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Public land, value capture, and the rise of speculative urban governance in post-crisis London

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Abstract

The capture of value from public land has emerged as a central concern in recent scholarship on urban financialization. Drawing on the case of local authority housing companies in London, this paper explores why and how the local state is engaging in an increasingly speculative mode of land development, and with what effects. By conceptualizing state-led value capture as a political technology of risk management that operates across scales, I develop two key arguments. First, I argue that struggles over the allocation of the risks and costs of public debt have shaped local authorities' speculative engagement with land. Unlike the case of US municipalities that are structurally reliant on private bond markets, I show how local authorities' growth politics have been underwritten by the central state and accelerated by budgetary austerity. Second, I argue that this translocation of risk at the scale of the local gives rise to a form of state power organized around the allocation, production, and constant monitoring of financial and political risks. The politics of risk that underpin municipal experiments in state-led value capture combine an embrace of uncertainty and value expansion, with the principles of austerity budgeting, downscaling, and retrenchment. Ultimately, the effects of this form of state intervention are a heightening of uneven development, an exacerbation of local fiscal crisis, and a weakening of democratic governance.

Keywords
Financialization, governance, London, land, housing

Introduction

The local state is a key site through which the contradictions of neoliberal governance are mediated and through which different urban futures are imagined. In the period of post-crisis austerity, one such contradiction can be observed in the tension between the emergence of an expansive mode of governance organized around financialized value extraction on the one hand, and on the other, the further privatization and downscaling of local government as neoliberalism contracts the space for the state to act. New modes of risk transfer and risk production have emerged in this context (Peck and Whiteside, 2016), as municipalities seek to manage a deep fiscal crisis through increased borrowing and through practices of "co-rent seeking" and land value uplift (Weber, 2021).

In London, struggles over the financialization of the state's own property have come to the fore of urban policy as local authorities have engaged in debt-leveraged experiments in property development on public land. Over the course of the last decade and against a backdrop of enduring austerity[1] and booming land values, local authorities across London have set up arm's length housing companies to produce for-profit and sub-market housing on land that they own. By taking advantage of historically low interest rates on loans issued by the Treasury, local authorities have sought to appropriate emerging rent-gaps on public land (Smith, 1982) and to capture value that would otherwise have accrued to developers. Drawing on the case of local authority housing companies in London, I explore how the

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local state navigates this apparent contradiction between disciplinary austerity and the expansive logic of speculative risk (Konings, 2015). Through a multi-scalar analysis, I assess the ways in which permanent austerity reconstitutes relations of risk across different institutional arms of the state, and how and with what effects, local authorities have become enmeshed in these institutional matrices in the process of financing the ownership and development of land and housing.

I examine in particular the kind of politics produced by these new relations of risk, using the case of Newham in East London as a study illustrative of some of the broader dynamics unfolding across London. The findings of this research are based on 30 interviews[2] I conducted between 2017 and 2021, nine of which were with key actors in Newham, and on the close reading of policy documents and news media. Interviewees included publicly elected officials, council officers, consultants, policy analysts, architects, and activists. The goals of this paper are to complement and build on the literature on financialized urban governance and municipal housing through an explicit engagement with the politics of risk.

My central argument is that state-led value capture, as exemplified in the case of local authority housing companies in London, can be best thought of as a multi-scalar process of risk transfer and risk production. I develop this argument in four parts. In the first section I review recent debates on the financialization of urban governance in the post-crisis period and make a case for centering risk as a conceptual category and for thinking about the financialization of the (local) state from a broader historical perspective. I then turn to the case of local housing companies and show how this mode of value capture emerges out of a long struggle over the role of public housing debt in contemporary governance. Next, I examine the politics engendered by this transfer of risk at the local scale by way of the London Borough of Newham's attempt to financialize public land to various degrees, and toward different ends. I show how, under enduring austerity, the politics of value capture necessitates a contradictory re-organization of the state's capacities around risk and its management, before offering some concluding remarks on the limits of this model of housing production.

The financialization of urban governance

In conceptualizing land value capture as technology of risk management, I combine insights from the literatures on the history of state-led financialization, urban political economy, and the sociology of risk.

An assumption that often underpins the critical urban scholarship is that financialization is a relatively recent phenomenon (Christophers, 2015), and that innovations in finance originate primarily outside of the state. Yet debt-led investments in public infrastructure and innovations in the management of financial risk (Martin, 2014) have played a long-standing role in the reproduction of uneven geographies. American municipalities played a formative role in the development of industrial capitalism by borrowing from the London money markets and channeling this credit into the construction of canals and railways (Sbragia, 1996). Later, the advent of the joint stock company was central to Britain's speculative infrastructural investments, including the railway manias (Whiteside, 2019). Indeed, it bears emphasis that joint stock companies—the most famous of which was the East India Company—were very much *publicly* created institutions and used for public works, and "above all for colonization" (Graeber, 2015; Mitchell, 2002: 96). By the mid-19th Century, Victorian investors took advantage of the limited liability company to invest in social housing before being overtaken by large charitable institutions and local authorities (Maltby and Rutterford, 2016). Financial logics infused the politics of investor-led housing provision in the 19th Century, as philanthropists monitored the behavior of social housing tenants by evaluating the degree of "risk and return that they represented" (Maltby and Rutterford, 2016: 265).

