Private Finance Initiative:
The commodification and marketisation of education

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This article examines the major implications of the Private Finance Initiative (PFI) for education, focusing on the schools sector. It shows how the PFI is rooted in the transformation of the state and is less to do with modernisation than with the marketisation of education. It explains the core elements of the PFI, including its finance which are crucial to understanding its impact. The article concludes with a detailed assessment of the longer term implications for the commodification, marketisation and privatisation of education.

The objectives of transformation and modernisation

The Conservatives' strategy was underpinned by a number of objectives including the transformation of ownership, marketisation of public services, transformation of the labour process and reduction in the power of trade unions, lower public expenditure in order to cut personal and corporate taxation, maximisation of accumulation by deregulation and new systems to control local government activities and spending, creation of a smaller, more efficient and better managed state, centralising power under the guise of rolling back the frontiers of the state, and maintaining Tory hegemony.

The Labour Government's objectives have been cloaked in the rhetoric of the 'third way' and modernisation. Some of the objectives are hidden behind public statements proclaiming 'what matters is what works', and undisputably good but vague statements about modernisation and renewal. In addition to a substantially increased role for private capital funding of the infrastructure and public services and streamlining of the Private Finance Initiative, the agenda has also included the transition to a performance-competition state in which, albeit voluntary, competitive tendering is legitimised across the public sector; a national programme of privatisation, although on a smaller scale than the Conservatives; escalating corporatisation and commercialisation of the state, with increasing use of company structures; a greater commitment to promote fairness and flexibility but making redistribution and equality matters of local choice; and externalisation and transfer of local government (which is continuing at the same, if not faster, rate primarily because of Labour's belief in the enabling model) and has been institutionalised in the Best Value regime.

A political economy typology of transformation and modernisation

The different components of transformation can be grouped into four categories:

Functions
Changing role of the state in managing
Commodification of services and assets
Privatisation, outsourcing and transfers Privatisation of social needs

Finance
Restructuring public finance
Private finance of public services

Organisation
Reorganisation, corporatisation and decentralisation
Commercialisation
Democratic renewal or privatisation of government

Operation and management
Performance management & Best Value auditing
Marketisation and competition
De/re-regulation and new control systems

The roots of PFI

The PFI did not, as widely reported, originate with the Conservative Chancellor of the Exchequer, Kenneth Clark, and the Treasury in the Autumn Statement in 1992. The concept of private finance for infrastructure projects originated in Britain in the 1980s when the major contractors became increasingly concerned. Infrastructure investment declined after the 1973 oil crisis and International Monetary Fund intervention three years later. Both Labour and Conservative governments imposed substantive cuts in public sector capital spending programmes. By the mid 1980s a spate of studies by the Confederation of British Industry, the Federation of Civil Engineering Contractors, the now defunct National Economic Development Council exposed the deteriorating state of the infrastructure and further planned cuts in capital spending.

By the mid 1980s the major construction companies were increasingly concerned about the decline in construction orders and further planned cuts in public sector capital spending. Their lobbying resulted in Conservative government proposals to double the road building programme to £12bn and a proposal that additional road schemes could be built and operated by the private sector in 'corridors of opportunity'. Some British companies were involved in overseas private infrastructure projects which had not been commercially successful. However, the Thatcher government insisted that privately financed schemes be commercially viable and without state subsidy. A number of private sector transport schemes including the rail link to the Channel Tunnel, a second Severn Bridge, a rail link to Heathrow and the Docklands Light Railway extension were being developed.

By the end of the decade, with much of the basic transport and utility infrastructure in private ownership or planned for privatisation, and with contractors lukewarm over the prospects of private roads, their attention turned to other sectors such as hospitals, prisons, schools and urban development. Contractors were also clear about seeking higher returns and involvement in the development of 'surplus' land and property.

Finance capital and the construction companies were, in effect, setting out their conditions and the incoming Labour duly obliged with not so much a third way but the corporate way.

The launch of the Private Finance Initiative in November 1992 became the policy and financial mechanism for promoting private finance. It combined three sets of interests; the political attraction of obtaining investment in the infrastructure without affecting public expenditure (although this changed in 1999), the major construction companies gained access to a larger and continuing flow of contracts instead of relying solely on state expenditure, and finance capital saw new investment opportunities in the public sector. Most politicians had a short term perspective but capital was looking longer term. The 'crisis' in the flow of PFI projects between 1995-97 was a blip, as predicted, and has not resurfaced. Finance capital and the construction companies were, in effect, setting out their conditions and the incoming Labour duly obliged with not so much a third way but the corporate way.

