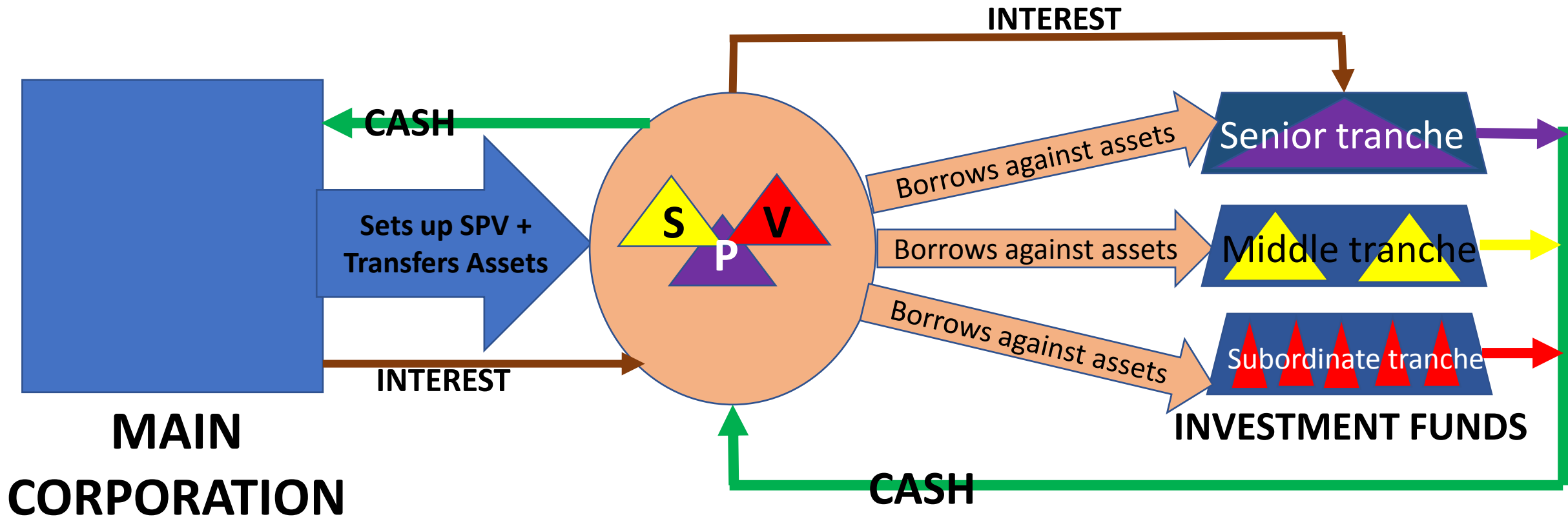


A Critical Analysis of Joint Private-Public 'Special Purpose Vehicles'