Another key public innovation in the management of risk is the emergence of the Treasury as monopoly lender to local authorities. The origins of the Public Works Loan Board (PWLB)—the arm of the Treasury that lends to local authorities to this day—can be traced to the financial crisis of 1793

when the Exchequer Loan Commissioners was set up to provide liquidity to cash-strapped merchants (Webster, 2018). The PWLB was then formally set up in 1817 initially to lend to mine owners and for employment relief through public works (Webster, 2018). By the 1870s, local borrowing for public works increased rapidly as local authorities were compelled to finance workhouses and build schools, sewage, and water facilities. By the end of the 19th Century, the PWLB had gone from a lender of last resort during financial crises (a role now transferred to the Bank of England) to a provider of low-cost loans to local authorities (Webster, 2018).

If the urban literature tends to sideline a *long-durée* perspective of financialization, where scholars have provided critical insights is in the ascendancy of contemporary bondholder power. Building on Harvey's (1989) formative work on the transition from urban managerialism to entrepreneurialism, Hackworth (2002) showed how federal defunding and the disintermediation of the deposit-taking banking sector by institutional investors enhanced the structural power of financial markets over cities. Credit rating agencies began exerting pressure on cities to privatize services, cut municipal jobs, and increase tax abatements, imbricating the idea that cities should behave as "efficient, anti-deficit entities" (Hackworth, 2002: 723). In the period after the global financial crisis (GFC) of 2007–2008, the focus turned explicitly to financialization. Drawing on Detroit's municipal bankruptcy, Peck and Whiteside (2016) identify a shift from a "risk-averse" entrepreneurialism, in which risk is organized around economic development goals (Harvey, 1989), to a "speculative and risk orientated" form of financialized governance, characterized by proactive debt management, bondholder logics, and financial market discipline (Peck and Whiteside, 2016: 240).

More recently, the re-invigorated debates on rent have shaped the literature on value-capture (Robinson and Attuyer, 2020; Thompson and Hepburn, 2022). Weber (2021) argues that cities are structurally compelled to inflate property values in order to repay their debt (Harvey, 1985). In doing so, cities participate in a process of "co-rent seeking" by appropriating the gap between actual and future ground rents (Weber, 2021). Calculative practices underpin this process of co-rent seeking, Weber (2021) suggests: by adopting "time value of money" methods which probabilistically transform uncertainty into risk, municipal governments help de-risk the future by constructing an imaginary of limitless growth and "inexhaustible values" (Weber, 2021: 520).

In the case of the UK, Ward and Purcell (2022) draw on the case of Salford's arm's length municipal company and argue that land value capture imbricates the logic of rentierism within the local state, limiting the potential for even progressive local authorities to enact a redistributive politics. In his analysis of local housing companies in London, Penny (2022) identifies three modes of "local state rentierism": the "commercial property" model organized around the capture of "fiscal rents" from council land best exemplified in Newham, which is also the focus of this paper; the "income strip" model in which local authorities partner with institutional investors to "assetize" long-term subsidized rental streams; and the more common model of "cross-subsidy" in which the local state attempts to close rent gaps to provide affordable housing in a low-grant environment (Penny, 2022: 10). In engaging with these strategies, local authorities inadvertently reproduce a debt-driven political economy of rentierism while prioritizing "fiscal responsibilisation" over efforts to pressure the central state for local tax reform (Penny, 2022: 3–4).

While the urban financialization literature has enriched understandings of governance after the crisis, an explicit engagement with the politics of risk has remained relatively subdued, with some important exceptions (Pike, 2023; Savini, 2017; Weber, 2021). Where risk is discussed, it is often framed in terms of who bears the costs of development, and how risky different forms of public finance are. This is an invaluable analysis, and indeed, these allocational concerns are also central to my analysis in this paper. However, there is an implicit tendency to treat risk in quantitative terms in the urban literature, as a zero-sum relationship between the state and the market. Echoing discussions of the "de-risking state" (Gabor, 2020), cities are seen as taking on "more" or "less" risk. In a similar vein, municipal financialization is often conceptualized as a function of the entry of "more" or "less" private finance. Such conceptions of urban governance run the risk of over-simplifying the character of state

intervention (Dutta, 2020) and of reifying the line separating the state from the market (Mitchell, 2002). It may be more accurate to think of risk not as a "thing" that is transferred between the public and the private, but as social relation (Soederberg, 2016) and as a technology of governance that has evolved historically.

The literature on the sociology of risk offers some important clues for thinking about risk as a broader, relational category. Ewald (2002) traces a shift from what Konings (2016) describes as a passive orientation to risk organized around the principle of insurance under liberalism toward a more proactive engagement with the speculative logic of risk under neoliberalism (Cooper, 2020; Konings, 2016). Risk under neoliberalism is no longer the object of insurance, neither is it "pooled" or collectivized at the national level. Instead, it is up to individuals, and we might add, subordinate levels of governments, to manage their own risks (Cooper, 2020; Ewald, 2002).

Countering Polanyian conceptions of speculation as something that is necessarily "fictitious," Konings (2015) further argues that capitalism is driven forward by an interaction between the redemptive, disciplinary logic of austerity, and the expansive logic of speculation. Put differently, austerity promises to redeem and "purify" speculation from its excessive and corrupt dimensions (Konings, 2015: 266). Instances of speculative austerity can be seen in the model of academic production, as well in the parallel defunding of universities and the rise of student debt (Graeber, 2011; Konings, 2015).

