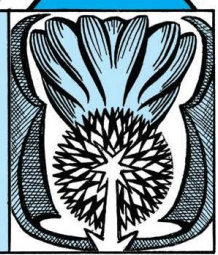


Saltire Series No. 12

**Shoddy Schools  
and Fancy Finance:  
the Mis-selling of PFI**

by

Malcolm Fraser





## **Editorial note**

In the Saltire Series we have invited individuals to spark fresh thinking, ignite debate and challenge our orthodoxies, through the publication of short commissioned essays. The Editorial note from a pamphlet produced in 1942 is still a strong expression of the proposition.

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Malcolm Fraser

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## **About Malcolm Fraser**

Malcolm Fraser is an Edinburgh architect who ran a practice in the city from 1993-2015. which was known for educational, cultural, commercial and residential buildings that celebrated their open modernity but also their roots in their historic context. Fraser writes and advocates on architecture, culture and politics in general and led and authored the Scottish government's recent Town Centre Review. He also sits on the Board of the Common Weal social advocacy organisation and has consistently and publicly criticised the effectiveness, value-for-money and quality of outputs of the Public Finance Initiative. He now works for architects Halliday Fraser Munro.

## **Shoddy Schools and Fancy Finance: the Mis-selling of PFI**

A critique of the failings of government's private finance for public buildings policies, following the structural deficiencies revealed in Edinburgh schools in early 2016.

### Content

The Missing Ties .....	3
Shoddy Schools.....	5
Fancy Finance.....	9
Blame.....	13
Dangers Up Ahead.....	15
What we might do about all this?.....	17
Appendix.....	23



The south gable of Oxfangs School in Edinburgh after the January 2016 collapse. Picture: STV





## **1. The missing Ties**

Anyone with any knowledge of building, who saw the photos of that collapsed wall at Oxfangs Primary School in Edinburgh, after high winds in January 2016, would have reacted with incredulity: how could that possibly happen? The wall – as we now know, and as can be seen – had been built with none of the wall- or header ties that stitch it together, tying the inner blockwork to the external brick, so leaving both far too tall and skinny to stand up on their own. It was an accident waiting to happen, its collapse almost pre-ordained. Building a wall without ties is such an extraordinarily stupid thing. It might save pennies and cut a small amount of time but it's like saving time and money by not screwing wheel nuts on a school bus – an accident is inevitable, injury possible and massive financial and reputational blowback just a matter of time.

Anyone who has worked on a building site will know how many people, trades and managers will have had to be complicit in building and signing-off such a jaw-dropping mistake. The fact it happened at one school, in such a thoroughly-regulated environment as construction in Scotland, is remarkable; but what makes it absolutely extraordinary is the results of the investigations that followed, that have not been made fully available but that indicate that at least three, and maybe the whole other 16 of the 17 schools built under this Edinburgh Private Finance Initiative (PFI) deal, had the same issue, and that other PFI (or PPP – Public Private Partnerships, a similar and rebrand-

ed version) schools in Glasgow, South Lanarkshire and Stirlingshire suffered from it too.

Mistakes can happen on any project and it would be wrong to suggest that structural ties could not be left out on a non-PFI building contract; but while an early report to the City of Edinburgh Council, on 17 May (a full report is promised after the summer), states: “Early indications are that this remains a construction quality matter as opposed to one relating to a design defect or the operating model employed”, the recurrence of such an extraordinary deficiency across so many schools must lead us to question the culture of building created around this private delivery mechanism for the public buildings sector.

## 2. Shoddy Schools

After the initial moment of incredulity, at the reckless incompetence the collapse has exposed, my next thoughts were for what those pictures told me about Oxfords School's architecture. I am an architect, who has worked on education buildings and has a high regard for their importance in supporting our children's learning, and has visited and reviewed a great many schools for the Scottish government's Design Review panel that I chaired at Architecture + Design Scotland, an organisation which was set up to advise and cajole the developers of major buildings to raise their game but whose observations were only advisory, so often ignored. I was also brought up near Oxfords and know the site and area well.

My first thought is how many sturdy steel fences there are between the photographer and the gable of the school; and my next is how dumb that gable is, with big blank areas and wee windaes. And how mean is the architecture of the school, because I know that the gable faces south and that if I turn around I will see that it looks onto a grassy public park and sits on a south-facing slope with views out to the Pentland Hills to Edinburgh's south. It's a lovely site for a school and I wonder at how the building has failed to take advantage of it – why are there so many stout fences separating the school from the park, and why has the building failed to look south to the view, hills and sun? And, when I walk round the school, and round Braidburn Special Needs School, across the road, and the Firrhill High

School, adjacent, all built or rebuilt under the same private finance contract, I wonder at how dumb all the buildings are and how deep their plans – 24 metres at Oxfords and up to 40 metres at Braidburn, with no possibility of daylight getting into the rooms, halls or libraries that might lie at the heart of these buildings.

