

# FIVE REASONS WHY TEACHERS AND SCHOOL GOVERNORS SHOULD SAY NO TO PFI!

## 1. PFI does not offer "value for money"

**The Government claims that PFI offers "value for money" compared to traditional public funding. These claims hardly stand up to analysis since schools will be paying for:**

**Higher borrowing costs** - the cost of private finance is higher than in the public sector. Audit Scotland found that this cost generally varied in the range 8% to 10% a year, 2.5% to 4% higher than a council would pay if it borrowed money on its own account for a similar project

**The large returns demanded by the private sector** - 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%.

**Consultancy fees** - £4 million was spent on consultancy fees (lawyers and accountants) for a £48 million PFI project in Tower Hamlets. Consultancy fees amounted to over 8% of the total project costs. Audit Scotland found that the combined set up and advisers cost in PFI projects ranged from between 5% and 15% of core constructions costs.

In addition, the value for money test that all PFI projects have to pass - the Public Sector Comparator (PSC), has been totally discredited. The PSC will be typically loaded unfairly in favour of PFI. For example in Haringey:

- Councillors were advised to exclude the provision of essential services from the contract to make the project "affordable". Soon after the contract was signed the LEA faced a funding shortfall of £6 million - they couldn't afford to fund and provide the services excluded from the contract.
- The Council came up with the idea that upgrading schools through PFI would improve pupils' exam results and that this would mean a higher proportion of school leavers would find employment. The value of this improvement in educational attainment was costed at £4.8 million and helped make PFI appear to be value for money.

Jeremy Colman of the National Audit Office has said that these value for money exercises are *"pseudo-scientific mumbo jumbo where the financial modelling takes over from the thinking"*.

Analysis of the early PFI schemes further undermines the Government's claim that PFI offers better value for money than traditional sources of capital funding:

- The Audit Commission compared early schools PFI schemes (built between 1999 and 2002) with schools built with traditional capital funding (built between 1997 and 2001) and found that 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 Public Accounts Committee surveyed local authorities with up and running PFI schemes - 23% of authorities thought that there had been a decline in value for money after the contract had been let. The high prices for services additional to those in the contract were an area of particular concern for authorities.

## 2. PFI meets the needs of contractors and not the needs of schools

**Schools have many varied needs. Under PFI contracts though, schools will be up against the competing needs of the private contractor and its shareholders. As a result, in many cases the needs of the private company will be met at the expense of the needs of the school.**

Private contractors will work to the output specification. Contractors can exploit any vagueness in the specification in order to cut corners and to increase their profit margins. For example, an investigation into PFI in schools reported that:

*"In one case, internal viewing windows to a sports hall were omitted by the contractor during the construction phase, although they had been seen on design drawings. It transpired there was no mention of them in the output specification nor in room data sheets, and that the architect's intentions had no contractual force":*

In Sheffield, the contract excluded structured cabling to the tune of £50,000, which had to be funded by the LEA.

PFI contractors have difficulty meeting the needs of the school year. For example:

- Edinburgh - the refurbishment of the Royal High School fell four months behind schedule. The delayed building works have disrupted children's education through disturbance caused by drilling, hammering, dust and exposure to electrical wiring.
- Kirklees - the PFI contractor failed to deliver a summer refurbishment project in time for 20 schools in the Huddersfield area to open in September 2002.
- Haringey - In 2001, Jarvis failed to complete works on 4 schools before the start of the school term. In 2002, the same thing happened in 5 schools.

Further problems arise because of contractors lack of understanding and awareness of what is required in schools. For example:

- The roof and walls at Malmesbury School in Wiltshire are so thin that lessons cannot be heard when it rains. A lack of soundproofing between classrooms meant that Alevel practice papers had to be halted and a pupil moved because the rain was so loud.
- There have been problems in many of the schools involved in the Stoke on Trent schools project with a lack of storage and a lack of ventilation. The contractor also put hand-dryers in primary school toilets at adult height - meaning the children couldn't reach.

CABE, the Government's architectural watchdog, have described some PFI schools as

*"little better than agricultural sheds with windows".*

The Audit Commission found that the quality of the PFI schools was, statistically speaking, significantly worse than traditionally funded schools. The expected benefits of a single private consortium designing, building and operating schools were not widely evident. The Commission also identified a clear link between schools users satisfaction with PFI schools and their involvement in the design phase - those users who expressed less overall satisfaction with their new school also said that they had little involvement in the design phase.

### **3. PFI threatens-, future education budgets**

School staff and governing bodies may be persuaded that the scheme is "affordable" at the start of the contract but what about the future? What can seem affordable to start with may not prove to be so in future - but contractual commitments will have to be met.