Finally, in thinking about value capture as technology of risk management, I borrow from the late Martin's (2015) conception of financialization as the production and proliferation of risk. For Martin (2015) the logic of risk management is connected precisely to the closing of a space of arbitrage, broadly conceived as the gap "between observed and desired outcomes and leverage of what can be made liquid" (p. 75). In the case of local authority housing companies, I want to suggest that this space is the economic and political space of the rent gap, and the always uncertain space separating the state and the market (Mitchell, 2002). Technologies of risk management such as the limited liability company, securitization, and derivatives, operate as "social principles" or sensibilities, which rely on the bundling and dispersal of value and risk (Martin et al., 2008). From this perspective, we can think of value capture mechanisms as particular technologies of risk proliferation and management (Martin, 2015), and as complex political responses to conditions of pervasive uncertainty (KomporozosAthanasiou, 2022). In the rest of the paper, I draw and build on these insights to explore the scalar politics of risk in the case of local authority housing companies.

Public debt and the restructuring of risk relations

In the period after the GFC, local authorities in England began engaging in new forms of debt-led value extraction by investing in marketized housing production through arm's length housing companies, and by acquiring commercial assets such as shopping malls and business parks to generate a financial return. Much of this investment has been supported not by private finance, or what Kirkpatrick and Smith (2011) call the "lifeblood of contemporary growth politics" (p. 485), but by public credit from the PWLB. In the process, the central state has indirectly underwritten local authorities' growth politics at the same time as it has restricted their ability to preserve and provide homes for social rent. In this section I show how this scalar re-working of the relationship between speculation and the disciplinary logic of austerity (Konings, 2015) emerges from a series of struggles over the role of public debt.

Local authorities in the UK are not structurally dependent on financial markets in the same way that housing associations are, nor are they subject to the disciplinary power of credit rating agencies as is the case in the US municipal bond market (Sbragia, 1996). Instead, the UK's system of centralized lending works to shield both local authorities and private lenders from credit risk (Sbragia, 1986). This institutional arrangement is linked in significant part to the monetary authorities' attempt to control the rapid growth of private financial markets from the 1960s onwards[3] (Bank of England, 1966, 1983; Dutta, 2020). It is precisely this strategic advantage vis a vis private lenders and housing associations

that enabled local authorities to easily channel credit into the built environment after the crisis when private credit dried up, and throughout the ensuing decade, as the Treasury retained its status as the monopoly provider of low-cost credit and lender of last resort to the local state.

Yet, despite the relative ease and speed through which local authorities can borrow from the Treasury, this process of on-lending is fraught with relations of power and idiosyncratic risks. If lending to local authorities was tightly policed in the period of Thatcherite austerity through “credit controls,” the devolution of borrowing decisions through the prudential borrowing regime in 2004, and later the self-financing reforms for council housing in 2012, worked to transfer additional freedoms and risks to the local state. Under this new system of devolved risk-management, local authorities are asked to take responsibility for their borrowing, the majority[4] of which comes from the Treasury. Discipline is enacted at arm’s length by professional members’ organizations and auditing firms (Hood et al., 2007), or in times of acute crisis as seen in the case of Croydon’s municipal bankruptcy in 2020, by institutions of the central state.

This transfer of risk to local authorities follows a long history of struggle over the role of public housing debt in capitalist state transformation. From the interwar period until the 1970s, local authorities were the primary providers of social housing. Financed through public debt and subsidies, council housing during this period was underwritten, in part, by British imperial extraction (Bhambra, 2022). And, if it provided security to a significant proportion of the national population in Britain, council housing was also conceived as form of insurance against threats of revolution (Boughton, 2019; Cooper, 2020). The neoliberal turn re-configured relations of security, insurance, and risk: private rents were de-controlled, a vast number of council homes were sold-off through the Right to Buy policy, and local authorities’ Housing Revenue Accounts (HRA) were ring-fenced, preventing councils from using tax surpluses to fund housing. From the 1970s onward, government grants were gradually diverted to housing associations, and they were allowed to borrow from financial institutions without their debt classified as “public.” Local authorities were further compelled to “transfer” (sell) some or all of their stock to housing associations in the 1990s and 2000s, as a way to access subsidies for the refurbishment of social homes and to pay back historic debt costs.

In 2012, local authorities regained the power to borrow against their rental income to invest in council housing following the “self-financing” settlement of 2012, which brought an end to the national subsidy system and distributed previously pooled historic debt between local authorities based on their ability to service that debt—in other words based on the value of their stock. Yet local authorities’ housebuilding ambitions were cut short by the imposition that same year of caps on their council housing debt, and by the revival of Thatcher’s Right to Buy policy. As one interview aptly observed, the extension of the Right to Buy represented a move to “begin liquidating the country’s council housing stock” (Interview, 2019). Arm’s length housing companies emerged in this context, as councils devised a mechanism to circumvent regulatory limits on their ability to provide housing. By building market homes outside the constraints of their Housing Revenue Accounts, they could also pull in a revenue stream to make up for deep cuts to their Revenue Support Grants, the primary source of local government funding until 2010. By 2021, more than 80% of local authorities in England, and 27 out of 32 London boroughs had set up housing companies (Morphet and Clifford, 2021; Penny, 2022).

