



National Audit Office

# PFI in Housing

## Methodology

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# Methodology

This report examined the Department for Community and Local Government's (the Department) management of the local authority PFI housing programme over the last 12 years. The report assesses performance since the programme was launched, whether lessons are being learnt and the potential impact of the establishment of the new Homes and Communities Agency (the Agency). The report focuses on three key issues:

- whether the Department has a clear strategy for using PFI to procure housing;
- the performance of PFI housing compared to plans and alternative procurement options; and
- the Department's management of the PFI programme and the support provided to local authorities.

We used the following research methods:

- Literature review
- File and document review
- Expert panel
- Semi-structured interviews with public and private sector representatives at project level
- Semi-structured interviews with other stakeholders
- Process mapping
- PFI project performance and comparative analysis
- Analysis of programme management costs
- Illustrative case studies
- Balance sheet treatment analysis

## Literature review

We examined academic literature and reports by organisations with an interest in the private finance housing sector. We used the review to gain an understanding of the sector and to direct other methodologies. We also reviewed existing National Audit Office reports which look at housing issues as well as those which look at the use of PFI in other sectors and at specific thematic PFI issues.

## File and document review

We reviewed a range of the Department's published and unpublished documents:

Key documents	Purpose
The Department's documentation in relation to the programme's strategy, aims and objectives.	To assess the robustness of the Department's strategy for the use of PFI in housing delivery and whether it is achieving its objectives.
Governance documents.	To establish and analyse the relationships, roles and responsibilities of the parties involved in the PFI programme.
Guidance provided by the Department to local authorities.	To assess the quality and timeliness of guidance issued to support local authorities.
Documentation setting out the Department's plans to improve the PFI housing programme.	To assess the potential effectiveness of current measures to improve the PFI housing programme.
Documentation covering internal and external reviews of the PFI housing programme.	To assess the extent and quality of evaluations of the programme to date and to analyse how recommendations have been acted on.
The Department's monitoring and approvals documentation.	To assess the robustness of the Department's project approval and monitoring arrangements.
Documents issued by the Department covering wider housing issues.	To provide context and comparison in terms of understanding the Department's wider housing delivery options.

## Expert panel

We met with a panel of experts in the housing sector prior to conducting our fieldwork to provide us with assurance on our methodology and to highlight any potential issues. We later asked panel members to comment on our emerging findings. The methodology, findings and conclusions are, however, our own and not those of the panel. All members were unpaid. The panel included:

- Kevin Hanlon – Local Partnerships (formerly known as 4Ps)
- Professor Ron Hodges – Sheffield University
- Roy Irwin – Audit Commission
- Andrew Mickleburgh – United House
- Ian Perry – Harvest Housing Association
- Gill Rowley – Tenant Services Authority

### **Semi-structured interviews with projects**

To understand more about perceptions of the PFI housing programme at a project level we commissioned Carol Goldstone Associates to conduct telephone interviews with representatives from the local authorities and the consortium leads of all 40 projects in rounds one to five of the programme. The interviews were commissioned and undertaken prior to the announcement of a sixth funding round of ten additional projects and so did not include these projects. A complete list of all 50 projects in the programme can be found at [www.nao.org.uk](http://www.nao.org.uk). The interviews covered a range of topics including:

- the rationale for choosing PFI;
- the procurement process;
- the Department's programme management over the last 12 years;
- impact of the financial downturn; and
- the creation of the Agency.

### **Semi-structured interviews with other stakeholders**

To obtain a complete view of how the Department manages the programme we conducted semi-structured interviews with officials at the Department and the Agency.

We interviewed staff from key stakeholder organisations, including:

- Local Partnerships
- Partnerships UK (now part of Infrastructure UK, a division of HM Treasury)
- The Audit Commission
- The National Housing Federation
- The Tenant Services Authority
- HM Treasury

We interviewed key legal and financial advisers who have worked on PFI housing projects. These included staff from the following organisations:

- Pinsent Masons
- Navigant Consulting
- Grant Thornton
- Ernst & Young
- Nabarro
- Pricewaterhouse Coopers

We conducted short telephone interviews with 14 of the 23 local authorities who bid for funding in round six, the most recent bidding round. These were:

