

Social Housing PPPs

Green Cities
Panel discussion
Marc Derycke
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About EPEC

- Part of EIB's Advisory Services
- A unique cooperative initiative of the EIB, the European Commission and EU Member and Candidate States
- Team of 15 PPP professionals
- **Membership:** now over 40 members (e.g. PPP Units, Ministries of Finance)
- **Mission:** “to help the public sector deliver better PPPs in Europe”

Agenda for today

- Social housing: why use a PPP?
- Example of social housing PPP structure

Social housing: why use a PPP?

Public Private Partnership– key principles

- A long-term contract between a public contracting authority and a private sector partner
- A service contract, not an asset delivery contract
- The transfer of certain project risks to the private partner
- The public sector looks for advantages from the private sector participation to achieve better Value for Money outcomes

Public Private Partnership PPP – key features

- Specification of project outputs rather than project inputs
- Focus on the whole life cycle cost of the project
- Payments for services rather than assets
 - reflect the quantity/quality of the services delivered
 - are at risk if performance is poor
 - start when service delivery starts

Public Private Partnership PPP – key benefits

- Overarching goal: improved VfM
 - risk transfer
 - key performance indicators
- Greater certainty of on-time, on-budget delivery of assets
- Harness private sector innovation to gain
 - improved service quality
 - improved asset management over the long term
- Access to private finance
- Efficient instrument to implement central policies at local level
- Greater visibility over public financial planning

Social housing PPPs in the EU

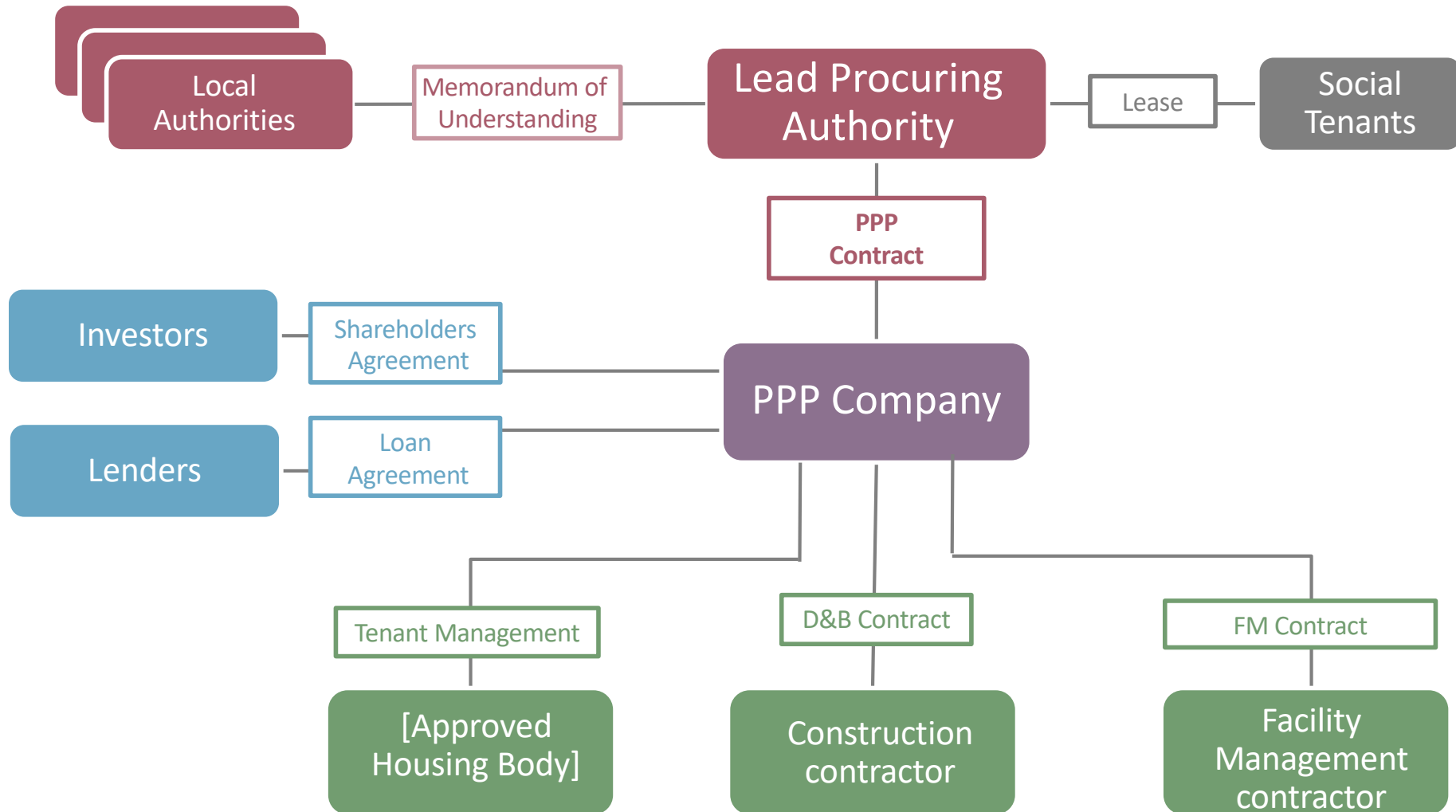
- Use of PPPs is **not widespread** in the social housing sector when compared with other sectors like transport
- **United Kingdom** used PFI to deliver >2bn (GBP) of social housing investment during 2000 to 2014
- **Ireland** is currently procuring a programme of PPP social housing for the first time (1500 homes)
- **Other partnership models (e.g. JV)** exist also