No less significant was the macroeconomic context within which local authorities began setting up housing companies (Christophers, 2019). The Treasury lends to local authorities at the cost at which the government itself borrows from the capital markets, plus a small margin. As the yield on sovereign bonds collapsed in the expansionary monetary environment of the post-crisis period, so did the cost of local authority debt. The initial moment of “capture” needs to be understood as unfolding in the context of this political economic transformation. The rent gap that local authorities have sought to appropriate is not simply in the value of land, but also in the difference between the cost of borrowing and the yields they can extract from public land. This moment of arbitrage was summarized by an interviewee:

> The fundamental idea is that the local authority at the moment can borrow very cheaply because interest rates are very low, because of quantitative easing, but it can still buy and/or develop property assets which give it an income return which is greater than the interest cost and actually the amortized costs of the repayment of the debt, and that provides an income stream which helps relieve the pressure from austerity for their budgets. (Developer, 2017)

While local authorities have used this strategy of arbitrage for purposes other than purely financial ones, councils' ability to provide secure and affordable housing to low-income households in London remains relatively restricted. Penny (2022) calculates that the London Boroughs of Lambeth and Camden have respectively provided as few as 27% and 12% new social homes on public land in recent years. Morphet and Clifford (2021) in their survey of 194 local authorities across England find that only 31% of councils that are directly engaging in housing delivery, including through housing companies, are providing homes at below 60% of market rents.

In thinking about the way in which the logic of speculation is always co-articulated with that of austerity (Konings, 2015), in the next section, I use the case of Newham to explore how the localization of risk gives rise to new forms of spatiotemporal displacement, all of which in turn produce new forms of risk and uncertainty (Jessop, 2016).

Value capture as a technology of risk management

Financializing public land

Newham's experiments in debt-led, speculative housebuilding follow an extended trajectory of leveraging formerly industrial land for "property-led" economic development (Fainstein, 2008). Newham has some atypical features as a case study. On the one hand, the council under Robin Wales' administration drew on a highly neoliberalized version of local Labour politics, characterized by the concentration of executive power, public sector commercialization, and pro-active and often violent state-led gentrification. Yet, Newham's approach to housing provision is also remarkably typical of London's turn toward the re-configuration of urban policy around the capture of rents (Penny, 2022; Ward and Purcell, 2022). While it is difficult to generalize from Newham, indeed from any one local authority, the case magnifies (Flyvbjerg, 2006) the way in which the local state in London is leveraging public land and debt to cross-subside affordable housing and to generate revenue.

How then is uncertainty turned into risk in the case of Newham's experiments in land value capture? And what politics emerge in the process? When Robin Wales' administration first voted to establish a wholly owned development company in Newham in 2014, the goal was to maximize the value of public assets in order to pull in a revenue stream for the council. By borrowing from the Treasury and then lending-on to its subsidiary company, *Red Door Ventures* (RDV), the council's intention was to build 3000 homes on council-owned land over the next 10 years (London Borough of Newham, 2014). There was a desire to capture some of the "endless money, including housing benefit, being sunk into private rents," and to re-invest this profit into public services while also improving the poor quality of housing in the borough (London Borough of Newham, 2014: 7). The recent property boom in Stratford was another motivating factor. Following the resurgence of the Buy-to-Let market after the crisis (Green and Lavery, 2018), property values increased rapidly in 2014 with average house prices in Newham rising by 17% between March 2014 and March 2015 (Greater London Authority [GLA], 2018a). An interviewee summarized this convergence of factors succinctly:

> There's lots of landlords making lots of money [in Newham]. We as the council were in a position where we get access to relatively cheap funding. Is there not a way that we can convert that into a higher quality private rented sector accommodation and get a return on it. . . [The idea was] I'll paraphrase but 'we want a slice of the pie and we can actually do it better.' (Council officer, 2018)

The decision to set up a commercial housing company was also a response to the uncertain future created by steep cuts to intergovernmental grants. Before the start of the government's austerity program in 2010, Newham was dependent on national grants for 84% of its income and by 2016–2017, centrally imposed cuts had resulted in a 31% real-term reduction in Newham's spending on public services (Amin Smith et al., 2016). Intervening in local land markets was framed as necessary in this context. The council could not fund itself "on the back of library fines" having already significantly reduced its workforce (Council officer, 2018). Yet there was no certainty that the risk of leveraging public land and credit for the creation of an income stream would pay-off, at least in the short-term: "It's not short-term fix. . .if we had done nothing and would have kept the money, we would have been better off" (Council officer, 2018)

If the creation of RDV was legitimized in part as a way to fill the gap in housing supply, the financial rationale remained dominant. As an interviewee stated: "The filling of that housing gap is almost incidental, I mean it's a lovely byproduct as far as the local authority is concerned, but the key driver is the cash. . .the surpluses" (Local state actor, 2017). Between 2014 and 2018, the council built 156 one-to-two-bedroom homes for private rent, targeted at high-income households. No affordable homes below 80% of market rents were provided during this period through RDV.

