

Chapter 7

Department of Education and Science

7.1 The Public Private Partnership Pilot Schools Project – Follow Up

Background

The pilot programme of public private partnership (PPP) projects, approved by Government in 1999, included a 'grouped schools' project proposed by the Department of Education and Science. Following a selection process, a PPP Company was contracted in 2001 as the private sector partner to design and build five new second-level schools on publicly owned greenfield sites, and to provide the funding for the project. The contract also required the PPP Company to be responsible for the maintenance of the buildings and grounds over the 25-year life of the contract, and to manage and pay for all of the schools' premises services such as waste management, cleaning and security over that period. Total expenditure by the Department associated with the grouped school deal was projected to be €283m (including VAT), or an estimated €150m in net present value terms. All the schools were completed and handed over by the end of 2002 and were operating in January 2003. The schools contract was taken over by another PPP Company in July 2006.

Audit Approach

Having carried out an examination in 2004 on the deal concluded with the PPP Company for the provision and maintenance of the five schools³³, I decided that it would be worthwhile at this stage to establish how the arrangements provided for in the underlying agreements were working out in practice.

The focus of the audit approach was on

- Establishing that the payments and receipts under the contract were being calculated correctly and transacted properly
- The operation of the schools to the agreed service standards
- The delivery of contracted maintenance to the schools
- The action taken by the Department to ensure that performance difficulties were promptly resolved
- The extent to which third party use was being made of the school buildings.

Departmental files, papers and financial records were examined, and meetings were held with officials of the PPP Unit of the Department.

In order to assess how the schools were faring, a questionnaire was sent to the five school principals. Once these were completed, my staff visited the schools and discussed the issues arising with the principals.

Enrolments

Table 29 shows the planned number of pupils and the numbers actually enrolled in the schools in the years 2003-2006. The planned number of places included an estimation of future enrolment demand.

³³ VFM Report No. 48 *The Grouped Schools Pilot Partnership Project*.

Table 29 Grouped Schools with Planned and Actual Enrolments

School	Planned Pupils	Pupils Enrolled			
		2003	2004	2005	2006
Ballincollig (Co. Cork)	1,000	580	588	613	610
Clones (Co. Monaghan)	500	455	459	469	451
Dunmanway (Co. Cork)	700	635	630	593	566
Shannon (Co. Clare)	600	641	681	700	700
Tubbercurry (Co. Sligo)	675	542	511	507	512

Payments under the Contract

Payments to the PPP Company are made monthly by the Department on receipt of an invoice in respect of each school and a report from the company indicating that any problems that had arisen had been resolved or were being dealt with. An analysis of the aggregate annual payments in respect of the five schools for the years to 2006 is set out in Table 30.

Table 30 Analysis of Annual Schools Bundle PPP Payments 2003 to 2006

Payment Type	Projected	2003	2004	2005	2006
	€000	€000	€000	€000	€000
Facilities Management	1,156	1,338	1,371	1,409	1,465
Company Overheads	411	405	410	419	428
ICT Maintenance	406	789	798	810	396
Sinking Fund Deposit	557	592	605	622	642
Fixed Payment	7,592	7,197	7,141	7,156	7,158
Total Annual Payment (€000)	10,122	10,321	10,325	10,416	10,089

Payments comprise a fixed portion of about 75% relating to the cost of construction and fitting out of the schools, while the balance of 25% relates to facilities management (including building management and maintenance, cleaning etc.), maintenance of ICT (in years 1 to 3 only) and PPP Company overheads (insurance, management charges, risk management, bank agency fees, directors' fees etc.).

The audit concluded from the review of the Department's records and papers that the monthly payments were calculated correctly and processed and paid over in accordance with the terms of the contract.

Feedback from the Schools

The responses to the audit questionnaire, and the subsequent discussions with the principals of the project schools, raised some doubt as to the extent to which the required maintenance and management services are fully provided. That gives rise to the issue of whether the verification procedures, currently followed by the Department, provide adequate assurance regarding the full delivery of contract services for which annual payments exceeding €1.4m are made. There would appear to be insufficient communication between the Department and the project schools with regard to performance issues. While an abridged

version of the PPP Company's monthly report is sent to the schools, the Department does not seek a response or confirmation of performance from them.

There would appear to be a continuing lack of clarity regarding what is to be provided in the schools in some instances, and whether some amounts may be payable to the schools by the PPP Company. Particular instances, where concern was expressed by the principals, included the discontinuance of a three-way liaison committee, the low level of usage of the schools by the community, a lack of ventilation preventing the use of pottery kilns, a failure to provide energy management and efficiency reports to assist schools to reduce costs, and an extensive subsidence problem in the grounds of one school.