The additionality element of PFI quickly vanished and its justification changed. 'Taxpayers no longer need to own hospitals' the Treasury claimed in 1994. The Labour government 'sees productive Public/Private Partnerships as being key to delivering high quality public services that offer the taxpayer value for money.' (Financial Statement & Budget, July 1997)

There are four types of public/private partnership

1. major infrastructure schemes such as airports, transport, highways, utilities
2. provision of new building and facilities for basic services such as hospitals, schools, housing and social services
3. redevelopment and regeneration schemes
4. provision of IT and equipment

Under the PFI the private sector Designs, Builds, Finances and Operates (DBFO) facilities, usually for 25-35 years (7-15 years for equipment). The private sector finances construction and is repaid by the state, in regular payments for the use of the buildings and for the services provided under a facilities management contract. Payments for PFI projects are classified as revenue, not capital, and do not start until the building is completed. It thus has enormous short term political appeal.

Each PFI project is structured around a special purpose company in which the construction company, financial institutions, the facilities management company and other interests usually have equity stakes. This company manages and operates the facility including selling spare capacity and vacant space to third parties and encouraging private use of 'public' facilities. Many construction companies have diversified and have facilities management subsidiaries providing services once construction is completed.

The Private Finance Initiative is no longer about additionality nor is it about affordability and the public sector capital spending programme. In recent statements, the Government has highlighted its change in policy with respect to the use of private finance.

> 'The PFI transforms Government Departments and Agencies from being owners and operators of assets into purchasers of services from the private sector. Private firms become long term providers of services rather than simply up front asset builders, combining the responsibilities of designing, building, financing and operating the

assets in order to deliver the services demanded by the public sector.' (Para 3.01, 'Partnerships for Prosperity', Treasury Taskforce, 1997)

The need for capital investment in education

Virtually all local education authorities have a backlog of repairs to schools and need to build new schools and refurbish others. The need is not in question. It is understandable how parents, heads, teachers, governors and elected members can view PFI as the only option in a situation where a school is in desperate need of repair and refurbishment or new facilities are needed. The Government's public spending plans limit local authority capital programmes imposing constraints on the renewal of the education infrastructure. The Labour government inherited the PFI, streamlined it and incorporated it into new policy initiatives, for example, New Deal for Schools promotes public/private partnerships and the PFI.

In these terms, PFI is not simply about using private capital because of public expenditure and borrowing constraints, but the redefinition of 'public service' and the replacement of public ownership of the infrastructure by the private sector.

PFI is being applied across the entire public sector – local authorities, Civil Service, NHS and other public bodies. Local government PFI projects cover schools, social services, urban regeneration, sports, leisure and arts facilities, libraries, police, fire and magistrates courts, transport, roads and street lighting and new housing. By December 1998, some 88 projects had been approved in sixty six local authorities in England, although only seventeen projects had been signed.

The core elements of the Private Finance Initiative

The basic elements of Private Finance Initiative projects are:

• **Paying for a service, not acquiring an asset:** All assets such as schools built or purchased under the PFI remain in the ownership of PFI consortia until the end of the contract – the local authority pays the consortia for the use of the school and for its operation and management.

> 'PFI is one of the Government's main instruments for delivering higher quality and more cost effective public services, with the public sector as an enabler and, where appropriate, guardian of the interests of the users and customers of public services. *It is not simply about the financing of capital investment in services, but about exploiting the full range of private sector management, commercial and creative skills.*' (our emphasis) (Press Release, Lord Chancellors Department, 8 February 1998)

Understanding the concept of PFI is of paramount importance in assessing the longer term impact in local government. Previous PFI advice has stated categorically that the 'central mission of Departments, Agencies, Local Authorities etc is not to be property owners, developers or estate managers. It is to deliver their public service functions from an efficient working environment.' (PFI in Government Accommodation, 1996)

In these terms, PFI is not simply about using private capital because of public expenditure and borrowing constraints, but the redefinition of 'public service' and the replacement of public ownership of the infrastructure by the private sector. In theory, DSOs would eventually cease to provide building repair and maintenance, cleaning, catering, security, grounds maintenance and all other property related services.

It is also based on the premise that a clear distinction can be made between property related support services and the technical and professional core 'public' services and that the private sector will not be seeking to take over these services.

• **Payments to the consortia are counted as revenue expenditure** – there is no capital expenditure but a stream of ringfenced payments over 25-35 years. It is a means of replacing capital spending now with an escalating stream of committed revenue spending in the future. For example, Dorset County Council has to pay the Colfox School PFI consortia £2.2m annually for 30 years for the Colfox School.

PFI finance is classified as private borrowing so it does not show as public sector capital expenditure and the Public Sector Borrowing Requirement is unaffected, at least in the short term. However, new Accounting Standards Board rules came into effect in January 1999 which mean that most new projects supplying 'accommodation' will count as public sector borrowing thus eliminating one of the key 'advantages' of PFI projects.