The local state's appropriation of a rent gap was further legitimized through narratives of value differentials and growth. An interviewee described the relative difference in the value per square foot of properties across different areas of London as a "value cliff" (2017): as investment poured into Newham's western edge, Stratford had found itself on the "other side of the value cliff" (Local state actor, 2017). An apartment in Stratford that is £1000 per square foot could now generate 150% more rental income than a house in neighboring Eastham that is £400 per square foot, the interviewee explained. Indeed, for a while, the council had successfully capitalized this rent, with one-to-two-bedroom apartments rented for £2000 a month (Interview, 2018).

Like other local authorities across London, the process of developing public land involved a "bundling" together of small parcels to meet minimum "affordable housing" requirements by the council, and to make sites attractive to sub-contracting firms undertaking construction. The aim, in 2017, was also to bundle future rental streams, so that they could potentially be sold-off to investors (Local state actor, 2017). This transformation of difficult-to-develop parcels into risk, in other words into the "calculable measure of potential future gain" (Martin, 2014) reflects the logic of securitization as this process of splintering localized entities and re-assembling these with the potential of dispersing risk (Martin et al., 2008).

By 2020, however, the COVID-19 pandemic exposed some of the limitations of this model of public land financialization. If the treatment of land as a financial asset (Harvey, 1982) is premised on the illusion that land is the source of inherent value (Christophers, 2010), this contradiction found expression during the pandemic. RDV had bought a block of flats in the neighboring borough of Tower Hamlets which it leased to finance workers who commuted from other parts of England to work in Canary Wharf during the week. With the pandemic the flats had become hard to let and in the interim the council used them as emergency accommodation during the first lockdown in March 2020 (Council officer, 2021). If this was designed to be a temporary solution to Newham's homelessness crisis, the problem from the financial perspective of those involved was that it did not "generate the same return" (Council officer, 2021).

The case of Newham also illustrates the way in which the financialization of land necessitate new modes of institutional labor, which Searle (2018) defines as the "work of producing possible futures, devising financial structures and creating networks of people and organizations" (Searle, 2018: 52). In the first few years the council's arm's length company was populated by private sector consultants before permanent staff with development and financial expertise were hired. Elected representatives were not viewed as meaningfully contributing to the company (Interview, 2017), echoing Ormerod and MacLeod's (2019) claim that councilors tend to be seen as a potential source of "disruptive political surplus to be circumvented" (p. 13). Moreover, ideas of corporate governance infused discussions of

the relationship between the council and its company. The requirements of the council on the shareholder agreement were “light-touch” and “were not particularly onerous [to the company],” an interviewee believed, other than just saying “‘make money’!” (Local state actor, 2017).

The transfer of risk from government to local authorities also shaped Newham’s decision to financialize its landholding. Indeed, as far back as 1988, the *Audit Commission*—a statutory body set up by the government in 1982 to oversee the finances of local authorities, and later to investigate the rate capping rebellions of 1985—had encouraged local authorities to adopt principles of asset management by hiring dedicated property teams (Audit Commission, 2000). When asked whether local authorities are increasingly treating their land as a financial asset an interviewee responded, “well yeah but aren’t we being encouraged to do that? One of the things we’re always told is look at your asset base and see if you can monetize it” (Council officer, 2018). Where possible the council had tried resisting selling its land. Yet the imperative of property growth and the centrality of landownership as collateral for bank lending meant that the council was structurally compelled to sell its land to developers (Interview, 2018). There was a belief nevertheless that regardless of these constraints, there were public benefits to monetizing the council’s assets, reflecting a kind of trickle-down narrative of state-led financialization:

> We have a big landholding in Newham. Why would we not try to monetize that to the benefit of the citizens of Newham? [. . .] We’ve been encouraged to do it, would we want to do anyway? Possibly. (Council officer, 2018)

If local authorities were encouraged to take risks by the central government, state actors expressed a degree of confidence at their ability to navigate market and policy uncertainty, while simultaneously acknowledging the multitude of risks involved. Land values would likely continue rising in London, an interviewee reflected; the more significant risk was the council’s reliance on debt finance. Even though interest rates were at a historic low, the council was “fully aware that that might not always be the case” (Council officer, 2018). Any sudden movement in interest rates would be “catastrophic” in Newham (Council officer, 2018). Still, there was a belief that these were calculated risks and that it was impossible for the council to protect itself from macroeconomic forces (Council officer, 2018).

Even if there was a general optimism about value growth, an interviewee acknowledged that “not everything we do will work” and it is “highly unlikely” that every one of RDV’s projects “will deliver a profit and to the original model” (Council officer, 2018). At the same time, there were many uncertainties regarding the future of the council’s assets, particularly in the event that the local rental market collapsed. If the council’s housing company went bankrupt, the council could either sell the company’s assets, or it could ride out a recession, a scenario that was perceived to be more likely given the historic appreciation of house prices in London (Council officer, 2018). But it is also possible that the council would bail out its own company:

> So, if it went bust in theory, there is no liability back to the council. In reality who can tell, would a public sector body ever let that happen? You know, another PhD in that perhaps. (Council officer, 2018)

In sum, between 2014 and 2018, the local state attempted to capture value created by the bigger land market in Newham, actively contributing to the production of surplus value through the construction of for-profit, market-rate housing. The financialization of public land necessitates a re-calibration and dispersal of state power across a limited liability company which aims to contain the prospect of financial loss and policy failure, fracturing in the process routine channels of democratic accountability. “Good governance” in this case is expressed as function of the local state’s willingness to accept risk (Martin, 2007), by proactively intervening in local land markets in search for a longterm revenue stream.

