



Schools PFI –
Post-Signature Review
by Partnerships UK
for Department for Education and Skills

Phase 2 Report
May 2005

Post Contract Signature Review of PFI Schools Deals Partnerships UK - Phase 2 Report

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1 Introduction and Terms of Reference

Partnerships UK (PUK) was invited by DfES to undertake a post contract signature evaluation of schools PFI projects by a letter of 13 February 2004. PUK submitted a proposal on 25 February 2004 which was accepted by DfES which provided for the work to be undertaken in two phases.

The Phase 1 Report was submitted on 31 March 2004 and contained some suggested focus areas for Phase 2. A detailed proposal for the Phase 2 work was submitted by PUK on 19 May 2004 and accepted by DfES.

The scope of the Phase 2 Study comprised three principal areas:

1. In depth review of particular projects (covered in section 3 of this report).

By means of interviews with LEA officials and schools representatives, to probe

- Usability and possible improvements to the payment mechanism
 - any differences in impressions between LEA and school representatives
 - level of resource being deployed at school level to monitor contracts
 - why small capital value schemes appear to be working better than larger ones
 - performance of projects where Jarvis are involved
 - performance of projects where Eric Wright Group are the contractor
 - any particular issues applicable to single school projects
 - particular reasons for dissatisfaction.
2. Further analysis of survey results received in Phase 1 together with findings from projects interviewed during this Phase 2 (covered in section 4 of this report)
 3. Review of other studies, summarising the findings and commenting on areas of relevance to DfES and, where the scope overlaps with our work, whether they confirm or conflict with the findings from this study (covered in Section 5 of this report)

This document together with appendices, comprises the Phase 2 Report for the assignment.

During Phase 2, Partnerships UK interviewed a number of Local Authority officers and school representatives covering various aspects of their experience of their PFI schools projects as set out in the proposal.

All of the statistical information in this report has been derived from responses to these interviews and the survey responses received as part of Phase 1.

This report has been circulated to all participants and confirmation has been received from all of them that they have no objection to the contents relating to their particular projects and that the report can be released for circulation beyond DfES and PUK. Appendix 5 contains transcripts of interviews which have been cleared with participants but are only to be released to DfES and PUK.]

PUK would like to thank all the people interviewed for the providing the information upon which this report has been derived.

2 Summary of Findings and Recommendations

2.1 In-depth review of projects

2.1.1 General

All interviewees and survey respondents were very open in their responses to our questions. The projects reviewed are experiencing a very wide spectrum of quality of service delivery and all respondents have been very frank in detailing where there have been problems and suggesting improvements.

The majority of this report comments on where aspects of the PFI service is not meeting expectations and recommending steps that can be taken to improve. However a very significant number of positive statements have been made which reveal a considerable level of satisfaction and “pleasant surprise”. A selection of these positive comments have been collated in Appendix 3 and demonstrate a wide range of benefits of PFI.

Transcripts of all interviews have been included in full in Appendix 4 to this report.

In some cases, the experience of projects and their suggested remedies directly conflict with others. We have tried to set out the range of views and indicate where there have been a number of common concerns and suggestions. These have been pulled together to form the recommendations below.

2.1.2 Differences in impressions of LEA personnel and headteachers on satisfaction with services and buildings

The schools’ representatives’ experiences of contracts working “on the ground” were invaluable in getting a true picture in respect of the various issues we have commented on generally in the report.

In general, there was a high degree of consistency of responses between LEA officers and schools representatives in respect of buildings as delivered.

There was a greater level of discrepancy in respect of satisfaction with services as delivered with 55% of schools rating services worse than the LEAs and only 18% (2 schools) giving a higher rating than the LEA.

There appeared to be a positive relationship between the LEA and schools in most cases with a number of interviews being held jointly between LEA and school representatives.

2.1.3 Resources required to monitor the contract

There is widespread concern that the level of resources required in respect of the contract at both LEA and school level has been greatly in excess of what was anticipated:

- At LEA level, many authorities reported that, during procurement, they had underestimated the resources that would be required to make available after contract signature.

- At the schools, only 25% of the schools interviewed reported a reduction in resource requirements with many other reporting a very significant increase in activity, with an additional bursar or senior administrator being recruited in three cases. This is in stark contrast to the message which many local authorities had given to schools prior to procurement that PFI would release their staff to concentrate upon teaching and learning.

Consequently there is widespread disappointment.

We would **recommend** that:

- When authorities are planning their funding and resourcing, the planning should be for sufficient funding and resources to be allocated for the procurement phase, the build phase, and the first 18 – 24 months of the operational phase rather than just through to contract signature as often happens now.
- In order to incentivise staff to stay, the project manager post should be funded appropriately. Part of the job specification should be the responsibility to transfer skills to other personnel within the authority.
- Support and advice for local authorities during the construction phase and the first two years of the operational phase should also be available from the centre, in addition to the procurement support that is available at the moment.
- shift in focus in the evaluation of bids to look more closely at the operational phase and the interface between construction and FM contractors.
- A combination of more support and dissemination of good practice on helpdesks and monitoring (see 2.1.9).

2.1.4 Jarvis' Performance

All of the schools projects which have a Jarvis led contractor were interviewed for this study and the interviews were held prior to the well publicised problems in July 2004.

Key points which have particular relevance for future procurements were:

- Authorities should not necessarily take comfort from a consortium where the shareholder, construction sub-contractor and FM subcontractor are part of the same group of companies without ensuring that the contractual interfaces are as robust as for a project with unconnected companies.
- Tight pricing for contracts has led in a number of cases to high pricing for variations and small works changes. There is also some dissatisfaction with the quality and finishes that is being attributed to under-pricing.

2.1.5 Eric Wright Group Performance

Two projects have the Eric Wright Group ("EWG") as contractor and the Phase 1 study showed an extremely high satisfaction rating for these projects. We interviewed the authority, the schools and a representative of the Eric Wright Group to follow up on these high ratings. A number of factors seem to have contributed to the success of these projects including many of the recommendations set out in other sections of this report.

There appears to be a constructive mix of a true spirit of partnership and a desire on the part of EWG, as a local company, to support learning in the area combined with scrupulous attention to detail in respect of designs, and contract matters at the outset leading to complete on all sides.

2.1.6 Payment Mechanism

There is a polarisation of opinion on the usability of payment mechanisms with 47% of respondents reporting that the payment mechanism on their projects was “straightforward” or “very straightforward” to use and 35% reporting “difficult” or “overly complex”. Only 18% reported “acceptable”.

There appeared to be no correlation between ease of use and the date of Financial Close whereas an improvement over time due to greater experience might have been expected.

More of the projects who reported satisfaction with services reported ease of use than those who reported dissatisfaction with services.

Those respondents who reported negatively on the ease of use of the payment mechanism reported difficulties both with making the calculations and with definition and measurement of performance.

Four specific areas were identified which were missing in payment mechanisms:

- No sanctions for unavailability of outdoor areas.
- No sanctions to ensure that performance monitoring reports were produced to a good standard and also on time.
- No real sanctions in respect of help desk and their reporting.

There was widespread criticism of insufficiently detailed or objectively measurable performance indicators in output specifications leading to difficulties with imposing payment deductions

Several authorities reported difficulty in incentivising contractors to close down snagging issues

Although the payment mechanism is supposed to incentivise the contractor to resolve the issues quickly and some deductions are being made however it has not been the wish of many of the projects to penalise the contractor to an extent that the SPV would go out of business and this has caused some difficulties.

We would **recommend** that

- Authorities should include sanctions in their payment mechanism to prevent the contractor from operating an ineffective helpdesk in particular, read only access to the helpdesk is not sufficient.
- Authorities should include sanctions in their payment mechanism to ensure that the variations procedure is carried out within a prescribed period of time.
- Performance measures being used for calculating payment deductions should be objectively measurable and not rely on subjective descriptors such as “reasonable”.

2.1.7 Small Capital Value findings

In Phase 1 we reported a significant difference in the satisfaction levels in respect of projects with capital values of below £20m and larger projects. This was based on responses from 24 projects. For phase 2, the evidence has increased to 37 projects and there is still a marked difference in satisfaction being reported.

None of the reasons that have been given for dissatisfaction in respect of larger projects appear to be intrinsically due to their size but it is likely that if something is going wrong then more people are affected on larger projects leading to a perception at LEA level of worse service.

2.1.8 Single School Issues

Nine schools were interviewed who fell into this category reporting a range of experience, some positive and some negative. One consistent message was that a forum for sharing experience may be helpful to these projects.

2.1.9 Helpdesk Performance

The helpdesk is the principal method by which schools report incidents and FM issues to the contractor and a well run helpdesk is essential to the smooth running of the contract and the schools.

Of the 20 projects who responded, only 12 (60%) are currently satisfied with the running of the helpdesk and 5 of these reported problems at the start of the contract.

Problems with the helpdesk have led to additional resources being required at school and LEA level and to key contractual provisions being circumvented by schools that need to have incidents resolved as soon as possible.

There are things that can be done during procurement to maximise the chances of a good helpdesk and we would **recommend** the following:

- At ITN stage, authorities should make sure that they know what monitoring system the bidder will operate from the helpdesk; for instance see examples of monthly reports.
- Authorities should insist that the system they receive allows them to track the status of each incident; they should resist being given a level of access that is too limited.
- Now that there are so many operational projects, authorities should seek references on the helpdesk performance on projects currently being operated by the proposed FM provider.

2.1.10 Specifications

There is widespread dissatisfaction with output specifications, especially where the quality or performance level or standard is not objectively measurable.

A number of authorities said that it was necessary that furniture, fixtures and equipment were specified as inputs in order to ensure that requirements were met precisely.

There was widespread evidence of method statements, detailed designs and other detailed aspects of contractors' proposals not being sufficiently embedded into the contract at signature leading to disagreements and problems with acceptance.

Many LEAs reported that inadequate time had been allowed for in evaluation and negotiation during the procurement to ensure that there was certainty on what would be delivered.

We would recommend that:

- The role of the Independent Certifier needs to be re-examined. The terms of reference should be re drawn and the appointment should be jointly agreed by both the authority and the provider. The Certifier should act independently as there were comments made in this survey that the Independent Certifier was accountable to the private sector.
- Acceptance criteria should be linked to the detailed contractor's proposals rather than the original output specifications. This would address the concerns of those who believe input specs are preferable without losing the benefits of requiring an output specification to be delivered.

2.1.11 Variations

There was widespread concern that authority variations and additional small works requirements were not being priced and delivered properly and that, in many cases, authorities and schools believed that they are being overcharged.

There appears to be a need to make sure that providers are incentivised to carry out works which were outside the original scope of the contract, and to carry them out within a timeframe. Also that if this is not done, a controlled ability for the local authority to have recourse to "self help" measures without jeopardising the contract.

We would recommend that:

- The contract should accommodate the fact that small works changes and other minor changes in scope are likely to be the norm rather than the exception.
- Authorities should ask bidders to provide information about the system which they will implement for variations; their pricing methodology and any overheads. This should be part of the ITN return and authorities should let bidders know that they are placing importance upon this.
- There appears to be a need for best practice guidance on agreeing and costing variations. It should be considered whether this needs to be across sectors rather than just for schools projects.

2.1.12 Schools Forums/networking

A large number of respondents agreed that it would be helpful to have a forum to share concerns; experiences; and information (80% of schools representatives and 76% of LEAs). In particular, the single schools projects said that this would be helpful. The forum could also take the form of regular meetings, annual conference.

We would recommend that:

- A wider forum is established to exchange information and to disseminate good practice. Issues which it might collect data and recommend good practice on are benchmarking and refreshment of ICT (where applicable); costs of variations.

2.2 Additional Analysis of Phase 1 Responses

2.2.1 Advice received during procurement

During Phase 1, there was insufficient time to review the responses that had been received in respect of advisers that LEAs had used during procurement. A review of these, together with additional responses provided during the Phase 2 interviews, revealed that:

- PWC and Deloitte have a very significant share of the financial adviser market have advised 21 of the projects that responded.
- There is very little correlation between satisfaction with financial advisers' performance and ease of use of the payment mechanism.
- Authorities rated the performance of all of the advisers very highly.
- There is a very wide range of technical advisers being used and six out of 23 projects have relied solely on in-house technical advice.

2.2.2 Update on satisfaction ratings

Compared with Phase 1, there are a slightly lower proportion of projects which have reported high levels of satisfaction with buildings and services; however all of the additional projects that were surveyed in Phase 2 were chosen rather than randomly selected so these should not be considered a true deterioration of results.

2.3 Review of Other Studies

Section 5 summarises the scopes and findings of a number of studies by Audit Commission, National Audit Office ("NAO"), Audit Scotland, Dtl and 4Ps.

Although there was not a full overlap of scope between the studies reviewed and this Phase 2 study, there were no findings in any of the studies that were inconsistent with our findings in this study. We have highlighted below any findings from the other studies reviewed that are consistent with the findings of this Phase 2 study.

2.3.1 Audit Commission: PFI in Schools

Consistent findings:

- general satisfaction with new buildings as delivered
- Concern about shortcomings of output specifications, especially in respect of acoustic standards
- Lack of up-front investment to ensure a lower long-term maintenance costs
- A partnership approach between contractor, school(s) and authority works best
- Low level of payment deductions, due in part to inadequate helpdesk reporting
- Need for FM provider to be more involved during the bidding stage

2.3.2 Audit Scotland : Taking the Initiative

Consistent Findings:

- Schools largely delivered on time without significant cost changes to the authorities.
- A need for users to be involved at early stages of procurement and specification.
- Concerns over interpretations and delivery of out specifications.

2.3.3 Department of Trade and Industry: Draft Procurement Survey April 2004

Consistent Findings:

- A need for information sharing and dissemination of best practice.

2.3.4 NAO: Managing the relationship to secure a successful partnership in PFI Projects

Consistent Findings:

- A need for enhanced skills and resourcing of authorities for the early years of a PFI contract and incentives for retention of staff involved in the procurement phase through the construction and early operational phase of the project.
- A need to streamline the change procedures in contracts to enable minor small works changes to be effected efficiently.
- The NAO report recommended more guidance from the centre on issues such as Contract management, performance measurement, payment mechanisms, change procedures and legal issues. All of these (except legal issues) are areas in which this Phase 2 Study report makes recommendations.

2.3.5 4Ps and Bolton Metropolitan Borough Council: Castle Hill Primary School and Joint Service Centre

There was little overlap with the Phase 2 study other than the project was one of those interviewed as part of this study.

2.3.6 4Ps: Operational Schools – Pocket Case Studies

Consistent Findings

- Two of the 5 projects that were the subject of the case studies participated in this Phase 2 Study.
- Frustration with output specifications in respect of refurbishment projects.

3 In-Depth Review of Projects

This section draws upon the interviews that Partnerships UK has undertaken with Local Authorities, school representatives and the Eric Wright Group. Reference is also made to some of the electronic survey responses received during Phase 1. Local authority and school participants were generous in speaking about their experiences and were anxious that other projects could learn from their procurements. In addition to the seven areas we agreed to probe and report in the proposal, we have also included in sections 3.8 – 3.12 reports on five additional issues that have been of concern in a number of projects

3.1 Differences in the impressions of LEA personnel and headteachers on the satisfaction with services and buildings

Education PFI projects are unlike a number of other sectors because the contracting party, the local authority, is not directly affected day to day by the service delivery but the delivery of the buildings and services directly affects the lives of heads, teachers, pupils and the whole school community. The school staff are directly affected by the working of the contract in a way that the LEA is not. Anecdotal reports, prior to this review suggested that in some cases, headteachers believed that the LEA was not sufficiently responsive to problems.