Committed revenue payments to PFI consortia will mean other services bearing the brunt of cuts in a future budget crisis. 'The expected payments due under such contracts can be considered to be effectively ringfenced within the Department's baseline. If, at any point in the future, the government is obliged to find savings in public expenditure by means of across the board flat-rate adjustments to departmental baseline then this will not affect the provision set aside for PFI contracts.' (Para 4.07, Partnerships for Prosperity, Treasury Taskforce, 1997)

• **Schools are designed, built, financed and operated by the private sector** who will operate and manage the school under a facilities management contract, in fact the vast majority of local authority PFI projects are DBFO schemes.

PFI schemes for schools fall into one of four categories:

- New primary and secondary schools – the emphasis is on multi-school or grouped projects rather than single schools.
- Re-equipment of school kitchens
- Refurbishment and repairs programmes
- Adding new facilities such as sports centres

In April 1997, the capital value of signed PFI projects covering all public sector bodies nationally had reached £6,885m. By January 1998 the total had increased to £8,726m, a 27 percent increase in nine months. This total included a mere handful of signed local authority schemes and only four NHS approved hospital projects. By November 1998 the total had increased a further 29 percent to £11,272m (see Table 1). The Government expects a marked increase in PFI activity generally, rising from just over £2bn in the first year of the Labour Government to £7.7bn over the next two years.

Table 1: Annual value of signed PFI projects

Year	Annual Value of signed PFI projects (£m)
1986	150
1987	-
1988	-
1989	-
1990	339
1991	11
1992	27
1993	483
1994	8
1995	851
1996	4,792
1997	1,444
1998*	2,995
Others	172
Total	11,272

* to 20 November 1998

Source: Private Finance Policy Team, HM Treasury

Operational value of PFI deals

The total capital/operational ratio in PFI contracts varies widely. In a standard capital building project the ratio will usually be about 2:1 (capital-operational) over the length of the contract. The Lewisham school catering contract is at the other extreme with a 1:12 ratio. The Lord Chancellor's Department ARAMIS IT and corporate services PFI contract with CSL has a 1:4 capital/operational ratio. The Haringey schools PFI project has an estimated initial cost of £86.6m with total PFI revenue payments of £233.7m over the length of the contract.

Both the Further and Higher Education Funding Councils support the use of PFI for academic buildings and non-core facilities. The FEFC has a register of 283 potential projects at 159 colleges with a total capital value of £598m, however, only five projects have been signed by December 1998 with a total capital value of £22.4m. Signed PFI contracts in higher education totalled only £30.5m in 1997-98 with a projected rise to £53.5 in 1998-99. Most schemes are for student accommodation.

The cost of PFI – who will pay?

It is widely accepted that PFI projects cost more than publicly funded schools because of three factors:

- The cost of borrowing by the private sector is 1%-3% higher than that for local authorities.
- Fees for PFI lawyers, financial advisers, consultants and the tendering costs add a further 3%-5% to the total price.
- The PFI contractors profit must also be added in – a conservatively average is 10%. although it is much higher on some projects (the return on equity invested in the Fazakerley and Bridgend prison contracts was 12.8% and 19.4% respectively)

Adding up these additional costs means that PFI schools will be at least 15% more expensive.

But PFI schools will only get approval if they provide value for money, in other words, the final cost must be lower than for conventional built schools. How can PFI schools start out being 15% more expensive yet provide savings for the local authority? How can PFI contractors recoup these higher costs *and* promise better value for money?

There are three ways in which costs can be reduced:

1. Lower construction costs or constructing to 'cheaper' designs ie lower quality buildings. But private contractors already build most new schools and it will not be in their interest to skimp on materials since they will be responsible for maintaining the school for 25 – 35 years.

2. Operate and manage schools more efficiently with facilities management contracts by employing fewer staff and imposing flexible working patterns but this inevitably means means job cuts.

3. Increased income generation through private use and/or increased user charges. This will very much depend on the location of the school.

If their combined effect does not produce the required savings and profits, the PFI consortia are likely to resort to cuts in jobs, terms and conditions and/or the takeover of some or all of the teaching and educational activities in order to achieve further economies.

Soaring cost estimates

The cost of many PFI projects have escalated rapidly from their original estimate. This has been a major feature of PFI hospital projects and there is evidence of the same happening in schools PFI projects. For example, the cost of Birmingham City Council's schools PFI project rose from £20m for eight schools to £65m for ten schools between November 1996 and April 1998 – this was before a preferred bidder had been selected and detailed negotiations began (various reports to Education Committee).

