



National Audit Office

PFI in Housing

Case studies summary report

JUNE 2010

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Introduction

1 Based on our early fieldwork, in particular the findings from our interviews of projects, we selected seven local authorities as case studies. The case studies allowed us to gather detailed evidence to illustrate examples of perceived challenges and good practice which we had identified. From the fifty projects in the programme, we deliberately tried to choose projects which were operational and whose key staff had been retained since the procurement. We also selected case studies to represent the range of project types in the programme and to provide broad geographical coverage.

2 The local authorities we selected were:

- Ashford Borough Council
- Derby City Council
- London Borough of Islington
- Kent County Council
- Leeds City Council
- Manchester City Council
- Wiltshire Council.

3 The seven case study visits provided qualitative evidence and consisted of a series of semi-structured interviews and site visits, where applicable. They were conducted over one to two days and undertaken by two or three members of the NAO study team. We interviewed a selection of key local authority officials, councillors, private sector partners, tenant representatives and other relevant parties, depending on the relevance for the particular visit and the availability of interviewees.

Key messages from case studies

4 The key messages from a local authority perspective that came out of the case studies were:

- The procurement process in a housing PFI project can be long and expensive.
- Efficiency gains and cost savings can be made by the local authority using innovative models, for example, through a partnership model or by setting up a centralised Private Finance Unit.

- Standardised PFI contracts are a vital component for achieving value for money in PFI deals; however, they are inflexible and can lead to costly contract changes. This is especially pertinent where there is a lot of variation between projects, as in the housing sector, and if the market is in a process of change.
- The regeneration of communities can lead to sustainable change, and local authorities perceive they can provide value for money by boosting the socio-economic wellbeing of the community.
- ‘Transactors’: individuals with commercial expertise who act as a critical friend to a project to try and smooth the procurement process, can provide much needed support for local authorities by providing guidance and skills, based on past commercial experience of closing similar projects.
- A single bidder scenario should be avoided wherever possible, because the lack of competition can result in a deal that is not value for money.

Case studies in more detail

5 The following case studies give an outline of the projects and our findings.

Case study 1

Ashford Borough Council

PFI is not a common option for small district councils given the upfront costs and resources that are needed to procure a project, however, Ashford Borough Council decided to use PFI to deliver its housing needs and regeneration aims. It attributed its ability to deliver the project to a committed and fully-staffed team and effective use of advisers, but felt that the financial burden of procuring a PFI project was significant for a district authority and they do not plan on solely procuring a PFI housing project again.

During the procurement process Ashford faced the problem of a single bidder scenario. This led the authority to launch a second procurement because it could not be sure of achieving value for money through a single bidder route. The second procurement attracted better competition. Ashford attributed this to provision of a more detailed plan of what it wanted for the Stanhope Estate. The total procurement from the first attempt to go out to the market to financial close took just under five years, but from the second time the project was put out to the market to financial close took 21 months, which is quicker than most projects for this stage of procurement.

Case study 2

Derby City Council

Derby City Council has been awarded two PFI housing projects. The first of these, its Inner City Regeneration project, followed a relatively straightforward procurement but the second project, which received initial funding in May 2004, is still in procurement and facing difficulties. The NAO study team chose to visit Derby to examine why there has been this difference in experience between the two projects and to establish whether there are lessons to be learnt for the future.

Derby's first project was one of the early non-council social housing projects, and is much smaller than more recent PFI projects. It reached financial close in 2000. In the early stages of the programme standardised contracts had not been introduced in the housing sector. The local authority perceived that the flexibility of a non-standard contract, good working relationships with all the stakeholders and the nature of the project aided a relatively quick procurement. The second project was launched after the introduction of standardised contracts, and Derby felt that the rigidity of the documentation was a key factor in a lengthier procurement. The use of external lawyers was required to adjust the contract, while the changes needed to be reviewed and cleared by central government stakeholders. The speed of procurement for the second project in Derby has also been affected by external factors, such as the change in flood ratings of associated land and property and the current financial downturn, which has affected funding and land availability. Officials from Derby told us that problems might have been easier to deal with if a more flexible structure were in place, although there may be other factors which have contributed to the delay.

Case study 3

London Borough of Islington

Islington was awarded two early projects for the refurbishment of Victorian flats and houses to a Decent Homes standard. We chose Islington as a case study because it has a high percentage of leaseholders and we wanted to know if this caused any PFI specific issues. We also wanted to know more about operational phase projects, lessons learnt between projects and the local authorities interaction with the relevant stakeholders.

Over a quarter of the occupants in the refurbishment projects are leaseholders and a small minority campaigned against the PFI scheme. Islington told us that it perceived the nature of the leaseholders' objections to the project were more about common leaseholder issues, for example, expectations about the standard of refurbishment, rather than being specific to PFI. Some leaseholders also voiced objections to the scheme on the basis that they thought PFI was effectively privatising the development.