When setting up the interview programme, we asked to speak to a headteacher from a school within the project as well as to local authority officers. This was principally to obtain a feel for how the projects were working from the “front line” but also enabled us to check whether perceptions of LEAs, being remote from the delivery of the contracts, were founded in reality. The interview transcripts of these interviews are also included within Appendix 5.

We were able to interview 17 school representatives including headteachers and a chair of governors. For six projects, both the school representative and the local authority officer wanted to do the interviews together. This appeared to show a good relationship rather than any desire by the authority to monitor what the heads said.

For an additional three projects, an LEA officer spoke on behalf of the schools

There were 11 projects where both the LEA and the school representative graded their satisfaction with buildings and services being delivered.

Only three showed any difference in scoring in respect of buildings as delivered and these differences were only 1 point apart showing a very high level of similar perception.

For services, there was more of a discrepancy in scoring with only three projects attaining the same score from both LEA official and school. However, six projects showed the school rating the services worse than the LEA with only two users rating the services as better than the LEA. One of these, where the headteacher was interviewed separately from the authority, had a “very satisfied” rating from the LEA and “not satisfied” from the school.

We also asked schools about the support they received from their LEA. Out of 12 school representatives interviewed, there was a very mixed response. six were positive about the support available from the LEA including two who said that the services were so good no support was required.

Of the four negative comments, one reported “*Where it as been able to, the LEA has helped but it is hampered by the restrictive nature of the contract. The impotence of the LEA is a source of disappointment*”

Where LEAs were answering the questions intended for schools themselves, two out of three reported that the resources they provided to the schools were inadequate early on, especially at the start of the operational period and that full time project managers have been required to support schools.

The headteachers' experiences of the contract working "on the ground" were invaluable in getting a true picture in respect of the various issues we have commented on generally in the report.

3.2 Level of resource required and being deployed at school level in monitoring the contract

We received 20 responses by or on behalf of schools in respect of the amount of time that was spend within the school on monitoring and supporting the contract. Of these only 5, representing 25%, said that there had been any reduction in resource requirements with four projects reporting that significantly more time was being spent than prior to the PFI. In three cases, an additional project manager, bursar or senior administrator has needed to be appointed and there is still significant headteacher and deputy headteacher time required.

In the best case, a report of 2-3 hours per month headteacher time plus 10-15% of administration time was reported as being required.

There is a very strong correlation between level of satisfaction with buildings and services and the amount of senior time being released as a result of the PFI contract. However this is not universal as two of the projects where senior time has been released reported only modest levels of satisfaction with services and, conversely, three of the projects where authorities are very satisfied with services have reported no release of senior management time at school level.

The message which many local authorities gave to schools was that PFI would release their staff to concentrate upon teaching and learning. This is clearly not happening across the board.

A number of headteachers reported that they had been led to expect that a significant amount of senior time would be released once the PFI contract was in place and there is widespread disappointment that this has not been the case.

A number of things could be done to improve this situation including:

- Greater dissemination of good practice on help desks and monitoring
- Resource available from LEA to enable a more detailed scrutiny of contractors proposals, including detailed designs
- Inclusion of contractors detailed proposals as part of acceptance criteria, rather than only the original output specification (See section 3.9)
- Greater levels of support from LEAs post contract signature (see section 3.13)
- A change in the role of the independent certifier or perhaps a technical resource at the LEA which is available during construction when needed so that heads are not being drawn into to providing a monitoring role. This is not really a "clerk of works" as such as such a role could cut across the transfer of risk to the contractor but problems during the construction phase could be identified and dealt with prior to the staged sign off procedures.

3.3 Jarvis' Performance

Prior to the Phase 1 study, there was concern being expressed about the financial status of Jarvis plc and its impact upon the large number of PFI projects that Jarvis were contracted for. In our Phase 1 study, seven responses were from projects with Jarvis as the contractor and we reported that the overall satisfaction ratings were actually slightly better than the average.

DfES requested that all of the Jarvis projects be approached and interviewed for this Phase 2 study to get an in-depth picture of what was happening on all of the projects.

The interviews were undertaken through June and July when there were well publicised cash flow problems in the Jarvis group which culminated in an agreement with Jarvis plc funders that cash would be injected into the company from the end of July onwards. Consequently, the interviews were being undertaken just at the point when there was most pressure on cash for Jarvis companies and subcontractors. In the commentary below, we have focused in issues raised that were not directly caused by the temporary cash flow problems and that have relevance for future projects.

On the bald statistics, the scores for the Jarvis projects are still slightly higher for buildings satisfaction and services satisfaction but marginally lower for payment deductions as can be seen from the graph below



However, a number of issues were raised by authorities and head-teachers in respect of the Jarvis projects which are of concern and may have relevance for future projects.

- In the Phase 1 report, we noted that six of the seven Jarvis projects included adviser comments from the authority in respect of integration between the subcontractors and that authorities had expected better relationships when a consortium group comprised construction and FM providers from the same company than where there was no common parent. Authorities were disappointed that the individual companies acted as separate companies, attempting to pass blame and responsibility for problems to each other.

After the current interviews, the proportion of problems in this area has reduced and a number of authorities reported that a restructuring of Jarvis companies had improved matters; nevertheless authorities should ensure that the responsibilities of construction contract and FM contractor are clearly delineated with the scope for dispute minimised, regardless of the relationship between the contracting companies.

- Pricing and Variations. Section 3.12 of this report discusses the problems that were experienced with variations. The Jarvis projects appear to have been particularly bad in this regard. A number of authorities and heads have expressed a concern that the tight pricing of the original bid had led to a aggressively priced variations. An interpretation of the requirements to deliver the bare minimum was leading to variations being required which the Authority believed should have been in the original scope.

A number of projects reported problems with the helpdesk as discussed in section 3.8 , all had Jarvis as their contractor and of the four schools which cited previous problems with the helpdesk, two of these had had Jarvis as the contractor. However, two of the six satisfied projects had Jarvis and although one of these had slight reservations; the other was completely satisfied.

- The cash flow problems that Jarvis have experienced had led in a number of cases to subcontractors not being paid either on time or in some cases, at all. One authority reported that some subcontractors had not understood that their contract was with Jarvis rather than the LEA.
- A number of the Jarvis projects reported that there was very little integration of the bidding, construction and FM businesses. Authorities had hoped that, because the main construction contractor and the FM contractor were part of the same group of companies, disagreements as to whether poor performance was due to bad construction or bad maintenance would be minimised if not eliminated. In practice this has not been the case and there are worse integration issues than in projects that have had unrelated companies fulfilling the roles where the companies concerned have ensured a far clearer contractual interface.
- Some of the concerns that have been raised by authorities and schools would appear to be evidence of underpricing of bids by Jarvis. These include poor quality of materials and finishes, high prices of authority and contractor variations and poor relations with subcontractors.

3.4 Eric Wright Group Performance

In Phase 1, there was a marked difference in the responses from the Ellesmere Port & Neston and Lancashire Fleetwood projects compared with the others. The authorities were delighted with all aspects of the projects from procurement through to operation as delivered by the contractor to these projects, the Eric Wright Group.

For Phase 2, we were asked to follow up on these observations with the authorities, the schools and the Eric Wright Group themselves; focusing in particular on any aspects that could be replicated on other projects.

3.4.1 Authority comments

The authorities reported the following as reasons for the strong performance:

- A strong dedicated team, mostly in-house.
- A relative small company with strong leadership.
- The project treated as an important part of the EWG portfolio.
- The same team in place from bidding stage through to contract close.

- Construction, development and FM all part of EWG
- The ability to form good relationships at all levels.
- The use of local contractors and sub-contractors..
- The architects and design team kept involved throughout – even into operation.
- The LEA, schools and EWG worked up designs together and pupils chose colours for walls.
- It is a local company which is keen to support learning in the area and their reputation is important to them/
- Very detailed negotiations but the result is that everything is clear.
- A well priced bid from the outset.

These are exemplified by the following direct quotations from the authorities:

“... caretakers have now been trained and been given greater autonomy to appoint contractors to do the works. Caretakers are now on schools email system and this has helped..”

“...EWG is assisting school in its sports college bid...”

“we had a new headteacher at one of the schools who wanted a different layout for the library/ICT. EWG changed this at no extra cost”

“the company EWG chose provides purpose built furniture, they took the schools round the factory....they have made a special cloak unit where the children’s coats are dried if they get wet...”

“it was essential that the schools were open by September 2003 so EWG applied for planning permission before they were appointed preferred bidder”

3.4.2 Schools Representative comments

The schools representatives added that from the schools’ perspective the following were reasons for the good performance:

- There is access as required to the Managing Director and Finance Director
- Relationships are very good – for instance the school went on a team building exercise with EWG personnel.
- Very clear helpdesk reports and incident tracking reports are provided.
- The contract manager always tries to sort things out without resorting to contract provisions.

3.4.3 Contractor comments

From the interview we held with the Managing Director of developments for EWG, it is clear that the profile and ethos of the group is very different to most companies.

For instance it is owned by a charitable trust whose purpose is to reinvest money into the community. There is no expectation of year on year profit but the business is expected to be strong with an excellent reputation to hand on to the next generation. The long term partnership working elements of PFI is, they believe, wholly aligned with their ethos. There is a very strong local identity and work is restricted to a 100 mile radius of their headquarters.

This ethos is very well exemplified by the following observations that were made by him:

"... we try to have a good helpdesk system but we really don't want things to get as far as the helpdesk. We would rather that if there is a problem, the school tells the caretaker and he gets it fixed. Then they record the incident"

"...we assume that variations should be at nil cost...we try to work together so that there is no overall cost increase..."

"...we try to work as a whole team with the local authority to solve problems together..."

Whilst there are very few companies with a similar profile and motivation, it should be possible for companies to be chosen by authorities that demonstrate some of the success factors noted above.

From the interviews with LEAs and heads on the two EWG projects, it is clear that some of the public sector-side issues that have dogged other projects have not been an issue in these projects which must also have contributed to success. These include:

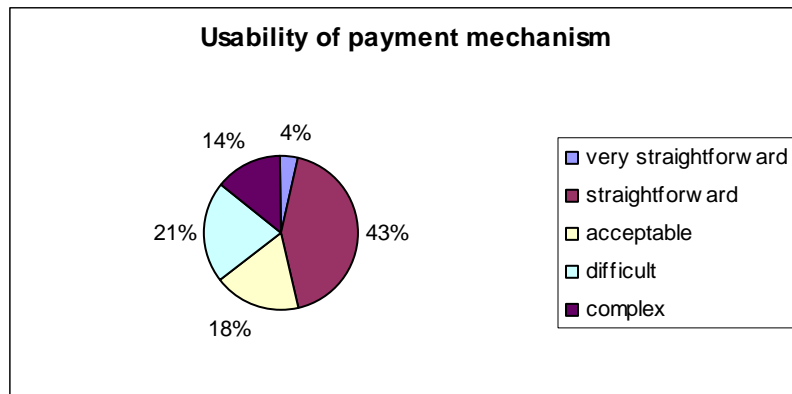
- All of the governors and all of the headteachers were involved with the bidding process, including the designs.
- On one project, the LEA monitoring officer was appointed prior to service commencement and was a member of the procurement team so there was full continuity throughout the project.
- involvement of the technical adviser (BRE) post contract close.

3.5 Usability and possible improvements to the Payment Mechanism

3.5.1 Statistical findings

In our Phase 1 study we examined the usability of the payment mechanism. We reported that 50% of respondents found their payment mechanism "straightforward" or "very straightforward" with 30% reporting that it was "difficult" or "overly complex". The least frequent response was acceptable (20%) This was one of the most polarised sets of results that we observed so we were asked to follow this up with the additional Phase 2 respondents.

For the current study, an additional nine authorities responded to questions about usability of the payment mechanism but the overall results were very similar with a slightly lower percentage (47%) reporting "straightforward" or "very straightforward" and more reporting "difficult" or "overly complex" (35%) but an even lower percentage (18%) rated "acceptable" still showing a marked polarisation of opinion.

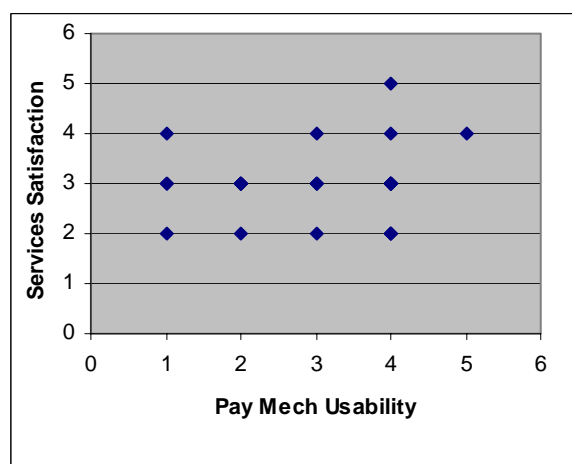


In the Phase 1 report we looked at whether there had been an improvement in usability over time but concluded that the small sample sizes for projects that had closed recently made it difficult to draw conclusions.

Across all respondents, we noted that the small sample sizes made it difficult to determine if there was an improvement of usability over time. The sample size has increased but there is still a low number of projects closing in each year. The average scores for payment satisfaction are similar in each year, and there is no clear pattern of improvement or deterioration over time.

Year of Close	Pay Mech Score ¹
1999	2.7
2000	3.2
2001	2.8
2002	2.7
2003	3.3

Because there was such a wide range of responses, we looked to see if there was any correlation with service satisfaction and payment mechanism ease of use.²



¹ See appendix 4 for scoring methodology

² 1 is the lowest score, 5 is the highest

The graph shows some correlation with all but three projects showing a services satisfaction score within one point of the payment mechanism usability score. This is to be expected as projects where there are low levels of satisfaction with services are more likely to need to use the payment mechanism to reduce the Unitary Charge payable.

In section 4.1 below, the correlations between usability of payment mechanism and the financial advisers during procurement is discussed.

Of the respondents who rated the payment mechanism “difficult” or “overly complex” all were helpful in explaining where they thought the difficulties lay. For some, it was difficulty was in calculating the performance deductions, and for others it was the definition of performance rather than calculation methodology.

