

PFI IN SOUTH EAST ENGLAND SECONDARY SCHOOLS – A SCHOOL MANAGER’S PERSPECTIVE

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The Government has suggested that the Private Finance Initiative (PFI) will bring an end to the makeshift classrooms that have blighted the UK education system over the past few decades and that new, well-equipped classrooms will be the norm, rather than the exception. With the top 50 contracts alone worth more than one billion pounds it is imperative for the secondary education sector that this system of procurement is successful. Criticisms have already been voiced of PFI projects in secondary schools and reports suggest problems have included inexperienced clients encountering poorly prepared contractors. The research reported in this paper is part of a global research programme aimed at developing a process framework model to improve the design, execution and operation of PFI projects for school managers in secondary education. The aim of this work, therefore, is to establish the scale of difficulties and typical issues reported by school managers that have experienced development using PFI in the South East of England. Having conducted an extensive literary review and by using semi-structured interviews with secondary school managers, this research has established key problems following extensive upgrades of their schools under PFI. This will provide a clear focus for continuing research.

Keywords: private finance initiative, secondary education, stakeholders.

INTRODUCTION

This research reports on four schools in Brighton that have been upgraded under a Private Finance Initiative (PFI) contract. Construction work was phased and (largely) finished by September 2003. The schools remained open throughout the project and the operational phase is now underway. These case studies provide an opportunity to record the experiences of school managers who have been directly involved in the PFI process and redevelopment of their school premises. The research reported here is the first phase of a larger project which aims to establish the typical issues and difficulties as reported by school managers following the construction, and during the operation of facilities under PFI contract schemes.

In November 1992 the UK government launched the Private Finance Initiative with the publication of Private Opportunity, Public Benefit - Progressing the Private Finance Initiative (HM Treasury 1992). The key principle was to provide the taxpayer with value for money and to place risk “with those best able to manage it”.

Three types of PFI project were identified:

1. Financially free-standing projects – where cash is recovered entirely through charges for services to the final (private sector) user such as tolls on bridge projects.
2. Services sold to the public sector – where the cost of the project met wholly or mainly by charges to public sector such as privately financed prisons
3. Joint Ventures - projects met partly from public and partly from other sources but with private sector control.

Most current school projects fit into the second category.

These findings are part of a global research programme, being carried in the University of Brighton, aimed at developing an independent model to improve the application of PFI schemes in Secondary Schools in the UK. Table 1.0 illustrates the extent and scope to which this current research covers, whilst identifying the future and intended areas for further investigative research.

Table 1.0: Scope of research considered in this paper

	INCEPTION	DESIGN	CONSTRUCTION	COMMISSIONING PHASE	OPERATION
Brighton Schools	Future Research	Future Research	This research		Future Research
South East UK Schools	Future Research	Future Research	Future Research	Future Research	Future Research
The UK schools PFI programme	Future Research	Future Research	Future Research	Future Research	Future Research

METHODOLOGY

Semi-structured interviews have been used to target a sample of professional school managers.

The semi-structured interviews had three main purposes:

- To identify problems associated with the construction & commissioning phases of the PFI contract
- To identify emerging concerns in the early stages of facilities management by the PFI contractor
- To identify the key issues which can then enable the development of a framework based upon the feedback which can form the basis for testing a larger sample.

Semi-structured interviews were chosen as they provide a thorough, focused and trustworthy means of information gathering face to face with the interviewee (Mitchell 1988). Bradburn (1979) indicated that a semi-structured interview was most likely to serve as the preferred medium for obtaining information. Since the interviewee in a semi-structured interview is guided but not led by the interviewer, this type of interview enabled the interviewee the opportunity of spontaneity and to expand upon situations that may have been denied had a more formalised questioning technique, for example, a mailed questionnaire, been employed.

The greatest single benefit of the semi-structured interview however is the ability to probe further when particular responses were so encountered and to ask for clarification of respondents' answers. Additionally the flexibility to act as a motivating force to keep the respondents' interest, and above all to build and maintain a rapport between interviewer and interviewee assisted in the successful outcome of the survey.

BACKGROUND TO PFI IN THE EDUCATION SECTOR

After the launch of PFI in 1992 the subsequent take up of PFI by the construction sector was particularly sluggish in the education sector (Chevin 1995). In 1996 the Department for Education and Employment (DfEE) selected four pathfinder projects (generally for single schools) to go forward and in 1997 "Route B pilots" with grouped sets of schools was launched.

The potential for PFI in the education sector however received a boost in 1997 when the Labour party came to power in the UK. Prime Minister Tony Blair's top three issues were "education, education and education". The priorities were not only to improve teacher/pupil ratios but to improve the standard of school buildings.

From the following Table 2.0, below, it is evident that there had been chronic underinvestment in schools.