Daylight is such a basic necessity for a school, with plenty of research<sup>1</sup> out there showing that good levels of daylight have a direct and positive impact on educational attainment – more daylight, brighter pupils. And yet, during my time reviewing new schools for the Scottish government's Design Review panel I saw dozens and dozens of schools designed on a warehouse model, with wee windaes to the outside and deep, cheap-to-build plans with halls and libraries in the centre with only a tiny skylight, or no light at all – environments that would wither the children within them, instead of helping them flower.

I also saw schools poorly-sited, sometimes in a random field outside their community, served by a mini-roundabout and access road seemingly designed to prevent children from walking to school and promote the car-bound school run. And sometimes these new schools were built on the playing fields of the old school and, when the new school was completed and the pupils transferred, the site of the old school was sold off for housing, thus losing the schools their playing fields.

And often I saw wonderful old schools, set inside towns,

abandoned for these new-build sites – sturdy stone-built buildings, with hundreds of years of life left in them, condemned and millions of pounds spent to replace them because it would cost “thousands to repair the roof”.

I am known for finding uses for such solid old buildings and have been asked by local authorities to report on “what to do” with them once they’ve abandoned them; and I’ve looked at their huge windows and light-filled classrooms, their solidity and long-lastingness and their locations at the heart of their communities and reported back that “they would make great schools”. Better than the slapdash they’ve erected, at maximum cost, in a field out past the bypass.

If PFI schools exhibit architectural dumbness, and an ignorance of the importance of place and community, and a careless attitude towards sustainability and financial prudence, then there’s also more dumbness in the way the schools are run. PFI/PPP contracts are for building the schools and cleaning and repairing them for a 30+ year period. Stories abound of schools where these sturdy fences gate them from their community, so that the facilities can’t be used out-of-hours – no clubs in the gyms and halls, teachers unable to work late, gates locked. And of repair nightmares where replacing a lightbulb is a major administrative action, with a major financial cost that eats up the school’s budget.

PFI is not, of course, just used to procure schools. It’s the

dominant process for all public buildings and architectural shoddiness extends through far too many of them. The case of the Edinburgh Royal Infirmary is particularly instructive. The old, Victorian ERI was beautifully-situated on a south-sloping site facing the Meadows park, with fingers of wards stretching out to the trees. The essential qualities of such architecture – sunshine onto a bed, fresh air from an opening window, a view of a tree – have been shown in studies to speed recovery and reduce drug intake by over 17% and yet those key qualities, well-understood in Victorian times and proved by studies today,<sup>2</sup> which would save the NHS billions, are wholly-absent in the new, replacement, PFI-procured ERI, situated out towards the ring road and with zipped-up windows and air-conditioning, lifeless, claustrophobic courtyards and views out to acres of car parks.

### 3. Fancy Finance

The Private Finance Initiative, PFI, was introduced by John Major's Conservative government in 1992 but hugely expanded under Gordon Brown and New Labour from 1997. It combines the two great obsessions that have underpinned successive British neoliberal governments: firstly the privatisation of the public realm and the consequent corporate capture of the civic economy; and, secondly, the retreat from the craft and industry of making things, to focus instead on an economy based on financial services. Its virtues, for those who have advanced it, are, first and foremost, those ideological ones; but set against this are very substantial demerits, as demonstrated by the work of PFI expert Professor Allyson Pollock,<sup>3</sup> and economists Jim and Margaret Cuthbert<sup>4</sup> and others:

Cost and debt: existing PFI contracts are funding schools, hospitals and other public facilities with a total capital value of a little under £55bn, but the overall, ultimate cost to the taxpayer will be over £300bn by the time they have been paid off. While some of this addition reflects interest payments and running and maintenance costs it also contains around a staggering £50bn of profit for the private sector.<sup>5</sup>

One of the reasons given for the use of PFI was that the costs were “off-book” – were not primary government borrowing so did not need to be shown in the balance of payments. But many EU and other rulings have since

contradicted this hope; and, in any case, whether it is on- or off-book the borrowing requirements still need to be recorded, managed and made – hiding them is poor discipline.

And, crucially, the borrowing costs are greater. Public authorities like government and local authorities are always able to borrow money at lower rates than private corporations – studies generally find private finance costs at around 8%, compared to maybe 4.5% for public ones;<sup>6</sup> and greater repayment is also necessary to cover the massive costs of the extraordinarily complex deals that are drawn-up and to pay the bankers and lawyers who write them, and the high profits that accrue. PFI contracts are lucrative and there is a lively secondary market in trading them – I know, as I have been invited to conferences to discuss how to maximise both vendors’ and buyers’ profits in their selling-on.