Irish social housing PPP programme

Programme overview

- Led and funded by Department of Housing, Planning & Local Govt. and implemented by local authorities
- €300m of investment in up to 1500 new homes
- Alternative to traditional model that relies on private housing providers and a rent subsidy mechanism or public funding
- Procured in 3 bundles of approx. €100m (all new build)
 - Bundle 1 – in construction phase
 - Bundle 2 – in construction phase
 - Bundle 3 – in procurement phase
- Procurement and construction centrally managed by the NDFA (PPP centre of expertise)
- Based on UK “HRA PFI” model

Project structure



Project responsibilities

SERVICE		Public	Private
Land	Land acquisition, title due diligence	✓	
Design	Planning approval, energy efficiency	✓	
Construction	New build and/or refurbishment/upgrade of existing facilities		✓
Maintenance	Lifecycle, hard and/or soft facility management services		✓
Financing	Secure external finance for the development phase		✓
Tenant management	Helpdesk, monitoring, managing voids, tenant advice		✓
Tenant selection	Selection process, vetting, private rental market	✓	
Utilities	Central management, bulk purchase		✓

The PPP contract

- All new build homes and includes adjacent community facilities
- Tenant selection is a local authority decision
- Local authority retains ownership of the land and ultimately of the building
- Local authority retains landlord relationship with social housing tenants
- Local authority receives tenants' rental payments
- Local authority makes availability based payments regardless of occupancy levels

The PPP contract

- PPP partner provides **full property maintenance, lifecycle and management service** (includes repairs for tenant damage and soft services such as pest control)
- PPP partner provides **full tenant management service** (e.g. tenant briefing and advice, helpdesk, rent administration)
- **Full responsibility for the sites reverts to the local authority at no cost after 25 years**

Project risk allocation

RISK		Public	Private
Construction	Price & timing (refurbishment can be difficult)		✓
Maintenance	Financial deductions for poor service / quality standards		✓
Demand / Void risk	Property market analysis (demand/supply dynamics)	✓	
Rental service satisfaction	Poor services, dealing with complaints		✓
Rent level	National policy, annual review	✓	
Rent collection	Target against benchmarks		✓
Financing	Raising finance, interest rate		✓
Tenant statutory rights	E.g. UK tenant's statutory "Right to Buy"	n/a	n/a
Tenant behaviour	Tenant damage, refusal of entry (impacts on availability)	✓	✓
Change in Law	More frequent on housing than other sector	✓	✓
Public scrutiny	Housing is a politically sensitive issue	✓	✓

Financing structure

- Project financing
 - funds raised on a nonrecourse basis to finance an economically separable capital investment project, in which the providers of funds look primarily to the cash flow from the project as the source of funds to service their loans and provide a return of/on their equity invested in the project
 - ≠ conventional direct financing (not based on investors' general credit)
 - ≠ asset-based financing (real estate is not used as collateral)
- Long-term loan tenor aligned on duration of PPP contract
- High gearing (typically 90:10 for availability-based PPP)

Programme / procurement challenges I

- Local authority participation prioritised by strategic need, suitable sites etc.
- Single PPP contracts for multi-authority, multi-site projects (lead local authority & inter-authority agreement)
- NDFA procures and contracts as agent for the lead local authority
- Local authorities led on technical design and planning (strong track record, engagement with stakeholders)
- Local authority attention needed to planning timelines and site preparation

Programme / procurement challenges II

- Maintaining comparability with “non-PPP” social housing (avoiding a “two-tier” system)
- Developing a common standard of service across tenant categories
- Recognising geographical spread and issues with rural areas
- Managing market capacity, interest and expertise (familiar PPP model, but in a new sector)
- Educating existing social housing providers (“Approved Housing Bodies”) around PPP approach

Marc Derycke

European PPP Expertise Centre

epec@eib.org

www.eib.org/epec

Twitter: @EpecNews

Telephone: +352 4379 22022