Thirteen local education authorities, including Birmingham, Manchester, Leeds, Sheffield and Stoke, recently asked the government for additional funding for PFI schools projects because the original cost estimates were based on limited information.

The Private Finance Initiative conceals the fact that most local government projects are subsidised by taxpayers. In order to promote the PFI, the government provides revenue support in the same level as traditional publicly funded schemes. This is done through PFI credits, a sum allocated annually. Local education authorities have £350m PFI credits for the financial year 1999/00 (see Table 2).

Who will own the schools

The PFI consortia will own and operate schools for the length of the contract, normally between 25 – 35 years. It should certainly be stipulated in contracts that schools should revert to local authority ownership at the end of the contract. In practice it is likely that the local authority will never own schools built under the PFI because, if current trends continue, it is unlikely that there will be a public sector capital spending programme in twenty five years time, nor would local authorities have the capacity to supply services even if they did own the schools. Also by that time, schools will need major refurbishment and another PFI project would be the most likely outcome.

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DSO involvement in PFI projects

Direct Service Organisations can be involved in PFI projects 'where a value for money case for doing this when a particular service can be delivered more efficiently by the DSO/DLO.' (Para 5.20, Local Government and the Private Finance Initiative, DETR) In practice, it is up to each local authority to decide early in the development of the project which services should be retained and those included in the scope of

Table 2: PFI credits for local government projects

Department	1997/98 (actual) £m	1998/99 (allocation) £m	1999/00 (allocation) £m
DETR – other services	149	200	250
DfEE – schools	**22**	**130**	**350**
Home Office – police, fire & probation	41	80	100
DoH – social services	37	30	30
Lord Chancellors Office - magistrates courts	0	60	70
Total available	250	500	800

Source: Local Government and the Private Finance Initiative, DETR, September 1998.

the contract. However, the greater the degree of DSO the less risk will be transferred to the private sector. The project will have to pass the contract structure test – the less risk transferred through services the more that will have to be transferred through some other aspect of the contract.

PFI consortia

PFI consortia consist of the major construction companies such as Tarmac, Wimpey, and Mowlem, the major banks such as Barclays and the Royal Bank of Scotland, and a facilities management company, for example, Initial (Rentokil) and ISS or a subsidiary of the main construction company. Architectural, engineering, legal and financial consultancies will also be part of the consortia.

'Principles' of DBFO Schemes

All PFI projects must demonstrate the following:

- **Genuine risk transfer from the public to the private sector**
- **Value for money**
- **Output specification** – specify type of service and performance standards leaving private sector to design and operate.
- **Whole life asset performance** – full responsibility for managing assets are transferred to the private sector over the length of the contract.
- **Performance-related reward** – contract-structure test under which the 'minimum' payment to the contractor must not exceed 80% of the total payment.
- **DSO can supply services** but this is constrained by the transfer of risk and the attitude of PFI consortia in terms of which services they plan to provide.
- **Bankability** – projects must show evidence of commercial interest, a certainty of an income stream and a willingness to consider all opportunities for generation of other revenues from the sale of assets or third party use of facilities and services.

Examples

Birmingham City Council: Ten schools

The City Council's £65m thirty year PFI project covers the rebuilding of six schools and new building at four others. The complete rebuilding of six schools covers two infants, two junior, one nursery and one secondary school. The new build work at existing schools covers two junior and two secondary schools.

The City Council received 84 responses to the OJEC advert and 27 organisations returned completed questionnaires. Six firms were shortlisted, Aqumen Services Ltd, Norwest Holst, Education Link Ltd, Creative Schools Partnership,Tilbury Douglas Construction Ltd and Galliford PLC. The latter four firms were selected to submit base tenders. Galliford PLC were selected as the preferred partner in November 1998.

Colfox School, Dorset County Council

A new 1,060 pupil secondary school is being built to replace the existing school in Bridport. The capital cost is £15m (originally estimated to be £12m). A 30 year contract has been awarded to the Jarvis Group (Jarvis Construction and Jarvis Facilities Management). The facilities management contract will cover repairs and maintenance, cleaning, catering, grounds maintenance, utilities, furniture and IT equipment. The final contract price 'was about 2% below' the Public Sector Comparator price, a relatively small margin. Only four staff will transfer under the TUPE regulations (the school caretaker, an IT technician and two midday supervisory staff). Other staff will be employed on the facilities management contract.

Stoke on Trent City Council: school repairs

The £130m PFI project covers repairs and maintenance of 122 schools over a 25 year period. The authority has a £25m maintenance backlog and currently spends £1.3m on repairs and £1.6m annually on energy. The contract would cover repairs and maintenance, heating, lighting and security work. The DSO hopes to continue the provision of soft services such as grounds maintenance and catering. There is no transfer of ownership. The DSO currently carries out only a limited amount of school repair and maintenance work and even a partial involvement in the PFI contract will represent an increase in the DSO's workload.