3.5.2 Principal Themes across comments on payment mechanisms

We have collected all of the comments on the payment mechanism that we received together in Appendix 1 so that they can be looked at in detail by those who will be developing payment mechanisms in the future. However the following themes are worthy of note:

- All respondents were invited to comment on the most and least effective performance indicators within the mechanism. The findings of the Phase 1 survey were borne out with authorities commenting that the availability measures worked but that the performance measures were not effective.
- The criticisms of the performance measures were that they were “vague and not usable”; in particular, authorities felt that by having an output specification, it was very difficult to pin down what the level of performance should be. Where authorities had resorted to the word “reasonable” within the specifications, they found it difficult to define what “reasonable” constituted which in turn led to disputes with the contractor. (see Section 3.9 on Specifications)
- Several projects made the point that the contractor is not being incentivised to resolve issues. Ultimately, there is a dispute resolution procedure, but authorities view this as the last resort. There were comments that issues went round and round and were difficult to resolve; this led to a deterioration in relationships. Some of these were attributed to :
 - incomplete documents at contract signature stage;
 - output specifications which can not be measured (The problem is sometimes that the actual event is questioned by bidders therefore the payment mechanism deductions do not come into effect.);
 - inadequate helpdesks (see section 3.8); and
 - subcontractor disputes
- Most projects did not have any comments on PIs. One project however, made the point that there were too many performance indicators and that they should be reduced. No other projects made that comment.
- In interviews, four specific areas were identified which were missing in payment mechanisms:
 - no sanctions for unavailability of outdoor areas;

- no sanctions to ensure that performance monitoring reports were produced to a good standard and also on time;
 - One project mentioned that penalties often did not apply to the areas where there has been failure – particularly cleaning. The projects which expressed dissatisfaction with the contractor’s FM provision commented adversely upon the help desk and their reporting. (see section 3.8 Helpdesk); and
 - One project commented that there was no part of the payment mechanism which incentivised the contractor to carry out any new works i.e. the ones which were not anticipated in the original specification. (The issues relating to variations are explored section 3.12).
- One of the projects commented adversely on the “unavailable but used” provision in their payment mechanism which they felt rewarded the contractor for poor performance (even though they only received 50% of the payment for that facility). However this principle has been widely accepted in the market.

3.5.3 Using the payment mechanism as an incentive to contractor performance

In order to find out more about the effectiveness of the payment mechanism, authorities were asked whether they believed that the payment mechanism had incentivised the contractor to improve performance and whether the sanctions were appropriate:

- Many authorities made the point that although the payment mechanism is supposed to incentivise the contractor to resolve the issues quickly and some deductions are being made however it has not been the wish of many of the projects to penalise the contractor to an extent that the SPV would go out of business.
- several authorities commented on the problems which they had had with resolving snagging and that there were no incentives to fully address these. Similarly disputes about performance issues were not fully resolved This was supported in the interviews with the schools and in the amount of time which school staff have spent on helpdesk issues.
- A group of schools identified that the payment mechanism did not incentivise the contractor, for example *“there is a fundamental problem with the payment mechanism – if the customer is happy there is a bonus; if the customer is unhappy there is no bonus; therefore, if you make a deduction, you penalize that one person whose co-operation you most need”*.
- One school commented that when they reported a failure the contractor’s staff adopted a negative attitude towards the school which led to deterioration in relationships.
- One authority reported that the principal shareholder expected zero deductions (and certain FM staff received financial bonuses if zero performance points were recorded) this made staff reluctant to accept penalties which in turn led to hostility, with the end result as no deduction but goods/services accepted in lieu.
- The Eric Wright Group (see section 3.6) commented that payment mechanisms did not incentivise and that very often bidders built in monetary buffers to allow for deductions and therefore had accepted that they might lose that amount of money. He commented that the payment mechanism made you *“...look at things from the wrong angle...many hours are spent trying to calculate what the cost would be if you have say five classrooms out of action rather than thinking that if this were to happen then everyone in the scheme would have a major problem”*.

However, the respondent noted that they had never had a deduction from the payment mechanism in any of their schemes. He made the comment that for the industry, the use of payment mechanisms had been accepted and had led to a quicker response times than had been usual in non PFI schemes.

Although he felt that the payment mechanisms were too complicated on the two projects that they are involved in and that the mechanisms used on Partnerships for Health deals were simpler, one of the local authorities scored it as “difficult to use” and the other “very straightforward”.

3.5.4 Suggested improvements to the payment mechanisms

Authorities should include sanctions in their payment mechanism to prevent the contractor from operating an ineffective helpdesk in particular, limited access to the helpdesk is not sufficient. Authorities must be able to scrutinise all the details of an incident.

Authorities should include sanctions in their payment mechanism to ensure that the variations procedure is carried out within a prescribed period of time.

Performance measures being used for calculating payment deductions should be objectively measurable and not rely on subjective descriptors such as “reasonable”.

3.6 Small Capital Value Findings

3.6.1 Statistical findings

In our Phase 1 report, we noted that the smaller capital value projects (i.e. those with a capital value or PFI credit of less than the current threshold of £20 million) appeared to attract higher satisfaction ratings than the larger projects.

We had Phase 1 responses from 24 projects with 11 being smaller projects. For Phase 2, the overall evidence base has increased to 37 projects with 18 being “small”.

We re-ran the satisfaction ratings and observed that there is still a significant difference in ratings. Using a scale of 1 – 5 where 5 is the highest rating, the following ratings are observed (Phase 1 scores in brackets)

Measure	Large projects	Smaller projects	Difference
Payment deductions	3.5 (3.8)	4.1 (4.3)	0.6 (0.5)
Services satisfaction	2.7 (2.6)	3.4 (3.6)	0.7 (1.0)
Buildings satisfaction	3.4 (3.4)	3.9 (4.1)	0.5 (0.7)

Even if the Eric Wright Group schools (see section 3.4) are excluded, the gaps are closer but still significant (0.6, 0.4, 0.5)

If the Jarvis projects (see section 3.5) are excluded, the gaps on buildings satisfaction and payment deductions is very much closer but much more significant with respect to services satisfaction (0.3, 0.9, 0.4)

What is of particular concern is that the larger projects average level of satisfaction with services is only 2.7 where a score of 3 is “satisfactory” and 2 is “not very” Indeed, 32% of the larger projects reported being “not very satisfied” with services. Only one of the larger projects reported being “very satisfied” with services and this was for interim services and was not particularly large (£23.8m), just over the threshold.

However, only one of the larger projects reported “not very” satisfied with buildings delivered so the problems would appear to be that of service delivery specifically.

A review of the interviews with the larger projects that reported dissatisfaction shows that the reasons stated for the poor performance ratings were:

- A lack of continuity between project managers within authority.
- Problems with Jarvis as contractor
- Problems with construction phase leading to suspicion and more of a perception of problems than reality.
- Cleaning being subcontracted back to DLO with operatives not changing working practices so not achieving PFI standards.
- Inadequate monitoring resource at LEA level.
- A “dovelike” partnership approach at the start rather than “hawklike” contractual approach at the start.
- Fundamental disagreements regarding interpretation of the contract.
- Local managers being budget constrained by head office.
- Help-desk co-ordination and communication being poor.
- Catering not responding to pupil needs, for example no plated dinners, serving taking too long.
- No supply chain of local contractors in place so that although repairs were being done well, they were taking too long to get done.
- Low calibre FM manager from contractor.

Of these, there are none which are inherently due to the projects being larger. Where there are concerns regarding helpdesk service and reactions, or communications problems, these are almost certainly exacerbated if the service is covering a larger scope.

Another reason for the greater dissatisfaction levels amongst larger projects may be the following; as we reported in the Phase 1 report, there is a strong correlation with between capital size of project and number of schools involved. For a particular official at the LEA who is monitoring a contract, if there is a problem on a school on average, say, once a fortnight and there is only school in the portfolio, then that one incident per fortnight may not seem very bad. However, if there are 10 schools in the scheme, each with a problem once a fortnight, then, on average, there would be a problem to sort out every day.

Similarly, if there is one aspect of a project that has a problem (e.g. helpdesk failure) that affects all schools in a project, it could give rise to a large number of complaints which will be perceived as a worse problem than if it only generates one complaint. Consequently there may be a perception issue that weights the scoring downwards for larger projects.

However, whilst this may lead to more “not very” satisfied scores than “quite” satisfied in respect of larger projects, it does not justify the results at the other end of the spectrum where 41% of the small projects gave a “very” or “extremely” satisfied score for services. Even after excluding the Eric Wright projects, five of the smaller projects gave a “very satisfied” score for services delivered, including three Jarvis projects.

3.7 Single School Issues

We were asked to look at a number of single schools projects in the Phase 2 interviews to see if there were any aspects of the PFI experience that were particular to single school projects. In particular we were asked to look at whether the monitoring burden was unduly onerous; also whether single school project benefited from a lack of competitive demands on a contractor's time.

In addition to other questions, single school projects were asked the direct questions "Has PFI released your management resources" and "As a single school project, do you think that PFI has delivered real benefits?"

9 out of 10 single schools projects invited to be interviewed responded and four of these provided a joint response. This group, comprising Jews Free School, Leeds Cardinal Heenan, Dorset Colfox and Hillingdon Barnhill, have met regularly as a group to share experiences. All four have a Jarvis led consortium as their contractor.

3.7.1 Monitoring for Single School Projects

There were four LEA respondents in this category (very small sample). One had not set up any formal monitoring as the schools was so small, it took very little time and would be absorbed into the monitoring of their second, larger procurement.

Two other local authorities had the schools projects as part of multi service centres and used one full time post and assistance time, the remaining authority had two people monitoring.

The concern that authorities with single schools projects might find the burden of monitoring too onerous was not shown to be the case and all were satisfied with the current situation.

One of the authorities questioned commented that the overall cost of PFI was not cheap and commented that next time they would do a grouped school scheme rather than a single school. Another commented that the reason why they had opted for a multi service centre approach was because they were concerned that a single school procurement would be uneconomic.

At the user level, five of the seven schools' representatives which responded reported that their staff resources had not been released. One of these commented that even with 50% of headteacher time and 20% of bursar time, they still needed more resources to be put in. Another, which had 20% of headteacher's time and 40% of Senior Business Manager's time plus Chair of Governor's time, wanted more time to be given to the contract by their local authority.

In the joint interview with the group of four schools, the representatives spoke generally of their dissatisfaction with the amount of resource which was needed to monitor their contracts as the contracts were not self monitoring and they noted that schools did not have any spare capacity to carry out this role. This lack of resource meant that the contract issues were neglected to the detriment of the school.

These schools also commented that more resources (probably consultant) would be needed when the benchmarking / refreshment provisions came up for agreement. These resources were not available within schools.

3.7.2 Possible Positive Aspects of Single School Projects.

In general, the group of four schools were not satisfied with the services received, their expectations were not met and they considered that the FM services were not delivered to a better quality than prior to PFI. Of the other five respondents, all were satisfied (both LA and school user for three projects; school user for one project; and local authority for the final project).

All of these local authorities made positive comments on the benefits of PFI, these ranged from being able to replace an uneconomic school building with a fully equipped and more appropriate learning environment to savings on capital and repairs and maintenance costs. One authority commented that by being a single schools project and by being an early project, they had benefited from the contractor dedicating lots of resources to their project.

Two respondents mentioned that they had now had peace of mind concerning the buildings and that they did not get called out at night or over the weekend.

3.7.3 School Forums/Networking

The four schools which were interviewed together were the very early pathfinder projects. They have found it helpful to meet together (they all have the same contractor) and to discuss their common problems and possible solutions. The single school users who were part of multi service centres were also part of wider user groups for the centre as a whole.

All respondents were asked whether it would be helpful to have a forum to share experiences and concerns. This idea was generally considered to be a welcome one (80% of school representatives, 76% of LEAs) with a higher proportion of more single school projects being enthusiastic.

Comments were however made that this forum would be useful provided it did not become a very negative body, comments were also made that it would be helpful if there were regionally based forums. There are examples of "mini networks" already set up: a northern network of Jarvis projects has been set up by the local authorities.

Perhaps surprisingly, no one mentioned the resources available on Teachernet as being useful to enable authorities to make informal contact with other LEAs in a similar situation.

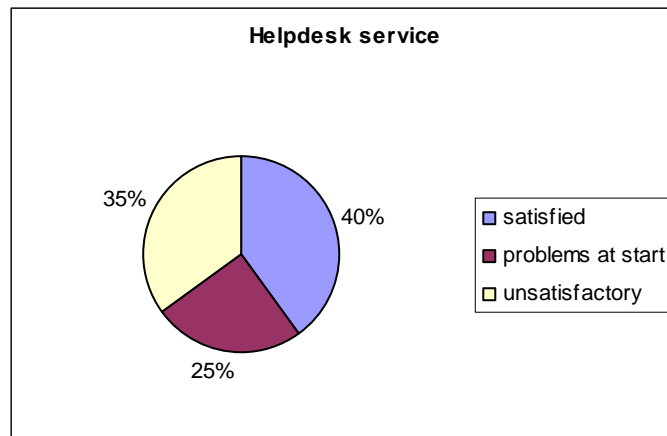
The group of four schools commented on the need for a wider forum to be established as issues such as benchmarking and refreshment cycles were coming up for the first schools projects and it would be useful to set up standards and to disseminate good practice so that other projects could benefit. We would endorse this and recommend that positive steps are taken to bring authorities together.

3.8 Other Issues - Helpdesk performance

Under PFI schools contracts, the helpdesk is the principal way that the school communicates incidents and FM issues to the contractor. A well run helpdesk with prompt, comprehensive responses is essential to the smooth running of the contract and the well-being of the schools. User confidence in the helpdesk is fundamental to the success of the contract.

The working of the helpdesk did not specifically form part of the questionnaire in Phase 1, but interviewees during this Phase 2 Study from schools were asked whether the helpdesk system was working satisfactorily.

All the operational schools which were interviewed responded to this question (16 schools in all), six said that the helpdesk was working; with a further four saying that the helpdesk was working now although there had been problems at the beginning. The remaining six were dissatisfied. In addition to these responses, four LEAs answered on behalf of their schools. One said that the helpdesk was working, one said that it was now but there had been problems and two said it was not working satisfactorily (although one of these projects had a very limited helpdesk service in its contract)



To summarise only 60% of the twenty projects which responded are currently satisfied with the helpdesk.

Some examples of problems with the helpdesk include:

- Inaccurate logging of incidents.
- Difficulties in tracing progress of recorded incidents.
- Poor quality of the helpdesk report.
- Unhelpful attitude of helpdesk staff.
- Incidents being logged as "closed" once a technician was despatched. If a problem was not fixed on the first visit, the incident was no longer on the system.

These helpdesk problems have led to the following:

- Some schools were deploying their own staff to monitor incidents, this was partly because their helpdesk was not working properly and partly because they had not fully accepted the cultural change to the provider being responsible for the facilities.
- When schools did not believe that the contractor was logging their calls, they asked for frequent printouts in order to check the contractor; and when this failed, schools used their own resources to self monitor in order to produce proof that the system was not working. In two cases, schools appointed someone to monitor the contract for them.

- One helpdesk system which was used by the same contractor on a number of projects required a call to be recorded manually in order to check that this was a new incident before entering this onto the automated system, This often resulted in a significant delay between the school notification and the logging becoming live on the system, this in turn effected the response time. Once this was discovered by the authority's technical advisers, the system was changed and one of the schools which already has the new helpdesk system commented that it was satisfactory.
- In some cases schools felt that it was easier to either do the job themselves or just speak to the caretaker – this had the effect of schools circumventing the helpdesk and therefore calls were not logged. This happened despite most of school respondents saying that they had received some training on contract monitoring from the Local Authority. It is interesting that the Eric Wright Group representative whom we interviewed because there were such high levels of satisfaction with the projects noted:
“if there is a problem, the school tells the caretaker and they fix it, then they record the incident. This is how schools want it to be, the simpler the better”.
- Once an incident was reported, dissatisfied projects complained that there was a lack of any useful feedback on the progress of the incident; this in turn resulted in school staff's time being used to try to find out what had happened and whether the issue had been resolved. One project commented that incidents were closed down incorrectly – the helpdesk had closed down the incident when contractors appeared at the site to rectify the problem rather than at the point of which the work itself was completed.