From revenue generation to affordable housing provision?

The second part of this story shows how the council under a different administration attempted to change the way in which this increment in the value of land is shared. In 2018, RDV was put under review until the fall of 2018 as Newham's new administration under the mayoral leadership of Rokhsana Fiaz set about reshaping the council-owned company from a vehicle used to generate income to a method of providing affordable homes. Concurrently, the allocation of risk in the production of affordable housing was re-organized. In 2018, Newham became the largest recipient of housebuilding subsidies from the Greater London Authority (GLA) after it was granted £107.5 m to deliver 1123 homes, 1056 of which would be at Social Rents or London Affordable Rents (GLA, 2018b; London Borough of Newham, 2019). By the end of 2018, the lifting of the borrowing cap under Theresa May's administration also provided the council with some additional leeway for building new homes at social rents through its Housing Revenue Account.

Rebranded *Populo Living* (PL), the aim of Newham's company is now to provide at least 50% "genuinely affordable housing" in line with the GLA's housing regime (see Table 1). The tangible effect of this adjusted vision is a reduction in the rental stream and cash flow to the council (London Borough of Newham, 2019). Previously, the council disposed of its land to its company at close to market value in return for a capital receipt. Following Newham's strategic reorientation of its company, public land is now leased for free or close to free to PL for a period of 125 years (London Borough of Newham, 2019).

As part of this shift toward a more redistributive politics, the council also sought to strengthen its political commitment to council housing residents. Newham cancelled the deeply unpopular proposal to set up a joint venture with a private partner to demolish the Carpenters Estate in 2018 and appointed Populo Living in 2020 as its development manager. Financial motivations were central to this decision. PL would offer the state additional capacity to deliver housing, while the company was also perceived as "more agile" and able to act faster than the council's housing and regeneration teams (Council officer, 2021). The new administration also wanted to find a way to "capture the development profit" to build more social housing (Council officer, 2021), and to ensure there was "no profit leakage" to a private development manager (London Borough of Newham, 2020a: 736). Although a discussion of the historic struggles over the Carpenters Estate are beyond the scope of this paper, I draw on aspects of this project in the section below to demonstrate the evolving politics of value capture and the shifting role of the logics of austerity and speculation.

Table 1. Affordable housing starts and completions, Newham, 2022.

Starts on site					
Social rent and LAR[a]	Other affordable rent	Other intermediate[b]	London living rent/ shared ownership[c]	Open market[d]	Total
469	81	428	711	709	2398
Completions					
Social rent and LAR	Other affordable rent	Other intermediate	London living rent/ shared ownership	Open market	Total
418	44	429	384	583	1858

Source: Table adapted from GLA (2023).

[a]Social Rent is the lowest form of rent (typically set 40–60% of market levels). London Affordable Rent is benchmarked to Social Rent levels but is more expensive.

[b]Other Intermediate includes rent above Social Rent but below market.

[c]London Living Rent is set at or below a third of local household incomes. After 10 years, residents can buy the home on a Shared Ownership basis. Shared Ownership is a low-cost form of homeownership that allows a buyer to purchase the share of a home and to pay rent on the rest.

[d]Open market units are developed for the private, open market.

In their attempt to capture and redistribute value from the land sitting underneath council housing estates (Watt, 2021), local state actors embrace the speculative logic of value appreciation at the same time as they seek to provide social housing and refurbish a historically disinvested public housing stock. A familiar rationale underpinning the local state's intervention in Newham is the notion that economic value can be "unlocked" through processes of densification and demolition. The "classic dilemma" in the Carpenters Estate was whether the council should put the high-end housing near the station so that it can "extract best value," demolishing in the process Dennison Tower, or whether it should "mix and match" market housing with social housing (Council officer, 2021; London Borough of Newham, 2020b). These were political decisions according to an interviewee, and the council had room to maneuver in this regard.

Ultimately, the outcomes of the state's experiments in value capture were largely shaped by the extent to which state actors deemed a project to be "financially viable." The decision to cross-subsidize the development of social and sub-market affordable housing through homes for market sale and rent was not "big money-making for the council," rather delivering 50% affordable housing was described as a "huge financial viability challenge" (Council officer, 2021). Viability, which weighs up the projected costs of a project against its anticipated income and which also becomes a measure of risk, hinged on various factors, from the council's ability to access grant funding, build and borrowing costs, and the varied impact of the pandemic on construction (Interview, 2021; Populo Living, 2021). In an unconstrained world, the intention of the council would be "to do social housing everywhere" (Council officer, 2021). But with grant funding determined by the central state the council was significantly constrained in what it could do with its debt and available subsidies: "what we are doing is implementing government policy" an interviewee explained (Council officer, 2021), referring to the way in which the central state privileges the construction of more expensive forms of subsidized housing, such as Shared Ownership. Indeed, we can see from Table 1 that the number of Social Rented homes only constitute a small percentage of the council's starts (20%) and completions (22%).

