

Public & Private

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The PFI will only be attractive for housing if the costs are reduced.

The private finance initiative is taking some knocks from the unions, but chancellor Gordon Brown wants to stick with it. However, with some suppliers expressing concerns over the costs of bidding and their risks, the government needs to ensure that its PFI model is designed to be attractive.



by
Andrew Drury

In the housing world, it isn't. PFI is to be extended in the housing arena. Non-housing revenue account PFI is essentially an alternative way of subsidising property developers to provide affordable housing. With the approved development programme apparently being targeted to a few huge, strategically important areas, most of the country may find itself with little Housing Corporation funding. If local authority social housing grant also becomes a thing of the past, the non-housing revenue account PFI may be the only source of public funding for registered social landlord projects. It's important to us and to government.

In May, the Office of the Deputy Prime Minister held the first ever bidding round for these projects, committing £60m of subsidy. This is likely to be repeated, and possibly it will grow significantly. But there are two formidable barriers to participation: the costs of preparing the bid to be the selected PFI partner of the local authority, and the long-term risks in the standard PFI agreements.

PFI's have been running for many years now, with most projects delivering schools, roads, prisons and hospitals. The standard selection process and contract terms are de rigueur, as far as the ODPM is concerned, for all PFI deals. Fair enough – we need tight controls when dealing with the profiteering private sector. We need rigorous selection processes for projects worth many hundreds of millions of pounds. We need robust public sector comparators – the benchmark figure of what it would cost to do the project in the public sector – and we shouldn't pay the private sector more than that. But is this really the right approach for housing projects?

I was recently involved in a non-housing revenue account PFI project for 22 houses and a small community centre. The information that had to be provided was the same as would have been required if it was a £1bn project, but the expected performance standards were much more stringent than regulatory code requirements. And the performance-related payment mechanism was so complex that we didn't know how much subsidy we could rely on. This meant that the cost of taking part in the selection process was more than the cost of bidding for social housing grant for a similar project. Also, the project risks were much greater than for an SHG project, yet the public sector comparator was – guess what? SHG.

So, in exchange for the same subsidy that the SHG system would offer, or less, my client was asked to commit more resources to the bid and deliver services of a higher standard than required of SHG projects. That's hardly fair.

But perhaps all these stringent controls are needed as bidders might include profiteering private companies? Well, no, actually. This sort of PFI is only open to registered social landlords, so there's no need for all the paraphernalia of defence against profiteering.

If the public sector comparator is to be the amount of SHG the project would receive, then the quality of service demanded should also match that required of SHG schemes – that is to say, compliance with the regulatory code – and the information required in bidding should very closely match that required by the Housing Corporation in the bidding round.

The rules for non-housing revenue account PFI schemes need to reflect these principles.

The government wants registered social landlords to deliver non-housing revenue account PFI schemes, small ones as well as large ones. With reduced SHG availability in many parts of the country, we certainly want to do these schemes. But if it is to happen, the government needs to alter the PFI rules for this arena to match the SHG requirements. What is good practice when dealing with companies motivated by profit maximisation and distribution is not needed when dealing with highly regulated, social policy-oriented charities or industrial and provident societies.

A final point to consider: in the project I mentioned earlier, two of the three shortlisted registered social landlords didn't bid. The barrier to entry was too high, and there were better business opportunities elsewhere.

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