

Briefing Paper

Private Finance Initiative

May 2005

(i) Introduction

A Private Finance Initiative scheme involves the private sector financing and managing public services. A key element in this is the transfer of risk to the private sector.

In 1999, eight local authorities were chosen to pioneer the housing Private Finance Initiative scheme as pathfinders. In 2001 a second round was launched, and an additional nine schemes are progressing through procurement. Three pathfinder schemes, in Islington, Manchester and Reading, have now signed contracts with private sector consortia for the management and refurbishment of around 4,000 homes. More schemes are due to sign during 2005.

In housing Private Finance Initiative the local authority retains ownership of the stock and the tenants retain their secure tenancies. A consortium of private sector firms (usually consisting of a bank, a housing association and a building contractor) raise capital to refurbish homes under a contract negotiated with the local authority. The consortium then provides repairs, maintenance and a range of housing management services to the stock as part of a thirty-year contract and is paid on a performance basis.

The Office of the Deputy Prime Minister see housing Private Finance Initiative schemes as providing opportunities to ensure that decent homes are set in a sustainable community. The current projects range from remodelling and regeneration of estates, to solutions for tower blocks and street properties. There is also scope for authorities to propose joined up schemes tackling a wider range of issues, for example supported housing or affordable housing in high demand areas.

Private Finance Initiative schemes in housing that have taken place have related to a part of the stock where a specific investment need has been identified. In these instances the Council has contracted with the private sector partner to carry out the necessary capital investment and then to manage the stock on behalf of the council for a specified period. The Council retains ownership of the stock and the tenants continue to be council tenants with the council setting the rent. The contractor manages the stock and collects the rent and is paid a management fee to cover the ongoing expenses and the initial capital outlay on repairs, modernisations and improvements.

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(ii) The Characteristics of a Private Finance Initiative scheme

The characteristics of a Private Finance Initiative scheme are:

- The local authority is in control and specifies the service to be provided in terms of outputs.
- The scheme must contribute to strategic goals and meet defined housing needs.
- Strict value for money tests are applied by making comparisons with alternative means of investment.
- It must transfer a sizeable degree of risk to the private sector.
- Subsidy payments are made on an annual basis from revenue. This contrasts with the more traditional way of subsidising new housing by means of an up front capital subsidy.
- At least part of the payments must be related to performance and be highly geared.

The 'Private Finance Initiative' works on the principle that the contractor recoups up-front refurbishment costs by providing services to the public body over a 25 to thirty year period. Risk is transferred in a number of ways. A scheme usually involves a number of private partners - a landlord, builder, designer and a funder. The organisations involved decide how to provide the service, meet the contract terms and what subsidy is required.

The bidder is taking a risk in the investment of capital, completing the project on time and management and maintenance of the facilities.

The local authority needs to lease the properties to the private sector partners at the start of the contract. This is usually for a peppercorn rent. Apart from that the local authority specifies its requirements and meets the cost of any subsidy required after considering competitive tenders. Payment needs to be partly based on performance.

The government has offered the following summary of the Housing Private Finance Initiative:

“Housing Private Finance Initiative is intended to be an alternative to direct procurement, stock transfer or social housing grant for providing investment in social housing. A good Private Finance Initiative deal should achieve a transfer from the public sector of risks that can be better dealt with by the private sector whilst maintaining good value for money. Projects which benefit most from this method of procurement tend to have a capital intensive element and a service provision element, both of which are paid for by the Local Authority across a long term contract (typically 25-30 years). These payments are performance related. Private Finance Initiative credits are available from central government to support the capital element of projects.”

The Private Finance Initiative can be used either within a council's Housing Revenue Account or without.

- Housing Revenue Account Private Finance Initiative the stock remains the property of the Local Authority, and tenants remain Local Authority Tenants. Stock with a large repairs and maintenance backlog in high demand areas is ideal for this sort of scheme. Private Finance Initiative new provision within the Housing Revenue Account is now allowed by the Capital Finance Regulations.