There are a number of areas of good practice that we had reported to us which should, as far as possible, be replicated on all new projects, for instance:

- The helpdesk should gather all the information accurately for its management and its users (users include schools, council and contractor).
- The system should record the incident and allocate a reference number to it, prioritise, record the progress and tracking and the closure of the incident.
- The dissemination of the information should be accessible and relevant to users, it should be timely so that any one time users know the status of their outstanding enquiry.
- From the contractor side, one of the benefits of the system should be that they can identify any patterns and anticipate future problems and work with users to agree preventative measures.
- During the procurement, authorities should make sure that they have good information on the proposed helpdesk. Now that there are many operational projects, authorities should ask for examples of the reports which they will receive and seek references from operational projects with then same FM provider regarding their satisfaction with the reporting system which is operating
- The culture of the helpdesk and the attitude of the staff operating the helpdesk is important. An understanding of schools priorities is desirable and a sympathetic but efficient attitude should be encouraged.
- Some contractors are providing a satisfactory system with complete monthly reports done during the appropriate timeframes; examples of good monitoring systems should be shared with authorities so that when they are procuring, they have a benchmark to evaluate against. Bidders should be made aware that this aspect is being highly weighted in the evaluation system.

One authority commented on the attitude of the staff operating the helpdesk: sometimes staff were rude to callers. The self monitoring helpdesk has been a culture change for schools, in order for schools to adapt to this change it is important that the helpdesk is both helpful and effective. Before PFI, schools were used to having their own caretaker to respond, and some of the interviewees missed this close relationship, even though the individual was often the same.

However, projects did comment favourably on the contractor's caretaking staff and when the interviewees were asked about their relationships with the contractors staff, of the 20 respondents, 12 said the relationship was good; four said it was good but gave reservations (two said relations with senior management not good, one said that a sub contractors' staff had upset the TUPE transferees) the remaining group of four schools commented on the difference in ideologies between contractors' staff and schools. Some of the projects with Jarvis commented that the contractors' staff were not empowered to change things and had not been given enough resources.

One project made the comment that their primary schools were pleased with the helpdesk system as they had not previously had enough staff to provide this type of responsive service. In secondary schools there appeared to be greater dissatisfaction.

3.9 Other Issues – Specification

A very large number of adverse comments, both in respect of buildings, fitting and furniture as delivered and in respect of performance of services appeared to be due to problems and a lack of clarity with regard to specifications. Some typical themes include :

Buildings, fittings, furniture and equipment:

- Specifications should be detailed enough to cover all the outputs for example, the room temperature and heating control; lighting; acoustics; ventilation; power outlets; water; installations; audio visual capacity; finishes; fixtures.
- Projects cited problems with external works being completed. These should be dealt with in the same way as internal areas.
- Bidders' "contractors proposals" should be completed to a very detailed standard at the point of contract signature as negotiation is not really effective after this.
- Many projects commented that there had not been sufficient time prior to contract signature to produce sufficiently detailed information to be checked at an appropriate level of detail and communicated to schools and feedback obtained. Some projects reported that there had not been sufficient time for proper evaluation. For example, one authority commented "final designs were not fully developed. Everything had to be done in 8-10 weeks", another said "perhaps we should have spent more time on the scope of the refurbishment during design development discussions".
- One project mentioned that Furniture, Fittings and Equipment ("FF & E") should be an input with the lists of furniture required stated rather than an output. Other projects advised that as many "inputs" as possible should be included. Whilst it is important that the LEA are aware of the quality of the FF and E which they will receive (as poor quality had caused disappointment and disputes from schools) we do not believe that an input specification is the way forward. We would prefer to see a rigorous evaluation of bidders' detailed proposals and these proposals being embedded in the acceptance requirements.

- Output specifications should include an objective standard to measure delivery or performance against. One authority commented “you need a standard or level which you can use as proof if things aren’t right. In terms of the heating, we did not have a maximum temperature. Now I would put in a maximum and a minimum”.

Performance Specifications:

- An authority said “I would not have believed the market orthodoxy re using an output specification. If you want something, then you should say what you want. Also you need to be specific about how you will measure performance, it is no use saying that something should be to a “reasonable standard” you need to say what “reasonable” and “standard” is and how it is measured. If you want something cleaned everyday then say so.”
- If bidders are returning identical responses in their FM method statements local authorities should raise this with bidders as it shows a lack of specific project attention.
- If method statements describing how the contractor will meet the output spec from the successful contractor are included in the contract, this may help initially but the problem is that these may need to change by mutual consent through the life of the contract.

3.9.1 Additional Issues particular to refurbishment projects

In general, projects with large proportions of refurbishment were less satisfied with their buildings as delivered than those with a greater proportion of new-build. The following factors were cited:

- Authorities and in particular, school users, expected a higher quality of refurbishment than the bidder provided. If authorities are including refurbishment in their projects they should make sure that they have issued and costed detailed room datasheets and specifications prior to completing their bid evaluation. They should not rely on these aspects being sorted either during the preferred bidder stage or after contract signature. External areas should be covered by external datasheets.
- Projects should think about each of the clauses in their output specification and consider how these will be measured and give this information in the specification. If “standards” are quoted; the implications of these standards should be costed.
- In order to manage expectations and help users to understand the implications of the specifications, it would be helpful if they could be shown schools where refurbishment has been carried out under PFI in order that they can see the results.
- Ultimately, the standard of the refurbishment will depend upon the output specification and the authority’s requirements. One school made a comment that they wished that they had “known more about the construction business and how it works” .
- Many projects were disappointed in the quality of the work which was provided. We received the following comments: “Jarvis were fine in the new build but for the refurbishment was not of a standard which we would expect”,
- Three projects suggested that it would be more appropriate to return to an input rather than an output specification because at least then you would know what your were getting.

- One head reported “...everything needs to be specified out at the beginning. The authority left some things to trust – they were told that things were too detailed to discuss before contract signature and these things would be picked up in development – but they never were...”
- Some projects mentioned the poor quality of some of the materials used (e.g. science benching) and the lack of success in challenging this. Projects sometimes felt they were getting worse quality than they would have had if they had done the procurement themselves. They felt that they had no way of proving that the contractor was providing an unacceptable solution.

3.10 Other Issues – Acceptance of Works

Projects raised the need to identify areas which were not right from the beginning rather than wait for these to materialise, Two authorities mentioned the need to appoint a “clerk of works” who would work on behalf of the authority and step in before the project got to the “signing off” stage.

Projects mentioned that the Certifier acted in the Provider’s interest rather than their own. There were also the issues of buildings not being cleaned sufficiently at the time of handover and of snagging works which were not resolved.

3.11 Other Issues – Supply Chain

Authorities should look at how the SPV is managing its supply chain as part of its bid evaluation. What agreements are being made with subcontractors over payment; who is responsible for snagging issues and how will these be identified and resolved; what are the building subcontractors’ responsibilities and what are FM’s responsibilities

For some projects the partnering has worked extremely well; less well for others. One LEA suggested drawing up a statement of intent re partnering to be agreed with the bidders at ITN stage. Whilst the Council should not seek to take back any risks, one example where this might be helpful is the issue of the slow payment of subcontractors. In some projects this has impacted on small, local contractors and has had an impact upon the local economy; a statement of intent regarding time periods for payment could be included in this document which is intended to reflect good practice.

3.12 Other Issues – Variations

A large number of projects commented on difficulties with variations with one project having received around 100 variation requests from the contractor although there is evidence to suggest that this is to do with designs not being fully formed at financial close.

Many respondents were concerned at the time and cost of authority variations; principally small works changes. Many projects commented that most variation requests were slow to implement; costly and may not be value for money. The cost of the variations is made up of the cost of the materials, labour costs, lifecycle costs and management costs and a common theme in the responses is that many contractors have times there is suspicion that excess profits may be being made. The contractor is in an effective monopoly position and it is difficult to drive value for money in this situation.

One example that was given to us was a very high quote for an additional power socket in a science laboratory. The headteacher was so incensed at this price, he bought and installed one himself. Clearly, this was very imprudent in terms of safety, and liability but it is of very grave concern that the variation pricing should lead to people being tempted to make such decisions

It would be very helpful if a standard procedure for small works changes variations (e.g. the pricing methodology) could be adopted across all projects. While it is difficult to generalise about how much these should be, it might be helpful to have some sort of upper percentage for management costs / overheads.

Projects commented on the long timescales required to get their provider to agree to undertake some of the variations. This has led additional frustration for users.

Given the frequency of small works changes across PFI projects and the evidence of widespread dissatisfaction over the current process, we believe there should be some best practice guidance developed for projects to follow. It may be appropriate for this to be across Departments and not just for schools projects.

3.13 Other Issues - Appropriate resourcing for a PFI schools project:

Because PFI is still relatively new, many local authorities do not have internal staff with PFI experience or knowledge. Many authorities underestimated the amount of resources which they needed for their projects. 10 of the local authorities interviewed cited misjudgement of resources as a lesson which they would not want to repeat in future procurements.

There are three distinct phases for the projects: procurement, construction and operation. There has been an expectation that, after contract signature takes place, there will be a sharp reduction in workload for the local authority because the private sector will be incentivised to carry out; complete and operate the facilities without the need for local authority resources.

Consequently, many local authorities only looked at resourcing when each phase commenced rather than looking long term and there are many instances of concerns being directly attributable to the lack of continuity between procurement and contract implementation.

We believe that when authorities are planning their funding and resourcing, the planning should be for sufficient funding and resources to be allocated for the procurement phase, the build phase, and the first 18–24 months of the operational phase rather than just through to contract signature as often happens now. A professional skills/knowledge audit should be carried out prior to OBC submission so that a recruitment and training programme can be put in place for all of the project team members. This should also assist authorities in identifying the services which they require from external consultants

It may be that there is a skills shortage. A number of projects, including the group of four schools which were interviewed mentioned high staff turnover as a problem and reported that this is happening both within the private sector; the public sector and with consultants.

4 Additional Analysis of Phase 1 Responses

4.1 Impressions of Financial Advisers during Procurement

In both the Phase 1 survey and the Phase 2 interviews, respondents were asked who the financial advisers were during procurement and asked to rate their advice.

Out of the projects represented, five of the respondents did not know who the financial advisers had been and a further seven knew the identity of the advisers but were not able to comment on the quality of the service received. This would tie in with the observations regarding turnover of personnel at LEAs and the lack of continuity between procurement and implementation.

Across the 27 projects that gave a response, nine firms were represented with PricewaterhouseCoopers (PwC) and Deloitte being most dominant having advised 11 and 10 projects respectively, Abros advised on four projects and Grant Thornton and Ernst and Young both advised on 2.

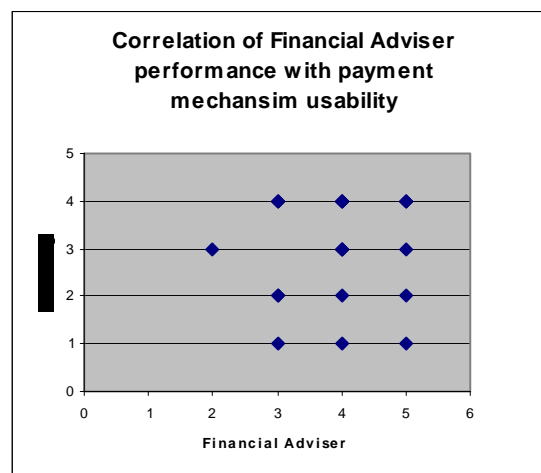
Pinnacle, KPMG, New Church and Macquarie each advised on one project

There was only one poor grading with the rest giving satisfactory, good or excellent grades with the average being good at 4.0.

For many authorities, PFI was unfamiliar and they relied on the financial advisers heavily to guide them through the procurement process. In such a situation, authorities would be more inclined to give high ratings as there was no comparative experience.

Of the authorities interviewed, one authority did not reappoint the same adviser for their second procurement.

We reviewed the responses to see if there was any correlation between the satisfaction rating of the financial advisers and the rating of the payment mechanism as the payment mechanism is one of the principal responsibilities of the financial advisers.



The graph above shows very little correlation at all between the perception of adviser performance and usability of payment mechanism. The best rated payment mechanisms are achieved from projects where the advisers were rated from “satisfactory” to “excellent” and the two “excellent” rated advisers achieved payment mechanisms which were rated from “straightforward” to “difficult to use”.

Overall, 10 projects reported “difficult to use” or “overly complex” for their payment mechanisms. Of these, Deloitte and Touche advised four projects, PWC, two and Abros, Grant Thornton and Ernst and Young and KPMG advising on one each.

4.2 Impressions of other advisers during procurement

31 Projects identified who provided legal advice during the procurement. Of these, Eversheds supported 14 projects. Nabarro & Nathanson and Pinsents supported four each with Devonshires (subsequently Projects Partnership) supporting three and Addleshaws supporting 2.

Denton Wilde Sapte and Irwin Mitchell were also used for one project each and two projects reported that the support was provided from an in-house team.

As for the financial advisers, the satisfaction scoring was very high with only three authorities reporting satisfactory and 9, representing 32% reporting “excellent”

For technical advisers, even though there were fewer authorities who were able to recall who the technical adviser was during procurement (23 projects), there was a far wider diversity of firms represented that for financial or legal advice. 15 firms were used with no firm undertaking the role for more than two projects. In addition, six authorities advised that they had relied on in-house services.

Whilst the scoring was again very positive, (one rated “mixed”, all the others satisfactory or better, 30% rated “excellent”), it doesn’t seem particularly consistent with the problems that have been reported in respect of the output specifications, the acceptance criteria, the lack of method statements and the workability of the helpdesks. Some of the concerns that have been expressed are due to the contractors performance, but there are a number that have been attributed to things that could have been done better during procurement and where authorities have the right to get experienced, quality advice from their advisers.

4.3 Update on Satisfaction Ratings

4.3.1 Buildings Satisfaction

In Phase 1, we reported that 73% of fully operational projects were “very” or “extremely” satisfied with the buildings as delivered. When the Phase 2 results are included, this percentage has reduced slightly to 68% of 25 projects.

This statistic should be considered in the context of the projects being chosen for the Phase 2 interviews, rather than being random responses as before.

4.3.2 Service Satisfaction

In Phase 1 we reported that 47% of the fully operational projects were “very” or “extremely” satisfied with services; This percentage has reduced to 27% when the Phase 2 interviews are included.

In Phase 1, only two projects reported that they were “not very” satisfied with services. In Phase 2, six projects have reported “not very” satisfied. However, the additional projects included ones that were chosen to take part in this review such as Brighton and Hove because there had been reports of problems that DfES believed should be investigated.

Consequently, it is not surprising that there is a higher proportion of “not very satisfied scores”

Of the projects which are still under construction, only one project reports that it is “very” satisfied with interim services with the majority (70%) reporting quite satisfied and two reporting “not very satisfied”.

5 Review of Other Studies

5.1 Audit Commission: PFI in Schools

5.1.1 Scope of the study

The study was published in January 2003; its purpose was to examine the quality and cost of the buildings and services provided by the early schools PFI projects; to do this, the report compared the PFI funded with traditionally procured schools within the same local authority. The traditional schools tended to be slightly older than the PFI sample (1997 – 2001) the PFI schools were from between 1999 – 2002.

Like the Phase 2 study, the sample included primary and secondary schools across a geographical spread. Information was gathered from LEAs, schools and private consortia members. The Commission visited nine LEAs across England and Wales with PFI schemes that had been delivering FM services for close to a year or more. Alongside this, a MORI questionnaire based on a design evaluation tool developed by the Construction Industry Council, was sent to a range of pupils and staff in 18 new built schools: 10 traditional (59 people) and eight PFI schools (35 people).