Experience across two similar projects in Islington has allowed lessons to be learnt for all the concerned parties. Partners for Islington, the private consortium, won the contract for both projects and told us that it thinks its refurbishment of units has improved over time. In the first project there were initial problems with its relationship with tenants and leaseholders. However, this has got better over the life of the contract. Partners for Islington have therefore tried to ensure more tenant and leaseholder involvement and effective communication for the second project.

Case study 4

Kent County Council

The study team chose to visit Kent County Council because it had trialled an innovative partnership model for its PFI procurement. The County Council is responsible for Adult and Social Care Services, but not housing delivery which resides with the district councils. Kent realised a growing need for supported housing which accommodated the elderly and people with mental health problems. Given the separate responsibilities of the County and district councils and the high cost and specialised skills needed to procure a PFI project, Kent decided to form a partnership with ten district councils. This enabled small authorities, which may have previously felt excluded given the barriers to procurement, to be included in the PFI housing programme. Kent reported that the procurement approach has proved successful, that the operational stage is going well and efficiency gains through the procurement process have been realised.

Kent is currently in the procurement of a second project with a similar partnership model, but with fewer district councils. Cheshire County Council has also used a similar partnership model.

Case study 5

Leeds City Council

Leeds City Council has five PFI housing projects (Swarcliffe, Little London, Independent Living, Beeston Hill & Holbeck, and Lifetime Neighbourhood) and has considerable experience in this and other Public Private Partnership sectors. We wanted to learn about its experiences and how a dedicated cross-sector Public Private Partnership Unit works.

The use of a specialised Public Private Partnership Unit can offer a local authority several benefits. It enables specialised skills and experience to be built and retained within the unit, with lessons being learnt from the different projects and from other sectors. Leeds believes that its knowledge and experience of the PFI process has enabled efficiency gains. Also having specialist experts enables it to use external advisers more sparingly and cost-effectively than is usual.

We found that a centralised Public Private Partnership Unit works well within the set-up at Leeds. However, it is a costly structure, which takes time to develop and this may not be suitable for smaller local authorities. To make such a structure work a long term commitment to Public Private Partnership needs to be formed within the local authority.

Case study 6

Manchester City Council

Given the PFI housing programme is currently focused on large regeneration schemes, we were interested in learning how PFI has been used to date to achieve regeneration outcomes.

Plymouth Grove was an early pathfinder scheme, which had a clear focus towards regeneration. The estate was originally built in the 1970s and its layout was felt by the local authority to encourage crime and other socio-economic problems, which was stifling the community. Manchester felt the estate needed a significant injection of funds to transform the estate, which was not available through the alternative Decent Homes funding mechanisms. In the PFI model the housing was refurbished and the layout was remodelled to reduce crime. This investment also attracted other sources of funding to deliver a complete and sustainable regeneration of the area, including funding to build a community centre. Manchester told us the estate is now a mixed tenure estate with reduced crime (161 incidents in 2005-06 compared to 72 in 2007-08) and lower tenancy turnover (11.9 per cent in 2005-06 compared to 2.7 per cent in 2008-09).

The payment by the local authority to the private sector consortium over the contract provides sufficient investment to help community activities, which is pivotal for the community. The performance mechanism in the contract also creates a significant incentive for the private consortium to maintain agreed levels of performance on key indicators.

The recent economic downturn has affected the project, by reducing economic opportunities for the tenants and also by deflating the private housing market. This has led to a fall in demand for private houses in the estate and delays the delivery of the full mixed community across the area. Manchester feels that this situation is temporary, given the estate's proximity to the city centre. The completion of the remaining private housing sites has been postponed until the economy recovers.

Case study 7

Wiltshire Council (formerly West Wiltshire District Council)

Wiltshire has a PFI project that is currently in its sixth year of procurement since the initial award of central funding. The project has to date faced a range of obstacles and challenges that we wanted to explore.

West Wiltshire was a small district council and then merged into a unitary council, Wiltshire, which has caused some disruption. However, the local authority believes its increased size has enabled it to cope more effectively with procuring a PFI project.

The project was struggling to meet its milestone targets, partly because of the limited resources devoted to the project. This led the Department to deploy a 'transactor' to assist with the negotiations with the private consortium. The transactor brought commercial and financial expertise and skills which aided the local authority and proved a source of external guidance to the project.

The project has also faced a lack of competition, primarily because of the local authority's requirement that a private sector consortium needed to put land into the deal. When it became apparent that the local authority had only one remaining bidder, it had to work with the Department to demonstrate that it could still achieve value for money. The project is still in the later stages of procurement, and Wiltshire is making progress towards closing the deal although slippage remains an issue. Project representatives consider the recent delay is partly attributable to the financial downturn, which has also steadily increased the cost of finance.