- Non-Housing Revenue Account Private Finance Initiative, Private Finance Initiative credits can be obtained for new build, or the renovation of private sector stock via a Registered Social Landlord. Instead of an upfront grant payment, authorities pay on an annual fee basis.

(iii) Housing Revenue Account Private Finance Initiative

It is unlikely authorities would want to proceed with a Private Finance Initiative unless Private Finance Initiative credits were available. But these are not on a scale to make the Private Finance Initiative other than a minor player in the achievement of decent homes. In any case some of the total housing credits will be devoted to the non-Housing Revenue Account Private Finance Initiative.

It should be noted that Office of the Deputy Prime Minister does not anticipate considering Private Finance Initiative schemes covering the whole housing stock. Rather, authorities should consider applying the Private Finance Initiative solution to an area or areas in priority need of housing investment as part of their wider housing strategy. Resources may best be focused on a defined geographical area with a common sense of identity. This maximises the opportunity to deliver a comprehensive and coherent investment and management solution.

Housing Private Finance Initiative should focus on delivering decent homes and the wider works required to ensure that decent homes are set in sustainable communities.

In the past Housing Revenue Account Private Finance Initiative schemes have been confined to the refurbishment of local authority housing stock. The Office of the Deputy Prime Minister has now given local authorities the freedom to include elements of rebuild in Housing Revenue Account Private Finance Initiative schemes. The Office of the Deputy Prime Minister envisages that Private Finance Initiative credits will only be made available for elements of new build when there is demonstrable value for money.

The standard approach to Housing Revenue Account contracts encompasses upfront refurbishment or rebuilding works, ongoing housing management services, and repairs and maintenance services including programmed renewals, during the course of the contract. Schemes may also encompass estate works, including community safety measures. The typical contract length is thirty years.

(iv) Non-Housing Revenue Account Private Finance Initiative

Non-Housing Revenue Account Private Finance Initiative is a route for councils to facilitate Registered Social Landlord development without recourse to the now abolished Social Housing Grant.

Non-Housing Revenue Account Private Finance Initiative involves the authority enabling new social housing provision through a Registered Social Landlord.

The authority specifies the service it requires – in terms of type, number and the standard of housing units within what rent levels – and leaves it up to the potential private sector partners in competition to determine how they would provide the service and meet the terms of the contract and to calculate what they would charge.

Authorities will not pay for the service until it is available; that is, the housing units are ready for occupation.

Moreover, the payments made to the successful contractor are dependent on its performance in meeting the standards specified in the contract throughout the contract period, ensuring the units are kept in a good state of maintenance and repair.

The contractor therefore takes responsibility for investing in capital assets required, financing the investment and then managing the facilities to provide the specified level of service to the authority.

The Office of the Deputy Prime Minister will welcome proposals for joined up schemes, including social services schemes, those with the aim of preventing social exclusion and creating more sustainable communities. Examples of this type of scheme might include offering a comprehensive package of housing and support for older people, adults with learning disabilities or vulnerable young people. The Office of the Deputy Prime Minister would also welcome proposals for affordable general needs and key worker housing in areas of particularly high demand.

(v) Changes to Housing Private Finance Initiative following the PSA-plus Review

The Public Services Agreement Plus concluded with regard to the Private Finance Initiative that:

- The Office of the Deputy Prime Minister should urgently implement the proposals to try to get Private Finance Initiative contracts for refurbishment signed and work underway, focusing on standardisation, boosting capacity in local authorities, to build market confidence.
- Once the first contracts have been signed, and using the emerging findings of the Private Finance Initiative evaluation, Office of the Deputy Prime Minister should explore options for developing Private Finance Initiative for new build as part of a refurbishment scheme.

The PSA-plus review made a number of changes to the Housing Private Finance Initiative. These are summarised below.