5.1.2 Key findings

The study made the following key recommendations:

Government

- The government should open up school PFI up to competition. To achieve this, the report recommended that the PSC was reviewed in order to develop a new framework for evaluating procurement, this would enable LEAs to consider different procurement options and use the one which would offer the best value for their particular circumstances.
- Encourage flexible sharing of buildings across different public services by changing the way PFI credits are allocated to government departments.
- Review the tool kit which assesses credit levels.
- Establish a regular practitioners' forum for LEA contract managers
- Develop DfES' PFI website to become a wider source of tips and troubleshooting advice and act as a forum for new ideas.
- Supplement existing guidance on areas such as output specifications and their integration with the payment mechanism to make sure that standards are properly defined and the correct financial incentives are in place.
- Develop design appraisal tools.
- Database of schools with good design, build and operation.
- Risk registers (i.e. for project managers).
- Specifications for surveys appropriate to schools to be refurbished.
- Develop evaluation template for retrospectively assessing the success of PFI schemes along with other improvements in school stock.

- Review how LEAs can come to the negotiating table on an equal knowledge footing with private sector.

LEAs

- Ensure that bids are selected on which design would promote learning and achieve VFM over whole life of the contract rather than on the lowest cost.
- Ensure that working protocols are developed with schools at the OBC stage whereby schools understand their role and the stages in the project.
- Develop system of checks and balances so that lessons learnt (such as contract compliance; partnering; refreshing deal and securing wider benefits) can be disseminated.

Schools and Governors

- Take up the training that is available.
- To be involved from inception.

Private Sector

- Set out clearly how they will involve users.
- Provide greater transparency about costs and working methods; more innovation; more DBO synergies; proactive risk management; co operation with the sharing of risks.

5.1.3 Comparison with current study

Quality of the new school buildings

The Audit Commission study found that whilst most school users were pleased to have a brand new school they were less happy with some specific aspects of their buildings. The quality of the early schools in the sample were not as good as the schools built via more traditional means. This was viewed in terms of architectural merit; building material and acoustics.

In terms of users' views of their buildings, there were no statistically significant differences between PFI and traditionally funded schools. The survey then asked about specific aspects of their buildings' design and operation. Answers to these questions sometimes revealed a lower satisfaction however there were no significant differences between the types of schools.

Lack of space was the most frequently mentioned reasons for dissatisfaction.

A majority of users agreed their building contributed to the neighbourhood. Fewer agreed that the temperature control; ventilation and acoustics were good.

The majority of respondents agreed that their schools were easily cleaned and maintained.

In terms of the BRE survey, all of the new built schools, whether PFI or traditionally procured, fell short of the ideal in terms of space; heating; lighting and acoustics. The study recommended need for updated design standards.

In this Phase 2 study, school users were asked whether the building(s) had met their expectations and LEA representatives were asked how satisfied the authority was with the facilities (or building) specification as delivered. The responses from projects were that both school users and local authorities were very satisfied with the new build facilities. Where interviewees raised issues, two raised the lack of storage; one mentioned flooring and five acoustics; one mentioned more small group rooms. Ventilation was mentioned by two authorities; two mentioned that they did not like the fair-faced brickwork however one added that this was a matter of personal choice and that some people liked this. one project made the comment that under traditional build schemes, they had often had to cut back during the build period because of costs whereas this hadn't happened under PFI.

In terms of the quality of the materials used, the Audit Commission study found "there is little evidence 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". This specific question was not asked of Phase 2 projects, however some local authorities did make the observation that they did not believe that the provider had made this upfront investment.

Specifications

Costs of FM services – the Audit Commission study did an academic exercise on the costs of building maintenance; grounds maintenance; water and sewerage; this study found no significant differences between PFI and non PFI schools. Cost of caretaking and cleaning was higher for PFI schools. The Phase 2 review did not ask about costs of services.

The most problematic areas which the Audit Commission identified were Furniture, Fittings and Equipment ("FF & E"). They identified little service innovation (e.g. little advance in income generation) and issues such as vandalism not being properly understood by the private sector. In this Phase 2 study some projects mentioned the need for an input spec for FF and E because bidders had not provided suitable equipment for school use. However, one project mentioned that their provider had supplied custom built furniture and had taken school representatives to the factory where the furniture was made.

The four projects interviewed together in the Phase 2 study expressed their disappointment with the level of income generation which was achieved however no other projects mentioned this.

The Audit Commission survey also commented on some of the shortcomings of the output specifications. In particular, acoustics were identified as an area which was difficult to translate into a usable specification and to then make it work as a performance monitoring tool. This correlates with the findings from refurbished schools in this Phase 2 study where specifying acoustic standards have caused problems and disappointment with acoustics was often cited.

Partnerships

The Audit Commission report recommended that the relationship with the private sector should be managed as a partnership between the LEA; school and private sector, rather than as an adversarial relationship. It stressed the importance of shared vision and an inclusive governance structure. The report commented upon the need for regular dialogue and openness in sharing information. It also stressed that there should be continuity; finally it identified the need for regular external reviews.

Respondents to this Phase 2 study were asked about relationships with the PFI provider and their staff. For the 2 projects with Eric Wright Group as contractor, all the interviewees stressed that the partnership had been developed during the procurement stage and the importance of "give and take" was stressed.

This contractor had attended open days at the newly built schools and had invited their public sector partners to corporate awaydays. The importance of the relationship was echoed in the interview with the representative from the Eric Wright Group who explained that they selected projects partly on whether they and the local authority would be able to work together.

Local authority interviewees wanted the partnership to succeed and many of the projects saw their relationship with their provider as a “give and take” however, once disputes arose which were not resolved, the relationship became more adversarial. The pricing of variations in particular, contributed to this shift in attitude, probably because the public sector felt itself to be disadvantaged.

Payment mechanism

The Audit Commission report identified that only a small number of deductions had been made and concluded that this may have been because the payment mechanisms were working or else that there were teething problems with the contractor’s system which meant that the information was so poor that couldn’t make the necessary deductions. The Phase 2 study shows that most authorities had made deductions; where authorities were receiving poor helpdesk information, they had pressed their case and had effected changes in the helpdesk reporting.

In order to head off problems at the beginning, the Audit Commission report identified the need for the FM provider to be more fully involved at bid stage. This is entirely consistent with the findings of this Phase 2 Study where authorities perceive FM providers as under resourced and a junior partner in the bidding consortium whose views were not sought or asked for too late. This was a particular disappointment to those authorities which had been told during procurement that their consortium was fully aligned joined up because FM and construction would be provided by the same parent company.

5.2 Audit Scotland : Taking the Initiative

5.2.1 Scope of the study

The study was published in June 2002 and it examined the PFI procurement of schools in Scotland. The areas which it specifically covered were the choice of the PFI route and setting project objectives; managing the procurement and delivery: and whether the schemes provided value for money. The report was based mainly on an in depth audit review of a sample of six projects (65 schools). The survey did not look at operational schemes as only three of the projects surveyed had completed the initial construction Phase.

5.2.2 Key Findings

Good Practice

At the time when the report was written, there was no systematic sharing and development of skills and knowledge in the area of schools procurement and management. In particular, the report Identified three areas where greatest consensus could be achieved in order to promote quality and vfm: classroom sizes; planning of the accommodation; development of technical and environmental requirement for each school. The report also commented upon the need to share good practice and to try to agree a common standard to underpin the necessary specifications

Resourcing and managing the project

The report found that Councils managed the processes well, consistently with good practice and that they implemented strong project management and governance procedures during the contract competition and award process. However, success of delivery could not be guaranteed and there was the need for each council to have a clear

strategy for managing under performance by the contractor. The report also mentioned the importance of developing a good working relationship and avoiding adversarial relationships.

Time overruns and user satisfaction

This report found that PFI providers were delivering the required new/refurbished schools rapidly, largely on time and without significant cost changes for the client. Users appeared to have welcomed the improved accommodation and the level of service which had come on line. The report commented that there was innovation and fresh thinking.

Cost of smaller projects

The report found that authorities exercised strong financial control but managing the PFI schools procurement was expensive for both private and public sectors, particularly for smaller projects. Set up costs and adviser costs for the private and public sectors ranged from between 5 – 15% of core construction costs, and these tended to be a proportionately greater burden for smaller projects. When projects procured adviser time on a daily, task basis the overall costs exceeded the available budgets. When advisers were procured on a lump sum pricing basis, then the final costs were much closer to the estimated sums

5.2.3 Comparison with current study

Variations

Audit Scotland identified that many of the school designs were not flexible enough to accommodate changes in future sizes in schools in the design. The Phase 2 respondents did not raise this issue, their comments on variations were limited to the difficulty of getting providers to agree to the variations and the costs which accrued from them.

Time overruns

The Audit Scotland survey looked at the three projects which were completed or well advanced, and concluded that schools were delivered largely on time and without significant cost change for the client. This is borne out by the Phase 2 study.

User input

Audit Scotland also identified the need for users to be involved and able to input from an early stage, this finding was repeated in the Phase 2 study in which several authorities pointed out that a major reason for success was the input of users and recommended a high level of involvement.

Output specifications

The Audit Scotland report raised questions as to whether the LEA's output specifications were right rather than whether the contractor is delivering the services appropriately; Phase two local authority interviewees also raised the problems of inadequate output specifications and guidance which had led to disputes between the contractor and the authority over their interpretation.

5.3 Department for Trade and Industry: Draft Procurement Survey April 2004

5.3.1 Scope of the study

Six local authorities were surveyed regarding their schools PFI projects (7 projects in all). The projects included new and refurbished schools. The survey collected information on construction and transactional costs and how they might be reduced; the internal project team; number of bidders; previous experiences.

5.3.2 Key Findings

Construction costs

The study looked to see if there was a trade off between construction and transaction costs and concluded that for every £1000 spent on external adviser costs, construction cost per pupil was reduced by £8. Further information was not available to justify this conclusion and no examination was carried out of other factors which might affect the final construction cost. This finding was not supported in the Phase 2 study when authorities were asked about their external advisers.

Procurement team

The DTI study looked at the internal resources which authorities used to procure the project. It concluded that on average, procurement teams worked 41 hours a week on PFI procurement related work. This amount of time seems extremely low given all of the work which needs to be undertaken to deliver a project successfully, particularly up to contract signature. Currently projects are employing full time project managers and support staff in addition to the resources from the in house multi disciplinary project team. The authority teams which the DTI surveyed had experience of procuring assets however they had no PFI experience and two out of six did not attend any training. The need for information sharing, and dissemination of best practice is recommended by the Phase 2 report.

Number of bidders/ external adviser costs

The report suggested that authorities with the highest number of pre qualifying bidders had the lowest adviser costs and concluded that if there are numerous bidders then external adviser costs will be lower. This seems to us unrealistic. The survey did not ask when the external advisers were appointed and whether their fees were agreed prior to the project being launched onto the market. If fees were agreed after the number of prospective bidders was known then it would be more likely that fees would be larger because of the increase in work which would be needed at the pre qualifying stage. The DTI survey acknowledged that their sample was probably too small for reliable conclusions to be drawn.

Lessons learned

Only one authority responded to this question. This authority commented on joint procurement with another local authority as a way of achieving economies of scale. A fuller list of "lessons learned" is included as Appendix 2 in this report.

Transaction costs

This survey asked the six projects for the factors which determined their procurement costs. Negotiations, the need for specialised advisers throughout, evaluation costs were the principal factors identified. With the exception of one project which had to substitute its preferred bidder, none of the projects experienced major setbacks. When asked about remedies to reduce costs, the responses stressed the importance of standardisation. The high cost of advisers was commented upon in the joint interview with the four pathfinder schools, they further commented upon the high turnover of advisers. None of the interviewees in the Phase 2 study had entered into a joint procurement, and currently only one schools' project has been jointly procured.

5.3.3 Comparison with the current study

There was little cross over with this study's findings.

5.4 NAO: managing the relationship to secure a successful partnership in PFI Projects

5.4.1 Scope of the study

The study was published in November 2001. At the time of writing the report, there were over 400 PFI contracts in force. The report aimed to highlight key issues which authorities needed to keep in mind when developing and managing relationships with private sector PFI contractors. The key question which it sought to answer was whether authorities manage their PFI relationships to secure a successful partnership.

The survey included authorities and contractors responsible for managing 121 PFI projects where contracts were let prior to 2000, none of these were education projects. The OGC and various other public sector bodies were also surveyed. The response rate was 90% from local authorities and 75% from contractors.

The topics surveyed which are relevant to the current study were: the relationship with the contractor; building blocks for a successful partnership; contract management mechanisms; staffing of the contract management function; administration of the contract; learning from others and the actual performance. The contractors were asked about their relationship with the authority and their staffing of the contract management function.

5.4.2 Findings /Comparison with the current study

Partnerships

The report stressed that authorities and contractors should always seek to understand each other's businesses and establish a partnership approach to each of their PFI projects based upon how they will work together to achieve a successful outcome to the project. 71% of authorities assessed bidders' attitudes to partnership working when procuring the contract. The relationship should then be reviewed on a regular basis.

The survey results showed that the quality of communications between authorities and contractors had a very significant influence upon the quality of their relationships. The more open that authorities and contractors are with each other, the less adversarial and the more likely they are to succeed.

The report found that 45% of authorities and 35% of contractors said that their relationship had improved since contract letting. A smaller number; 18% of authorities and 11% of contractors said that the relationship had worsened. Contractors felt that the relationship with the authority had suffered as a result of the authority becoming too involved in contract monitoring.

Phase 2 study interviewees were not asked about their evaluation criteria and whether partnership working had been part of this. The private sector interviewee made the comment that he thought that "within the first month of bidding, authorities know who they want, who they can work with". This contractor maintained continuity of personnel during the procurement however some consortia had special bid team; specialist deal closers therefore it was only later that authorities found that the people who they had trusted were no longer involved. The Phase 2 survey found that there was a satisfactory relationship with contractor's staff and school and local authority staff; however relationships did not necessarily improve during the operational phase.

Resources

During the procurement stage, the NAO survey recommended that authorities develop a staffing and training plan to ensure that they have the right skills and experience to manage the contract after it has been let and build a good working relationship with the contractor. Contractors emphasised the need for LA staff to have greater commercial awareness and other particular skills identified in this study were:

- A thorough understanding of the project; familiarity with contract terms and how they were supposed to operate.
- Good communication skills and good relationship skills. The skills required differed during the two distinct phases of the project. The survey mentioned the need to employ more staff during the early stages of the project when problems were more likely to occur and to pay particular attention to staffing levels and skills needed in the early years of the contract where the risks were greater while the service was being introduced and working relationships with the contractor were being developed. This finding is borne out in the Phase 2 study.

The study found that there was considerable variation in the training provided with some authorities providing little or no training in contract management skills. This finding was common, and the DTI and the Phase 2 studies also identified this short coming.

The NAO study commented upon the difficulty in achieving continuity in staffing as staff with PFI skills were either transferred to other procurement teams or left the authority as their experience was marketable outside the public sector. The study recommended that ideally the project manager who procured the deal should also manage the contract or be involved. 47% of the authorities in the survey transferred less than a quarter of the staff employed on the contract procurement team to the contract management team. Because there is a danger that staff will leave the project after the procurement phase, authorities should develop plans for staff succession.