The Accounting Officer informed me, that one of the aims of the pilot programme of PPP Projects was to identify issues and problems encountered during the implementation of the projects, and to use the information and learning to develop PPP policy and enhance the process. The Department of Education and Science approached the operational phase of this pilot programme on the basis that, in order to make full use of the pilot programme, and to gain from the experience, it would work in conjunction with the schools and the operator to solve any difficulties that were encountered, rather than take the adversarial approach of dealing with issues on a rigid reading of the contract. While the overall experience of the Department has been a positive one, the Department acknowledges that some issues, which have arisen during the initial period of operation of the schools, resulted in less than satisfactory service for the schools on a number of fronts, though none of the schools have experienced difficulties which have resulted in any serious unavailability issues.

One of the lessons learned to date, was that, in order for the Department to be fully satisfied with the adequacy of the reporting arrangements, two further areas of reporting needed to be strengthened. The original contract required that the PPP Company would identify and agree with the Department any deductions that were required, as a result of any shortcomings on the services being provided. While there were no major unavailability issues which would have required deductions, there were a number of quality failures which, when taken in aggregate, could have resulted in deductions. The original PPP Company had not recorded any of these quality failures. Following the takeover of the contract by the current PPP Company in July 2006, it was agreed that a system would be developed, whereby any deductions required would be identified in the monthly reports. The PPP Company has notified the Department that this system has now been developed, and will commence with the August 2007 invoicing. A copy of the complete report will be forwarded by the PPP Company to the School Authority, and the Department will agree a protocol with each school principal, whereby the school will be asked to comment on the report each month. A further check is being put in place, where a member of the Department's technical and professional staff will visit each school on a quarterly basis, to gather feedback on the operation of the school building. These processes will be reviewed after a period. The company also agreed to develop a web based helpdesk, and access will be provided to each of the schools and to the Department. Any differences of opinion about the resolution of issues will be addressed in the monthly sign-off.

Action Taken or Proposed

The Department had been aware of the significant issues raised in the audit questionnaire. Many of the issues raised by the school principals in their response to the questionnaire were historic in nature and had either been addressed by the PPP Company or were scheduled to be addressed during the summer break. However, in order to ensure a complete picture in relation to all of the issues, the Department had requested information from the schools on the current status of each item raised. With regard to the particular matters

- A formal Liaison Committee comprising the five principals and representatives of the Department and the PPP Company met on a regular basis during 2003 and 2004 during the difficult bedding-in period. It became apparent to the Department at the end of 2004 that the matters being raised were more appropriate to the company helpdesk, and it was decided to allow the schools and the company

to meet locally and to use the helpdesk to meet day-to-day problems. The Department has now agreed to recommence the Liaison Committee meetings from September 2007.

- One of the objectives of the pilot schools project is to see better usage of schools outside of school hours. Each of the schools has a bank of 350 hours which can be utilised for either school usage or made available for community use with the schools keeping any income earned. The PPP Company is contractually required to use reasonable endeavours to identify potential for Third Party Use. While the opportunities for this are reduced by the additional 350 hours allowed free to schools under the contract, the PPP Company has agreed to establish working groups with each school to examine the options available to maximise the potential for community use in any of the periods not required by the schools.
- The schools are entitled to receive 50% of the profits from out of school hours non-educational activities. No school has received a payment. The present PPP Company has indicated that no such third party income³⁴ in excess of costs has been generated. The company has been asked to provide accounts to verify this.
- Under the contract, two classes of school equipment were provided by the PPP Company *i.e.* supply only, and supply and maintain. As the schools did not receive a detailed listing of the items appropriate to each category, the company effectively decides the matter in each instance. The Department is clarifying the matter, using its records and those of the PPP Company and, when it is resolved, will provide a list to the school principals.
- It was the practice of the original PPP Company to deduct any amounts due for work commissioned by the school principal which was outside the scope of the Contract from any income due to the school from vending machines placed in the school. The contract provides a guaranteed minimum income to each school from this activity of, on average, €2,800 in year 1 and increasing to €3,500 (indexed) from year 3. This has been discontinued since the current company took over the contract and steps are being taken by the company to ensure transparency in respect of guaranteed income in the future. A re-calculation of the guaranteed income provisions is currently being examined arising from a change in 2006 in the food dispensed, at the request of the schools, to a healthy options approach.
- The kilns supplied by the PPP Company are internally ventilated and the manufacturer had stated to the original PPP Company that exhaust flues were not required. Notwithstanding this, the general practice for traditional schools would be that a canopy would be provided to allow for ventilation. The current company has undertaken in conjunction with the Department to provide a canopy in each school. The work will proceed over the summer if practicable.
- The original PPP Company did not produce the required energy reports. The current PPP Company has engaged with the school principals in order to minimise energy usage. In this regard the company had requested last December that the schools provide them with copies of the previous year's energy bills. These are still awaited from some of the schools. The Department will raise this issue with the school principals.
- A particular problem exists at one school where subsidence of the school grounds has caused damage to sewage pipes, rainwater drainage, and to the sports field and basketball court. As the site of the school is low-lying the Department provided an extra amount in the Contract for the piling of the school building. This was completed successfully and the building is not prone to subsidence. There has been some ground movement around the building. Remedial work has been undertaken by the PPP Company at their expense, on a number of occasions. The PPP Company continues to monitor the situation and anticipates, based on professional reports received, that the subsidence will cease in 2-3 years.

