

A PFI REPORT FOR UNISON

WHAT IS WRONG WITH PFI IN SCHOOLS

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UNISON
the public service union

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● UNISON would like to thank the National Union of Teachers for their help in preparing this report.

As more PFI schools are built it becomes possible to judge their success. UNISON has members intimately involved in PFI. This report draws on their experience and rounds up the evidence to date. It shows that:

- there is a growing consensus that PFI is not working in schools
- PFI is not value for money because it costs more
- PFI leads to an affordability gap which in turn puts pressure on quality, design and services
- PFI can cost the jobs, pay and conditions of the workforce
- PFI has serious accountability issues
- Private companies see PFI as a rich source of profit.

The Private Finance Initiative (PFI) in the education sector is not just about providing school buildings: it is also about privatising public services.

Under PFI, a private sector consortium made up of several companies enters into a contract with the Local Education Authority (LEA) to design, build, finance and operate school buildings. The consortium also provides other services such as catering, cleaning and grounds maintenance. This contract typically lasts 25-35 years.

The LEA makes regular payments to the consortium to pay back the loan - plus interest, plus shareholder profits and to cover the services provided.

The LEA must demonstrate that the PFI project is value for money when compared with the Public Sector Comparator (PSC) - an estimate of the cost of the project if it was publicly funded.

The private consortium raises the money to build or repair schools from bank loans and from shareholders. PFI money is not new money - the LEA will pay back every penny, with interest.

This contrasts with conventional procurement whereby the LEA would raise the money by borrowing it independently or from the government, at preferential rates, and then get a private company to simply build or refurbish the school.

PFI Schemes in schools

England: There are 86 PFI schools projects worth over £2.4 billion covering over 500 primary and secondary schools, which range from single small new primary schools to refurbishment of a whole school estate. Of the 86 projects, 9 are signed, 39 endorsed and 38 operational.

Scotland: There are 15 PFI school projects worth £553m, of which 5 are operational, 5 signed, 5 tendered.

Wales: There are two PFI schools already built plus 6 projects signed or in procurement, covering a further 11 schools.

PFI is not working

UNISON and other education unions such as the NUT, have warned about the dangers of PFI for a long time. Now there is a growing number of organisations and individuals who are very critical of PFI in schools. Here are some of their findings on the shortcomings of the system:

The Audit Commission

The Audit Commission, the government's local government watchdog for England and Wales, produced a damning report¹ on schools PFI in January 2003. It compared 12 recent, traditionally funded schools with 17 PFI schools and found:

- the quality of PFI schools was not as good as schools built by more traditional means
- the best examples of innovation came from traditional schools
- the costs of cleaning and caretaking appeared to be higher in PFI schools
- new-build PFI schools were not even completed more quickly.

The Commission concluded that the government should create a level playing field and enable LEAs to consider different procurement options.

Audit Scotland

Audit Scotland, the government's watchdog on the proper, efficient and effective use of public money in Scotland, published a study in June 2002, of six of the current 12 operational PFI schools projects in Scotland covering 65 schools² Its conclusions included:

- in five of the six cases the PFI construction costs were

higher than for the Public Sector Comparator (PSC)

- in all six cases the operating costs of the PFI option were higher than the PSC
- financing costs made up one quarter of the total costs of the projects
- the overall financing costs for the private sector were 2.5-4% higher than a council would pay if it borrowed money itself for a similar project.

The report also analysed the contract costs for the six projects and found that, 'Typically, initial capital investment accounts for only between one-fifth and one-third of the total (lifetime) project costs to the council.' UNISON believes this is too high a price to pay when the extra money could have been spent on other school projects.

Audit Scotland said that to help improve value for money in this sector councils needed a real choice of procurement options for future projects, to include PFI and non-PFI options.

The Commission for Architecture and the Built Environment (CABE)

The government's architectural watchdog (CABE), has raised concerns about the quality of design in PFI schemes. These concerns show that the government's guiding principles in PPPs - to 'seek and encourage innovation which will lead to step change improvements in quality, performance and cost'³ – are not being met.

