PRESS RELEASE

AUDIT SCOTLAND

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PFI BRINGS BENEFITS BUT SHOULD NOT BE THE ONLY OPTION

The use of the Private Finance Initiative (PFI) to provide new schools has delivered real benefits in terms of project management, risk transfer and financial control. However, these advantages come at a cost. In a report published today the Accounts Commission for Scotland is urging the Scottish Executive to allow councils a wider choice of procurement routes for future school building projects.

So far, the Scottish Executive has given the go ahead to twelve PFI schools projects (for 80 schools) with a forecast lifetime cost of more than £2 billion. The Accounts Commission study looked in detail at six of these projects, for 65 schools, and found that councils have managed them well, with thorough, long-term thinking about the planning and provision of school facilities. The PFI providers are delivering the new or refurbished schools rapidly, on time and with good control of construction costs. Teachers and pupils have, in general, welcomed the improved accommodation and level of service that has come on line so far.

Accounts Commission Chairman, Alastair MacNish says:

> "The evidence is that PFI is delivering real and very practical benefits and the Commission welcomes this. The scale and impact of some of the projects is unprecedented and it is good that councils are managing these challenging projects well, and that the PFI providers are delivering new schools and services effectively and on time.
>
> But the benefits available from PFI are not necessarily unique to PFI and we believe there is a need for a real choice of procurement options for future projects, including PFI and non-PFI options."

Although PFI procurement of schools is more rigorous than other methods, a disadvantage is the higher set up and advisers' costs (for public and private sectors combined) that ranged from £1 million to £12 million for each of the projects examined. Another potential drawback is the long-term financial commitment that councils must give to PFI schools projects, which the Commission says may constrain future spending decisions and reduce flexibility. Councils have been able to demonstrate a narrow overall cost advantage in favour of each PFI schools project compared to a notional publicly funded alternative (Public Sector Comparator or PSC). But the PSC cost estimates are subject to inherent uncertainty and subjectivity and do not allow for the higher cost of private finance.

Controller of Audit and Deputy Auditor General Ronnie Hinds says:

> "PFI has undoubtedly produced benefits in terms of better management of large construction projects for new and refurbished schools. However, there are additional costs associated with PFI and effective and appropriate transfer of risk to the private sector is a critical aspect of the value for money assessment. Moreover, many of the benefits of PFI could potentially be secured by other means and the scope for this should be considered for future schools projects"

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The Accounts Commission is making five key recommendations regarding future projects:

1. There is a need for a wider choice of procurement options for future projects including PFI and non-PFI. The prospect of increased flexibility in capital finance for councils offers the opportunity to test whether the lessons learned from PFI can be transferred to other types of procurement.

2. The current review of the PSC (Public Sector Comparator) should take account of the true cost of borrowing for councils to improve its usefulness as a cost benchmark.

3. Other cost effectiveness measures are needed to guide the development and assessment of future schools projects and promote value for money.

4. The Scottish Executive should consider developing a leadership role to ensure that the special experience and skills learned from current PFI schools projects is transferred to future projects.

5. Best practice guidelines, about what constitutes a minimum acceptable standard for classroom size, heating, lighting and other factors that affect the learning environment, are needed.

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NOTES TO EDITORS**:**

1. The Accounts Commission is responsible for securing the audit of 32 Scottish Councils and 34 joint boards, including police and fire services. The Commission investigates whether spending bodies achieve the best possible value for money and adhere to the highest standards of financial management. The Accounts Commission is independent and is not subject to the control of the Scottish Executive or the Scottish Parliament.
2. Audit Scotland is a statutory body set up in April 2000, under the Public Finance and Accountability (Scotland) Act, 2000. It provides services to the Accounts Commission and the Auditor General for Scotland.
3. The 12 first generation PFI school projects are for 80 schools, which have a forecast investment value of £643 million and a lifetime expenditure commitment of more than £2 billion.
4. PFI schools contracts involve contracting with the private sector to finance, build, extend or refurbish specific schools and to manage these schools for an extended period, usually 25 to 30 years. At the end of the contract the schools generally pass to the ownership of the council at zero cost.
5. Audit Scotland examined six individual PFI schools projects: Falkirk (5 schools); Glasgow (30 schools); Balfron (Stirling) (1 school); Highland (4 schools); Edinburgh (19 schools including a secure unit) and West Lothian (6 schools). In each case the audit team interviewed the Council project leaders and members to gain insights into the strengths and weaknesses of the process. Audit Scotland also interviewed representatives of some of the companies providing the PFI services and some head or senior teachers at a few of the project schools involved in each case.
6. The Accounts Commission's report "Taking the initiative - Using PFI contracts to renew council schools " is available from www.audit-scot.gov.uk