Variations

The NAO study identified the need for authorities to discuss with all bidders their attitude to dealing with changes which may impact upon the PFI project after it has been let and to develop appropriate mechanisms for dealing with change in their PFI contracts. 55% of the contracts had used the change procedures in their contracts. These changes related to the alterations in services covered by the original specification, the introduction of new services, additional building works or design changes and amendments to performance management arrangements.

The report suggested that using the experience of early PFI projects to get the initial procurement right may reduce the need for change on future projects, but that some contract changes may still be necessary and authorities need to consider that vfm will be maintained when these occur. 82% of the survey respondents considered that the change mechanisms worked satisfactorily or better but 18% considered them to be poor or worse. The analysis showed a strong correlation between the quality of the change procedures and the relationship between authorities and contractors.

In the Phase 2 study, variations were identified as one of the most problematic areas. Authorities were not convinced that they were getting value for money from all of the variations and getting contractors to agree the work was sometimes difficult. The Phase 2 study found that authorities were very vigilant in challenging the costs of variations, however proper procedures needed to be agreed and speeded up.

Payment mechanism

Over half of the authorities surveyed by the National Audit Office had made performance deductions. Deductions made in the second year of one of the projects were lower than in the first, suggesting the performance regime was having the desired impact upon improving performance.

The report commented that the performance measurement system and associated performance deduction system should not be too complex as this can lead to disputes. The performance management system should consist of output measures. 96% of authorities indicated that their contracts included clearly defined performance levels with associated information arrangements for judging performance. Contractors generally considered that the mechanism worked well and only 3% considered them to be poor. Although most authorities were satisfied with the risk allocation for their PFI contracts, only two thirds of contractors shared the authorities' view that risk had been allocated appropriately. Some authorities had been tempted to transfer as much risk as possible to the private sector. But if contractors accept inappropriate risk to win the contract, the subsequent realisation of the risk within a very competitively priced contract may lead to problems for the contractor and therefore problems for the authority.

This Phase 2 study found that 60% of the authority respondents rated their payment mechanism as acceptable or better. Most projects did not comment on the key performance indicators as being incomplete.

Best practice

The report found that the most important areas for the disseminating best practice were: commercial partnership issues; trust; developing business cases for the new spend; monitoring procedures; use of technical, legal and financial advisers; and production of output specifications. The report mentioned the need to include the private sector voice as well. The report asked for more guidance from the centre on contract management issues in particular on

- Contract management;
- Performance measurement;
- Payment mechanisms;
- Change procedure; and
- Legal issues.

This Phase 2 study found that projects would welcome more interaction with other projects particularly after contract signature and during the early stages of the operational phase. The group of four schools interviewed together mentioned that the seminars which are usually held do not give enough voice to the local authority practitioners. In particular, it would be helpful to have more information on contract management, on managing variations and on dispute resolution.

Innovation

The NAO study reported that contractors felt that they had been less able to be innovative than they had initially anticipated. They attributed this to departments having fixed views on design features or other aspects of how the service should be provided. Contractors stated that these aspects should be made clear at the outset. Phase 2 interviewees stressed the importance of including users' views however the study did not examine whether users' views inhibited innovation by the private sector. Certainly, projects were very proud of their facilities and mentioned that they were award winning and that they had improved results in the schools and had deterred vandals.

5.5 4Ps & Bolton Metropolitan Borough Council: Castle Hill Primary School & Joint Service Centre

5.5.1 Scope of the study

The study seeks to illustrate how, through the use of standardisation, certain risks concerning contractor default are effectively passed to, and thereby dealt with by the private sector. In the case of the Castle Hill Centre, shortly after contract close, the principal subcontractor who was responsible for the design, build and management of the centre, went into receivership.

5.5.2 Findings and comparison with current study

Contractor default

In the case of the Castle Hill project, the bank which had taken security over the principal subcontractor as well as being the senior funder for the Centre, stepped in to rescue the project. Through the provisions of the Funders' Direct Agreement, it kept the project going whilst it identified an alternative subcontractor (with Council consent), and although the works were delayed by three months, there was no additional financial expenditure incurred by the project. The report raised the issue as to whether appointing single subcontractors to carry out both the construction and the facilities management was advisable.

The Castle Hill project was one of two projects surveyed in the Phase 2 study which had their subcontractor replaced. In both cases the contracts negotiated protected the authorities and the projects survived despite the substitution of contractors.

Resourcing

In the Bolton project, some delays was caused by changes in the LA procurement team. As a result, the Council decided to appoint external project managers for their other projects in order to transfer this risk. This Phase 2 study found that there has been a general turnover in the composition of LA project teams and that where there had been continuity with both LEA staff and the Contractor staff, the projects had run smoothly.

For example, both projects with Eric Wright had both the contractor and the LEA keeping the same personnel. These projects commented upon the relationship of trust which had been built up. One project surveyed in Phase 2 had used external project managers. They made the point that the changes in designs were not properly documented during this period and the LEA were not able to see these. Similarly, their heads wanted a very pro active role during the construction and operational phases (as they had had during the procurement phase) which was not always helpful for the LEA.

Communication

For Bolton, the effective working relationship between the Council; bank and contractor and good communication was crucial in making sure that the issues were understood and resolved.

5.6 4ps: Operational Schools – Pocket Case Studies

5.6.1 Scope of the study

4Ps looked at five of the 38 operational schools PFI projects (two of which were surveyed in Phase 2). The pocket case studies are brief summaries of the projects. An additional five case studies are in draft at the moment.

5.6.2 Comparison with the current study

User satisfaction

Most of the users in the five published studies were happy with the operation of the contract. Phase 2 study asked questions around satisfaction with services and relationships with the contractor.

Satisfaction with design

The published pocket studies found that a small number of the early projects were limited in terms of design and implementation but many projects were satisfactory and the “second generation” of projects appear to have overcome these difficulties

Refurbishment

The pocket study report mentioned that monies were spread too thinly over refurb projects and the difficulties in realistic output specs. This frustration with the output specifications for refurbishment projects was supported in the Phase 2 study.

Appendix 1 Comments from Authorities on the Payment Mechanism.

In order to establish information on the usability and possible improvements to the payment mechanism, the following questions were asked to the local authorities surveyed in Phase 2 which had not responded to Phase 1:

Please comment on the usability of the payment mechanism
<p>“Yes, it is quite usable; we just have a query over school meal pricing” <i>Bolton</i></p> <p>“Payment Mechanism works well itself. However, the inputs are the main issue and getting accurate information. There is also no DRP procedure” <i>Brighton & Hove</i></p> <p>“The payment mechanism is overly complicated. Availability is generally OK; however, some of the information being received from the contractor to date has not been very good. Performance needs work on as vague – not usable in its present form. Our financial consultants did not do this work especially well. Our finance staff now wished that they had more input in putting this together. <i>Dudley</i></p> <p>“It is very complicated and is only referenced when there is a dispute” <i>Manchester</i></p> <p>“The payment mechanism was comprehensive, easy to use and workable. The issue is when schools don’t operate it properly. There is a user-friendly spreadsheet with which it is easy to check deductions.” <i>Southampton</i></p> <p>“Availability deductions are easy to calculate Interserve are finding it difficult to follow the performance deductions” <i>Tameside</i></p> <p>“It’s not an effective process. The performance indicators are very difficult in reality to apply on specific problems. I’m just trying to think of some to give you some examples: how can you determine what is a reasonable approach to cleaning and then make performance deductions i.e. if a particular area isn’t cleaned satisfactorily over an unspecified period of time, how much performance deduction should you make? And who is to say that is reasonable or not reasonable without bringing in an arbiter. We also had issues over the speed of the IT network. Who determines whether it is reasonable to regularly wait ten minutes to log on at peak times, whether that’s an acceptable performance?” <i>Cornwall</i></p>

For projects that had participated in the Phase 1 survey but left the question about the payment mechanism blank, we asked again about the usability of the mechanism in their contracts:

<p>Do you have any comments on the usability of the payment mechanism? Are there any improvements which you think could be made to the system or to the mechanism itself?</p>
<p>“Availability measurement has been OK, but performance more difficult because of reliance on reporting and monitoring. PMS doesn’t cover poor communications/attitude. The customer satisfaction survey is not enough.” <i>Cornwall</i></p> <p>“Not having user manual created difficulties early on especially when new staffing is involved.” <i>Cheshire</i></p> <p>“We worked hard to keep the system simple and used the concept of zones – this has been very successful and the Council have adapted this system for their other PFIs. The key is to keep it simple and straightforward. The Council did consider a KPMG developed mechanism but went with PwCs. The School have not had a lot of problems in implementing it. Due to the success of the contract the School haven’t had to deduct any performance or availability penalties. <i>Lancs</i></p> <p>“Vandalism cost – there has been £3000 - £4000 of vandalism damage but this has been absorbed by the SPV. SPV is also paying half of the cost of the CCTV cameras which are being procured.” <i>Lancs</i></p> <p>In Southampton’s response the following improvements were suggested: “It could be simplified Fewer KPIs Merge some of the areas of service Availability fairly straightforward Need to be clear about criteria to determine availability/unavailability Redbridge declared rooms were unavailable during school hours, but then let them out after school hours.” <i>Southampton</i></p>

All projects were asked about Key Performance Indicators:

<p>Please comment on the most and the least effective Key Performance Indicators within the payment mechanism.</p>
<p>“no comments” <i>Bolton, Brighton,</i></p> <p>“Early performance of Eric Wright has been good therefore not in position to assess effectiveness.” <i>Cheshire</i></p> <p>“Our problem was that we couldn’t start applying pressure by making deductions until the SPV sorted out the invoicing. The primary school was completed and opened early in Jan 2003 but invoicing began in April. <i>Dudley</i></p> <p>The performance part of the payment mechanism is imprecise, for example, the building is not always cleaned properly but how do you define the standard. <i>Dudley</i></p> <p>In terms of the “unavailable but used” failure, we do almost always use the spaces so the contractor is still getting 50% deductions even though they are not performing properly. <i>Dudley</i></p>

Our payment mechanism did not have a sanction if the performance monitoring reports themselves were not produced properly or on time. We have now produced our own deduction schedule which the contractor must work to disprove. *Dudley*

The best payment mechanism is one which you can understand and you can operate easily. It should not have any perverse incentives, it is important that you get the room weightings right and that you get the educational priorities right.”
Dudley

“The LEA spent lots of time and money on consultants in agreeing the payment mechanism. This now appears to have been counter productive, as system is patently not working as it should. It would help if school caretakers were trained to be more pro active”. *Liverpool*

“Lots of KPIs haven’t been used. Many KPIs were not even necessary. Should try and reduce the number of KPIs needed and focus on what is important.”
Southampton

“Most effective are those relating to cleaning standards, which are prescriptive. Least effective are those relating to the help desk response times for additional work to be done.” *Tameside*

“We were one of the first schools to go PFI and with hindsight some of the performance indicators are not measurable. Another example is storage. The output specification effectively says, provide sufficient storage. Storage is an issue, we never have enough storage. But what would have been reasonable at the outset? We were one of the first and well, we’ve identified many things which in hindsight we should have detailed with more clarity. *Torbay*

That technical side of it works quite well. There are no issues with that. I’ll give you another example however. We did have ten or eleven fairly major leaks when Western school opened which meant that we were conducting assemblies with buckets to catch the drips. Which is totally unacceptable. But the hall was still available. And had we not used the hall we would all have been operationally in a very difficult position. *Torbay*

The performance deductions for that are very minor compared to full unavailability. And that’s perhaps a good point. We really do need to make the deductions meaningful even if it’s for relatively minor events such as leaks in the school hall. Landscaping is another one where we felt that the maintenance, the provision of maintenance for the landscaping, was inadequate. But there was no reference to the quality of landscaping in the performance indicators.” *Torbay*

For projects which responded to the first survey; a further question was asked about the payment mechanism:

Would you like to comment further on the payment mechanism? Has it been effective in incentivising the contractor to improve performance? Do you believe that the sanctions are appropriate?

“The payment mechanism which we used was very much the standard model, but it was not very helpful in terms of the nitty gritty of school life. In the beginning we thought that it would result in very little bother for the LEA, that schools would not have to get involved and that we would get good performance. In fact what happened was that the school perceived imperfections and then did not follow the

standard procedure (i.e. ring the helpdesk and log the problem) and therefore the schools got frustrated and the problem did not appear on the monthly helpdesk report. The provider then tried to streamline the process and make sure that the helpdesk was used – they have produced a second version of the guidance book on how it should work. *Birmingham*

We are now getting a turnover of headteachers and people are coming in who are objective about the system and see it in a different light (i.e. new heads who have had nothing to do with PFI before and who did not put the original spec together).”
Birmingham

“Schools have been reluctant to report failings by TUPE’d staff, as they are seen as “their staff” and they don’t want to cause them trouble.” *Cornwall*

“We have been using it for about a year now, in terms of unavailability, we have only had the gym and a playground out of action. On performance, it seems to work although it has not been very effective in picking up the snagging. There are no parts of the payment mechanism which incentivise the contractor to carry out any new works (i.e. ones not anticipated in the specification) – so if we want to spend the devolved formula capital monies on things like new interactive white boards then the response from Jarvis is really slow. This is frustrating but as in (h) above, the procedure for new works is being looked at.” *East Riding*

“Jarvis never seem to close down the performance issues which have arisen. So far the LEA has deducted around £150,000 on performance and availability issues. Also, Jarvis have suffered a loss of about £300,000 from a slightly late delivery on Phase 1 primary schools. Jarvis directors have told LEA that if they are hit for all deductions then the SPV will go bust. Problem is that the staff at grass root level won’t acknowledge deductions and then the LEA has to go to director level. The contractor appears to get back at LEA by taking the monies out of the operational budget. The LEA has tried to work with Jarvis to make things better - they would rather have good service than the monies from the deductions. *Liverpool*

Perhaps the payment mechanism would work better by having a bonus system so if you hit the targets you get a bonus as the deductions leave no where for the SPV to go.” *Liverpool*

“It is an extensive document, we have had little need to use it except on a simple deductions basis. We have not had to use things like the ratchet mechanism. Jarvis did have a problem with a burst watermain which meant that children had to be sent home (this could have been avoided if the utilities company had given Jarvis better information). Mainly our payment mechanism came into play for jobbing repairs and time response issues but this was in the early days. *Sunderland*

Aspects are being looked at and revised – e.g. to make sure the times in the core and additional hours are correct and reflect the current usage. For example, the school now has a summer school which was not envisaged. We would like to make things more flexible – though bidder may not be so happy about this”. *Sunderland*

“There is a fundamental problem with the payment mechanism – if the customer is happy there is a bonus and if the customer is unhappy there is no bonus. Therefore if you make a deduction, you penalise the one person whose co operation you most need. You need to employ a person to supervise the payment mechanism. Service Level Agreements are very difficult to monitor and penalties often do not apply to the areas where there has been failure, cleaning is a particular problem. Generally, chasing penalties leads to a very adversarial relationship – this was not meant to happen. VA schools should be permitted to keep their unavailability penalties” *Jews Free School*

Eric Wright Group was asked for their views of the payment mechanism and whether it incentivised them.

Does the Payment mechanism provide an incentive for good performance?