SECTOR	NUMBER OF INSTIT'NS	ESTIMATED CAPITAL STOCK (£M)	CAPITAL PROGRAMME 1994/5 (£M)	CAPITAL PROGRAMME/ CAP. STOCK (%)
Schools	24,607	39,000	558	1.4%
Further education	465	7,000	157	2.2%
Higher education	128	12,000	322	2.7%
TOTAL	25,200	58,000	1,037	1.8%

Table 2.0 Education Capital Investment Programme: Department for Education. Middleboe S., 1994 NCE/NB PFI supplement

Having made this pledge to improve the building stock but equally undertaking not to increase taxes, as part of their election manifesto, it was inevitable that New Labour would use PFI extensively to meet their commitment to improve school facilities.

Between 1997 and 2002 £2.2 billion was raised in PFI credits, however, given the parlous state of many schools this rate of expenditure needed to be accelerated.

"Out of 24,000 schools in England, 14% are patched up Victorian buildings and 60% are effectively pre-mid 1960s stock....Only 14 per cent of all school buildings in use were built after 1976 and 2 percent are still 'temporary' structures" (Williams 2003.)

A variety of initiatives were therefore launched in 2002. The Department for Education and Skills (DfES) and Partnerships UK (a Public Private Partnership Quango) commenced work on new proposals for establishing joint venture companies which were initially piloted on Church of England Schools. At the same time in an effort to address the pending problems of underinvestment, the launch of the 'Performance Partnership' took place, which comprised of the Local Government Association (LGA), working alongside four central bodies to 'deliver local

government improvement'. One of these four agencies was the Public Private Partnership Programme (4ps).

The Public Private Partnership Programme (4ps) is the local government project procurement agency. The agency offers advice and practical support in four ways:

1. Project support
2. Gateway Reviews – *(the Gateway review process reviews a procurement project at the key stages of the project life cycle. It is 'identified as the main driver for improving project procurement in central government, the 4ps is introducing gateways to local authorities')*
3. Skills development
4. Wider partnerships – with public, private and voluntary sectors

In April 2003 as a result of lessons learned 4ps (Public Private Partnership Programme) published a Schools PFI Procurement Pack

According to 4ps (as at October 2003) 83 of 140 LEAs have received PFI credits. There are 34 operational projects, "most operating successfully", although it is noted that there are a few schemes with disappointing service delivery 90% of operational starts were on time. Some concerns, identified in Table 3.0, have however been emerging about refurbishment of existing schools (Lipson 2003)

Table 3 - The Pros and Cons of PFI (Lipson 2003)

The Pros	The Cons
Unique opportunity for large scale investment	* <i>Restricts financial flexibility for LEAs and schools</i>
Sets budgets to maintain high standards	School governors – concerns over delegated funds
Re-investment in assets over contract period	Complex procurement processes
Delivers to time and to cost, reduces other risks	* <i>Limited staff resources/needs skilled team</i>
Savings on traditional procurement life cycle	Procurement costs
Single point accountability	* <i>Affordability problems</i>
	* <i>Trades union opposition/PR issues</i>

*** Those shown in italics are picked up in the Brighton schools research survey 2004.

Some reports have been critical of the PFI funding option to procure facilities. In February 2003 the National Audit Office (Bourne 2003) produced a report broadly complementing PFI projects but nevertheless stating that "it is not possible to judge whether these projects could have achieved these results using a different procurement route". Gosling (2003) went further and questioned the subjectivity and objectivity of the process when comparing public and private optional alternatives and the Audit Commission (2003) identified the quality of PFI schools to be significantly worse in each of five areas assessed.

The major new initiative for secondary schools was, however, in February 2004 with the launch of the 'Building Schools for the Future' programme. This outlined the proposed investment in secondary schools over a 10 year period and again focused on using a joint venture approach. The perceived aims of 'Building Schools for the future' are:-

- To provide a strategic approach (not piecemeal)
- To have an impact on education standards
- To provide modern 21st century schools
- A £2.2 billion spend in 2005/6 using PFI/conventional/FM
- To include 3000 schools x £10-15million per school in 10 years

PFI IN BRIGHTON SCHOOLS – REFLECTIVE OBSERVATION

In common with many other local authorities in the UK, admissions to secondary schools in Brighton & Hove rose rapidly in the 1990s and demographic changes projected the need for 450 additional secondary school places. At this size a new school was not economically viable so it was decided to extend and refurbish existing schools.

In consultation with the schools and stakeholders the local authority drew up proposals to include:

- Enlarging three popular secondary schools in the Brighton & Hove area to permit each of them to admit an additional form of entry.
- Providing specialist facilities at a further school to enable it to fulfil its role as a centre for media arts.
- Addressing the condition and suitability of the premises occupied by all four schools.
- Provide improved facilities on the site of one school for a public library and the local community association (an adjoining junior school also received a new dining hall and a youth centre relocated).
- Letting a contract for facilities management for 25 years.