Steve Jefferys

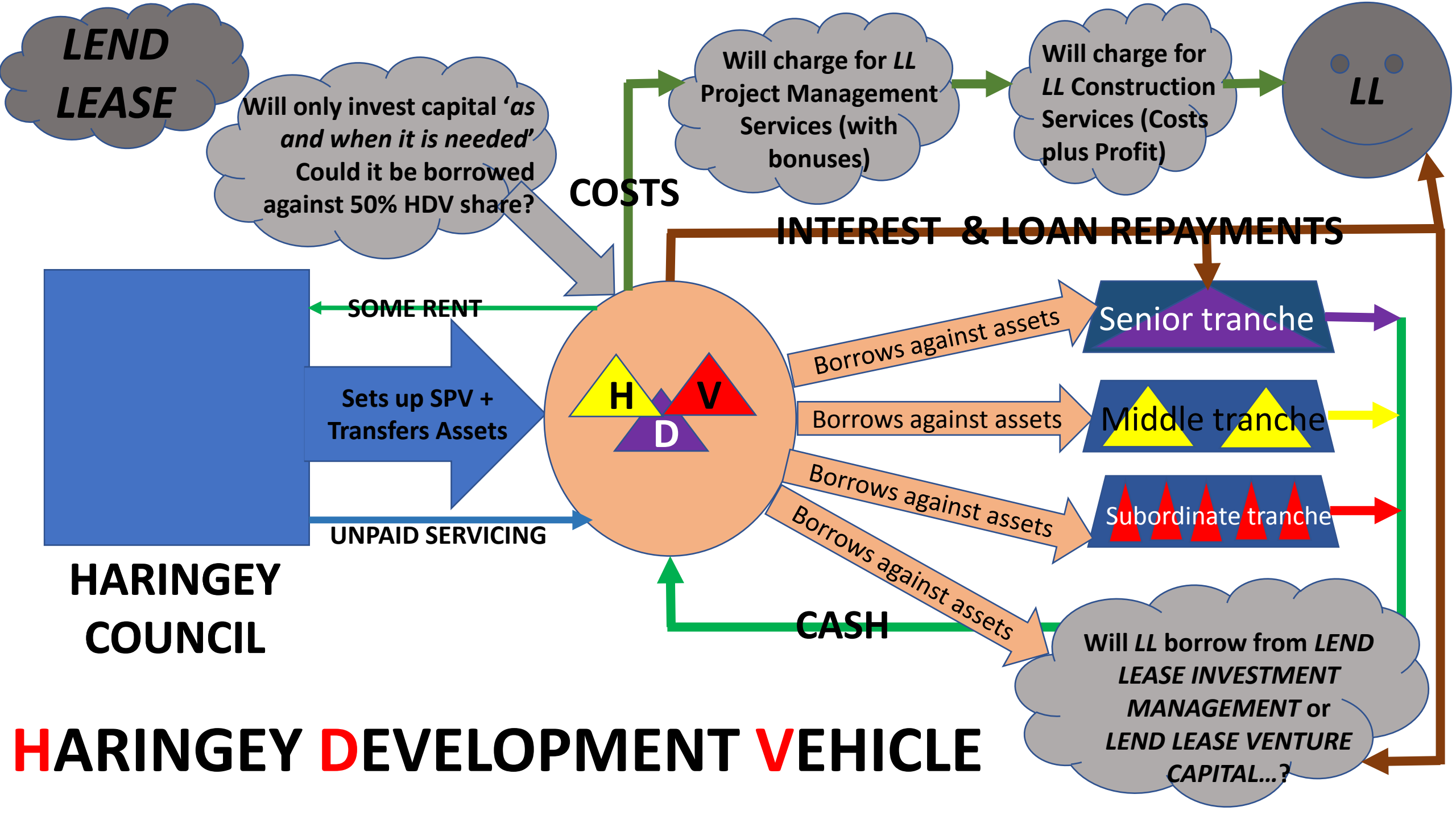
London Metropolitan University

April 5 2017



SPECIAL PURPOSE VEHICLE

Funds loan CASH against the SPV's assets **not** based on the credit worthiness of the Main Corporation

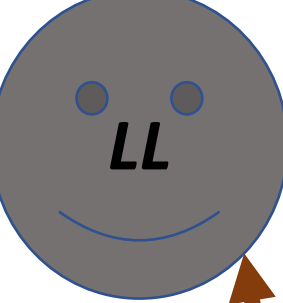


**LEND
LEASE**

Will only invest capital 'as and when it is needed'
Could it be borrowed against 50% HDV share?

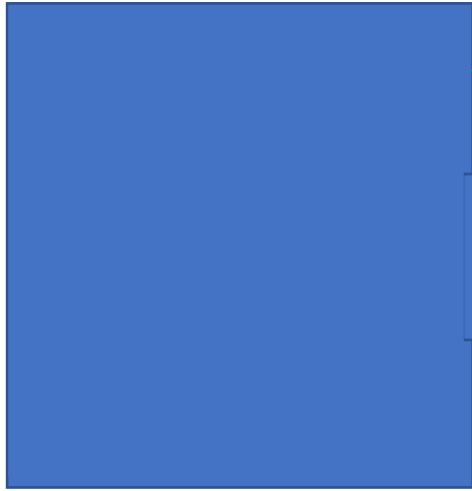
Will charge for LL Project Management Services (with bonuses)