Lewisham LBC: School catering equipment and refurbishment

The London Borough of Lewisham PFI project requires £4.2m capital investment in school kitchens. The preferred contractor is Chartwells who will also have a ten year £6m per annum contract to provide school meals and welfare catering. The capital content of the £65m PFI contract is a mere 6.5%. Some 550 staff will transfer to Chartwell's. However, the success of Lewisham Directeam in winning CCT contracts and maximising staff resources has meant that an estimated twenty drivers and ten administrative staff are also affected by the contract. The contract will have a £400,000 knock-on effect on the DSO and a further £100,000 will have to be absorbed by central overheads.

The trade unions opposed the project both on the grounds of principle and because it was a wholly inappropriate use of PFI for a service contract. The council is now locked into a ten year contract which will ultimately be restrictive in a rapidly changing service. They believe that the council sold quality of service and their responsibility for the service for short term financial gain. The PFI project has been approved by the Treasury and qualifies for Revenue Support Grant of about 80% of the capital cost.

Commodification of education

The commodification of education is occurring in a number of ways via the PFI:

- Risk is being commodified and transferred to the private sector.
- Schools are being established as individual entities, separate from the Local Education Authority and collective educational planning. Individual school performance has become a key factor determining the school's 'attractiveness' and 'market position.'
- The separation of school buildings and their maintenance from the core service provided within them and thus between core and non-core staff is also influential.
- The separation of training, courses, supplementary activities from core teaching ie segmentation of teaching into particular products which can be specified and thus delivered by other contractors, organisations or individuals.

Other routes to marketisation and privatisation

Private sector rescue of 'failing LEAs': This is likely to provide another route for private firms keen to establish a market presence, such as management consultants such as Andersen Consulting and PriceWaterhouseCoopers (where government ministers Patricia Hewitt and Margaret Hodge respectively are recent ex-employees).

Private sector management of 'failing schools': This will provide private management firms such as Nord Anglia and Edison with a means of establishing a track record and credibility as a means of gaining access to PFI consortia.

Education Action Zones: Business involvement in EAZs is likely to lead to further pressure to adopt the PFI route to infrastructure improvement.

Marketisation and privatisation of education

Education planning

PFI will create vested interests – PFI consortia, PFI schools and the local authority will have a vested interest in ensuring that PFI schools are an educational success and perform well. The authority will be financially committed to paying for PFI schools and will want to achieve standards and rate well in performance assessment so that the school is popular and maintains pupil numbers.

Educational planning is likely to be distorted by PFI projects. Conflicts and tension will exist between PFI and non-PFI schools over the quality of teachers, which schools are allocated resources for new or special projects and the distribution of any future budget cuts between schools and services will be key issues.

PFI consortia vested interest in quality of teaching and performance of the school

The PFI consortia will have an educational interest, it will not be limited to managing the facilities. It has an economic interest in the schools educational performance and maintaining school rolls and ensuring its popularity is translated into maximising income generation from community and business use of the facilities. PFI consortia will, therefore, want to ensure that they have the best teachers and minimum disruption to the running of 'the business'.

Pathway to full privatisation

In the longer term it is inconceivable that PFI projects will be confined to buildings and support services or that PFI will be limited to a small number of capital projects. The current division between core and non-core services is unlikely to be sustainable. The concept of the public sector providing continuing to provide core staff and buying space in an increasing number of buildings managed and operated by the private sector is not credible. The role of business interests in Education Action Zones has already provided opportunities for British and US companies to promote the total private management of schools. PFI projects in the millennium could include core services such as teaching and other professional and technical staff. PFI consortia are also likely to want to expand the range of services provided, particularly to gain financial advantage from income generation to third parties.

The idea that PFI is different from privatisation because the public sector retains a substantial role in PFI projects reflects a fundamental misunderstanding of the political objectives of PFI. It is simply not credible that the private sector could ultimately own and control Britain's infrastructure whilst teachers and doctors continue to provide a public service in private space supported by private services. Now that is fantasy! Nor is just a temporary financial fix to boost infrastructure investment whilst keeping within the Maastricht convergence criteria.

Private management firms will become part of PFI consortia:
It is only a matter of time before some of the private management contractors such as Nord Anglia, Edison and other firms become part of PFI consortia. Local authorities may have no intention of including teaching and educational activities within the scope of a PFI project. However, this is unlikely to deter PFI consortia in making proposals and 'offers' to LEA and Governing Bodies which initially may only cover 'ancillary' teaching. Of course, given the political climate, the same LEAs who were so keen to engage private firms in the EAZs may extend their interest in the private sector taking over teaching.