Viability also works to lend credibility to the local state's claims on the future and becomes a way for the state to manage the risks and promises of land development. Describing viability as a "dark art," an interviewee involved in the Carpenters Estate's redevelopment believed that it was difficult to democratize the process, in part because the outcomes of development are constantly evolving along a spectrum of risk. Opening up this process to resident participation was perceived to be tricky due to the lack of certainty of what can be offered to residents at various stages of the project: "You can't commit everything being up for grabs because you don't know what you can offer until you get to the end of the design process" (Local state actor, 2021). Another Council actor (2021) linked viability to managing the political promises made by the council: "If you're saying 50% social housing, that's expensive, you know, it's not very lucrative. So, it's like, how much do you bring that forward?"

The management of risk and uncertainty through the practice of viability can in turn reinforce an opaque form of governance. Viability for the refurbishment and redevelopment of the Carpenters Estate was modeled by a private sector consultancy with the council's housing company and two architecture firms. Presented with various scenarios involving demolition, residents' input and feedback was limited to the design process and to factors such as the height of the new buildings and the character of open spaces (London Borough of Newham, 2021; Interview, 2021). Concurrently, the community-led plan prepared by the Greater Carpenters Neighborhood Forum was sidelined by the council, along with alternative calculations for the provisions of affordable homes (Interviews, 2022). Ultimately, the demolition of over 60% of the Carpenters Estate's 710 homes will proceed following the outcomes of a contentious resident ballot, with residents reporting paid canvassing by the council in favor of demolition (Berry, 2022). As of 2022, the council and Populo Living expect to deliver 2022 homes on the estate, 949 of which will be set at Social or London Affordable Rents.

If value capture necessitates a re-organization of the state's capacity to manage political and financial risks, this process was further mediated by the perspective and knowledge of a class of private sector actors, much like in the first model. The twin dynamic of an expanding and contracting local state was

echoed in a conversation with a council employee. In an attempt to fill the internal "capacity" gap produced by the defunding of local authorities, Newham had increased its reliance on external consultants, many of whom lived outside of London. Moreover, Populo Living's and the council's senior staff were described as predominantly white and middle-class, and hired from the world of private development, something which necessarily structured relations with Newham's working-class residents and its communities of color (Interview, 2021). Relations between the council and communities in the Carpenters Estate, and Newham more broadly, were further shaped by problems of high staff turnover and a demoralized younger workforce (Interview, 2021). An interviewee reflected on the abstracted conceptions of value that inform the work of Populo Living:

> They [Populo Living] are not coming at it from a perspective of social value, they are coming at it from a perspective of 'how many units can we fit into this site.' And that is part of their training. And it's hard for them to get out of that mentality. But then there's also the lack of understanding of local residents and what they need. (Council officer, 2021)

Uncertain futures: Concluding discussion

What does the case of municipal housing companies in London tell us about the way in which the local state navigates the contradictory imperatives of speculation and austerity? I advanced a series of claims in this paper. First, I argued that local authorities' attempt to leverage public credit to close emerging gaps on public land through the establishment of housing companies needs to be understood in light of a series of struggles over the costs and risks of public housing debt. I show how, unlike the case of US municipalities that are structurally reliant on private borrowing and subject to bond market discipline, local authorities' growth politics have been at once under-written by the Treasury and accelerated through budgetary austerity. The devolution of borrowing and risk-taking responsibilities has in turn produced new forms of risk and uncertainty.

The same local state enacts two forms of value capture, one more progressive in its aims than the other. Both of these interventions in the local land market respond to similar constraints, from limited subsidies to deep cuts to public services, housing policy volatility, rising construction costs, and a changing monetary policy environment. How the local state choses to allocate risks based on these constraints is a different in each case. What is also different is how the management of risk is mobilized politically as an idea and logic (de Goede, 2004).

In the first instance the local state actively harnesses and leverages uneven development through the construction of homes for market rent, and through a faster mode of expert-led governance, separated, although only to a degree, from the slower legislative rhythms of the council (Jessop, 2016). After 2018, Newham changed the purpose of its arm's length company, privileging the objective of affordable housing provision along that of revenue generation. While the production of social housing is desired, its delivery is treated as a kind of financial risk. Gentrification here is justified as a necessary outcome of the prudential management of public finance.[5] Financial viability—which normalizes the idea that there is a "natural" level of affordable housing that the market, or indeed that the state, can provide (Christophers, 2014)—constitutes one of the practices through which uncertainty is transformed into risk and through which the state's claims about the future are rendered legitimate (Beckert, 2020). Despite an attempt to re-negotiate the allocation of the risks associated with uneven development, the local state is still exposed to market and monetary policy volatility and remains constrained in its ability to finance social homes.

The local state emerges from this shifting landscape as an uncertain actor, exceeding binary characterisations of passive debtor or active speculator.[6] Rather, the state appears to be operating in an ambiguous space of always contingent and conflict-ridden value-making, organized around claims on the future that are optimistic and pessimistic. Local state actors have embraced future uncertainty, particularly as this relates to the appreciation of future land values, at the same time as they continue to navigate a constrained environment in which the future of local government funding remains unknown,

and in which fiscal discipline continues to narrow councils' capacity to plan for the future. There is a recognition on the part of those involved that cross-subsidy is a fragile technology that produces uncertain results. Value capture in this way reflects a kind of common-sense politics in which local authorities "must act, and be seen to act, even if the aspirational reach continually exceeds the effective grasp" (Peck, 2014: 398). This shape-shifting quality of the state's intervention is what paradoxically drives it forward, echoing Peck and Theodore's (2019) processual understanding of neoliberalization as an "ongoing state of contested reconstruction" (p. 246).