- Schemes will need to seek Section 27 approval in order that they may sub-delegate housing management under Private Finance Initiative contracts (but a tenants' ballot is not required)
- Revised arrangements are now in place for the delivery of Housing Revenue Account Private Finance Initiative subsidy.
- A procurement pack is being developed with standard documentation for all future schemes to use, building on lessons learned from current schemes. The pack will be available to help successful 3rd Round authorities prepare their Outline Business Case.
- The Office of the Deputy Prime Minister has made changes to the Capital Finance Regulations which will enable local authorities to build new social housing under Private Finance Initiative as part of an Housing Revenue Account scheme;
- Officials are examining extending the use of joined up Private Finance Initiative schemes. The bidding round for authorities aiming to sign agreements in 2005-2006 will be a joint Housing Revenue Account and non Housing Revenue Account bidding round, which should maximise the flexibility for local authorities putting together schemes.

(vi) The Annual Programme

Bids for Private Finance Initiative schemes are invited on an annual basis. In December, the government announces the criteria that it will use to evaluate Councils' bids. The deadline for submission of outline proposals is usually in February. Where outline proposals are approved, Councils have to submit fully developed proposals to a Project Review Group in the summer.

The outline proposals need to include:

- Basic Information on the Project
- Preliminary Financial Analysis
- Managing long-term supply and demand
- Allocation of risk between public and private sectors
- Strategies for tenant consultation and participation

The government has set a target of 90,000 dwellings to be refurbished under the Private Finance Initiative every year during the period up to 2012.

The 2002 Spending Review allocated £685m of Private Finance Initiative credits to enable Office of the Deputy Prime Minister to meet the decent homes target in 2010.

In September 2003 the government announced a third round of housing private finance initiatives worth £600million. The bidding guidance included a wider scope for the schemes and said that joined-up schemes would be welcome, including social services schemes, those with the aim of preventing social exclusion and creating more sustainable communities. At that point there were 26 pfi schemes in procurement, but only three schemes – at Islington, Manchester and Reading – have been signed off.

Costs are perceived to be high and Private Finance Initiative schemes will need to overcome the additional costs of capital and fees through cost efficiency. In the longer term the development of 'standard' contracts and perhaps joint procurement may lead to some reduction in the currently high level of overheads.

In October 2004 the Office of the Deputy Prime Minister published guidance on housing Private Finance Initiative schemes for authorities wanting to submit bids for round four of the programme. The guidance:

- Gives priority to schemes that deliver joint outcomes to reduce non-decent homes, increase affordable housing to tackle homelessness, reduce low demand or complement local Supporting People strategies
- Requires Councils to demonstrate how their proposals will deliver Value for Money
- Says that the Office of the Deputy Prime Minister will consider both housing revenue account and general fund schemes
- Encourages a joined-up approach with a number of projects across a geographical area or bids from a partnership of local authorities

The recent developments in the housing private finance initiative can be summarised as follows:

- New build can now be included as a part of the works
- The Private Finance Initiative is still aimed at the minority of the stock
- A New Options Appraisal Model has been delivered
- A new Procurement pack has been published

The bidding process for the latest (third) round of housing Private Finance Initiative includes a long list of requirements - even at in principle approval stage – suggesting Private Finance Initiative’s complexities. These will be redoubled at the later procurement stages.

This will be the third bidding round for Housing Revenue Account/Non-Housing Revenue Account housing projects and outline proposals have been invited by Office of the Deputy Prime Minister from local authorities who wish to pursue Private Finance Initiative projects for housing and who wish to receive central government support in the form of Private Finance Initiative credits.

In assessing and selecting schemes, the Office of the Deputy Prime Minister will take account of housing specific criteria and will also be mindful of the criteria to be applied by all government departments in considering whether to submit schemes for endorsement.

Regional Government Offices will be asked to comment on proposals and, in particular, to give their views on the appropriateness and deliverability of individual schemes, given local circumstances. In addition, Option Appraisals will need to be signed off by the Government Offices prior to a scheme being accepted on the Private Finance Initiative programme.