Some facilities management firms may seek takeovers or mergers with private management firms to marry facilities management with teaching activities and increase their ability to provide a 'holistic' service.

Buying and selling schools
The Confederation of British Industry (CBI) want to see the growth of owner-operators, a new breed of landlords who build, own and manage buildings for the public sector. It envisages an export market similar to the privatisation market created by the Conservative government.

PFI projects will be subject to takeovers and mergers in the same way as companies. The more profitable PFI consortia will attract takeovers from other PFI consortia and those that struggle financially will also be subject to sale as the parent companies seek withdrawal. There are already a number of PFI projects in most cites and economic forces are likely to lead to the merger of projects to achieve further economies of scale. This will lead to further job losses and 'flexibility' in where staff work and working practices.

Takeovers and mergers of PFI will occur in three ways:

- A PFI consortia which is highly profitable will attract interest and may lead to a takeover bid. The previous Conservative government were keen to encourage a secondary market in PFI consortia in which they would be bought and sold in a similar way successful CCT contractors attracted takeovers.
- If a PFI consortia gets into financial problems, its one or more of its constituent owners may want to exit, and thus may seek a takeover or merger.
- Eventually, an LEA may have two or three different PFI consortia operating groups of schools and takeovers or mergers will be inevitable in these circumstances.
- We need to take a city or sub-regional perspective. Already some cities have several PFI projects under way in education, health, civil service, local government, transport and once these are completed and operating and further tranches of PFI projects in the pipeline will result in further rationalisation.

Governing bodies marginalised
PFI contracts are between the local authority and the PFI consortia. Governing bodies have the power to decide whether to be a part of a PFI project or not, but if they participate, a substantial part of their budget will ringfenced. Payments to the PFI consortia will be made by the local authority, not individual schools.

Financial commitments and knock-on effects for other educational needs
An increasing proportion of LEA revenue budgets will be committed to PFI projects leaving a smaller proportion of the budget to deal with other non-PFI schools, and other educational needs it is likely to affect the LEA's ability to respond to changing social needs and urgent priorities.

Business centres, not community education
The trend to view schools as business centres is not new but this process will be accelerated by the PFI. Irrespective of the Heads and Governing bodies, PFI consortia will have income generation targets to meet and schools, or groups of schools, are likely to end up competing with each other to attract third party use, otherwise known as 'business'.

New alliances of vested interests
New alliances of vested interests are likely to form as a result of the PFI. Authorities will be legally and contractually committed to paying the PFI consortia fees, less any deductions for poor performance or non-availability of facilities. LEAs, PFI consortia and Governing Bodies will have a collective economic vested interest in ensuring that school rolls and educational performance are maintained in PFI schools.

The idea that the local authority will still set educational policy and standards and that this process will remain unchanged despite the growth of PFI projects is not sustainable. PFI consortia will not take a back seat simply carrying on managing and operating schools irrespective of what happens educationally in 'their' schools.

Commercialisation of the classroom
Once the private sector owns and manages schools it is likely that commercial interest will increase through

sponsorship and the production of 'educational ' materials by transnational companies.

One stop shop education

The next stage of Further and Higher education merger and takeovers could be the vertical integration of major secondary schools. This would provide a feeder system but also a satellite system of local or community 'educational centres' which could provide facilities for lifelong learning. Colleges and Universities are organisational 'hybrids', part public organisation and part private with commercial companies which could readily participate in PFI consortia. There is already a US example – Boston University's management of the Chelsea School District.

More and bigger packages

The danger of PFI is that it is not project or time limited. Once an authority embarks on a group of schools there are no programme, project or time limitations except for DETR annual revenue support which has increased markedly since May 1997. Authorities may argue that a 'wholesale transfer of the Education estate to private management and development is not being recommended' (Newcastle City Council) and that 'a relatively small group of schools' will be included in a PFI project to enable the council 'to concentrate its existing capital resources on the remaining schools'. However, the Department of Education & Employment is applying pressure and some authorities developing PFI projects have or intend to canvas a wide range of schools, if not all, to determine the level of interest in being included in a PFI package. This is likely to provoke widespread interest, particularly if people are led to believe that the PFI is the only show in town and are kept ignorant of the wider and longer terms consequences.

Transferability and the effect of a secondary market in PFI projects

The creation of a secondary market in PFI projects in which consortia are bought and sold. in other words, takeovers and mergers of PFI consortia, will lead to further rationalisation. This will inevitably lead to further jobs losses if the consortia making the takeover already has PFI projects in the vicinity. Contractors will be seeking to achieve rationalisation of PFI projects which cover different parts of the public sector such as local government, health and the civil service. This will enable them to achieve economies of scale across the public sector which have rarely been attempted from within the public sector.