Planning LEA and school budgets over 25 years or more can be a very uncertain business. For some schools there is a risk of long-term pupil roll reductions and surplus capacity. It is also likely that there will be new legislation and shifts in education policy over the 25-30 year lifetime of the PFI contracts that will affect how the school buildings are used and what is required of them.

How certain can anyone be about how school rolls will change? What will parents feel about sending their children to schools where building work is going on or where pupils have to be bussed to other sites? What will be the effect of 16-19 proposals? All of these uncertainties could create budget problems for schools.

PFI tie schools into a binding contract where payments to the PFI consortium will have first call on education budgets, whether or not the school can afford it. Any shortfall will have to be found elsewhere - probably by cutting the staffing budget.

And PFI schemes can impact upon other schools' budgets as well. Haringey LEA was short of more than £6 million to complete the work that its PFI deal was supposed to cover. The scheme needed more money for furniture and equipment; for wheelchair access and IT provision. These items were deliberately omitted from the contract, after the Treasury and the DfES advised councillors to exclude them to make the project 'affordable'. The DfES has had to bail out the council with an additional £2 million. The rest of the shortfall has had to be funded from other parts of Haringey's budget.

## 4 Privatised "facilities" management " does not improve the quality, of services

**One of the key things private contractors include in projects is taking charge of "facilities management" i.e. caretaking, cleaning and building maintenance. This is one of the main routes to increasing profit margins through cutting jobs, pay and conditions. But this can mean a worse service for schools.**

The House of Commons Public Accounts Committee survey of local authorities with PFI schemes found that 58% of authorities with a performance review process had made performance deductions from payments due to PFI contractors - this suggests that the private contractors are not delivering the level of service that is required.

Facilities management doesn't transfer fully to the private contractor PFI is not only time consuming during the contract negotiations and the construction work - PFI wastes valuable time throughout the 25-30 year contract. For example, headteachers in Sheffield have been disappointed at the need for the continued involvement of senior managers in facilities management issues after the occupation of schools buildings. Any expectations of full transfer of premises responsibilities as a feature of PFI are misguided.

Things that used to be just part of working together in a school community will now become subject to contractual restrictions. The Scottish Parliament has pointed to particular difficulties with contractors charging for use of premises outside school hours. Transferring premises management to an outside employer raises serious practical difficulties for staff and schools alike. Confusion and delays arise while requests for use of premises are checked to see if they fall within the contract or involve an additional charge to the school.

There are numerous examples of poor facilities management from the early PFI schemes:

- Park View Academy School in Haringey had to close 2 days early for the Christmas holidays in 2002 on health and safety grounds because of problems with the heating system.
- The six Sheffield schools involved in the grouped PFI project have been beset with problems -leaking roofs, inadequate water drainage and the use of poor materials impacting on the quality of the fabric of the buildings. As a result of the poor cleaning services provided by the contractor, sixth formers have been paid £4.90 per hour to clean their own school.

## 5. The myth of risk transfer to the private contractor

**An oft-repeated claim of its supporters is that under PFI the risks associated with school construction work and facilities management transfer to the private contractor. Yet this claim does not stand up to scrutiny. The myth of risk transfer to the private contractor has been borne out in the early schools PFI schemes.**

As the Audit Commission report found, if there is 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 LEAs responsibility to provide the education service"* :

The Commission's report identified 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 expand pupil capacity very quickly. The LEA must also 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. There have been early signs of this risk materialising in the early schools PFI schemes.

The following examples highlight further the risks the LEA retains in PFI projects:

- East Renfrewshire Council had to step in to repair a school roof that was torn off by gale force winds after the private contractor supposedly responsible for facilities management at the schools said that they could not provide employees to carry out the repairs. Six classrooms at the school had to remain closed for two months until the Council stepped in and made the repairs.
- Jarvis failed to deliver to summer refurbishments in time for the reopening of four secondary schools in Haringey in September 2000. Some works were not completed satisfactorily and some had still not been completed by mid-December. Jarvis were fined just £2,673 for these delays.

In addition, payment deductions are often not a proper reflection of the impact of the nondelivery of a service. For example, the Audit Commission found that from one unnamed PFI schools contract a deduction of £268.62 was made out of a monthly payment of about £150,000, for two days' nonavailability of an athletics field. This sum is nowhere near high enough to act as an effective incentive, and probably cost more to calculate and administer than the value of the deduction.

In conclusion...

**PFI commits schools to an uncertain future for 25+ years**

**PFI involves a commitment which binds schools contractually for decades to come. It is almost inevitable that over the period of the contract, unforeseen requirements will arise.**

- **Yet any extra work that arises will fall outside the terms of the original contract and will need extra funding. If things go wrong, the contract may be terminated but this will require compensation for the failed contractor and continuing repayment of the capital sums involved!**

So ... the NUT believes that PFI should not be rushed into without proper consultation. PFI doesn' t deliver in schools.