector provision of the building fabric (including its maintenance) but leaving the traditional ‘soft’ facilities management with the LEA/schools, or planning for more flexible use of buildings across services and departments. Opening up the options would, of course, need to be within a framework that is consistent with government capital spending controls. The framework would also require internal and external checks and balances. It is important to retain the rigour that processes such as PFI bring to procurement through a high level of external scrutiny and challenge.

67 Long-term contracts in core services, such as schools, where policy is changing rapidly, demand flexibility. That is not easy with buildings, however they are funded. One development, therefore, might be managing an estate across different services within a locality by designing more multi-purpose buildings. The 2004/05 DfES bidding guidance places increasing emphasis on how a project could link to the wider government agenda, for example, to tackle a range of educational, regeneration, leisure, health, social inclusion, lifelong learning and community safety objectives. That requires incentives for the private sector to deliver imaginative designs, and a willingness on the part of national and local government to break down service silos and fund fully more innovative schemes. Of course, such schemes could be more complex than a standard school PFI scheme, and the relationship difficulties greater, given the increased number of agencies that would be involved in the partnership.

Getting smarter

68 PFI has broadened LEAs' experience in terms of service planning, options appraisals, financial modelling, procurement, contract and project management. These lessons and experiences, combined with those learnt from the programme to develop asset management planning within LEAs, could usefully be recycled into non-PFI activities and projects. But the future expansion of PFI in other LEAs could suffer from a shortage of appropriate skills, experience and capacity. The Audit Commission has previously made a similar point about client sector inexperience in other sectors, but this remains a key issue (**Refs. 3 and 4**).

69 One way to improve is to provide training and guidance. As stated in Chapter 1, the quality and cost of the schools we examined will have reflected the conditions prevailing at the time of key stages in the procurement process – for example, options appraisals and the initial output specifications reflected the conditions mainly in 1997-98 and the quality of PFI providers' design solutions reflected conditions mainly in 1998-99 [**Table 1**]. There is now guidance on many aspects and both the procurement process and policy context have moved on (Appendix 3); the lessons learnable from only some of these initiatives will have been available to those involved in the schemes we examined. The DfES publishes standards about many things, from detailed specification of the lighting levels needed in classrooms, through to a wider vision of future needs in *Schools for the Future* (**Ref. 9**). It has further guidance in development. Other organisations also issue guidance and advice, including IDeA, 4ps and the Local Government Development Forum. But a more co-ordinated focus needs to be given to the growing scale of PFI in schools and, in any case, it is neither mandatory for LEAs to follow the guidelines nor easy for LEAs to be sure they are on top of every specific detail of a big project. A further positive step is that, funded by the DfES, the Commission for Architecture and the Built Environment (cabe) will be supporting LEAs in England by providing advice about the design aspects of their school PFI schemes. It remains to be seen how quickly these initiatives can bring about desired improvements, and the DfES needs to review how it can facilitate

achievement of the many other ways to improve PFI that we have described, both at national and local levels.

- 70 Training and support can impart knowledge – but not where it does not exist. For example, we found a lack of knowledge about the whole-life costs of schools and a concern about unanticipated risks that had emerged. For example, Chapter 3 has examined the impact of vandalism – a risk that some contractors did not fully comprehend in early deals. As with the schemes that now cover this risk adequately, LEAs will need to ensure that the private sector ‘works smarter’ and does not just look to transfer costs in other areas back to them.
- 71 One drawback for LEAs is that information on actual construction and FM costs for the specified standards of service is not automatically available to them. The lack of open-book accounting distorts the balance between parties in negotiating leverage on the figures underpinning the contractors’ financial models. This is of particular concern in negotiating variations to the scheme once it is up and running. Indeed, in its proposed revisions to the ‘Green Book’,¹ the Government recognises this problem of ‘asymmetry of information’ where ‘sellers’ and ‘buyers’ do not have access to equal information, which can lead to a breakdown in the market.
- 72 Inequality is not exclusive to financial information. As the skills in school building and facilities management rest increasingly with the private sector, more will need to be done to support LEAs in becoming informed clients so that there is an even playing field of negotiating, contracting and dispute-resolution skills. Otherwise, PFI contractors could increasingly dictate practice in these areas, which may well affect value for money in the longer term.

