Local government

Briefing

PFI in schools

The quality and cost of buildings and services provided by early Private Finance Initiative schemes
The Government expects the Private Finance Initiative (PFI) to improve the run-down school estate by providing new investment, better quality, innovation and greater efficiency. In England, PFI commitments to 2005/06 involve the building or refurbishment of over 500 schools at a cost of £2.4 billion. Most centrally funded new schools now involve PFI. In Wales there are six school PFI schemes signed or in procurement, involving 13 schools in all, including two already built.

The quality, cost and timeliness of school PFI schemes

We compared the quality, cost and delivery times of a sample of early PFI schools with traditionally funded schools built around the same time. Since it takes a while from project inception to operational delivery, our analysis focused on the earlier PFI schemes, stemming from a time when policy and practice were developing, and experience (of both LEAs and PFI providers) was expanding. 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. Overall, the technically assessed quality of the schools – however they were procured – fell below best practice. The PFI sample of schools was, statistically speaking, significantly worse than the traditionally funded sample [Exhibit 1]. The expected benefits of a single private consortium designing, building and operating schools were not yet widely evident.

Most users were understandably pleased to have a new school, but they were less happy with some specific aspects of their buildings – for example, size, layout and environmental control. A feature of PFI is that providers suffer financial deductions if they do not put certain failures right, and so, for example, 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 availability and performance criteria. Some of the problems we found were covered by the specification (for example, a leaking roof). But others were not, for example, poor acoustics, which is both harder to define precisely as a performance measure and (often) not easily remedied once the school is built. It is a considerable challenge to translate all of these aspects into a usable specification, and then make it work as a performance monitoring tool.

The unit costs of new schools varied widely, with no clear-cut difference between PFI and traditional schools in either construction or most running costs (the average cost of cleaning and caretaking – on the limited evidence available to us at this time – appeared to be higher in PFI schools, probably reflecting higher standards). There was no evidence that the PFI schools were delivered quicker. One explanation may be that historically there were fewer over runs in the educational sector than other public schemes, because LEAs have always needed to manage school building time scales carefully to ensure that school places are ready for the beginning of a term.
Exhibit 1

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

The quality of all the schools assessed – however they were funded – fell below ‘best practice’; the PFI sample of schools was, statistically speaking, significantly worse than the traditionally funded sample.

Aggregate score from five ‘design quality’ matrices

To reach the level of ‘best practice’, a school had to meet all of the DfES and other relevant guidance. 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).

Source: Audit Commission analysis of data supplied by the Building Research Establishment (BRE) for eight PFI and ten traditionally funded schools.

Improving how contracts are implemented and services run

The report describes many lessons that can be learnt about improving the way that PFI is implemented at local level. The most important are the need to: create partnerships within robust governance, incentive and compliance frameworks; improve communication between the many different stakeholders involved; and bring in users from the early stages in an informed and useful way. While improving communication is the responsibility of everyone involved, the LEA has the pivotal role.

A clearer national framework

The Government requires that local authorities develop a financial benchmark – the Public Sector Comparator (PSC) – to compare with PFI bid costs. In our sample, PFI was in every case judged to offer a saving over the PSC, once an estimate of the value of risks transferred to the PFI provider was included. The estimated savings ranged
from 0.1 to 10 per cent of the total scheme cost. These findings are very similar to those of other evaluations of PFI, for example, that carried out by Audit Scotland, and would suggest that the value for money (VFM) of school PFI has already been proven. But Audit Scotland and others question this view. To date, school PFI schemes have received permission to proceed only when their forecast costs were lower than the PSC estimate. But most LEAs have had no alternative funding available – without PFI, the opportunity to obtain new buildings or refurbishment would have been lost. 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 to tip the balance. The report also refers to other question marks about the PSC: the credibility of this way of measuring PFI’s VFM has been hotly debated by a wide range of stakeholders. It is time to rethink how VFM is assessed, by putting in place a more transparent, wider test of likely VFM that focuses on outcomes and risks, as well as costs, over the life of the contract.

7 A choice of procurement options, subject to a framework that is consistent with government capital spending controls, could go some way to addressing these concerns. These might include private sector provision of the building fabric (including its maintenance) but leaving the traditional ‘soft’ facilities management with the LEAs/schools, or planning for more flexible use of buildings across services and departments. Capital funding incentives could be changed to enable options other than PFI to be explored equally advantageously, allowing a real test of competition, and addressing affordability problems. 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.

Procuring better educational attainment

8 PFI has broadened the experience of LEAs in terms of service planning, option appraisal, financial modelling, procurement, contract and project management. These lessons and experiences should usefully be recycled into other sorts of non-PFI activities and projects, as well as further PFI schemes. However, we also found evidence that procurement skills were thin on the ground, even in LEAs that had already been involved in a PFI scheme. It is too early to tell whether the long-term delivery of serviced school accommodation will be better under PFI, or whether educational attainment will be enhanced. But this study of the early school schemes shows that the current process cannot guarantee, as a matter of course, better quality buildings and services, or lower unit costs. If the large-scale new investment in schools is to fulfil the Government’s vision of quality schools that can boost attainment, then these benefits must be leveraged 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.