¹ Audit Commission 'PFI in schools' January 2003
www.audit-commission.gov.uk

² Taking the initiative: Using PFI contracts to renew council schools, Audit Scotland, June 2002
www.audit-scotland.gov.uk

³ Better Quality Services: A handbook on creating partnerships through market testing and contracting out, Cabinet Office 1998 www.cabinet-office.gov.uk

Sir Stuart Lipton, head of CAGE, said: “There has been a general under-performance in terms of functionality, build quality and aesthetics.”

Richard Feilden, a CAGE commissioner, describes some PFI schools as being ‘little better than agricultural sheds with windows’.

National Audit Office (NAO)

Jeremy Colman, deputy comptroller and auditor-general of the NAO, has described value-for-money exercises involving the PSC as ‘pseudo-scientific mumbo-jumbo where the financial modelling takes over from thinking...It becomes so complicated that no one, not even the experts, really understands what is going on.’

House of Commons Public Accounts Committee (PAC)

The PAC has produced a number of critical reports. Most recently they said: ‘Value for money needs to be maintained over the life of these long term contracts. We are very concerned that over one in five authorities consider that value for money from their PFI contracts has diminished, with high prices for additional services an area of concern.’⁴

IPPR Commission on Public Private Partnerships

In summer 2001, the Institute for Public Policy Research (IPPR) Commission’s report Building Better Partnerships contained a surprising amount of criticism of PFI. It said:

■ the evidence suggests a “lack of convincing value-for-money” gains in PFI schools and hospitals

■ value for money ‘has not been the driving force’ behind PFI deals and political considerations have forced the public sector to regard it as the only option

■ many projects are offering at best marginal value for money without delivering the promised innovations in design and organisation of services.

4 Forty-second Report of the Public Accounts Select Committee: Managing the Relationship to Secure Successful partnerships in PFI projects (HC 460) www.parliament.uk

PFI is not value for money

PFI schemes cost much more than conventionally funded projects for a number of reasons.

The private sector borrows at higher rates than the public sector

The government and LEAs can borrow at much lower interest rates since they are seen as more reliable investors.

■ Audit Scotland calculated that, ‘The additional costs of private sector finance may be equivalent to approximately 10% of the estimated cost over the 25 or 30 year lives of the 12 first generation PFI school projects.’

Set-up costs are higher

PFI set-up costs involve lengthy negotiations with expensive lawyers and consultants employed by both sides.

■ The first 15 NHS trust hospitals spent £45 million on advisers – an average of 4% of the capital value of each scheme

■ Brent LEA abandoned its original PFI plans after five years of negotiations and £850,000 in costs. A new Brent LEA scheme is likely to take another two years and another £550,000 to prepare.

The private sector demands large returns

Despite very low risks, profits from PFI are extremely high.

■ The companies involved with the PPP for the London Underground expect to make annual returns as high as 20%.

The scale and costs of PFI projects escalate

PFI projects are particularly prone to escalations both in scale and cost.

■ The Birmingham Schools PFI project started at £20 million for eight schools in 1996 but was signed at a value of £51 million for 10 schools.

■ Tower Hamlets LEA was forced to go back to the government for £19.5 million more for its schools PFI. The successful consortium increased its bid price to £55m from £40m capital value after being selected as the sole ‘preferred bidder’. Although the LEA bartered the consortium down to £48m, this is a 20% hike on the price quoted at final offer stage.

Higher construction costs

The study by Audit Scotland found that construction costs were higher under the PFI option.

Higher running costs

Audit Scotland also found that the operating costs of the PFI option were higher in all six cases in their study.

The PFI affordability gap

The higher costs of PFI inevitably lead to an affordability gap. Where LEAs need to make up under-funding, this will often be met by reductions in services and capacity, subsidies from other parts of public authority budgets and pressures on labour costs.

The Audit Commission report said: '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.'