“These are too complicated and they do not incentivise. Very often bidders build in a monetary buffer to allow for deductions – although we don’t - and therefore they are comfortable to lose this amount. The payment mechanism is much simpler for LIFT, but it is too early to see if it will work. Also, the payment mechanism makes you look at things from the wrong angle and this does not always help in negotiations. Many hours are spent trying to calculate what the cost would be if you have say five classrooms out of action rather than thinking that, were this to happen, then everyone involved in the scheme would have a major problem on your hands. In other words, the financial penalties do not deal with the practical impact of the problem.

The principles of payment mechanisms and response times have had a good effect on sub contractors within the industry though - they are now set up and understand that they have to respond quickly. Pre PFI, this would not have been the case.

We have never had a deduction under a payment mechanism – we believe in give and take, we have a good help desk system, but we don’t really want things to get as far as the help desk. We would rather that if there is a problem, the school tells the caretaker and they fix it. Then they record the incident. This is how the schools want it to be, the simpler the system the better. It is the speed of the delivery that has changed and not the system itself. We don’t want schools to think that they are dealing with a huge organisation.

If costs are involved in sorting an issue out, for example accidental damage or even vandalism, then we try to deal with these in a sensible manner; if the costs are small then we will deal with them; we won’t add them up but both sides need to realise that they should be careful. If there is a bigger problem –e.g. vandalism of toilets, then we need to all get together and find out why there is a problem, how can we work together to solve the problem, and is this costing more than anyone expected? We talk to the people on the ground and try to sort it. You want to get a “no blame” culture, so we ask how we solve the problem, not waste time identifying whose problem it is.

In a bigger organisation, every decision is scrutinised in the light of profitability, and each organisation in a consortium is being tested in terms of its own success / profitability. We make sure that there is profitability in the long term, but we take a global view of this within the company Group, rather than on an individual company basis. In a number of consortia, for example, it often deteriorates into FM v Construction – because we are all part of the same Group, we are not concerned with these distinctions. What we are trying to deliver is a functioning school. We do not have hard and fast rules about profitability.”

Appendix 2 Lessons learned

Authorities were asked the following question: “Given what you have experienced, please comment on anything that you would do differently during procurement”

Users were asked the following question: “Would you do anything differently?”

The responses are grouped under various common headings in the tables below

Advisers
<p>“On reflection, we may have handled our consultants differently – perhaps being more challenging of their advice” <i>Cheshire LEA</i></p> <p>“Another problem was that not all of the changes were logged therefore they had things changed in the designs which were not always beneficial in the long run, and the LEA did not have the chance to see these and question them. This was done on a swapping basis so that it did not increase the overall cost envelope. There was a design group but the LEA was not represented – this was not documented as existing in the Provider’s documents. An example of this was with the low walls which were to be constructed in the reception area classroom at the Primary school. They were originally in the design – then they were taken out. Now the school is built, we need to have them. If we were doing this again, we would make sure that everyone’s roles were clearly defined. We are relieved that the procurement worked as well as it did. There was not a thorough handover of the project to our new project manager.” <i>Dudley LEA</i></p> <p>“Even tighter control of procurement fees” <i>East Riding</i></p> <p>“The whole cost of procurement (in consultant fees) is excessive. The lawyer’s fees in particular were very high, mainly because of the complexity of the contracts” <i>Group of four schools</i></p> <p>“greater control of legal team; try to ensure contractor's bid manager engages with the project at key times and does not undo issues that his team have agreed” <i>Essex LEA (phase 1 questionnaire response)</i></p>

Contract management
<p>“Engage teaching staff more in understanding the helpdesk/services side of the contract. We concentrated on the buildings” <i>Birmingham LEA</i></p> <p>“Yes, insist that the FM operator runs an automated, self monitoring system resulting in the schools role being purely service review. I would also not encourage the use of productivity/performance bonuses (certain FM staff receive financial bonuses if zero performance points are recorded. Such a policy can lead to contention).” <i>Manchester LEA</i></p>

External spaces
<p>“The flooring of the courtyard needs to be sorted out as it is an internal area, the responsibility for cleaning is unclear.” <i>Lancs: school</i></p> <p>“Ensure that the importance of a high quality external environment is sufficiently captured/ensured within our requirements” <i>Manchester LEA</i></p>

Partnership

“The implementation team should not take a partnership approach but should “be contractual” from the outset.” *Cornwall LEA*

“The lines of responsibility would need to be clearly defined at the beginning. The LEA would need to, ought to have been much more diligent in ensuring that the contract was being delivered in line with its requirements at the highest level, at the contractual level. One of the enormous frustrations being that we were dealing with what Atkins and NewSchools representatives who clearly did not have – we as heads were having to deal with NewSchools and Atkins representatives who clearly didn’t have the authority to make the decision necessary to alter the delivery of the service. So that the, a much clearer management structure should have been in place from the beginning.” *Cornwall: school*

“There has been a failure to pay subcontractors on time, this has led to local people declining to take work on work on the sites” *Group of four schools*

“I would have liked to have known more about the construction business and how it works” *Kirklees: school*

“Appears that in the last 12 – 18 months, Jarvis have run out of money and therefore they are always looking for the cheapest solution. This has been frustrating for all the staff employed. Jarvis have not paid their sub contractors and therefore they have lost weeks which has resulted in delays to the project as subcontractors walked off site.” *Liverpool: LEA*

“Not have Jarvis, write down everything and not let Jarvis do the minutes” *Liverpool: school*

“Need to engage senior management on both sides” *Southampton LEA*

Resourcing

“We needed to put more resources into the project and to try for a faster procurement time” *Birmingham LEA*

“Our project managers left – we had three, perhaps I would employ a company to do this for us in order to ensure continuity” *Bolton LEA*

“Avoid the break in continuity between procurement and construction” *Brighton LEA*

“There is also a lot of work to be done after contract close particularly with regard to agreement to detail designs, commenting on design data and monitoring the construction and commissioning process to the point where the accommodation becomes operational. With hindsight we should have budgeted for additional help at this stage – possibly the appointment of a surveyor to act as a point of contact and project manage these stages” *Cheshire LEA*

“Put in place a bigger monitoring team at implementation. Over-resource at the beginning – must have contract managers who understand the contract (skills which are not usually available within LAs and hard to resource within LA salary structures), ideally who have been involved also in the latter stages of the contract negotiation. The implementation team should not take a partnership approach but should “be contractual” from the outset. *Cornwall LEA*

Felt that the procurement phase had been generally well managed, although the implementation manager should have been brought in earlier.” *Cornwall LEA*

“We would appoint an LEA clerk of works who could spot things which were not right from the start. The Independent Certifier (Employers Agent) was not independent enough - he worked for King Sturge. We did have a proper sign off for the first school (the primary) but we did not really have this for the secondary because of Ballast’s demise. There was pressure on us to sign “subject to the snagging list” for example, there was the pressure of adverse publicity and the need to make sure that the children would still receive their education – if we had said “no” and made them go back to their old building, this was in a worse state than the new building.” *Dudley LEA*

“Strengthening implementation team, budget for contingencies” *East Riding LEA*

“Continuity of personnel: people on all sides have left therefore new people have had to relearn the contracts and try to understand them. In addition, people have left and there is no record of the agreements which were reached. This seems to have happened very frequently in our contracts,

Issues such as benchmarking and refreshment are now coming around for the first cycle of PFI Schools. As these issues emerge from the contract, there needs to be an understanding of how the contract operates. These contracts were prepared by lawyers with input from accountants and building service specialists. Without some consultancy input, there will be very poor value for money to the public sector in areas such as utilities benchmarking and equipment refreshment. Without intellectual continuity in all three partners, every new phase or variation requires some or all of the partners to learn about the contract. This leads to greatly increased time and costs in understanding and then calculating anything new. The turnover in staff at the DfES has not helped in consideration of the challenges here. There is no structure to learn best practice from each other or for the sake of the entire sector. V A schools, Specialist Schools (and in the GM days, GM Schools) – all had structures to learn from each other and pass best practice back to the DfES and the local authorities” *Group of four schools*

“No one was prepared for all the staff changes in Jarvis. Expected that employees would see this through” *Liverpool: school*

“Make sure that the authority’s contract monitoring systems are established so that schools are supported” *Manchester LEA*

“Should have devoted more resources. Made sure that information and knowledge is not lost.” *Southampton LEA*

“It might be argued that the Council needed a greater resource throughout the construction / procurement phase to monitor the design development. We had a very complex, very large secondary school project underway at a time of great change in the authority, when we were also developing proposals for the primary sector. It was, for example, very difficult to identify and check every detail being submitted for information.

An example I can give you is at Homelands School when a decision was made by the design team to omit north lights to the classrooms.... It might be argued that had we had greater capacity we would have identified that change up much earlier and rejected it as the design approval process requires the PFI supplier to obtain our approval to significant design changes. There were other instances where we felt that the specification was being reduced to minimise costs. At times we struggled to keep control over numerous attempts by the PFI supplier to reduce cost, some of which caused protracted debates later over whether the output specification had been met or not. Had there been greater interaction earlier then many of the output specification issues subsequently might not have arisen. That’s with the benefit of hindsight! *Torbay LEA*

Frankly if we had employed a full time project manager and a project manager’s

assistant earlier when the two projects were running full bore and in tandem we would probably saved the authority money over the longer term. Had we had greater capacity and remit to input into the detailed design as it was being developed, we would have probably improved the design and certainly clarified our requirements beyond that of the output specification. So in answer to your question, we would have improved the design, most probably reduced the number of problems post construction and we would overall have saved the authority money.” *Torbay LEA*

“Allocate more resources to resolving issues - HR & Finance” *Staffordshire County Council (Phase 1 questionnaire response)*

“Resource the project better” *Sunderland LEA (Phase 1 questionnaire response)*

Risk transfer

“When our building contractor went into receivership, we must say that the PFI principle did effectively transfer the risk and the resolution of the problem to the private sector. It cost the SPV and third party equity some money to put it right. So you can look back and it is possible to be critical but even so, the situation was resolved without the Council having to carry any financial consequences – there were a few minor things but nothing major. We feel that we have ended up with a better situation than before because we now have a better FM provider – they seem more professional and more capable”. *Dudley LEA*

“There are problems around the definition of vandalism, For example, for JFS School contract, any equipment which is damaged is always expressed as “vandalism” during school hours.” *Group of four Schools*

“Fully appreciate the commercial position we want to take with risk transfer the payment and performance mechanism and legal documentation. Demand a fully compliant bid and only consider variant on an issue by issue basis (to allow us to cherry pick). Not accept mark-ups of any documentation. *Newham LEA (phase 1 questionnaire response)*

All the above aimed at reducing negotiation time reducing fees (for both sides) and a fully objective comparison between bids”. *Newham LEA (phase 1 questionnaire response)*

“Different approach to avoid lengthy debates in negotiation stage, which did not avoid even more lengthy negotiations once the preferred bidder was confirmed. While we had negotiated what we thought was a reasonable package, we were then placed under intense pressure by the lawyers between Preferred Bidders announcement and contract signing” *Essex LEA (phase 1 questionnaire response)*

Services

“Not do PFI. I would employ the caretaker directly; you do not need this third party who then keep subcontracting. The school should be in control. ” *East Riding: school*

“We should have employed the Network manager ourselves rather than through Jarvis just so that there was an easier working relationship and direct accountability” *Essex: school*

“Another aspect which has been lost to the PFI schools, is the ability to gain from any

bulk purchase benefits which in the past was handed back from the local authority. The contractor may gain from bulk purchasing but this is not passed back to the schools. Utilities, for example, are very expensive. Similarly, the gains which were made from contractors from refinancing were not shared" *Group of four Schools*

"National standards re refreshment - it would be helpful to have a national standard for refreshment of ICT, FF and E and benchmarking. Unless the DfES is on top of things and knows what is going on at a local level, schools / authorities may be trapped into positions which may ultimately affect learning in the schools and will affect both student and teacher performance." *Group of four schools*

"We would prefer that catering were provided by Jarvis as Haringey struggle to get people to tender" *Haringey: school*

"Ensure bidders involve FM right from the beginning". *Manchester LEA*

"Design was very important, in future I would have focussed more on FM than I did and give this equal weight with design" *Sunderland school*

"The performance of the head facility manager has been key to the poor service provision at the high school. On reflection I would have insisted that the LEA be represented on the interview panel for the appointment of this post and more performance targets in connection with helpdesk response etc should have been incorporated. Also I would have ensured more active involvement from FM at the design stage" *Tameside LEA*

Specifications

"We would be more specific in our specification. We had an output specification but it was too brief. Our room datasheets were not really helpful. We believe that they should contain detail. We stuck to the rules but if we knew then how PFI worked in practice, we would have put in exactly what we wanted. The LEA are good on interiors, we know about creating good learning environments". *Dudley LEA*

"Some internal rooms have poor ventilation which could have been prevented at the planning stage. Not enough thought was given to building a school for the future so we have lots of fixed walls rather than flexible spaces" *Essex: school*

"Spend more time on detailed design and specifications. Shift balance of project away from refurbishment towards new build. Allow more time to complete main build phase. Plan more effectively for the turbulence inherent in refurbishing operational schools." *Haringey: LEA*

"I would not have believed the market orthodoxy re using an output specification. If you want something, then you should say what you want. Also you need to be specific about how you will measure performance, it is no use saying that something should be to a "reasonable standard" you need to say what "reasonable" and "standard" is and how it is measured. E.g. if you want something cleaned everyday then say so." *Kirkless LEA*

"PFI does not work for refurbishment": *Kirklees: LEA*

"You need a good "input" spec which the provider will be tied to. "Output" specs don't work - gives unscrupulous providers such as Jarvis too much scope to skimp. Everything needs to be specified out at the beginning. The authority left some things to trust – they were told that things were too detailed to discuss before contract signature and these things would be picked up in development – but they never were. Would not do refurbishment as PFI –Do smaller grouped school projects. Keeping to the one design for the 14 primaries was very effective." *Liverpool LEA*

“Include as many “inputs” as possible within our requirements” *Manchester LEA*

“The staff were expecting things but did not specify them properly e.g. the lights in the drama studio don’t move, and the telephone systems. (LEA: the council took a backseat and let school staff do the specifying). The key suiting is also a problem and they still have not got this right.” *Tameside: school*

“Be more specific about how we prefer outputs to be achieved” *Newham LEA*

“ICT services are included in this project and the speed and scope of; technological change and use of ICT in the educational environment is such that the equipment lifecycle and costing framework predicted at year minus 1 has been shown not to be sufficiently responsive to react to current general changes in schools' practice and needs. ICT apart from basic cabling type infrastructure would be excluded.” *East Sussex LEA*

“A more detailed approach to issues around the output specification particularly room datasheets.” *Sunderland City Council*

Users

“Spend more time talking to the users. Understand their needs and communicate with them throughout” *Bolton LEA*

“If it is multi use, get all the hours and commitments written down clearly and look at the whole picture.” *Bolton: school*

“Include schools in the final negotiations and communicate these with them” *Brighton LEA*

“We were involved all the way through and in the evaluation of bids” *Cheshire: school*

“The heads had very strong ownership of the project due to the unclear involvement of the LEA. This was not always helpful, it led them to want weekly and monthly meetings with the contractor during the operational phase. The LEA was not always well informed during the procurement phase. ..There is some difficulty with schools interpreting plans and some things weren’t shown on the plans; for example the height of the data cabling was too high for Key Stage 1 children so we couldn’t position the whiteboards correctly. These days we would insist that bidders provide a “virtual reality walkthrough” of the new building, this will help people to realise the effect of what they are requesting. “ *Dudley LEA*

“The DfES will have problems if Jarvis collapses. We would like the DfES to be proactive, we are worried that over the next four weeks (July) Jarvis may collapse, this will cause real problems. We have all held off going to the press but we are concerned that the centre should be acting now. We think that a conference of PFI schools should be called with the schools arranging the agenda. We would be very happy to host this here. Suggest that the user group conference is held once a year. We think that DfES should provide funding so that lessons learnt can be implemented. It is important that we all share best practice. We believe that the early pathfinder schools should have this status renewed and receive funding in order that they can pioneer best practice in contract management; setting up systems for securing vim in benchmarking and refreshment cycles. We would be happy to use an annual conference as a way of sharing best practice with other schools PFIs. In addition, we could use the pathfinders to look forward to changes and prepare for their impact. For

example, extended school day, PFI bankruptcies or the sale of PFI contracts, impact of heightened security, changes in RPI.” *Group of four schools*

“In Summer 2002, lots of building work and decanting took place.. this impacted upon staff. I wish that we had showed the plans to people who had more expertise than the school so that they could see what was potentially problematic” *Haringey: school*

“I would like to get more involved in the design stage” *Kirklees: school.*

“Headteacher should be seconded full time during the build period just to deal with the issues as it is difficult for them to try to do the full time job of being headteacher and the full time job of chasing Jarvis”. *Liverpool: school*

“The school would have encouraged the Authority to include a larger contingency to allow extra support staff to be hired and the Head teacher and the Financial Director to be allowed to more actively monitor the contract and attend contract meetings”. *Richmond: school*

“We found it was vital that the headteacher was involved. In particular, we were able to get across the ethos and vision.” *Sunderland LEA*

Variations

“Take a lot of time during the design phase and write down what has been agreed”. *Bolton: school*

“Address revenue implications of variations to avoid PFI being seen as too inflexible” *East Riding LEA*

“We are locked into a 25 year contract which is designed for a Victorian model of schooling yet the environment in which we work is changing, for example: education/schools are changing; ICT; the division of the school year and the delivery of learning. We believe that the DfES should look at the contracts which our schools were encouraged to enter into on the basis that PFI was the only source of funding.