A contract in the value of £19 million was signed in March 2002 with phased completions planned for December 2002 and August 2003. Although there were delays in the completion of works all are now using the new facilities provided.

KEY PRELIMINARY FINDINGS

The following preliminary findings are based on semi-structured interviews with secondary school managers held in 2004. Due to adverse publicity in the local and national press there was considerable sensitivity on the part of school managers to the (mis)use of any information provided. It was not therefore possible to make audio recordings of the interviews. The key issues arising are detailed here.

Autonomy of Head Teachers/exposure to risk

During the construction phase a great degree of autonomy was given to Head Teachers in making design decisions and in managing the project from the client side. There was little interference from the local education authority and seemingly little support. It might be expected that specialist advice would be available from either the local authority or independent consultants and yet this was rarely the case leaving schools vulnerable to (the goodwill of) the contractor.

Two issues illustrate cause for concern with this approach. At one school a new head was brought in during the design phase who subsequently left before the works were

handed over to the school. The new school managers were then left to manage poorly considered design decisions. Some of these affected the security of the school and its ability to operate effectively. The second issue is that post-hoc modifications can have important financial implications and may prohibit those changes taking place.

Availability of professional support and advice

With one exception there was no construction expertise within either the school management teams or the school governors. It would therefore have been expected that construction consultants be made available as support. This was however not the case. The appointed consultant was generally only bought in to arbitrate in the event of a dispute between the school and the contractor. The PFI manager from the local authority covered all four schools and was also responsible for the financial administration of the contract. This has been addressed by Partnerships UK which recommends a PFI Project Manager be appointed early in the procurement process.

Maintenance of Facilities

The success of maintenance varies between the four schools. One of the schools is using their website in an attempt to “name and shame” the contractor into action.

NEWS April 26th: There has been a small improvement in cleaning - although that's not saying much when floors haven't been polished for eighteen months. A plan has been produced in order to landscape much of the mess and neglect left behind post-construction, but only time will tell if this actually happens. Previous experience (with the pfi consortium) has proved that high level management lack the wherewithal to turn their promises and obligations into action.

NEWS Feb 6th: the Council made it clear to (the contractor) that their performance across the schools in the contract was deplorable. has finally woken up to the fact that we've been paying for services we've not been receiving, Unfortunately, both parties to the contract (the PFI contractor and the Council) were singularly unforthcoming on sorting out shoddy construction, missing equipment and the shambolic state of much of our grounds.

Available from: <http://www.varndean.brighton-hove.sch.uk/varndean.asp>

This extreme dissatisfaction has resulted in significant monies being withheld from the contractor. Other schools have experienced fewer and more minor problems with maintenance; however, most expressed reservations about the sufficiency of financial penalties as an incentive to rectify defects. As an example, a window in one school remained broken for nearly a year, despite the correct procedures being followed by the school managers.

Loss of financial autonomy for the school

Whilst 80% of school budgets comprise salaries of staff the cost of providing facilities have always taken up a significant proportion of the remaining balance available. Prior to involvement in PFI schemes the schools nevertheless had some autonomy and control over how this 20% was expended. Signing up to PFI schemes has however taken out at least 50% of this money meaning that there is virtually no flexibility in the annual budget and spare money for other unforeseen expenditure is harder to find. Parallels exist between secondary schools and other sectors of education. In 1996 the National Committee of Enquiry into Education (chaired by Sir Ron Dearing)

requested evidence/comments from universities about the future shape of UK higher education. Part of the submission from the University of Brighton included

".....advise against naive assumptions regarding the possible replacement of capital expenditure for academic purposes with borrowing from private finance (which merely then becomes a further charge against an already reducing revenue stream)."

Whilst the purpose of this paper is not primarily to deal with the financial issues it would seem that this charge against a reducing revenue stream is already an issue for some schools.

Lack of continuity in site staff

It is not only in school PFI projects that there is a high mobility amongst contractors' and sub-contractors' staff but it causes particular problems when, as far as the school is concerned, they are trying to develop a relationship with the PFI contractor which will last through the design, construction, commissioning and operation phases.

It is common practice to have quality of key staff (and cvs) as one of the selection criteria at tender stage in large complex projects. Continuity amongst key members of the contractors staff, tied in contractually, would help alleviate many of the communication problems which have occurred.

Lack of commissioning Advice

When specific pieces of equipment were provided within the contract little was done to explain to staff their workings resulting in delayed use by schools. The new media suit in one school was not operational until Easter 2004 when it was originally due to be fully functional for the start of the academic year in September 2003.