Table 1
Critical dates for the school PFI schemes examined in this study

	1997	1998	1999	2000	2001	2002
OJEC notice issued	3	7	1			
Preferred bidder identified	1	1	8			
Contract signed		1	2	8		
School open			1	1	8	1

¹OJEC: the date of the notice placed in the Official Journal of the European Community, under European Union public procurement rules. The notice prompts private providers to register their interest in a scheme.

Source: Audit Commission, based on LEA documentation and visit information

¹ The Green Book is a best practice guide to HM Treasury’s policy for economic appraisals and evaluations for all central departments, executive agencies and devolved administrations.

A better learning environment

- 73 We have set out in this report many lessons arising from the early wave school PFI schemes that could benefit schools, however they are funded. Failing to recycle lessons runs the risk of undermining the Government's plans for a new wave of public buildings of lasting civic value that can match the Victorian legacy and provide a better learning environment (**Ref. 13**). But although there is always scope to discover more efficient ways of providing such quality, there is still likely to be a need for compromise between the desirable and the affordable. The Government will ultimately need to decide how much it can afford to invest in the school estate in relation to the quality it would like to see provided.
- 74 And it may be that further developments to the procurement framework are needed. The debate has already started as to whether PFI schemes might develop to a point where contracts link payments to measures of the quality of education provided, such as truancy rates, or how well children perform in exams, extending the current definition of VFM. The PFI scheme itself would then provide incentives for LEAs and PFI providers to be innovative in the design features that make schools fit for their ultimate educational purpose, in addition to incentives to produce buildings that do not cost much to maintain or where the floors are easy to clean.
- 75 It is too early to tell whether the long-term delivery of serviced schools accommodation will be better under PFI, or whether educational attainment will be enhanced. That evaluation can only take place in the future, and the Audit Commission, local auditors and LEA inspectors will return to the issue in due course. The DfES, or the Audit Commission itself, could repeat this study in, say, 12 months using the same technical appraisal methodology applied to a more recent generation of operational PFI schools to evaluate improvements arising from recent government initiatives.
- 76 PFI offers potential benefits, but this study of the early wave school schemes shows that the PFI process did not as a matter of course guarantee better quality buildings and services, or lower unit costs. This is the key lesson – that if the large-scale new investment is to fulfil the Government's vision of quality schools that can boost attainment, then these benefits must be levered out from each individual scheme, and a way found to ensure that a scheme does not fall short of this vision during the procurement process. A consistent message, particularly from headteachers, was that a significant investment of time and personal commitment in the detailed design and development stages is essential if the benefits are to be realised.

Recommendations

The Government should:

1. Within a framework that is consistent with government spending controls, and that safeguards against the creation of a maintenance backlog, open school PFI up to competition, by:

- creating a level playing field by reviewing the financial incentives and restrictions currently linked to different procurement routes;
 - enabling LEAs to consider different procurement options and use the one that will offer the best value for their particular circumstances; and
 - reviewing the PSC and developing a new framework which looks at the costs, benefits and risks of different packages of schools and services and types of building work under different procurement routes.
-

2. Encourage flexible sharing of buildings across different public services by changing the way PFI credits are allocated to government departments.

The DfES in England and the Welsh Assembly Government should:

3. After the first round of its use, in consultation with LEAs and the private sector, review the revised toolkit that assesses PFI credit levels, to ensure that it provides an appropriate level of funding and addresses the concerns raised in this report.

4. Sponsor learning partnerships above the level of individual PFI projects by, for example, establishing a regular practitioners' forum for LEA contract managers (building on the existing 4ps networks) and developing the DfES PFI website to become a wider source of tips and troubleshooting advice, and act as a forum for the exchange of new ideas.

5. Supplement the already-available guidance produced by the relevant government departments, OGC, 4ps and other official bodies, concentrating on specific areas where the speed of change is producing information gaps, including:

- the definition of output specifications and their integration with the payment mechanism to ensure that performance standards are being appropriately defined and the correct financial incentives are in place;
- a set of design appraisal tools;
- a database of schools from which governors and headteachers can identify and visit examples of good design, build and operation;
- emerging risks, so that they can be pre-empted or managed appropriately; and
- a specification of requirements for building surveys in relation to schools that are to be refurbished.

