

London Tenants Federation

Briefing on council owned companies and special purpose vehicles (updated May 2016)

The Localism Act 2011 introduced a new 'General Power of Competence' (GPC), which explicitly gave councils the power to do anything that an individual can do which is not expressly prohibited by other legislation. This activity can be undertaken for a commercial purpose, and could be aimed at benefiting the authority, the area or its local communities.

Some councils are specifically setting up companies to build homes for sale on land that they own as a way of supporting the building on new council homes; although as far as we can see this is relatively minimal of genuinely affordable social rented homes.

What is a Special Purpose Vehicle? It is a legal entity created for a limited purpose. They are used for a number of purposes including the acquisition and/or financing of a project, or the set-up of a securitisation or a structured investment vehicle.

Securitisation is a technique used to sell financial assets on the seller's balance sheet to outside investors. The assets to be sold generate future cash flows that are used to provide the return to investors who buy the assets. In order for the risk to be acceptable to investors, the uncertainty of cash flows re-routed has to be controlled through the provision of appropriate security. It is the quality of these cash flows, enhanced in some cases, that provides the security.

The financial assets are sold to investors through an intermediate structure (a special purpose vehicle company, or "SPV") to provide them with a return using the cash flows generated by the assets. The investors don't buy the assets directly. They serve as collateral in a dedicated structure that re-routes the cash flows to investors. The loans are said to be "securitised" by the assets.

Securitisation's primary use has been by businesses that are capital intensive, such as finance institutions. It has also been used widely in commercial real estate. As a technique, it has converged with other funding methodologies, such as project financing and PFI.

Special Purpose Vehicles (SPVs) have been household words within financial circles for decades. They assumed centre stage in the wake of the financial crisis and its continuing after-effects – mostly around the Enron and Lehman Brothers scandal. Since then they are subjected to greater scrutiny, governance and transparent reporting.

Summary of borough in London that have council-owned companies as follows:

Barking and Dagenham – developed a special purpose vehicle (SPV), with Laing O'Rourke to build new homes through a 'sale and leaseback' arrangement. The council transferred land to the SPV; the SPV raises private finance to fund development of new homes (on a 60

year lease). On termination of the lease the ownership of the properties are to transfer to the council. The council is to manage the homes on a contractual basis. The rental income is retained by the council with a return being paid to the funder. Known as Barking and Dagenham Reside is wholly owned by the council designed to own 477 new homes. The homes are at a variety of rent levels (20% at 50% local market rent, 6% at 65% market rents and 74% at 80% market rent).

Barnet - 16.02.16 recommendation went to the council's 'Policy and Resources Committee' to establish and wholly owned council housing company to develop and own homes (for private rent) and which could also be 'flexed' to provide housing development in a variety of forms depending on the strategic direction of the council and future legislative changes. It would operate with a small board of directors (existing council officers and possibly one or more non-exec officers to facilitate independent scrutiny). It would not employ staff directly; operational requirements would be met through contracted our resources and existing staff with time charged to the WOC.

The proposal was to recommend that the Full Council approve this subject to the Committee agreeing the business plan in due course prior to the WOC commencing trading.

Bexley

Bromley

City of London

Croydon - established its council owned company (Brick by Brick) to develop private and affordable homes in March this year. It aims to deliver 1,000 new homes by 2019.

Ealing – set up its council owned company - Broadway Living - in June 2014 to build mixed-tenure housing outside the borrowing limits imposed under the HRA. The council has committed to building 500 homes over a five year period. Ealing already builds social housing through its HRA borrowing, and is taking on regeneration schemes on two estates in-house. As the council is approaching its HRA borrowing cap it is looking for ways to continue to develop housing while keeping new debt off the books. The company's start up with a loan was from the council's General Fund, which will not count towards the HRA borrowing cap. Avoidance of right to buy was a contributory factor although not a primary one for the council.

Enfield - set up a wholly-owned private company, Housing Gateway, in April 2014 to buy homes which could be used to discharge the council's statutory homeless duties. The company identifies appropriate housing within a reasonable price bracket and arranges purchase and renovation via the council, which then transfers the properties back to the company to own and manage.

The company was drawn up with a social investment firm Social Finance, which was appointed by the Department of Communities and Local Government to develop and institutional investment model with the aim of substantially increasing the supply of long-term private rented accommodation for homeless households.

The council provided the start-up loan from its general fund, which will be recovered through the term of the nomination agreement. The council retains full control of the company along with the allocations, selection of properties and rent. The structure gives the council full flexibility to set a rent for the target population which will be similar to local housing allowance rates.

Because the company is wholly council owned and provides services exclusively to the council it benefits from it means that a procurement procedure is not necessary.

In October 2014 Enfield Council and Keir Property formed a partnership to fund and build council homes. This is a Special Purpose Vehicle (SPV) which will develop both affordable and private housing for rent in North of Enfield. Funding has been raised through Enfield Innovations limited (another council owned company). Keirs are to build homes on seven small sites across the borough. On six of these the original council owned bedsits were no longer fit for purpose and a seventh site was a disused garage. The new development of 94 homes comprises 37 affordable homes (20 social for rent, 17 intermediate) and 57 private rented. Again the attractiveness for the council was the avoidance of RTB.

Greenwich – has set up a wholly-owned company to trade as a housing delivery vehicle. Meridian Home Start Ltd provides intermediate rented products through an arms-length company that owns and rents out family homes with gardens at 75-80% market rents. 28 properties were transferred to Meridian in April 2011. The council is looking for options for growing the company including trickle transfer.

Hackney

Hammersmith and Fulham

Haringey – Homes for Haringey – but not developing homes

Havering – set up a company named Mercury Land Holdings in October 2015 to deliver more 'high quality' homes for market rent and some for sale across Havering.

Hillingdon

Hounslow

Islington

Kensington & Chelsea – A business case and recommendation for establishing a council owned company was presented to the council in January 2015.

Kingston upon Thames

Lambeth – Homes for Lambeth – established as an SPV in October 2015 to build homes for council rent, intermediate and private rent.

Lewisham – Lewisham Homes – but not developing homes

Merton

Newham – set up a council owned company – Red Door Ventures – which aims to create thousands of rented homes (3,000 over the next 13 years). The council will also acquire 500 existing properties. 30% will be at affordable rent and the rest at market rent.

Redbridge – Redbridge council passed recommendations in April 2016 to set up a council-owned company to create more than 8,000 homes across the borough over the next five years. These will be privately rented and privately owned homes.

Southwark – is setting up its own housing company Southwark Housing Company Ltd. It aims to deliver 11,000 new social rented homes at social rents over 30 years

Sutton – agreed in July 2014 to set up a housing company to build new private and council homes.

Tower Hamlets

Waltham Forest - The Waltham Forest ALMO – Ascham Homes was proposed to be returned to direct control of the council in June 2015. The council is looking to set up a Special Purpose Vehicle to provide more homes and to establish a joint venture company jointly owned by the Council and a procured partner, to develop, own and manage housing and other property assets such as ground floor commercial uses in blocks of flats. The council will invest land as equity and the partner will provide some financial equity and potentially development skills and experience and to deliver a target of 1,500 new homes.

Wandsworth – has suggested that it may set up a housing company to develop homes in estate regeneration schemes on three estates

Westminster – City West Home (ALMO) – doesn't appear to be engaging in any development.

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