Will charge for LL Construction Services (Costs plus Profit)

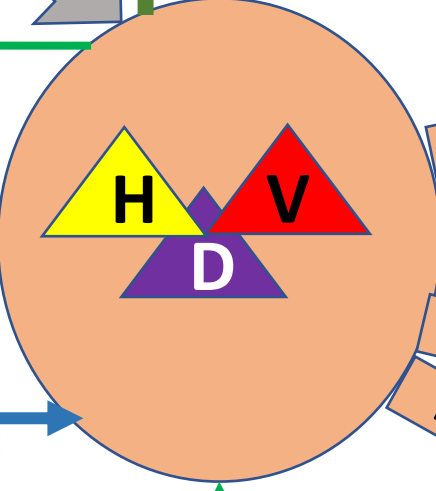


COSTS

INTEREST & LOAN REPAYMENTS



**HARINGEY
COUNCIL**



SOME RENT

Sets up SPV +
Transfers Assets

UNPAID SERVICING

Borrows against assets

Borrows against assets

Borrows against assets

Borrows against assets



Will LL borrow from LEND LEASE INVESTMENT MANAGEMENT or LEND LEASE VENTURE CAPITAL...?

HARINGEY DEVELOPMENT VEHICLE

PRIVATE COMPANY OBLIGATIONS

1. To funders
2. To business and employment contracts
3. To ensure business has enough money:
 1. to operate, develop and build
 2. to meet **all** its financial obligations –
 1. Debt repayments on loans incurred by the HDV
 2. Payments to contractors to cover their costs
 3. Payments to contractors for any management services provided
 4. Paying directly employed staff
 5. £3m pa rent repayments to Haringey over first five years
4. Development sequencing and rent levels ('non-affordable', 'affordable' or 'social rent') are dependent on three key financial arrangements:
 - ✓ CAPITAL
 - ✓ COSTS
 - ✓ INTEREST RATES

PRIVATE SECTOR CUPIDITY

1. LOW CAPITAL INVESTMENT

- ❖ Commercial portfolio to be transferred on Day 1 = **undisclosed sum + only 'as and when needed'**
- ❖ Estates '*not worth large amounts of money*' = **less than 'equal' new capital investment**

2. HIGH COSTS

- ❖ No public tendering for **all** HDV services = **above market costs**
- ❖ No cap on 'normal' 14% profit by developers = **above market costs**
- ❖ High HDV salaries with big bonuses = **above market costs**

3. HIGH INTEREST ON LOANS

- ❖ Private equity capital looks for a 'normal' 10% pa return
 - ❖ By comparison:
 - ❖ **Public Works Loan Board maturity loan rates for 5 to 18 years range from 1.46% to 2.64%**
 - ❖ **In 2015 Warrington Labour Council (45/58) issued £150m 40-year public bond in 2015 starting at 0.85% interest rising annually by CPI with repayments starting after 30 years. Labour gained 5 seats in 2016.**
- ❖ No debt interest or repayment modelling has been made public by Haringey Council nor by Lend Lease

LOSING DEMOCRATIC CONTROL

1. COMMERCIAL SECRECY

- ❖ In 2015 Council used a 'bespoke financial model' to score a Joint Private-Public Partnership Vehicle (Option 6, 80%) against a fully Council-owned Vehicle (Option 4, 40%).
- ❖ This 2015 model is still 'confidential' to 'protect the Council's commercial position' and will be 'updated' and 'considered by Cabinet in summer 2017 as part of the decision to establish the HDV' (Cllr JA)

2. DECISION-MAKING PRIORITIES

- ❖ *'The proceeds from development are then used first to repay the borrowing...'* (Cllr CK)

But as we have demonstrated:

- ❖ **'Development' can profit LendLease and **not** profit the HDV**
- ❖ **All the HDV directors will be legally obliged to tweak 'development' to prioritise maximising profits so that Private Investors and Building & Development costs are met.**
- ❖ **Financial compliance will deny the Council what is claimed will be 'a powerful blocking vote if proposals were not acceptable' (Cllr AS)**