6. Develop an evaluation template for retrospectively assessing the success of PFI schemes, along with other major investments in the school stock.

7. Review how best to match the increasing legal and financial expertise of private negotiating teams so that LEAs can come to the table on an equal knowledge footing.

LEAs should:

8. In line with the Government's Better Public Buildings initiative, ensure that bids are selected on which design will provide buildings that promote learning and achieve VFM over the whole life of the contract rather than on the basis of apparent lowest cost.

9. Ensure that working protocols are developed with schools at the outline business case so that schools understand, for example:

- their role in each stage of the process – from the procurement phase through to contract management – setting out key milestones and decision points so that the client role is clearly delineated between the LEA and the school;
- how information flows will work between the LEA and school and vice versa;
- what support will be available to schools through procurement and the implementation phases – technical, legal and other;
- what financial support will be available to allow schools to participate fully in the process;
- how relationships with bidding consortia and the selected PFI provider will work; and
- how decisions about the use of devolved capital should be made; and how problems will be resolved.

10. Develop a system of checks and balances above the level of individual contracts that can help to capture general lessons about, for example, contract compliance, how partnership working can be made more effective, ways of refreshing deals and securing wider benefits.

School governors and heads should:

11. Take up available training and guidance on school design, how PFI works and their legal and contractual obligations.

12. Involve themselves from the start, especially in the proposal and design stages.

LEAs should encourage the private sector to

13. Set out clearly in their bids how they will involve users of the proposed new school during the design phase so that consultation becomes informed engagement.

14. Consider how they will respond to their public sector clients' demands for:

- greater transparency about costs and methods of working;
- more innovation;
- more evidence of DBO synergies;
- pro-active risk management, not just pricing of risk; and
- more understanding of how risks have been priced and the financial trade-offs for sharing more of those risks.

Appendix 1: acknowledgements

We are grateful to the many individuals within schools, LEAs and other organisations who generously gave their time for interviews and advice, and provided us with data and documentation. We are grateful to the following for carrying out work on our behalf:

- Sue Sanders worked closely with us on all aspects of the study and report development.
- Mike Clift, Martin Cook and Colin Ashford of the Building Research Establishment conducted the schools' technical assessment exercise.
- Jane Stevens and Juliet Brown of MORI conducted the user survey work. We are grateful to the Construction Industry Council (CIC) for permission to build on its questionnaire.
- Enterprise LSE produced a report to contribute towards the scoping phase of the study (Michael Bromwich, Tony Harrison, Tony Travers and Christine Whitehead, *An Economic Analysis of PFI: a Pre-Scoping Paper*).

Appendix 2: glossary and abbreviations

4ps

The Public Private Partnerships Programme, a governmental agency, formed by the Local Government Associations in England and Wales, advising local authorities on developing, procuring and delivering PPPs and PFI projects.

Affordability gap

The difference between the PFI credits plus other funds that the LEA has identified, and what the LEA would like to spend.

Auditors

The scope of the auditors' work at a local authority is determined by the Code of Audit Practice and is to review and report on:

- the financial aspects of the corporate governance arrangements;
- the financial statements; and
- the arrangements in place in relation to economy, efficiency and effectiveness in the use of resources.

In relation to PFI schemes the auditor:

- has to be aware of proposals at an early stage and comment where appropriate to the authority on the arrangements for managing the scheme and accounting for the transactions. Auditors' then have to 'stay alongside' the scheme as it progresses in order to meet their Code responsibilities;
- may provide the authority with views on the proposed accounting treatment in terms of whether the scheme should or should not be included as an asset on the balance sheet. When PFI transactions appear in the accounts the auditor will then give an opinion whether these have been compiled in accordance with the relevant accounting standards;
- does not act as a PFI consultant, financial or legal adviser to the authority. The authority is responsible for obtaining advice through the various stages of the PFI process and about different financial and legal aspects of a particular scheme. It is the authority's decision whether or not to enter into a PFI contract and this is not dependent upon a 'seal of approval' from the auditor for any particular aspect of the scheme.

Availability payment

An element of the monthly payment to a PFI provider for making the building available. The full fee is only paid when all parts of the building are available to specified standards as contractually required.