Private sector needs will dominate school design

The DBFO approach requires the LEA and governing body to provide the PFI consortia with an outline specification containing broad requirements in terms of pupil numbers, the type of facilities and the required performance standards. The PFI consortia is responsible for the detailed planning and design of the school. This is meant to capture private sector innovation but it is likely to mean that school design will increasingly reflect the needs of the PFI consortia rather than those of education and community use.

Social justice

There is very limited evidence that PFI will provide additional resources to improve the education infrastructure. In social welfare terms, the higher costs of PFI procurement is almost certain to be recouped mainly by job losses and wage cuts. So the people most in need of improved educational facilities are the ones who will bear the cost of recouping the higher cost of PFI schools. The PFI is also likely to impact on an LEA's ability to effectively plan for educational needs, particularly special needs, as planning will be constrained by business criteria and new sets of vested interests. Planning by numbers – school rolls, usage rates and income generation are likely to dominate.

Another key issue is the method of selecting which schools are part of PFI packages of groups of schools. Rational planning based on social needs is likely to be marginalised as PFI consortia, governing bodies, LEAs and other interests press their respective demands.

Equalities

PFI is a gender issue: At least seventy percent of the workforce affected by PFI schools projects will be women yet there is no reference to gender or race equalities in any PFI guidance. Facilities management firms could structure work around traditional male employment by having repair and maintenance, grounds maintenance and caretaking as the core and then adding other tasks such as cleaning, catering and administrative work. This would have the effect of creating full time male employment, leaving the 'leftover' work, traditionally carried out by women, concentrated in part-time/casual employment. Whilst there would be male job losses in this scenario, they would be small in comparison with female job loss/cuts in working hours.

Redefinition of 'public' services

'Public' services could in future consist only of core services such as teaching and social work taking place in rented buildings. The wider application of the PFI is likely to lead to a major reconfiguration of welfare state services (Whitfield, forthcoming).

Table 3: Summary of Employment Impact

Timescale	Estimated number of jobs transferred to PFI consortia	Estimated Job Loss	Total estimated job transferred for women	Total estimated job loss for wmen
Years 1- 5	50,000	10.000	35,000	7,000
Years 5 -10	100,000	20,000	70,000	14,000
Total	150,000	30,000	105,00	21,000

Source: Centre for Public Services, 1998

Closure or sale of council Direct Service Organisations and technical services departments

Future larger-scale PFI projects are likely to include proposals to take over DSOs. As DSOs come under increasing pressure from PFI projects and the transfer of other services the situation will inevitably arise where a PFI contractor will propose the acquisition of the DSO because the loss of any further contracts would threaten its viability and its acquisition would help the contractor consolidate its market position. The loss of architectural, engineering, quantity surveying and site supervision work could lead to the same process occurring in technical services departments. Both will have a knock-on effect on central services resulting in further job losses. Under these circumstances, public bodies would cease to employ manual staff.

National employment impact of PFI projects in local government

An analysis of the longer term impact of the Private Finance Initiative on local authority employment by the Centre for Public Services in Sheffield for the Association of Direct Labour Organisations revealed a loss of 10,000 jobs in the first five year period or 20,000 in years 5-10, making a total potential job loss of 30,000 (see Table 3). This assumes that:

- the current rate of project approvals continues (the current annual rate expressed in the £m value of projects is 35%);
- the larger PFI projects currently in the pipeline come to fruition, for example, schools contracts in Birmingham, Stoke and Sheffield;
- private finance continues to be available and that there is no reversal in government policy;
- the government will continue to increase revenue support for PFI projects in local government. This has increased from £250m in 1997/98 to £800m annually between 1998/99 – 2001/02 (CRS paras 2.14 and 9.4) – see Table 2.1 for details. If the figure remained at the £800m per annum for 2002/03, this would make a total revenue support of £3,700m by the end of the fifth year. If the economy did slide into recession and the government was unable to maintain its public spending commitments, it is very likely that the revenue support for PFI will remain unaffected and that cuts will be concentrated on public sector capital programme. In these circumstances the government is likely to increase its commitment to PFI because it would be able to maintain its manifesto promises to improve school buildings and the infrastructure generally. It could increase reliance on private capital in the knowledge that PFI payments do not start until construction is completed (up to 2 years for large projects).