Affordability problems put pressure on every aspect of the contract. The fact that the overall design of PFI projects is worse than conventional procurement; that PFI school classrooms are smaller or acoustics worse; or that works are not delivered to time, is not a random effect of PFI. All these are caused by trying to meet the financial squeeze caused by the affordability gap.

a. Financial pressures on LEAs from the PFI squeeze

Haringey schools

In order to keep costs down, the PFI contract with Jarvis excluded the cost of furniture and equipment, wheelchair access and comprehensive IT provision. This was estimated to be £3.7 million for the eight secondary schools involved. The government agreed to pay just over £2m of this shortfall. The rest of the money has been taken from other parts of Haringey's budget.

Sheffield

The LEA has had to pay £50,000 for the provision of cabling not specified in the contract, while schools have had to order some additional works to ensure that office spaces, storage areas and dining/assembly areas meet their desired standards.

Staffordshire

The LEA has to find £100,000 per year over the lifetime of the project - 24 years - to make up its funding shortfall.

Wiltshire

Three new schools opened under a £60m PFI deal in 2001. One year later, £250,000 extra was needed to deal with a host of problems. The LEA is footing the bill as the consortium is refusing to pay.

Glasgow

This council was forced to subsidise community use of school sports facilities. Prices rocketed to unaffordable levels after they were taken over by 3ED Consortium in a £1.2bn PPP deal.

Camden

A PFI schools contract signed between Camden Council and Kajima Construction Corporation to finance, build and run Haverstock School for the next 27 years will provide fewer sports facilities for the school.

b. Design problems

The Audit Commission and CABA have flagged up poor design in PFI schools as a major problem. Poor design inevitably leads to poor service quality and, if the school has to close, to no service at all.

Glasgow PFI Schools project

Many of the 29 schools built and refurbished under the PFI project have poor ventilation and over-heating due to design defects such as inappropriate window fitting. Soaring classroom temperatures have taken their toll on staff and pupils alike, with some children fainting. Faulty electrics and a collapsing ceiling were other problems.

Meon's Primary School, East Renfrewshire

Design defects in this newly built PFI school - with 800 pupils, the biggest primary school in Scotland - have constituted health and safety hazards. Fallen debris endangered 60 children after a roof collapsed in a teaching area. The council had to step in and undertake emergency repair work when Jarvis, the PFI contractor, failed to respond. Four months passed before the school was fully operational again.

Sheffield

This project, involving six PFI schools, has been beset with problems, including high temperatures, leaking roofs and inadequate water drainage from the roofs of Tapton School and use of poor materials in the fabric of the buildings.

Stoke on Trent

There have been problems such as lack of storage and poor ventilation in many of the 125 schools. Hand-dryers were installed in primary school toilets at adult height and the children could not reach them.

Rosshall Academy

3ED, which is responsible for maintaining the newly built Rosshall Academy, has been strongly criticised for poor ventilation which staff and pupils believe is causing health problems. Complaints of headaches, eye problems and other ailments have led Glasgow City Council and 3ED to test air quality.

Community Primary School in Cusgarne

Mowlem, the contractor that built the new PFI Community Primary School in Cusgarne (part of a project involving 32 Cornish primary and secondary schools), has been highly criticised for poor workmanship and delays in resolving construction problems.

c. Late delivery of PFI projects

PFI's supporters claim it will deliver better quality at lower cost. They argue that contractors' ongoing commitment to operate facilities means there are built in incentives to ensure that schools are built to time and cost. The evidence contradicts this.

Edinburgh Schools Partnership

The refurbishment of Edinburgh's Royal High School, part of a £10 million PPP scheme, fell four months

behind schedule. Children have suffered disturbance caused by drilling, hammering, dust and exposure to electrical wiring.

Kirklees schools

Jarvis, the PFI contractor, failed to deliver a summer refurbishment project in time for 20 schools in the Huddersfield area to open in September 2002. Jarvis has been highly criticised for poor workmanship and delays.

