Introduction
This audit assessed whether the WA Schools Public Private Partnership (PPP) Project is on track to deliver its intended benefits. We focused on the following questions:

- Is the project being delivered efficiently and are facilities and services meeting contract standards and school needs?
- Is there effective project management and monitoring of contractor performance and risks?

Background
In 2015 the WA Government signed a $631 million\(^1\) contract with EduWest\(^2\) to design, build, finance and maintain 8 schools until 2047, under the WA Schools Public Private Partnership (PPP) Project (Table 1\(^3\)). PPP schools extend around the Perth metropolitan area from Alkimos in the North, to Byford in the south east and south to Lakelands in Mandurah (Appendix 1). Primary schools are built in a single stage to accommodate enrolment of students in all year groups at opening. Secondary schools are built in 2 stages, with year groups added over time.

<table>
<thead>
<tr>
<th>School type</th>
<th>School name</th>
<th>Build type</th>
<th>Handover date</th>
<th>Opening date</th>
<th>Design and construction costs (millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Primary</td>
<td>Carnaby Rise</td>
<td>Full build</td>
<td>9 Dec 2016</td>
<td>2017</td>
<td>$17.01</td>
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<td></td>
<td>Alkimos Beach</td>
<td>Full build</td>
<td>9 Dec 2016</td>
<td>2017</td>
<td>$17.90</td>
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<tr>
<td></td>
<td>Baldivis Gardens</td>
<td>Full build</td>
<td>9 Dec 2016</td>
<td>2017</td>
<td>$16.64</td>
</tr>
<tr>
<td></td>
<td>Woodland Grove</td>
<td>Full build</td>
<td>9 Dec 2016</td>
<td>2017</td>
<td>$18.99</td>
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<tr>
<td>Secondary</td>
<td>Aveley</td>
<td>Stage 1</td>
<td>8 Dec 2017</td>
<td>2018</td>
<td>$57.69</td>
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<tr>
<td></td>
<td></td>
<td>Stage 2</td>
<td>11 Dec 2020</td>
<td>2021</td>
<td>$17.95</td>
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<tr>
<td></td>
<td>Lakelands</td>
<td>Stage 1</td>
<td>14 Dec 2018</td>
<td>2019</td>
<td>$57.15</td>
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<td></td>
<td></td>
<td>Stage 2</td>
<td>10 Dec 2021</td>
<td>2022</td>
<td>$17.06</td>
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<td></td>
<td>Hammond Park</td>
<td>Stage 1</td>
<td>13 Dec 2019</td>
<td>2020</td>
<td>$53.76</td>
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<td>9 Dec 2022</td>
<td>2023</td>
<td>$16.79</td>
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<td>Stage 1(^4)</td>
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<td>N/A</td>
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<tr>
<td></td>
<td></td>
<td>Stage 2</td>
<td>13 Dec 2019</td>
<td>2020</td>
<td>$27.06</td>
</tr>
</tbody>
</table>

Table 1: School design and construction valued at $318 million

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\(^1\) In 2015 dollars.

\(^2\) A consortium of Macquarie Corporate Holdings Ltd, Badge Constructions Pty Ltd, Perkins (WA) Pty Ltd and Spotless Facilities Services Pty Ltd.

\(^3\) The contract does not include a breakdown of the $313 million for finance costs or facilities management costs for individual schools.

\(^4\) Built outside the PPP but has facilities management services. Furniture, fittings and equipment are included in Stage 2 costs.
The stated key objectives for the project are to:

- achieve functional educational designs that provide quality teaching and learning environments
- achieve value for money over the life of school assets
- improve efficiencies in service delivery for the Department of Education (DoE)
- achieve time and cost efficiencies in the delivery of a program of works through economies of scale.

The Strategic Projects business unit in the Department of Finance leads project planning and delivery. The DoE is responsible for defining the service scope and functional requirements for school facilities and managing the contract when schools become operational. EduWest is responsible for organising project finance, designing schools in accordance with State requirements, building school facilities and facility management services including maintenance, gardening, cleaning, supplying caretakers, helpdesk and systems support.

Student education at PPP schools remains the responsibility of the State Government through the DoE. Principals, teachers and support staff are employed by the DoE as they are in all public schools. In essence, the private sector delivers and maintains the school facilities while the school staff is able to concentrate on providing educational services.

The PPP project is unlike other school procurement and maintenance arrangements. It sets minimum standards and costs for whole of life asset maintenance, and facilities management services over 32 years. Maintenance costs for the other 800 public schools are not set years in advance, but are part of DoE’s annual budget submission.