³⁴ This excludes the astro-turf facility in Ballincollig where a different funding arrangement applies.

Future Developments

The Accounting Officer indicated that, as the Pilot Project has been in operation now for 4½ years, the Department is currently drafting Terms of Reference for a five-year examination of the project, which will be undertaken by independent consultants during 2008. The review will encompass an audit of the schools, a five-year review and adjustment of the running costs and an evaluation of the project to date. The rolling programme of Whole School Evaluation Reports includes the Pilot Schools in order to assess the impact of the PPP contract on the work of the school principal.

She also said that the Department maintains a record of the lessons learned in the Pilot Schools project and the experience gained has benefited the Department in the preparation for the next bundle of Schools Programme currently being undertaken and in the contracts for the National Maritime College and the Cork School of Music. The main contract improvements are

- The PPP Company will have responsibility for recording and signing off with schools on all equipment delivered to each school and for the development and maintenance of an asset register for each school.
- A web-based Helpdesk will be established with access for all relevant parties.
- A Service Requirements and Procedures handbook will be prepared by the PPP Company and provided to schools and to the Department.
- An Energy Management Policy will be prepared and agreed prior to the service commencement date and revised each year.
- Greater involvement of school principals at Preferred Bidder Stage.

Based on the experience gained from the pilot schools, all future projects of this kind will be standardised and the same area norms and IT provision will apply to all schools regardless of method of procurement.

7.2 Prefabricated School Accommodation

Introduction

The Planning and Building Unit of the Department of Education and Science is responsible for planning education accommodation requirements, and for managing the annual capital expenditure budget for the provision of new school buildings and the extension and refurbishment of existing buildings. Table 31 sets out details of expenditure on the provision of permanent and temporary accommodation at primary and post-primary level for the years 2000 to 2006. Traditionally the vast majority of rental of temporary accommodation is at primary level.

Table 31 Capital and Current Expenditure on Provision of School Accommodation 2000 to 2006

Year	Capital		Current
	Construction of Permanent Buildings €m	Purchase of Temporary Accommodation ³⁵ €m	Rental of Temporary Accommodation ³⁶ €m
2000	258	4.4	4.0
2001	318	9.1	6.1
2002	344	21.5	8.4
2003	327	25.8	9.4
2004	333	12.7	11.3
2005	501	6.5	15.7
2006	525	3.5	24.5
Total	€2,606m	€83.5m	€79.4m

The capital expenditure of €83.5m on the purchase of temporary accommodation includes the associated costs of site works, professional fees and other expenses. Approximately 750 schools are currently renting prefabricated buildings at an annual cost to the Department of the order of €24m in 2006.

In general, subject to the receipt of rental approval and the vetting and approval of tender details from the Department, each Board of Management is responsible for acquiring temporary accommodation. More recently, where the Department is the site owner, it procures accommodation directly rather than through the school.

Audit Review

During the course of a meeting of the Committee of Public Accounts it was suggested to me that the Department was renting prefabricated school accommodation when it appeared that purchasing was the more economic option. I undertook to examine the matter.

³⁵ Includes the rental of short term alternative accommodation where classes have to be decanted out of the existing school building for health and safety reasons during a building /refurbishment project.

³⁶ Includes some payments in respect of the rental of permanent buildings.

Based on discussions with the Department, it quickly became clear that central records and aggregated data on rentals were not maintained. Details of the number of rentals, dates of first rental, and cost and duration of each rental are retained only on manual individual files for each school. It was clear that it would be impractical from a cost point of view to conduct a comprehensive audit as planned. However, I examined a sample of files that showed that prefabs were being rented for long periods. For example, at one school, two prefabs rented in 1999 and a further three rented in 2000 were still being used. The total rental costs for these prefabs to the end of 2006 amounted to some €487,000.

In the circumstances, I sought information from the Accounting Officer as to

- The overall policy of the Department on expenditure on prefabricated buildings
- Whether guidelines had been prepared in relation to the breakeven point in terms of the length of rental period in order to establish when the balance of economic advantage changes from ongoing rental payments to outright purchase
- Whether a purchase option was included in rental contracts to take account of the possibility of extended rental due to changing circumstances
- Whether consideration is given to the relocation of prefabricated buildings, and
- Why comprehensive and readily accessible records were not maintained to facilitate both ongoing control and monitoring of expenditure, and overall policy review.