East Riding of Yorkshire

Delays to building works by Jarvis meant that two Bridlington schools had an extended holiday at the start of the school term in September 2002.

Haringey

In 2001, Jarvis failed to complete works on four schools before the start of the school term. In 2002, the same thing happened in five schools. In addition, Park View Academy had to be closed before Christmas 2002 due to problems with the heating system.

Varndean School, Brighton

Governors at Varndean School, part of a £105m PFI schools project, have prepared a damning report on Jarvis, one year after it took control of operational works. School governors, staff and students have become increasingly demoralised with poor workmanship and the time it takes Jarvis to resolve problems.

d. Risk transfer

Under PFI, risks are supposed to be transferred to the contractor - but who takes the risks of poor design or school closures? The greatest risk is the number of pupil places required over 25 years, but this stays firmly with the LEA.

Castle Hill Community Centre, Bolton

This project ground to a halt when contractors, Melville Dundas, went into receivership. Pupils were forced to remain in the old school next to the construction site. Another private firm, will finish the £12 million project. The new school will now be open three months late in September. The risk stayed with the LEA.

PFI and the workforce

Public services are labour intensive and labour costs can be a major source of potential savings and profit to the private sector. Until employees are fully protected against contractors creating a ‘two-tier workforce’ by giving new staff inferior pay and conditions, this will remain a central issue for trade unions.

So far, in most school PFI projects, it is the technical and support staff who have been transferred to PFI contracts and faced changes to their pay and conditions, as teachers have remained employed by the LEA. Some councils, while using PFI for their schools, have kept services in-house. In Stoke-on-Trent, Glasgow City and Cornwall staff in PFI schools have remained council employees.⁵

UNISON has led the campaign to combat the two-tier workforce and the erosion of terms and conditions for staff transferred to contractors. The weight of evidence has convinced both the government and employers that contracting, including PFI and PPPs, leads to the development of a two-tier workforce.

In March 2003, the government introduced the Best Value Code of Practice on Workforce Matters.⁶ This aims to protect against a two-tier workforce in local authorities in England.⁷ Paragraph 3 of the Code states that, ‘Contractors who intend to cut costs by driving down the terms and conditions for staff, whether for transferees or for new joiners taken on to work beside them, will not provide best value and will not be selected to provide services for the Council.’

■ Redcar and Cleveland Council are one of the first

councils to agree a contract condition with a contractor since the Best Value Code was introduced.

■ In Newcastle the City Council has extended the same protections for new and existing staff for the lifetime of the 27-year contract in its schools PFI project.

In Scotland, the Scottish Executive and the Scottish Trades Union Congress (STUC) have agreed a protocol on Public Private Partnerships similar to the Best Value Code of Practice. It applies to all PFI schemes and provides for new starters working alongside transferred staff to be on terms and conditions that are ‘no less favourable’ overall than transferred employees.

In Wales, a Code of Practice on Workforce Matters similar to the English Code was introduced for all local authorities from 2 April 2003.⁸ The Welsh Assembly is considering extending the Code to the entire public sector.

The Code of Practice provides some of the essential tools for dismantling the two-tier workforce and building fair wages legislation. UNISON, the TUC and the NUT are still campaigning for the introduction of fair wages legislation. We want to ensure that all workers providing local authority services on council contracts should receive the local government pay rates and terms and conditions.

⁵ The involvement of DLO's and DSO's in Local Authority PFI Schemes 2002, Association of Public Service Excellence (www.apse.org.uk)

⁶ See also the Best Value Performance Improvement Circular (03/2003)

⁷ UNISON Guide To The Best Value Code Of Practice On Workforce Matters In Local/Police Authority Service Contracts In England (Stock number 2239)

⁸ It was published as an annex to the Welsh Programme for Improvement.

PFI reduces accountability

a. Disclosure and consultation

School staff and trade unions are often denied meaningful consultation about schools PFI projects. Although official guidance on disclosure⁹ states that all information should be disclosed except where there are genuine good reasons not to, the guidance allows “commercially confidential” information to be withheld.