All applicants must complete the revised Office of the Deputy Prime Minister model designed to assess investment options and value for money. The model generates the Private Finance Initiative credit requirement and also calculates the impact of the Private Finance Initiative procurement on an authority’s Housing Revenue Account resources.

Authorities should explain how the scheme relates to the authority’s overall housing strategy and why it is a priority for investment, summarising any references to the scheme in other plans such as Housing Investment Programme documents, Options Appraisal, asset management plans.

Where appropriate, authorities should explain how the scheme fits in with any wider regeneration initiatives or strategies for the area – for example, Single Regeneration Budget investment, NDC Partnerships, Community Plans.

Authorities should provide evidence of long-term need and demand for the housing stock within the proposed scheme. Being able to demonstrate long-term need and demand for the stock is key to delivering sustainable investment and optimising the balance of risks between the partners to the Private Finance Initiative contract. Authorities are asked to provide evidence of current demand and anticipated demand, drawing on housing-specific information, e.g. waiting lists, voids etc and more general information relating to population projections, economic development etc. If there are current or anticipated problems of oversupply or variable demand for the stock, authorities will need to demonstrate they have a strategy for managing this.

Authorities should provide an outline description of the condition of the stock to be included within the proposed scheme. The Office of the Deputy Prime Minister does not necessarily expect authorities to have completed an up to date stock condition survey for the area/estate covered by the proposed scheme. Indeed, should authorities be successful in moving on to Private Finance Initiative procurement, the Office of the Deputy Prime Minister will expect a survey to be jointly commissioned with shortlisted bidders to inform contract negotiation. This helps to minimise risks the authority might otherwise retain. Authorities are asked at this stage to outline the main works that they anticipate would need to be carried out based on their best available information. It is essential that the authorities present as robust a picture as possible about the condition of their stock and recommend that they use sensitivity analysis at this stage, and identify any risk mitigation strategies that may be necessary. This should also inform the option appraisal and value for money analysis.

In providing an explanation of why Private Finance Initiative is the preferred option, authorities should provide an outline analysis of all the options they have considered for the area/estate, including the 'do nothing' option. Scheme finances should be compared with the other potential investment options for refurbishment of existing housing, using best available information. Authorities should use the Office of the Deputy Prime Minister model designed for this purpose. The model generates the Private Finance Initiative credit requirement and also enables authorities to do an affordability analysis. The Office recognises that the analysis will probably need to be further refined if the project proceeds to the next stage but it will be of value to the Office and the authority in providing best available information on costs and will familiarise the authority with the type of analysis that will be essential at Outline Business Case stage.

A basic premise of Private Finance Initiative is that the risks attached to a project are allocated to the party best able to manage them. The Office of the Deputy Prime Minister expects authorities to allocate risks appropriately with significant risk transfer to the private sector while, at the same time, achieving good value for money for the public sector. Ultimately, in order to be eligible for Private Finance Initiative credits, authorities must demonstrate that their projects can satisfy the Capital Finance Regulations in regard to Private Finance Initiative transactions.

Tenants will remain tenants of the local authority throughout the course of the Private Finance Initiative contract. There will be no change in their status or their rights as a result of the Private Finance Initiative project and the Office of the Deputy Prime Minister would expect rents for dwellings included in the scheme to be set in accordance with the authority's general approach to rent-setting and within the government's rent restructuring framework. Therefore, the Office of the Deputy Prime Minister does not anticipate authorities will ballot tenants on whether or not to proceed with a Private Finance Initiative scheme. However, the Office of the Deputy Prime Minister does expect tenants will be given the opportunity for involvement in decision-making in line with best practice in tenant participation and consultation. Tenants must be consulted as part of the Options Appraisal and a tenants' empowerment strategy needs to be agreed with the Community Housing Task Force.