Snagging list not completed

At each school there are examples of items identified in snagging lists in September 2004 remaining outstanding as this paper is finalised in May 2004. There are further areas at each site which have been used for contractor's storage or for site accommodation which have not been released back to the schools.

Lack of detail/clarity in the contract

Some items of work identified in the contract have not (to date) been carried out as they were ill defined within the contract documents. This is due to poor definition of requirements in the contract documentation. An example of this is a provisional sum being allowed for refurbishment of existing toilets. The school expected to get refurbished toilets but the contractor claimed the money in the provisional sum was not sufficient. Clearly there should be an obligation on both parties to ensure the contract is clear but it is the school who is the non-expert party and it is the school which is left without the facility.

Poor design standards

As schools took over completed sections of the project significant items became apparent as under-specified. These included poor sound insulation of partitions between common areas and studios and corridor ceiling heights being below Building Regulation standards

Cost of using facilities out of hours vs Recompense for non availability of facilities

Within the contract there is an allowance (of 150 hours) for the use of each school for out of hours for activities such as parents' evenings or weekend sports activities. Beyond this allowance there is a charge made to the school per facility or based upon the staff to be employed for that extra period. Based on discussions with schools there is an imbalance between the amount a school can offset for non-available facilities (an unavailable classroom at say £15 per day) and the additional charge for renting that classroom out of hours (at say £15 per hour). This charge adds to the feelings of teaching staff that they have lost control of 'their school'.

Catering

As part of the facilities management provision by the PFI contractor the responsibility for catering has been transferred to the PFI contractor. The general perception of pupils and staff at the schools is that the quality of catering has deteriorated since the catering service has been taken over by the PFI contractor, that the importance of a good diet and healthy foods do not extend to PFI funded secondary school catering. Not only has the quality of catering worsened but the nutritional value of the food has dropped so that more children leave school at meal breaks or bring their own lunch.

Use of local suppliers/Poor payment terms

The facilities management of schools by national contractors will almost inevitably result in a wider network of suppliers than when the school was managing its own maintenance and repair. There is however one other factors which reduces the involvement of local firms as suppliers to the schools; payment terms. The terms of the Contractor, if adhered to (Macalister 2004), are very unfavourable to suppliers at 90 days after invoicing. This together with a tendency to centralise suppliers effectively excludes many local suppliers and sub-contractors. Links that schools have with the local community are therefore severed.

Problems with latent defects in existing buildings

Prior to accepting responsibility for maintenance of schools a condition survey was carried out and the school. In general this resulted in the local authority carrying out all outstanding repairs. There are however examples where the contractor, having now taken over responsibility for the operation of the school is not accepting responsibility for latent defects resulting in disputes over responsibility for repairs between the local authority and the PFI contractor.

Additional Management Time Needed

One of the original remits for PFI in schools was that it would free up school managers' time for education rather than administration. It would seem however that the administration of the PFI contract takes up more of the school managers' time than self management of the school facilities did before PFI. It has even been suggested that two of the schools are in discussion about taking on a shared person to administer the PFI contract. This is clearly contrary to the originally stated intention of the government.

Recruitment potential

Although not part of this research the non-use of these projects as a recruitment tool for the construction industry is lamentable. The industry perennially complains of a problem in attracting good quality recruits. Children in secondary schools are at an

age when future careers choices can be positively influenced. Construction projects in schools provide a remarkable marketing opportunity for the industry. Not only can children be stimulated by new facilities but also have the opportunity to witness the construction process at first hand. Students can also see how designs on paper manifest themselves as three dimensional artefacts.

Assuming an average of 1000 pupils per school in the 3000 PFI schools by 2006 this equates to 3,000,000 school children all of whom are potential recruits to the construction industry.

Pupil's attitudes to contractors are often negative as a result of general (and perhaps more specifically teacher) suspicion of PFI. Because of this image little encouragement is given to join the construction industry.

CONCLUSION

Whilst there have been tremendous gains for schools who have been party to PFI projects, in terms of improvements to their built facilities, the process leading to the completed construction project and the ongoing issues involved in operating the school under a PFI regime receives mixed reviews.

It might be seen that many of the findings in this paper present a negative view of PFI however it must be appreciated that the schemes reviewed to date in this research went through the inception, design and construction phases before most of the currently available guidance was available.

There are however two general issues raised. Firstly that the facilities provided and the conditions under which they must remain operational are tied into a twenty five year agreement so that even if new projects are free from the problems encountered the issues identified in these early projects will have long term implications for the schools and local authorities concerned.

Secondly, although the problems with the contractor involved in the Brighton schools project (and with other education authorities) have been well documented they may not be representative. There is however little independent research on the experiences of school managers. It is therefore intended to follow up this initial research with a larger population of schools and to investigate projects from inception stage through to operation to establish if the implementation of the new initiatives is having a positive impact on service delivery.

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