**Audit conclusion**

Two-and-a-half years into the PPP contract, the build program is on track. So far, 4 primary schools and the first stage of a secondary school have opened on time, with the remaining schools and stages on schedule. However, the transition to school operations in early 2017 did not go smoothly because EduWest and DoE under-resourced this phase, primary school principals had limited input into fit-outs and there was inadequate communication and training about how the PPP model would work. This led to school dissatisfaction with early services. Better engagement with the secondary schools has minimised these issues.

The cost, length and uniqueness of this PPP mean DoE must manage it differently from its other schools, especially as contract costs will increase if changes are made to facilities or unforeseen equipment is added. While there is sound high-level governance and a good working relationship with EduWest, DoE does not have a contract management plan and audit or inspection program to adequately manage the contract and check service performance. DoE needs these contract management tools in place to get the best out of the PPP over the next 30 years.

The project has provided new school designs, construction techniques and processes for maintaining school facilities. The DoE has already adopted some design changes for its new primary schools. It has an opportunity to apply other project lessons such as different secondary school designs, construction methods and ways of maintaining facilities, to improve all school facilities and potentially reduce costs.

**Key findings**

**The PPP was supported by reasonable analysis and robust procurement**

The analysis in 2009 and 2010 supporting a Design, Build, Finance, Maintain PPP was reasonable. After considering DoE’s Strategic Asset Plan and expected enrolments, the final package included 4 primary schools and 4 secondary schools. Secondary schools were included because their larger costs and more complicated design offered greater efficiencies than primary schools. Further analysis and market sounding in 2014 confirmed the package was likely to provide value for money.
The strong tender process with an independent probity advisor made it more likely that predicted or expected benefits could be achieved. Six companies responded to the expression of interest and 3 were shortlisted. EduWest's successful bid of $631 million was assessed to save $100 million compared with the State delivering the project.

The project is on track so far despite issues opening the first schools

The 4 primary schools and the first stage of the first secondary school (Aveley Secondary College) were handed over to DoE on time, and the remaining secondary schools are on schedule. Construction times for primary schools have been shorter than those built using traditional procurement even though they must be defect free at Commercial Acceptance.

The PPP contract includes whole of life maintenance costs, and clearly defines what is and is not covered. Any changes to facilities and extra school equipment (such as playground equipment) initiated by the State or schools will be additional to the $631 million contract figure. As is normal in long-term contracts, costs will be also affected by interest rate changes and indexation.

By the end of May 2018, contract modifications for whole of life asset maintenance and replacement costs had added $1.68 million to the contract over 32 years (representing 0.26% of total contract costs). Another $1.35 million in contract modifications were also under consideration at the time of audit.

Contract parties were under-prepared for the transition to operations in 2017 which led to dissatisfaction and comparatively high financial deductions under the contract in early operations at the 4 primary schools and Harrisdale High School. Some of the more significant examples were:

- EduWest was under resourced. Cleaning and gardening staff were not recruited early enough and lacked training. Valid working with children and police checks for cleaning staff were not provided until the 20th school day of term 1.
- Some furniture and equipment, such as principals' furniture and teacher bookcases were replaced. This was because primary school principals had personal preferences but limited involvement in selecting these items due to timing of their recruitment. Earlier appointment of secondary school principals allowed them to be more involved in the selection process.
- DoE contract management staff were employed 2 months before the schools opened which limited information and support provided to schools in the lead up to operations.
- The electronic system (QFM) for recording and measuring school jobs developed by EduWest was not well tailored to contract requirements, resulting in some school jobs being incorrectly prioritised in the system.

Resolution of these resourcing, furniture and equipment, and QFM system issues and lessons learnt from opening the first 5 schools minimised concerns during the opening of Aveley Secondary College in 2018.

After more than 1 year of operations school principals are generally satisfied with services and their facilities. From December 2016 to March 2018, 84% of 2,539 school jobs were completed on time (Appendix 2). Principals told us that PPP facilities were comparable with other schools, while maintenance was quicker.

Governance is sound but DoE lacks contract management tools and is yet to take full advantage of PPP learnings

The project has sound governance and there are good working relationships between all contract parties. A steering committee gives strategic leadership and a cross-agency project control group provides direction. DoE, Strategic Projects and EduWest also meet to discuss minor works, complaints, occupational health and safety and school facilities management.

However, DoE has not ensured that all processes and tools are in place to manage the contract. It has 2 dedicated contract staff to check detailed workings of the contract, but has
not created a contract management plan and audit or inspection program. Nor has it ensured that EduWest provides the performance monitoring program required in the contract. High value and long-term contracts need these contract management tools to ensure building maintenance and other services meet contract specifications.

Although it is early in the contract, DoE has adopted some design and construction lessons from the PPP project for some other primary schools due to be completed in 2019. Potential benefits of other design features such as lightweight steel construction, solar panels and utility management systems have been recognised but not yet adopted elsewhere in the public school system. The secondary school price has been used as a benchmark for new builds but the design has not yet been used. DoE believes it is too early to adopt the secondary school design because only 1 stage of 1 school has been built.