Authorities should describe what steps have been taken to inform Councillors of the proposal, including any corporate impact it may have, and the level of commitment to this application and the project so far gained. The Office of the Deputy Prime Minister expects that councillors (through delegated arrangements if appropriate) are supportive in principle of the Private Finance Initiative project and have been informed of the outcome of the option appraisal and value for money analysis.

Authorities should describe what skills and experience they would expect to bring to the project and how the project team might be composed, including any external advice they anticipate might be required. The Office of the Deputy Prime Minister will be looking for evidence that the local authority has given careful consideration to planning and resourcing the project. They should also identify any risks in the procurement process and identify mitigation strategies for these risks. Local authorities will need to demonstrate that there is senior level support and commitment to the proposal.

Authorities should describe in outline the timescale over which they expect their project to be developed and provide their best estimate of when contract signature might be achieved. This should include the time estimated for preparation of the full Outline Business Case for consideration, as well as the time estimated for the main stages of the procurement process itself.

(vii) Office of the Deputy Prime Minister prioritisation criteria for Housing Revenue Account & non-Housing Revenue Account housing Private Finance Initiative schemes

These criteria mirror some of the areas that councils must cover when seeking in principle approval.

Scheme finances will need to demonstrate equal or better value for money than the other main investment options for the refurbishment of council housing and new social housing. If the scheme includes joined up elements as well as housing, overall value for money will need to be demonstrated and details of other sources of income required to fund the scheme, including Private Finance Initiative credits from the relevant Government Department should also be provided.

Schemes should be targeted on stock in pressing need of capital investment and for which the authority can demonstrate likely continuing high demand over the length of the Private Finance Initiative contract.

Schemes should be integrated within the authority's overall housing strategy and should represent an investment priority for the authority. Where appropriate, the Office of the Deputy Prime Minister will also take account of the extent to which schemes are embedded within a wider regeneration strategy for the area and are linked to complementary initiatives.

Authorities will need to demonstrate that they have considered the implications of the scheme for tenants and that they have a sound strategy for consulting tenants on the proposals. The Office of the Deputy Prime Minister will take account of the extent to which tenants have already been actively involved in decision-making for the area.

Authorities are expected to take account of published guidance on design quality and revenue support depends on projects meeting this criteria.

Authorities will need to demonstrate how the project will contribute towards achieving the decent homes target in 2010 and wider government priorities and initiatives, such as:

- combating social exclusion and helping to create sustainable communities;
- Solving recruitment and retention problems in public services through the provision of key worker housing in areas of high demand;
- Fostering innovation and cost-effectiveness in construction methods and promoting energy efficiency.

Authorities will need to demonstrate that they have a good record of programme delivery and a good grasp of the project management skills required to deliver a Private Finance Initiative scheme.

(viii) General Private Finance Initiative criteria

The criteria applied to all Private Finance Initiative projects are more technical in nature.

Departments will make an initial appraisal. On the basis of that, they will decide whether to submit the project to the interdepartmental Project Review Group for consideration for endorsement.

Formal applications for credits should be submitted as an Outline Business Case. These should be as concise as possible. Authorities are advised to take account of the advice in the 4ps publication *Options Appraisal and the Outline Business Case*.

Local Authority Private Finance Initiative schemes that are on-balance sheet at contract signature will fail the regulation forty test and will score against local authority capital resources. Authorities can apply for capital funding where the expected balance sheet treatment changes at a late stage. They would need to show that the scheme represents good value for money; that they secured a thorough audit assessment before invitation to tender and again before preferred bidder stage, in accordance with guidance; and the view at preferred bidder stage was that projects would be off-balance sheet.

The project requirements should be specified in terms of service outputs required rather than particular assets or solutions. The range of on-going services included in the requirement should be defined broadly, to offer scope for efficiencies and innovation.

The specification should be pitched at a level that is justifiable as the level which the local authority would specify if using traditional procurement. Any enhancement or betterment included in the output specification should provide greater value for money or other justifiable benefits.