BRE

Building Research Establishment; the firm that carried out technical assessments of buildings quality on our behalf.

cabe

Commission for Architecture and the Built Environment: cabe is an executive non-departmental public body that was set up to champion high standards in the design of buildings and the spaces between them.

CCT

Compulsory competitive tendering.

CIBSE

The Chartered Institution of Building Services Engineers.

CIC

Construction Industry Council; the body that developed the user questionnaire on which the MORI survey was based.

DB(F)O

The dominant form of PFI in which the service provider is responsible for the design, build (financing) and operation of an asset such as a school or hospital. Operation refers to the provision of some or all of the ‘facilities management’ services related to the asset’s use – such as cleaning and maintenance.

DfES

Department for Education and Skills, whose PFI-related responsibilities include approving PFI business cases, allocating PFI credits and determining overall design standards for schools.

FM

The generic term ‘facilities management’ is used in a PFI sense to cover all the day-to-day aspects of managing buildings, their systems, equipment and furniture:

– **hard FM** covers the costs and responsibilities of maintaining the buildings themselves.

– **soft FM** relates to the costs of ancillary building services such as cleaning and grounds maintenance.

Green Book

A best practice guide to the HM Treasury’s policy for economic appraisals and evaluations for all central departments, executive agencies and devolved administrations.

LA

Local authority.

LEA

Local education authority.

Lifecycle(or whole-life approach)

Consideration of issues such as the need for, and funding of, buildings maintenance over the period of the contract’s life (typically, in PFI schools, 25 to 30 years).

MORI

Market & Opinion Research International; the firm that conducted user surveys on our behalf.

NAO

National Audit Office.

OGC

The Office of Government Commerce – a part of the Treasury set up to lead a programme to modernise procurement in government and deliver value-for-money improvements.

Performance payment

The unitary charge (payment) is based on performance as well as availability criteria. Service standards as defined in the output specification are translated into performance measures that are linked to performance points and financial deductions if they are not achieved.

PFI

Private finance initiative.

PFI contractor

See PFI provider.

PFI Credits

Revenue support for local authority PFI schemes is provided via PFI credits. PFI credits are paid to LAs through the Standard Spending Assessment (SSA) system in a similar way to traditionally procured capital projects.

PFI provider

The private sector body that is bound to deliver the buildings and services over the contract period. It is often a consortium of different private interests (including, for example, finance, construction and FM). The PFI provider might be known as any of the following: Project Company, Consortium, Special Purpose Vehicle, Concessionaire, Contractor, Service Provider.

PPP

Public private partnership. A generic term for projects involving both the public and private sectors (with varying levels of involvement and responsibility). PFI is one variant of a PPP.

PSC

The Public Sector Comparator. A financial benchmark for assessing the value for money of PFI services and buildings compared with the costs of building them via traditional finance.

SPV

Special purpose vehicle – a company created and owned by the consortium of private sector interests involved in a PFI deal, established to provide the legal and commercial focus for the relationship between the PFI provider and the local authority.

SSA

Standard spending assessment; the method used centrally to allocate funds to a local authority.

Standardisation of PFI contracts guidance

Developed and revised in 2002 by Partnerships UK and OGC as guidance on PFI contract terms and conditions.

Traditional (or conventional) funding

Ways in which the money for new or refurbished schools was secured by LEAs before the PFI scheme (for example, by borrowing on its own account). Such projects are generally paid for in full shortly after construction is completed.

TUPE

The Transfer of Undertakings (Protection of Employment) Regulations 1981, which aim to safeguard the rights of employees on their transfer to another employer, for example when their work is contracted out.

Unitary payment (or charge)

The (usually) monthly charge paid by the public sector client to the project company, once the contract is running, over the concession period in respect of the provision of services provided by the PFI provider.

Users

The direct users of buildings and services – in schools this includes pupils, teachers, governors, support staff and the local community.

Variation

Where either the provider or the LA wish to make a change to the contractually agreed specification for buildings or services, a formal variation has to be agreed by all the relevant parties and there is a contractually agreed set of procedures that have to be followed. This may well feed through to an adjustment to the unitary payment and, in some instances, the service performance and availability criteria.

VFM

Value for money.