The burden on NHS budgets is already having a major impact with dozens of NHS Trusts brought to the brink of bankruptcy (if not made bankrupt completely, like South London Healthcare) as they struggle with debts imposed on them. Meanwhile, cash-strapped local authorities are looking at substantial proportions of their budgets being ring-fenced for PFI repayments.<sup>7</sup>

### Big is not beautiful

The extreme complexity of PFI contracts has encouraged



them to be bundled into very large batches; which, in turn, has limited the number of contractors able to bid for them. As a result many contracts lacked sufficient competition. Of the 37 Scottish schools PFI projects let by 2009 two had only one viable bid at the final selection stage, 28 had only two and only seven had three, the lack of competition severely limiting the chance of a keen price.<sup>8</sup>

Additionally the large bundles favour large, English-based contractors, with Scottish ones limited to further down the supply chain – of the 24 firms involved in the construction work on the 37 Scottish contracts only six were headquartered in Scotland.<sup>9</sup>

### Modern diseases: lobbying, revolving doors, opacity and offshore

As a complex instrument of the new financial world PFI/PPP perfectly demonstrates its vices. It was created through intense lobbying by the big accountancy firms and big banks, with a revolving door of private-to-public-to-private corporate leaders with self-interests focussed on supplanting traditional public financial models with their private ones.<sup>10</sup> It is also complex and opaque, with the details of the deals the government has committed taxpayers to hidden from us because of “commercial confidentiality”.

And, finally, despite the secrecy and opacity, investigations have uncovered the fact that many of the owners of the PFI/PPP contracts are based offshore, avoiding paying huge

amounts of tax. <sup>11</sup>

### Rebuild not repair

The *big business, big warehouse box, maximum spend, maximum fancy finances and minimum care and craft on the building* model that PFI exemplifies, much prefers a newbuild school to the care and attention needed to repair and extend a good old one, such as a Victorian school that sits in the middle of its community, easily accessible to all – or even a good 1960s school: I know of one in Edinburgh where the community favoured repair, liking its big windows and views, three halls and extensive sports pitches, but were managed into getting a new school, with one hall, no view and pitches sold off. That school – Craigmount High School – is one of the Edinburgh ones where these major structural problems were uncovered.

It's difficult to show objectively that the abandonment of old, solid schools once at the heart of our communities is a direct result of these processes, but of the 37 schools Margaret and Jim Cuthbert have studied at least 12 initial proposals which involved refurbishment were modified to include a greater, or even total, new-build element, with no changes from new-build to refurb in the other direction, a clear indication that the sustainable repair and reuse of sturdy old buildings is being set-aside by PFI processes – there was money to spend, politicians eager to trumpet new buildings in their constituencies and private

companies running the processes with every interest in maximising the public spend and debt, so something new and flashy is likely to win out over some careful, and less expensive, repair.

In conclusion - PFI represents a perfect storm of the evils that neoliberal banking has unleashed on us: the public interest bundled up and passed to big corporates, at maximum cost and in ruination of public budgets, to the detriment of local businesses and place, community and good old buildings, and the enrichment of the elite and offshore. It's financial pestilence.

## 4. Blame

To return to the case of the missing ties and the suggestion that the Oxfangs collapse is a “construction quality matter”, my response is that something so serious and endemic across so many buildings is clear evidence of a wider failure than an isolated construction quality one. While – it must be said – there have been good PFI schools built (such as architect AHMM’s Bruntwood School, which won last year’s Stirling Prize) I suggest they are good despite the PFI model, rather than because of it.

For at heart these are processes whose central purpose is not to make useful, beautiful places in which to learn or to recover your health, but to make private investors rich. Michael Gove, then UK Education Minister, expressed it perfectly at a schools conference in 2011 when he said, “we won’t be getting any ‘award-winning architects’ to design [your school], because no-one in this room is here to make architects richer”. We all understood his lack of care for the making of places to delight and invigorate our children: he was there to make bankers richer, as guardians of the fancy financial processes, not architects, leading the making of the schools.

To sum up, I’d say that this issue, of schools being built incompetently, is part of a wider failure:

- that the privatisation of such a critical, public process as providing buildings for our children’s education is expensive, and tends to deliver inferior schools;

- that this attitude stems from an almost institutionalised contempt amongst Britain's elite for the simple craft of making things well, like a school or its wall;
- and that this craft of making has been supplanted with an obsession with fancy financial services, with all the time, effort and innovation going into the financial process rather than the building.