LEAs often seek to withhold crucially important financial information about matters such as affordability and value for money. In addition, the complexity of many PFI projects means that governors, teachers and support staff are often asked to “take on trust” assurances about proposals which have important implications for them.

The effects of lack of information and meaningful consultation

■ An investigation into the Haringey schools PFI scheme¹⁰ found that school governors were excluded from discussing their schools’ refurbishment needs despite their hands-on knowledge. The Council delayed consulting governors about the PFI proposals until they were almost ready for Treasury approval. Later, it provided them with a mass of complex detail that they were ill equipped to understand.

■ In Tower Hamlets only 28 schools signed up to a grouped refurbishment project, compared to the planned 47 schools. The 19 governing bodies that

withdrew from the scheme refused to sign up because of a reluctance to take matters on trust.

■ Calderdale LEA has signed a £55 million schools project with a preferred bidder without any meaningful consultation with trade unions or the community. Calderdale set up a project group to oversee the project but then cancelled all meetings during the crucial period prior to signing the contract.

The Audit Commission has identified a strong correlation between how satisfied schools users were with their new school and their level of involvement during the design phase.

b. Democratic accountability

In signing 25 to 35-year PFI contracts, LEAs seriously restrict the ability of the electorate to influence the direction of education policy through the democratic process. In addition, they restrict their own freedom to pursue other initiatives, since a substantial proportion of an LEA’s education budget will be spent on PFI payments for the lifetime of the contract. For example, the PFI charges for the Glasgow schools PFI project represented 24% of the council’s entire non-staff education expenditure in 2000-1.

⁹ ‘Disclosure of information and consultation with staff and other interested parties’ www.4ps.co.uk

¹⁰ *PFI vs Democracy? School Governors and the Haringey Schools PFI Scheme*; McFadyean & Rowland

Around seven major companies are involved in schools PFI projects. Jarvis has the majority of school PFI contracts, while Mitie, WS Atkins and Interserve also hold several contracts each.

Some PFI contractors have hit the headlines recently over the financial implications of their involvement in PFI. In 2002, Amey made two significant changes to its accounting procedures for PFI projects following advice from the Accounting Standards Board, turning a potential £55.7 million profit into a £18.3 million loss. Amey's shares have since fallen by 90%, causing the departure of its chief executive. Its troubled financial position has forced it to sell its equity interest in eight PFI companies (including its stake in large Edinburgh and Glasgow schools projects) at knockdown prices and announce large scale job losses. The impact on Jarvis and Serco shares has also been dramatic.

The Times stated, in January 2003, that 'the top five companies in the PFI sector have amassed an estimated £2 billion of debt ... calculated from the interest payments which [they] have paid to off-balance sheet vehicles. It probably underestimates the true scale of the debt supporting the PFI sector. This is because the contractors hold only a small stake in most contracts, with banks and other financial institutions holding the lion's shares.'

Despite the recent headlines suggesting a crisis of confidence in PFI, it continues to be a growing part of most companies' operations. For construction firms in particular, PFI provides a new and more reliable source of profits than traditional building work.

You can use this briefing to:

- build support among staff in the school
- alert governors, parents, the local community and the local media
- lobby the LEA and councillors.

This briefing details many examples of PFI failing to deliver in schools. Use this information in your local campaigns to set out the opposition to PFI in schools and to secure either an alternative approach to funding school building works, or assurances that sufficient measures will be put in place to avoid a repeat of these problems.

Further and more detailed briefings on most aspects of PFI in schools are available from UNISON, including online on our website:
www.unison.org.uk/positivelypublic

See in particular, education materials for branches facing PFI schemes on the website:
www.unison.org.uk/pfi/index.asp

You may also wish to refer to the following documents:
Understanding the Private Finance Initiative: the school governor's essential guide to PFI. Stock number: 1967
PFI Failing our Future: a UNISON Audit of the Private Finance Initiative. Stock number: 2108



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