Source: Audit Commission, incorporating material from publications and websites of 4ps, Audit Scotland, CIPFA, NAO, IPPR and Unison.

Appendix 3: development of the PFI process since 1997

1997

Review of the PFI process undertaken by Sir Malcolm Bates.

PFI Taskforce created within the Treasury to improve PFI expertise within Government, including setting up the Project Review Group as a quality hurdle.

1997 onwards

General guidance and advice from DfES:

- It is a condition of DfES support to LEAs that they are prepared to share non-confidential information with other LEAs in order to avoid 're-inventing the wheel'.
- Standard contracts introduced, along with extensive guidance on their use (which all LEAs must use and agree any deviation with DfES) and standard LEA/schools agreements.
- Support for LEAs' procurement costs and work with a number of LEAs to strengthen and develop their in-house procurement capacity, including paying for the costs of this process.
- Developing joint venture companies to achieve greater efficiencies, further reduce procurement costs and make PFI more accessible to VA schools.
- The introduction of Asset Management Plans which now require LEAs to make links with educational improvement plans.
- Establishing a schools PFI website containing advice and information.
- Recently launching, at a national conference, a video and accompanying booklet produced by DfES and aimed at school governors to better inform them about schools PFI and their part in the process.

1998 onwards

Greater standardisation of the PFI process and improved accounting guidance.

School design issues:

- Involving a wide range of individuals and organisations (such as CBE and the Design Council) in the preparation of key design guidance, such as Schools for the Future BB95, the revision of Area Guidelines for Schools BB82 (placed on the DfES website and formally superseding BB82, with figures up 10% for secondary schools and 15% for primaries), and the forthcoming Schools Cost Study, which aims to establish benchmark cost data.

- Schools for the Future BB95 illustrated the benefits that good design can bring to the education environment.
- The continuing participation of CABE, the Design Council, RIBA, private consultants, private contractors, chief education officers and head teachers as members of steering groups advising on many DfES publications.
- The same parties are represented on the Advisory Group on School Design established to advise Ministers on better procurement.
- Funding CABE to provide project enablers to advise LEAs on design and related issues in PFI projects.
- Options appraisal guidance, which advises LEAs as part of the asset management planning process to appraise all major building projects against the Schools for the Future model.

2000 onwards

School PFI Credits Toolkit:

- Comprises a combined spreadsheet and database used for calculating PFI credit allocations to ensure a level playing field across PFI projects, with funding benchmarked above the standard allowances for conventional projects.
- In summer 2001, following a feedback exercise involving users, the Toolkit was modified (including a 10.5% increase in area costings) and guidance was revised extensively to make its use easier and calculations more transparent.
- Second (2001) updated version used for projects intending to sign in 2003-04.
- In summer 2002, following extensive research, a supplementary special educational needs (SEN) spreadsheet was devised and used to recalculate the SEN element of projects provisionally approved for 2003-04. Compared with mainstream allowances, the SEN spreadsheet increased the allowed area costs by up to 20% and, more significantly, the allowed areas per pupil by up to 200%.
- Also in summer 2002, the Toolkit was revised for a second time and the SEN formulae integrated within it and updated. Large increases in allowed area costs for mainstream schools were also introduced (up to 30% in the case of secondary schools) and costs are now benchmarked against those for academies.
- This third (2002) version is being used for projects intending to sign in 2004-05 (the current round).

Evaluation of Outcomes:

- Sponsoring two major research projects into the link between investment in new buildings and educational achievement.
- Continuing to research the links between design and educational performance through the Classroom of the Future initiative, which is currently funding 30 pilot projects, focusing on the creation of effective, imaginative and stimulating learning environments.

- The Classroom of the Future pilot projects will all be monitored and evaluated.
- Shortly to begin research into lifecycle costs.
- A more robust evidence base, supported by comprehensive databases which can be used for evaluation and benchmarking, is currently being developed.

2000

Partnerships UK established to drive forward the development of the PPP/PFI market and support the public sector in the development of new deals, with a free helpline service.

The Office of Government Commerce established to offer guidance on improving procurement performance across Government, including a joint OGC/CABE report on improving Standards of Design in the Procurement of Public Buildings and, with Partnerships UK, the standardisation of PFI contracts.

Source: DfES

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