- Birmingham City Council
- Cornwall Council
- Derbyshire County Council
- Kirklees Council
- Leeds City Council
- Leicester City Council
- London Borough of Barking and Dagenham
- London Borough of Brent
- London Borough of Camden
- London Borough of Southwark
- Newcastle City Council
- North Tyneside Council
- Northamptonshire County Council
- Nottingham City Council

### **Process mapping**

We ran a process mapping workshop to understand the procurement process in more depth. We selected staff from three local authorities and asked them, as consumers of the process, to collectively map out the process from the initial announcement of a funding round to financial close. They then highlighted any issues and perceived inefficiencies with the process at the relevant stage in the process. We also asked the participants to highlight areas that they liked about the Department's and the Agency's programme management and also ideas that would be welcomed if introduced. After the session we took our findings to a Local Partnerships' workshop for further comments and validation. We also sent the findings to all the projects and to the Department and the Agency for further comments.

## PFI project performance and comparative analysis

### Cost

- Using data provided by the Department we looked at the level of central funding allocations and whether these changed for individual projects and how allocation evolved over the programme.
- We reviewed analysis undertaken by the Department in 2008 which compared the planned capital cost of seven new build PFI housing projects with 13 new build housing association projects; the purpose of this work was largely to assess the reasonableness of costs for planned PFI schemes. We then extended the Department's analysis by carrying out our own comparison. We used data provided by the Department for 18 PFI schemes from rounds three to six. This included round six council housing schemes with some new build elements. The 18 projects were the only projects that the Department had reliable cost data on hence the reason for their usage and the limited sample. These projects are all in either the planning or procurement stage so actual costs have not been finalised but the Department was not able to provide us with robust cost data for earlier new build schemes that have been completed. We obtained cost data for all grant funded housing association schemes in 2008-09 from the Agency; these data are collected as part of the grant approval process and so again represent planned costs. To analyse costs based on different types and size of housing we apportioned whole project costs to the different housing types using floor area. We then compared the costs of each PFI housing project in our sample against the housing association average plus one standard deviation for each housing type. Our cost data included construction costs inclusive of all capital, fees, overheads and contingencies. Land costs were excluded given the variability in the price of land. No significance tests were performed owing to the large variability in housing association cost data.

### Timescale

- The Department provided data on key milestones, but we found this contained some omissions and did not clearly reconcile to project business cases. We asked project teams to verify the data and provide data where this was missing. We compared the actual time taken to procure projects compared to plans. We also attempted to analyse whether there have been any changes in times over time. We were able to look closely at the bidding and business case stages but few later projects have been signed so it was difficult to assess whether procurement times have changed significantly.
- Where possible we compared the time taken to procure PFI housing projects to alternative delivery routes, including housing association developments, stock transfers and Arms Length Management Organisations.

## Tenant satisfaction

We analysed tenant satisfaction data from PFI general needs projects against those for the total housing association population for the overall level of satisfaction and the overall level of satisfaction with repairs and maintenance. Data for PFI projects were obtained from local authorities. Housing association data are publicly available but we did not have the raw data for these so no significance tests were performed.

## Analysis of programme management costs

We collected staff cost and external adviser cost data from the Department and the Agency for 2008 and 2009. We then compared these findings against a similar PFI delivery programme, the Waste Infrastructure Delivery Programme, to develop an understanding of the different resource levels used for these two comparable programmes.

We also collected staff cost data from the majority of projects in rounds one to five. We analysed the costs and resources at a local authority level for the procurement and operational stages of a project. Our analysis in the report examined the procurement costs of projects and was based on 16 projects that provided us with both staff and advisers costs during procurement.

## Illustrative case studies

From our early fieldwork and findings from interviews with projects we selected seven case studies to gather detailed illustrative evidence to support examples of particular challenges and good practice. A summary case study report can be found at [www.nao.org.uk](http://www.nao.org.uk) which details our findings. The case studies we selected were:

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

## **Balance sheet treatment analysis**

We commissioned Deloitte LLP to look at accounting treatment for PFI projects and the impact on the different organisations involved, with a particular emphasis on the housing sector. The piece of work also looks at the effects of the change in accounting rules and how this will affect the accounting treatment of PFI housing projects. The paper can be found at [www.nao.org.uk](http://www.nao.org.uk).