What becomes apparent is that there are also political limits to financialization as this process premised on the inexhaustible growth of value (Weber, 2021).[7] We see the limits of that imagination for policy makers who need to manage limited budgets at the local level. Local authorities are relating to debt markets in a way that is different to this expansive narrative at the macro-level, where credit is endlessly available. To be sure, the local state benefits from some of the empowering dimensions of sovereign debt, as local authority borrowing is effectively indexed to the price of yields on government bonds, whose demand from private investors underpins the stability of British macro-economic governance. But unlike national budgets, local budgets have to be balanced and the cost of local authority borrowing is sensitive to the vagaries of sovereign debt markets. As yields collapsed in the post-crisis period under conditions of monetary expansion, so did the cost of local authority borrowing. In the wake of the "mini budget" crisis in 2022 sparked by Liz Truss' government announcement of £45bn of tax cuts, local authority borrowing costs increased significantly, leading some authorities like Ealing in London, to cut back on their affordable housing plans.

We can also read the failure of local authority housing companies as a remaking of the constraining and expansive imperatives of austerity and speculation (Konings, 2015). When things go wrong, as they did for example in the case of Croydon in South London, the result is a doubling down of austerity. Croydon's struggling housing company *Brick by Brick*, set up by Newham's former heads of planning and regeneration and financed through PWLB loans, exacerbated the council's longstanding financial crisis. Faced with a £66 m hole in its budget when the pandemic hit in 2020, the council was forced to declare effective bankruptcy by issuing a Section 114[8] and to negotiate a £120 m recapitalization loan from central government. A precondition for the council's "bailout" was that it would pay higher rates of interests on its loans to the Treasury (London Borough of Croydon, 2021). While it is not possible to go into the details of the Croydon case, the key insight here is that even if local authorities are not subject to credit rating and bondholder discipline like in the US, the effects of policy failure and bankruptcy, which include further cuts, public asset sales, and procyclical budgeting, are not dissimilar to the emergency fiscal management enacted in US cities (Peck, 2014).

Moreover, the private financial institutions responsible for auditing municipal risk-taking were acting, like rating agencies, from a position of vested interest. This is because external auditors are appointed by local authorities. According to an interviewee with knowledge of Croydon's bankruptcy, Grant Thornton, the council's external auditor could have rang the alarm as far back as 2017: "They said," a respondent recalled, that,

> . . .we knew that [Croydon] was in a difficult situation and we knew we were in the verge of reporting in the public interest, but we wanted Croydon to serve the 114 Section notice, we wanted them to do it to themselves, and it's almost like, 'after you, no after you' (Local state actor, 2021).

This is all to say that the expansion of public debt is infused, like other forms of money and credit, with relations of power and risk. Paying attention to these relations is necessary I want to stress, because they complicate the premise that often underpins the financialization literature, that state finance is better than market finance.[9] While it is crucial to recognize the deep structural asymmetries between public and private municipal borrowing, this binary distinction conceals the multi-scalar entanglements between private and public power and finance (Dutta, 2020). More importantly, there are clear limits to neo-Keynesian and neo-Georgists promises of a re-invigorated public sector which seeks to capture

rents by leveraging public debt and growth. State-led value capture heightens patterns of uneven development and can lead to a deeper entrenchment of austerity once the promise of speculation “threatens to tip over into failure” (Konings, 2015: 5). If the struggle over urban futures is fought increasingly on the terrain of municipal finance and through and against the logic of speculation (Komporozos-Athanasiou, 2022), the disagreement among state actors is not about whether the financialization of land is necessary, but to what extent and to what end. Demands for a better managed capitalist state, or a more redistributive form of land financialization, will inevitably fail in this context.

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Notes

1. Since 2010, councils have experienced continued reductions in funding. In response, local authorities are cutting frontline services, drawing on their reserves to balance their budgets, and increasing in many cases their borrowing (Local Government Information Unit, 2023). The COVID-19 pandemic, inflation and rising energy prices have significantly increased the financial pressures facing local authorities (National Audit Office, 2021).

2. In accordance with my interview protocol, I limit the use of any identifiers related to the professional position of the interviewees, as this would make participants easily identifiable. I refer to both former and current council employees as “council officers” and local authority-adjacent interviewees such as consultants and architects as “local state actors.”

3. Local authorities played an early role in the development of the Eurodollar markets in the 1950s and 1960s, after they were temporarily restricted in their ability to borrow from the PWLB.

4. Private creditors periodically play a greater role in local authority finance, from the Private Finance Initiative to the lending of derivative-embedded loans by banks in the lead-up and aftermath of the GFC, to ongoing partnerships with institutional investors and asset managers.

5. I am grateful to Callum Ward for this point.

6. I am grateful to Aris Komporozos-Athanasiou for this point.

7. I am grateful to William Callison for this idea.

8. The Section 114 notice was introduced in the Local Government Act 1988 as part of a series of measures designed to control local finance following the rate-capping rebellions of the 1980s and local authorities’ involvement in the interest rate swaps market (Calkin, 2020; Interview, 2021).

9. I am grateful to Ilias Alami for this observation.

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