In prioritising schemes, departments may decide to give a higher ranking to schemes which are innovative or promote a joined-up approach.

Authorities should indicate the steps they intend to take to meet the Government's commitment to achieving "Better Public Buildings".

Projects should be consistent with and indicate any links to the authority's plans and priorities, including Best Value Performance Plan and Community Strategy, the Capital Strategy and Asset Management Plan and/or the relevant strategic service plan.

As part of securing best value for money local authorities should demonstrate an integrated approach to the social, environmental and economic well-being of the area, now and for future generations, in line with the Office for Government Commerce guidance note 'Green Public Private Partnerships'.

The application should indicate how diversity issues have been approached.

A risk register must be prepared making a preliminary allocation of all the foreseeable risks associated with the scheme.

Authorities are required to provide an "initial view" of the accounting treatment, as set out in Section two of Technical Note No. 1 (Revised) How to Account for Private Finance Initiative Transactions [June 1999] available from the Office for Government Commerce web site. There should be confirmation that the contract is likely to be structured such that a sufficient balance of risks is transferred to the contractor to enable the transaction to be treated off balance sheet for the authority and therefore to pass the regulation 40 risk-transfer test. The initial view must be supported by comments from the authority's external auditor as to whether it is reasonable.

Evidence will be required of a rigorous cost/benefit options appraisal of the validity of the project itself. The methodology used should be in line with the new Treasury guidance Appraisal and Evaluation in Central Government (the 'Green Book') which came into effect on 1 April 2003.

Authorities must always undertake an assessment to compare the value for money of Private Finance Initiative with a conventional procurement option. To achieve this a Public Sector Comparator should normally be prepared. The methodology used should be in line with Technical Note 5 'How to construct a Public Sector Comparator'; and the new Treasury guidance Appraisal and Evaluation in Central Government (the 'Green Book') which came into effect on 1 April 2003 [including tax adjustments to the Public Sector Comparator and optimism bias which should be applied to both the Private Finance Initiative model and the Public Sector Comparator. Authorities should also provide project specific costs where these can be calculated, and explain any differences]. The Public Sector Comparator will usually be based on the whole life costs of the "best" conventionally procured alternative in the options appraisal, although this may not always be the case.

The Value for Money comparison is not a pass/fail test but a means of informing judgement, especially if the results are close. It is therefore essential that the underlying assumptions used in the analysis should be explicitly identified, including the level of direct costs, efficiencies predicted and the approach taken to valuing risks to be transferred.

Private Finance Initiative revenue support is intended to be a contribution towards that element of the contract payments which can be attributed to the capital investment being undertaken – that is, the portion which would have been funded from capital resources if the asset had been procured traditionally, rather than by Private Finance Initiative. Authorities will therefore be required to indicate the purpose and estimated value of the operator's capital investment under the contract and its timing.

The capital cost of the scheme will represent the upper limit of the possible Private Finance Initiative credit. However, in many cases the actual Private Finance Initiative credit will be lower. Local authorities will be expected to cover as much as possible of the costs of the project through resulting operating cost savings, third party use of assets and services and other sources of revenue, and to minimise their applications for Private Finance Initiative credits accordingly.

All reasonable opportunities should have been taken to reduce the direct cost of the scheme to the authority, by transferring to the contractor (or to parties nominated by him) assets with an immediate or potential value for the contractor.

Ministers may also offer a Private Finance Initiative credit lower than that sought, for example, where several schemes of similar quality cannot all be accommodated within a department's allocation.

Once a Private Finance Initiative credit has been awarded, there can be no assurance that any increase will be agreed if costs for any reason rise. Private Finance Initiative revenue support should in all cases be seen as a helpful contribution to a scheme's costs, but never as a means of guaranteeing its continuing affordability.

Consultation with all other stakeholders must be confirmed. There must be demonstrable support from all key sponsors (such as Councillors and Senior Officers) and, where appropriate, users.