Accounting Officer's Response

Provision of Temporary Accommodation

The Accounting Officer stated that as part of the schools capital programme, the Department provided funding for temporary accommodation in the form of prefabricated buildings or the rental of existing buildings and rooms. The costs involved in the provision of temporary accommodation include site works, installation costs, professional fees and other expenses associated with planning and building requirements.

The policy of the Department on expenditure on prefabricated building accommodation in individual cases depended on whether

- The school had permanent recognition or was only provisionally recognised. It was the policy of the Department not to expend any capital funding on provisionally recognised schools. A rental option was adopted in those cases
- The need was deemed short-term (e.g. a short-term bulge in enrolments); the policy was generally to approve rental of accommodation in such cases
- The need was deemed immediate and no alternative accommodation was readily available.

She noted that the demand for very quick accommodation solutions in schools continued to rise as a result of the appointment of additional teachers for special education needs, language resource needs, demographic change, reduction in class size *etc.* The total number of extra teachers approved for the period 2000 to 2006 was 4,636. A significant number of those posts would have required the provision of temporary accommodation.

Purchase or Rental of Prefabricated Buildings

The Accounting Officer said that prior to 2003 the standard operating practice of the Department was that the question of whether prefabricated buildings should be provided by purchase or rental was decided on the basis of whether the need was short-term or long-term. Where the need was short-term, it was generally considered better value for money to approve the rental of prefabricated buildings; whereas if the need was considered long-term, purchase was the preferred option. However, in 2003 and onwards, the practice changed and, based on the experience gained in purchasing and re-locating prefabricated buildings, the rental option became the favoured method of providing such accommodation.

She noted that the policy change occurred at the same time as the introduction of the Permanent Accommodation Scheme. That scheme was intended to meet relatively small additional accommodation needs through the quicker provision of permanent classrooms, thereby avoiding situations where schools used temporary accommodation for long periods. 318 additional classrooms and 87 resource rooms had been approved under the scheme in the period 2003 to 2006.

Guidelines on the Relative Economic Advantages of Rental versus Purchase

The Accounting Officer acknowledged that the Department had not established guidelines on the relative economic advantages as between rental and purchase of prefabricated buildings. However, she confirmed that quantity surveyors in the Department had commenced a review of rental policy to include

- An evaluation of the 'breakeven point' in terms of rental period, when a comparison is made between the aggregate costs over the likely rental period and the outright purchase price coupled with associated maintenance costs and subsequent disposal costs
- The introduction of a formal mechanism based on this breakeven point that will inform the Department's decision whether to avail of an outright purchase or a short term rental option
- A revision to the terms of rental approval to incorporate a buy out option if, for example, the expected rental period of a prefabricated building is extended due to the delay in the delivery of the permanent building project
- Consideration of the most economic approach to procuring temporary accommodation, e.g. through a framework agreement or through draw-down contracts on a geographical basis
- Consideration of how a centralised inventory of prefabricated buildings can be developed and maintained in the Department.

She added that it was intended to prioritise this examination with a view to introducing the necessary changes as quickly as possible. She expected that, following the review of rental policy, the Department would be better informed to consider the question of breakeven points between rental and purchase of prefabricated accommodation.

Relocation of Prefabricated Buildings

The Accounting Officer informed me that the Department had examined the question of re-locating purchased prefabricated buildings in cases where the accommodation was no longer required at the original location. She said that factors taken into account included the age and condition of the prefabricated buildings, their suitability for dismantling, and the costs arising from the dismantling, transportation and re-erection of the buildings. Further issues included matching the actual need of the receiving school to available stock, timeframes and the provision of temporary storage.

She stated that for technical reasons, the demounting and reassembling of prefabricated accommodation was rarely economically viable. For example, in 2005/2006, 37 prefabricated building units were relocated to 17 primary and 4 post-primary schools. Following these relocations, the Department concluded that the efforts expended did not represent best value for money because, at best, the cost of relocating a prefabricated building was 50% to 60% of the cost of a new purchase. In addition, many schools resented receiving what they considered to be cast-offs, while the schools at the original location generally wished to retain the buildings for other purposes such as storage, indoor play areas or as resource rooms. Because of the poor value for money, it was only in exceptional circumstances that prefabricated buildings were now re-used.

Management Information

The Accounting Officer also informed me that as comprehensive information was only accessible from individual records held on school files, the current system did not lend itself easily to the evaluation of overall policy reviews. The Department is currently examining its Management Information Systems in the Planning and Building Unit with a view to the integration of existing information and the capture of desired management data in one central system. However, the implementation of such a system is one of a number of competing priorities in the IT area and must take account of IT capacity. Pending longer-term development work, the issue of improving rental information will be considered as part of the local annual programme for improving and adapting existing information systems in the Planning and Building Unit.