The PPP schools will eventually give DoE a clear picture of whole of life maintenance costs which it expects will lead to a better understanding of cost information across its school system.

Recommendations

1. **Contract management and training**
   
   The DoE should by December 2018:
   
   a. develop a contract management plan and other manuals for opening schools and managing the school operations phase of the contract
   
   b. prepare guidance materials for principals and corporate service staff managing and checking school services.

2. **Contract performance monitoring**
   
   The DoE should by December 2018:
   
   a. ensure EduWest develops a performance monitoring program covering its monitoring activities, including frequencies, systems, methods, and audit and inspection tools used to check that services meet contract standards
   
   b. develop a risk based audit and inspection program for checking building maintenance and other services meet contract standards.

3. **School design, construction and maintenance**
   
   The DoE should by December 2019:
   
   a. develop a framework to formally review and assess lessons learnt during the project and plan how benefits will be adopted in new schools
   
   b. use PPP school maintenance information to support planning and delivery of its maintenance program across other schools.
Agency responses

Department of Education
The WA Schools Public Private Partnership Project provides a new approach to the delivery of school infrastructure and facilities, particularly the inclusion of a whole of life approach to the design and planning maintenance and replacement of facilities. The arrangement challenges the traditional mechanisms that support the operation of our schools at all levels.

At the school this has required a different approach to the management of facilities, changes to the relationship with those undertaking roles previously performed by school staff and in some ways seen as a loss of ownership. New facilities such as playgrounds or changed access arrangements now identify the full lifecycle costs compared to the traditional upfront capital costs.

Centrally the flat line approach to maintenance of schools is challenged.

The Department of Education accepts that it was not fully prepared to manage the initial transition from delivery to operations and training of school staff for the first tranche of schools. The Department supports and accepts the recommendation for the development of a contract management plan and guidance material for school staff.

The Department also accepts the requirement for a performance monitoring program and risk based audit plan.

The Department acknowledges that the WA Schools project has introduced a number of changes to the design of schools. A number of the benefits are clearly identified and accepted. However, the Department is aware that only one stage of one secondary school has been built and occupied and that it will be a number of years before a formal assessment of the operation and performance is available. As with all new schools the Department will regularly assess and incorporate feedback into the Primary School Brief and Secondary School Guidelines.

The Department acknowledges the opportunity the suite of schools provides in maintenance and operational information that will assist in the management of the traditionally built and managed schools.

Department of Finance
The Department of Finance supports the findings and recommendations of this performance audit. Finance will assist the Department of Education in the implementation of actions responding to the Auditor General’s recommendations.

EduWest
EduWest accepts the Auditor General’s findings of the audit conducted on the WA Schools PPP Project and is satisfied with the process that was followed and the extent of communication and procedural fairness adopted.

The EduWest project faced a challenging start in contracting to complete the design and construction of 4 new primary schools within the first 15 months, a task previously unequalled in WA. Concurrent with these activities, the template design of a new Secondary School was completed and construction commenced within 9 months of financial close. To date, all 5 completed Stages have achieved Commercial Acceptance on time and all intermediate progress milestones have been met without compromising the built quality. This significant achievement needs to be considered in the context of a modified and more onerous technical specification than traditionally built schools and the requirement for defect free completion for all assets at Commercial Acceptance.

The design and construct (D&C) phase activities continue to progress ahead of schedule. With the adoption of lessons learnt to improve implementation efficiency, the D&C phase activities for the remaining 6 stages have been substantially de-risked. This project has
also reversed the trend of cost growth during the D&C phase due to contract variations by delivering a net return to the government to date from changes authorised to the D&C activities. As documented in the audit, changes have been authorised that increase the Whole of Life cost across the term of the contract by $1.68M, representing approximately 0.26% of the overall contract value.

Privatisation of the full suite of facilities management services across a portfolio of school assets had not previously been undertaken in WA, and as a result the early operation of the new schools in February 2017 did present challenges for all parties concerned. A PPP is a substantially more complex form of project delivery than traditional contract forms and historically it is not uncommon for PPP’s to experience teething problems during the transfer of assets to the operations phase. However, it is worth noting that the contract remedy of applying financial abatements to motivate improvement did achieve the desired focus and outcome with the levels of abatement reducing substantially within months as service delivery and resourcing issues were addressed. EduWest and the State were also able to utilise the lessons learnt from the initial operations to implement changes that ensured the first Secondary School transitioned smoothly into operation and this would be expected to continue for the remaining school Stages.

Throughout the journey to date, despite the early teething problems, EduWest and the State have continued to work effectively together in partnership to achieve the project objectives and the quality of the built form and feedback from the school staff demonstrates that the project and this form of contract delivery has been a success to date.