

2nd opinion: PFI can work for you

17 April 2003

It really could be quick and simple, says Andrew Drury

The Housing Revenue Account private finance initiative is a glorified management agency agreement. But non-HRA PFI is a way for local authorities to commission additional affordable housing from registered social landlords. As a concept, the PFI could be used to provide extra affordable housing for projects of all sizes. Indeed, councils have for many years commissioned projects with the basic PFI characteristics:



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- the authority commissions facilities from a contractor delivered in accordance with the authority's performance standards, with the risk of design and building taken by the contractor
- the authority commissions operational services from the contractor, which takes the risk of delivering these services
- the contractor provides funding for the construction of the facility
- design, build, operational, financial and residual risk lies with the contractor.

This is, of course, a description of the local authority social housing grant as well as the PFI. There are just two significant differences between the systems:

- under the grant system, payment is made by the authority at the start of the operating period; under the PFI, payment is made in stages over the life of the deal
- the contractor's performance is assessed by the Housing Corporation, rather than the commissioning council.

A third difference – not of concept but of implementation – is that the PFI involves individual contracts between the authority and the contractor. With social housing grant, the authority relied on the funding conditions to which associations sign up.

With such a high degree of overlap, the PFI should be as useful as social housing grant. But the PFI is seen as so complex, and with such an onerous bidding process, that the costs prohibit its use unless the scheme is at least several hundred units.

Bidding and contractual complexity stems from the assumption that contractors are likely to be private sector firms whose main motivation is (quite reasonably) to maximise profits. The sole mechanism for ensuring the services promised are provided is the contract. For social housing grant, no direct contractual relationship is deemed necessary because the authority relies on:

- the culture of the RSL, which is not to make profits but to address housing need and provide good-quality services while remaining financially viable
- the authority can rely on the Housing Corporation's regulatory role to ensure that the RSL's culture remains in place over the long term.

So there seems to be considerable opportunity for using the social housing grant model as the basis for PFI contracts for affordable housing. By tapping into the existing regulatory regime, and avoiding the need to renegotiate complex clauses drafted for private sector vehicles, the project agreement can be much simpler.

This will increase RSLs' confidence in their ability to manage their obligations and reduce their perception of the risk involved in the PFI, which will manifest itself in lower premiums and negotiation costs. If the PFI bidding process were to be closely modelled on that of social housing grant, PFI would become much more attractive for small projects.

It is surely possible to devise a PFI contract for non-HRA schemes where the only variables are the number of dwellings, the agreed unit mix and the annual payment to be made by the authority.

Such a proposal is being developed.

I hope the Office of the Deputy Prime Minister seizes the opportunity to make PFI a success.

Andrew Drury is senior partner of social housing specialist HA Training and Consultancy