In terms of services the ICT is very unpredictable; third party income is unsatisfactory as are security issues and vandalism: in particular, security is a worry in PFIs with “one stop approaches” such as public libraries contained within schools.

We can not afford to fund variants. Schools are being charged twice over when seeking variations because risks are being priced back in. ICT is a particular problem, but even getting cheaper items can be extraordinarily expensive. All calculations have to have lifecycle and refreshments added in. Schools are always changing, and everything from the alteration to the length of the school day to new facilities/equipment (e.g. school specialism) is caught in this. Given that PFI is a new style of procurement, it would be sensible to learn from best practice. The government should consider providing funding for support with renegotiating / variations to contracts”. *Group of four schools*

“The process for variations for large works e.g. extensions from 5 to 6 FE for the secondary school has proved not to bring forward an affordable bid for new PFI Credits. A different approach is required. If possible one that clearly sets a forecast cost relationship in the main contract to national or local benchmark construction values. It could then be one of the relevant selection criteria for the preferred bidder. An off site safe routes to school planning requirement was placed on this project which had a separate consultation timetable beyond the programme for constructing the school buildings. A hybrid funding solution with a necessarily flexible funding stream in the PFI Project was adopted. This proved less controllable than anticipated. A

mechanism to maintain the proper controls fully in the project with an earlier entry to the Planning strand and pricing consequences to the scheme would be necessary “*East Sussex LEA (phase 1 questionnaire response)*”

Other

“Insist on detailed input on FF and E early. In our authority, we would leave it with the LEA where there is the expertise.” *Dudley LEA*

“Improve interim services and transition periods; agree a tighter process to complete snagging more quickly” *East Riding LEA*

“Some costs that were agreed at the outset seem unreasonable and we are in the process of benchmarking to compare with other schools” *Essex: school*

“Never accept a building without the keys being handed over. Jarvis have to send away for keys and there is a time lag. Effect on curriculum and staff couldn’t always get into rooms when they needed to.” *Liverpool: school*

“Keep three bidders in to the death. More options should result in a better product.” *Manchester LEA*

“Reduce the paperwork, which is a bureaucratic mess to put it politely. Improve the KPIs. And build the thing bigger” *Torbay: school*

“Would have tried to tie down more of the detail at an earlier stage” *Bedfordshire (phase 1 questionnaire response)*

“Complete intrusive asbestos surveys at sites for demolition. Get definitive opinion in writing from DfES and PUK re the acceptability of the draft contract terms.” *Calderdale LEA (phase 1 questionnaire response)*

“The procurement of the Merton PFI contract was inextricably linked to a timetable dictated by the Council’s published and approved plans for the reorganisation of local schools. Inevitably this meant that procurement had to be achieved within a fixed timeframe. This in turn impacted upon the Council’s ability to negotiate the detail of the contract at its own pace. The Council is therefore of the view that procurement processes associated with PFI are best undertaken without the constraint of pressures associated with other fixed or statutory deadlines. Greater attention to some of the detailed planning processes associated with major construction would have been beneficial had time permitted.” *Merton LEA (phase 1 questionnaire response)*

“Slippage that occurred was not within our control we were generally in position to sign at / near programme date” *(phase 1 questionnaire response)*

More proactive on design issues particularly before selection of preferred bidder clarifications etc.” *Newham LEA (phase 1 questionnaire response)*

“Try to speed it up.” *North Yorkshire County Council (phase 1 questionnaire response)*

Appendix 3 Benefits of PFI

This appendix incorporates all of the comments and responses that we received regarding the benefits of the PFI projects

Facilities (actual question “Have the buildings met your expectations?”)

Very much so and in some cases, it has exceeded them. *Birmingham LEA*

We have a lovely new building, we have excellent facilities. *Bolton school*

Yes, there is no doubt about that. All of the schools are delighted. We had an end of year celebration last Friday and all of the parents and pupils said that they were really pleased. *Cheshire school*

Reasonably satisfied, areas of dissatisfaction associated with incomplete work or snagging items. We do have a fabulous 25 metre pool, a wonderful sports hall with sprung floor; very good music recording areas. These really are excellent. The main ICT suite and learning resources facility is fabulous, it is light and bright and well used. ..The “streets” (wide corridors) are a real success. *Dudley LEA*

The overall quality of the building materials and finishes was good and was sometimes above the specification. The lift is superb as is the plant room. *Dudley LEA*

We got a new school building, fully equipped and resourced, on time. This would not have happened if the LEA had funded it themselves – they would have built it piecemeal...Peace of mind – me and my teachers do not have to worry about leaking roofs; burst pipes; alarms going off at 2am; recruitment and related issues for cleaning, catering, site staff or lettings. This is a HUGE benefit. *Essex school*

Absolutely I have a school. I don’t mean this to sound rude.When you start the school that has 38 mobile classrooms, outside toilets, split sites, yes? I have a school which is of reasonable standard. And it actually almost conforms to government requirements. It doesn’t quite, but it’s pretty close. So of course it’s been of benefit, you haven’t had the opportunity to visit Westlands as it currently is, then certainly you haven’t had the opportunity to see the shanty town that existed before. *Torbay school*

It is a superb building. It is well designed. It works well. It has got niggles in it, like any building has and if you think about the price, the size of the building it is, it’s 11,000 metres, I didn’t get it quite right when I first did it. But we tried hard and Steve and his team helped us.
Torbay school

Partnerships

The provider is going to convert their large cleaning cupboard into a curriculum room for us (at no cost to ourselves). *Bolton school*

When we had a new headteacher at one of the schools who wanted a different layout for the library/ICT, EWG changed this at no extra cost. *Cheshire school*

Partnerships continued

There was a delay in Phase 2 for the secondary school which was caused by the receivership, but the schools opened ahead of timescale (this was because the Provider brought forward the original timescale by three months, so they delivered ahead of time in terms of the original timetable). We had a few days off for the nursery children due to initial problems with heating. Despite the problems with Ballast in administration, we did not lose any school days. ...

When our building contractor went into receivership, we must say that the PFI principle did effectively transfer the risk and the resolution of the problem to the private sector. It cost the SPV and third party equity some money to put it right. So you can look back and it is possible to be critical but even so, the situation was resolved without the Council having to carry any financial consequences – there were a few minor things but nothing major. We feel that we have ended up with a better situation than before because we now have a better FM provider – they seem more professional and more capable.

Dudley LEA

Where PFI has let itself down is that, despite the continuing relationship, PFI projects are just one off schemes without the benefit to build upon the lessons learnt with your partners LIFT has improved on this as it encourages a long term approach to the partnership with continuing improvement and learning being the hallmarks of the developing relationship.

Eric Wright Group

PFI has worked for us. We are viewed as a successful partnership. I believe that this is because we work hard at maintaining the partnership, both sides are flexible and accommodating. We fall back on the letter of the contract only when we really have to. *Essex school*

The contractor's staff come to awards evening and have been asked to present awards to school pupils. There is good partnership, good communications, we keep in close contact and we understand each other's needs / problems. Jarvis sign up to this and are as responsive as they can be. The relationship is based on trust and openness. We do not have acrimonious debates but proper, adult, professional discussions. We do not have an adversarial relationship. Some of the discussions are on difficult issues and we have strong opinions. We accept when we are wrong and when we are right It helps because we were there when the contract was being developed and we remember why we got to the position.

Sunderland LEA

The staff come in and use the buildings in their holidays, this was not in the contract, but Pyramid have not charged anything for this, if we do another project then we will need to make sure that we have specified the appropriate number of hours. *Tameside LEA*

Payment mechanism

The principles of payment mechanisms and response times have had a good effect on sub contractors within the industry though - they are now set up and understand that they have to respond quickly. Pre PFI, this would not have been the case.

Eric Wright Group

Pupil behaviour, attendance and results

The buildings have had an impact upon children, behaviour and attendance. The behaviour patterns of the children have changed and the children love the buildings – they respect them. We have tested this out. For example, we put a bowl of potpourri in the girls' toilets – it was not touched, whereas in the past, it would have been destroyed by the pupils. In traditional build schemes, we often had to cut back on the budget whereas in PFI, we don't have this. *Birmingham LEA*

The children's exam results were not affected, even on sites which were very constricted. The academic attainment went up even in construction phase and they went up faster than the Birmingham average increase and faster than the national average increase. *Birmingham LEA*

[The building] is lovely and well respected by pupils and the community. We have picked up things that, with hindsight, could have been done differently and share these experiences with the many visitors we have who are considering PFI or new builds. *Essex school*

Facilities for catering in the past was very poor the dining room was very small, now 80 – 85% of children stay for dinner. Children now stay at lunch time because there are things to do. Before, children went out to the estate and a minority often caused trouble. Breakfast club is also being run. *Sunderland school*

School's performance has changed – difficult to track the responsibility but we are no longer in "challenging circumstances" and the school has just won a schools achievement award. Attendance is better and the school is now oversubscribed. *Sunderland LEA*

In terms of the project, the replacement of the secondary school was top of our agenda. Without PFI we would not have got it so PFI addressed our most urgent need. It also stimulated our thought processes because a single project was too small. We looked at doing a group scheme but then began to think outside the box at community facilities – from this the centre evolved. The school has facilities which meet all of our criteria as the suitability, sufficiency and condition issues have all been addressed. The results speak for themselves, for example in the library (public) book issues have increased by more than 100%. *Sunderland LEA*

We have such a beautiful building, community, staff, Council, heads have all put so much in. This is a fantastic success too for regeneration and it has done so much for the community. Educational standards are up, attendance is up, the attitude to school has changed, vandalism has gone and the children appreciate the building. The pupils love the school. *Tameside school*

The buildings are generally well designed, well detailed, fit for purpose, well liked and both schools have received very favourable responses from parents and the community. *Torbay LEA*

In terms of the regeneration, the land values have gone up. Previously we were told that some land which we had to sell had no value but now we were told it is worth around £9 million. *Tameside LEA*

The demand for places has also gone up. We have 240 applications for the 150 places. It is an important project for the Council and there was high level support. *Tameside LEA*

It has also, raised educational standards, without doubt it has improved educational standards and you failed to ask that question. Sometimes we forget why we build schools. *Torbay school*

Services

Catering did not start off well, but they have listened to what we have said and have now adjusted it to the children's needs – e.g. they only give chips once a week. The food is more plentiful than before, they don't mind if people change their minds as to whether they are having packed lunches or hot dinners; they let the children use the dining room to play games in after lunch and they let us have our breakfast clubs and use their kitchen facilities (this was not specified in the project as LEA did not know about it). We have a good relationship with them based on give and take.

Bolton school

Yes, they are far better than before. This reflects the good site manager which we have, he is from Eric Wright. *Cheshire school*

Security is much better than before, the designs of the schools are good and they have installed 24 hour monitored CCTV, by which they can warn intruders and ask them to leave the site. The fencing which they have used is very good and was included in the design. Prior to PFI, we had extreme vandalism and it was a real problem. We did not want a fortress looking site. *Cheshire school*

The contents are the responsibility of Eric Wright Group (except for ICT and other school supplied items of equipment) and they insure these. *Cheshire LEA*

The FF and E was the most difficult to get right, the company which EWG chose provide purpose built furniture, they took the schools round the factory. For example, they make a cloak unit where the children's clothes are dried if they are wet. We listed furniture in our room datasheets and this was reviewed with each school and scheduled as part of the design development – however the lack of 'catalogue' illustrations made it difficult for users to appreciate exactly what they were getting. *Cheshire LEA*

School meals improved enormously immediately the PFI contract was in place. The provision of school meals was subcontracted to the DSO commercial services, so PFI schools had their meals provided by commercial services. The quality, quantity, provision was far better than had been previously experienced. It now turns out that the commercial services have the contract for the whole county, so I would expect, I would guess that people say generally now, school meals are better. *Cornwall school*

In the past, the school hadn't spent much on building maintenance. Now school delegated 'building related' money is not siphoned sideways. The services are better than before, particularly on buildings maintenance. *Lancs school*

We are pleased – there is a permanent presence in the building and it is well resourced. One of the advantages for schools is that there is the FM manager and five other staff plus the staff who were TUPE'd over, so there is a wide variety of people across the building. *Sunderland LEA*

Appendix 4 Scoring Methodology

Scorings or ratings were given for a number of areas and used in the tables and graphs in the report. Where an average scoring is quoted, the maximum score is 5 and the lowest score is 1 as follows:

Score	Service satisfaction	Performance deductions	Relationship between service provider/main contractors	Usability of payment mechanism	Adviser
5	Extremely	None	Seamless	Very straightforward	Excellent
4	Very	Very few – teething problems at the start	Good	Straightforward	Good
3	Quite	Some each year	Satisfactory	Acceptable	Satisfactory
2	Not very	Unacceptably high level	Not good	Difficult to use	Poor
1	Very dissatisfied		Very bad – aware of significant sub-contractor complaints	Overly complex	Very Poor

Average scores have been derived by taken a weighted average of the scores given in each category.

For example, if three projects have scored 4 and five projects have scored 3 for a particular aspect, the average score is calculated as:

$$\{(3 \times 4) + (5 \times 3)\} / 8$$

$$= (12+15) / 8$$

$$= 27 / 8$$

$$= \mathbf{3.375}$$

rounded to 3.4

Appendix 5 Interviews (separate volume)