A ten year forecast of the potential impact of PFI was based on the following reasonable and plausible events:

- PFI projects become embedded in local government and that revenue support continues in the period 2002/03 to 20006/07 at a higher rate of £1,000m per annum, this would be a lower level of increase than has occurred in the last two years;
- the level of PFI projects has a major impact on the viability of an increasing number of DSOs which leads to some being sold to private contractors because the loss of work threatens their viability;
- there is an increase in the number of PFI schemes which provide support services to both new and existing buildings thus producing a higher PFI project value/employment ratio;
- some PFI projects begin to include core services;

The potential transfer of jobs can be contrasted with the 27,800 jobs transferred in the 1992-97 period as a result of the externalisation of DSOs, white collar financial, IT and technical services (UNISON/Centre for Public Services, 1997).

Changes in the labour process

Operational or building support services in PFI contracts are delivered by facilities management contractors (and sub-contractors). Although CCT and budget cuts have led to substantial rationalisation, service reductions and productivity increases, PFI contractors can examine staffing levels and working practices as a package of services instead of individual contracts. The effect of a facilities management approach will partly depend on the extent to which DSOs have already adopted an integrated approach to service delivery and the percentage of contracts won in-house.

A facilities management can be beneficial for users, the quality of services and staff, particularly if it includes better training, improved coordination and integration of services and better career opportunities. Alternatively, poor management and a exploitative contractor will lead to increased casualisation, high turnover of staff and poor user-staff relations.

Facilities management contracts will involve changes in the use of labour, working practices and employment status. These are summarised below.

Changes in the use of labour: Facilities management contracts will enable contractors to maximise the use of multi-skilled staff, introduce more intensive use of IT in monitoring energy and support service provision and employing staff to cover a range of services.

Changes in working practices: This will include reducing job demarcation, reviewing job descriptions and developing new methods of integrating and coordinating services.

Changes in employment status: Private contractors are more likely to increase casualisation of the workforce, designing staff rota strictly to levels of service demand and increasing the use of temporary staff.

Impact on the local economy

A recent report by KPMG and the Major Contractors Group claims that PFI 'supports local employment' citing examples of the Falkirk schools, Lowdham Grange prison and Carlisle hospital projects. Sub-contracting construction work will benefit particular local economies. However, this rests on the additionality of PFI when in fact it is increasingly substitutional for conventional public sector capital expenditure. Furthermore, the employment impact of PFI projects needs to be assessed in two parts.

The construction phase will generate additional employment if the PFI project is classified as additional rather than substitutional. The operational phase requires a separate employment assessment because it is likely to reduce jobs and/or pay and conditions.

Most major cities and towns already have a number of PFI projects in different parts of the public sector, for example, PFI projects for schools, hospitals, roads, regeneration, police, central government agencies, are all at different stages of development. The cumulative effect of these projects will be more substantial than the comparative loss of CCT or market testing contracts by the same public bodies. Some projects will primarily affect white collar staff, some projects will affect mainly building repair and maintenance work, whilst others will affect the full range of support services. The combined impact of these projects on jobs, pay and conditions could be substantial. These projects will have a wider impact on employment in each city. Local economy research studies have shown that a multiplier of between 1.15 and 1.24 is applicable to contracting situations and takes into account both jobs loss and the impact of reductions in terms and conditions (Calculation of National Costs of CCT, Centre for Public Services, 1995). This means that for every 4-5 jobs lost in local government, a further job is lost in private sector services.

Tendering process

This is a three stage process, starting with planning and development of the project, a middle stage of competitive tendering followed by a third stage of detailed negotiations with a preferred bidder, culminating in the award of a contract. The third stage usually takes many months of negotiations behind closed doors between LEA officers and advisers and the PFI consortium and its financial and legal advisers. The scope and content of the project may change during these negotiations and there have been examples of firms resigning from consortia in the final stages. It is vitally important that the PFI process is democratised.

A strategic approach to PFI

A strategic approach to the PFI must involve five key elements:

1. Maintain opposition in principle
2. Demand changes in national PFI policies
3. Press local authorities to adopt a corporate and strategic approach to PFI
4. Make demands for DSO and in-house involvement in individual PFI projects
5. Build local alliances

Alternatives

The adoption of the General Government Financial Deficit (GGFD) in place of the Public Sector Borrowing Requirement (PSBR) aims to harmonise with other European countries and provide a more accurate government balance sheet. It will also provide new opportunities in what is classified as public capital spending.

The basic issue is **ownership and control** and there are no easy or quick fixes. Retaining public ownership of core welfare state facilities such as schools and hospitals requires a significant public expenditure programme. This means increasing **capital programmes** and a combination of changing public spending priorities, using capital receipts, abolishing tax reliefs and/or increasing taxation. There are no short cuts. The basic principle and method of funding schools, hospitals and council housing is sound and should be retained.

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