## 5. Dangers up ahead

Successive polls have shown that this is not an obscure subject that bores the public: in 2007 a BBC/ICM poll on the run-up to the Scottish elections placed “Ensure that all state schools and hospitals are built and run by public bodies rather than private companies” first, out of 25 policies; and this year a YouGov survey showed 68% of people in Britain saying that PFI arrangements for public projects should be banned.<sup>12</sup>

Scotland under the SNP has adjusted to a NPD – Non Profit Distribution – model. While better, it is a sort of PFI-lite, with the same expensive private finance and large bundled contracts at its heart. And it is disturbing to read that First Minister Nicola Sturgeon has, in May 2016, signed a Memorandum of Understanding that could be worth up to £10bn with a Chinese engineering group to finance infrastructure, based on PFI deals. If there are, as we all believe, benefits in investing in our infrastructure why not do it with cheap government borrowing, not ceding profit, leadership and control overseas?

Most disturbing of all is the knowledge that PFI, as a British financial innovation and invention, is being exported around the world, often to developing countries which, it is assumed, will be force-fed loans on the basis of adopting such crippling investment models. In addition – and somehow most distressing of all – is the export of the processes to Greece, a country brought to its knees by the

scourge of modern finance and now being sold PFI school deals to further feed on it.

## **6. What we might do about all this?**

I am working with the Common Weal, People vs PFI, Jubilee Scotland and others to bring forward proposals as to how we might react to the ongoing PFI problem. We are advancing four areas of response, as shown below. But first, it is important to state the basic, overriding principle we should follow:

*That the public interest and government and prudential borrowing should lead the procuring of public buildings.*

1. Monitoring of PFI: make the contracts publicly-available! Show us the deals that we are paying for and the locations of the companies that own them; let us see how much tax they pay and let us understand the true burdens our NHS Trusts and local authorities have taken on.

2. Possible escape routes from PFI contracts: I love the analogy of PPI – Payment Protection Insurance – where the banks are having to pay back monies they wrangled out of people by mis-selling a fancy-but-dodgy financial product. PFI/PPP was, definitively, mis-sold to us – let the banks and financial institutions pay us back!

Failing that there are Public Equity models backed by rental credits that are being examined, and other routes worthy of attention.

3. New public financing models: whatever happens to the existing contracts we must return to more traditional models, with cheaper government borrowing and public responsibility at the heart of the process, as well as looking at Public Equity and other variants.

4. Public leadership: in advocating the need for local authorities, health trusts and other public bodies to take back leadership in commissioning their buildings I am aware that much public procurement by them has become tortuous, with the procurement process itself becoming the end result, rather than a means to getting a good building. Individual authorities are left to pick their ways through the mass of legislation and the internal advice they get will often hugely complicate the process, at cost to the built outcome. We need central government advice which generates lean and effective procurement processes, flowing down to them, to rebuild trust and capacity in our public authorities to run and manage projects in an efficient way, complying with necessary legislation but focussing on quality outcomes, not long and complex processes. To do this it would be good to see the Scottish government's Scottish Futures Trust re-engineered, to provide procurement, management and best practice advice



to local authorities, NHS Trusts and other commissioning bodies.

5. The principles that public building should be based upon: supporting the public interest is the key principle, over all. But I would also love to see a clear articulation of the utilitarian principles I have mentioned, to guide new buildings: that, for instance, hospitals should be designed around principles proven to aid health and recovery like sunshine, a window that opens and a view of a tree; and that schools should be based around connectivity to their communities, connected gathering places (from break-out to playgrounds to after-school activity and community use) and good natural daylight.

None of this is new, and most people in the building industry recognise it – it was not new in 2007, when I resigned as Deputy Chair of the Scottish government’s built environment quango, Architecture + Design Scotland, over the organisation’s failure to rock the boat, by challenging the then-government’s assertion that PFI finance was “the only game in town” if you wanted to rebuild public infrastructure. The cheapest, most responsible game in town is government and local authority prudential borrowing, with virtues feeding through to good buildings, responsibly-designed to serve their communities and well-regulated so that they don’t fall apart after 10 years. These buildings are important. We owe it to ourselves.

## Appendix

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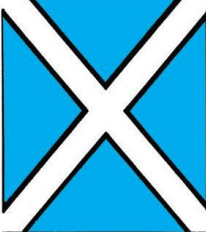
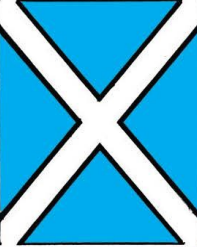
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