Authorities will need to show that the project will be affordable and that the impact on budgets is accepted by members, senior management and budget holders. A sensitivity analysis should be carried out to determine whether the project would be affordable at the rates of discount likely to be in force at the anticipated date of contract signature, but with the same level of Private Finance Initiative credits.

There should be evidence of commercial interest, based either on the authority's own soft market testing or on the experience of other authorities.

Authorities need to show that the project manager and project team will have project management experience (with appropriate use of training where necessary) and the range of skills and experience, whether from advisers or in house, for the deal envisaged.

A timetable should be prepared covering all stages from Outline Business Case to start of service provision. In particular a realistic deadline should be proposed to reach contract signature. The stages of the procurement process should be kept to a minimum consistent with achieving value for money.

Processes such as planning permission, public enquiry etc. (as appropriate) should be identified and an indication given of when they will be resolved in the procurement process.

Authorities should set out the framework of the proposed contract, including a proposed payment mechanism based on availability and/or performance and using criteria which can be measured.

Authorities should indicate their agreement to following recognised guidance on good practice. In particular, authorities are expected to negotiate a contract based on standardised contract documentation, namely Standardisation of Private Finance Initiative Contracts (September 2002) and Standardisation of Local Authority Private Finance Initiative Contracts (November 2001), as well as recognised sector specific guidance, including 4ps procurement packs.

In order to assist in the development of good practice, the local authority should confirm that they will be ready to share experience and final contract documentation, at no cost, with other local authorities procuring similar projects, with Government departments and with the 4ps. Any information of genuine commercial sensitivity may be withheld – but such material is normally expected to be minimal. Authorities should make clear to potential contractors that this information-sharing requirement is a formal condition imposed by the Government on the issue of the Private Finance Initiative credits.

(ix) Private Finance Initiative Scrutiny Questions

Elected members faced with deciding whether to proceed with a Private Finance Initiative may have a number of questions on the figures, as set out below:

- Are the assumptions used in completing the odpmmodel realistic? Do they hold good for the 20 or 30 years modelled?
- Is there a proven group of contractors ready to take on this type of Private Finance Initiative contract?
- Have other comparable councils successfully completed such a Private Finance Initiative?
- Ask for estimates of the sunk cost to go to various stages of the Private Finance Initiative proposal. (That is, what is the abortive cost accumulated if the project had to be abandoned at various stages?)
- Is there budget provision for preparing the Private Finance Initiative, as the preparation cost will have to be met from revenue budgets?
- Ask for an evaluation of the scheme in the option appraisal format normally used by the council.
- Managing a Private Finance Initiative from idea to financial close is a big demand on management time. Try to evaluate whether managers have fallen into the trap of regarding the completion of the Private Finance Initiative as their objective, rather than their original objective of delivering the service required by the best option.
- The Private Finance Initiative model is just that – a model. What are the council's acceptance criteria if key factors – such as contractors' bids – prove to be significantly different?

(iv) Conclusions

Some of the reasons that housing Private Finance Initiative has not enjoyed a quiet assimilation into the catalogue of investment options include:

- There are not as many examples of completed housing Private Finance Initiatives as there are stock transfers, therefore it is to some extent unproven.
- A Private Finance Initiative will not attract government financial support unless – amongst other tests – it can demonstrate value for money. Value for money is determined by using some mathematics to compare a Private Finance Initiative option with a public sector comparator. The model is not easy to understand, and this causes scepticism.
- For those who understand the model, it is clear that modest changes in key assumptions might exert a profound effect on what did or did not count as better value for money. (Though any standard model would be open to similar accusations.)

Costs are perceived to be high and Private Finance Initiative schemes will need to overcome the additional costs of capital and fees through cost efficiency. In the longer term the development of 'standard' contracts and perhaps joint procurement may lead to some reduction in the currently high level of overheads.

In the meantime few authorities are opting for private finance initiative schemes. Where they are, they are partial stock solutions and are proving complex and slow to come to fruition.

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