Securitisation – Briefing Pack

Bankers without Boundaries (BwB)

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Funded by

Department for Energy Security & Net Zero

In partnership with

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Fit4Finance

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What is securitisation?

Definition

Securitisation is a financing tool that allows a Local Authority (LA) to bundle together a portfolio of income-generating assets (e.g. retrofit loans or solar leases) and sell the rights to that future income to private investors. This converts long-term future repayments into a lump sum of upfront capital today.

Why it matters for LAs:
Securitisation allows Local Authorities to pool illiquid, cash-generating assets; such as community retrofit loans, energy-efficiency receivables, or housing rents, and convert them into tradable securities sold to capital market investors. By doing this, Local authorities can unlock immediate, upfront liquidity from future revenue streams, freeing up vital balance sheet capacity to fund new Net Zero infrastructure without taking on traditional debt.

Key Terms

Originator: The originator is the entity that originally 'created' the assets. In this toolkit, the LA is the originator.

Unified Portfolio: This is the 'pool' created when multiple individual receivables are bundled together. A loan to a single entity is risky (what if that one entity or individual stops paying?). By creating a **portfolio**, you diversify the risk. Even if 5% of people default, the portfolio still generates steady cashflows.

Tradable Securities: These are the financial instruments (bonds or notes) that the SPV issues to investors. They are 'tradable' because, unlike a fixed bank loan, the investor can sell them to someone else in the financial markets. This liquidity makes them attractive to a wider range of investors, often lowering the cost of capital.

Tranches: French for 'slices', this refers to splitting the deal into different layers of risk and reward, such as senior tranche (lowest risk, lowest interest), junior tranche (highest risk, highest interest), etc.

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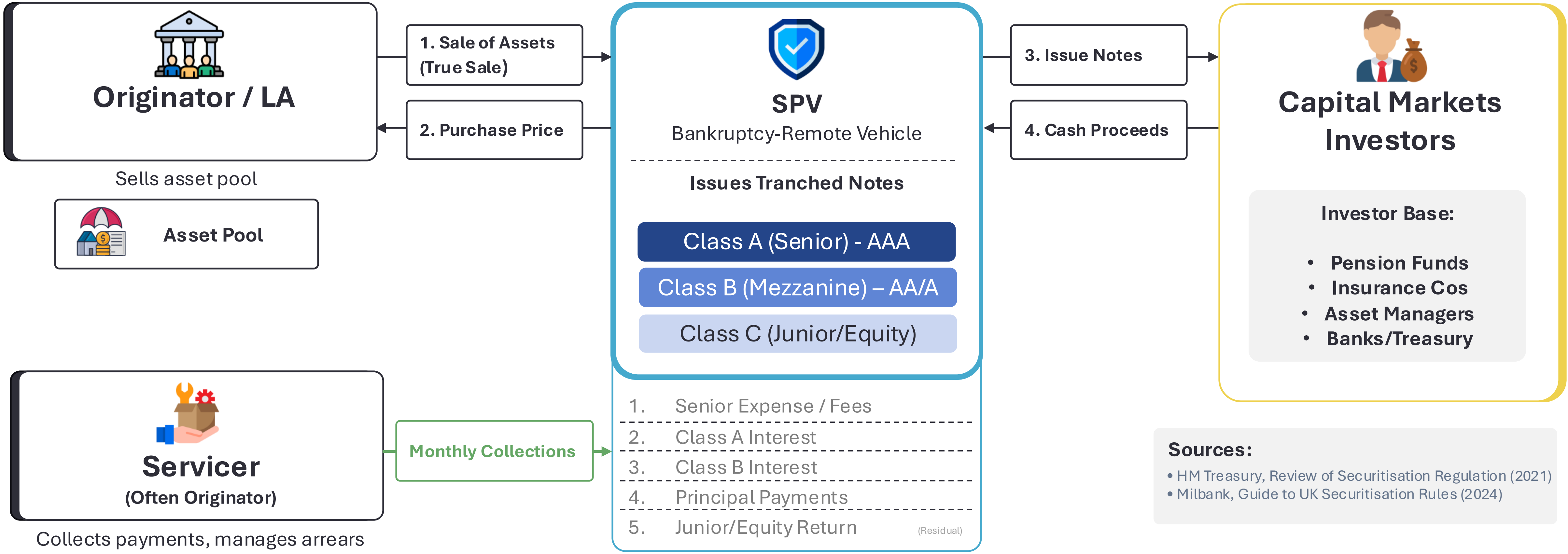
How securitisation works: money and risk flows



Sources:

- HM Treasury, Review of Securitisation Regulation (2021)
- Milbank, Guide to UK Securitisation Rules (2024)

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Understanding securitisation

Securitisation IS:

A Financing Technique
Ring-fences assets in an SPV and issues tranched securities to raise capital against future cash flows

A Risk Transfer Tool
Allocates specific credit and performance risks to investors who are best placed (and paid) to take them

Dependent on Robust Data
Requires high-quality historical performance data, disciplined servicing, and strong ongoing governance

Securitisation IS NOT:

A Way to Hide Risk
It is not a mechanism to conceal bad debts or bypass transparency as detailed disclosure is a regulatory requirement

Automatically Cheaper
Pricing depends on asset quality and market conditions. Not guaranteed to be cheaper than Public Works Loan Board or other public borrowing

A Substitute for Oversight
It does not replace the need for strong client-side contract management and performance monitoring

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Fit screening

Step	Question	If No
1 Cash Flow and Rights Assessment	Do assets have predictable cash flows and clear, enforceable rights?	**Not Suitable** – Cash flows are too volatile or the rights are unclear
2 Data Availability	Is there sufficient historical performance data (3-5 years) and granularity?	**Action Required** – Build dataset, track performance history first
3 Legal Feasibility	Is there legal power to assign assets/true sale (or use synthetic transfer)?	**Stop** – Consider alternative funding
4 Scale and Economics	Is the pool size sufficient to attract investors and cover transaction costs?	**Consider Aggregation** – Plan with other LAs or use warehousing
5 Operational Capability	Is governance, servicing, and investor reporting capability in place?	**Mobilise** – Engage third-party servicers or corporate services

Yes → **Good Fit: Proceed with Structure**

All criteria met. Begin detailed designing & business case

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When to use securitisation?

Good Fit

Sufficient Pool Size and Granularity
Large volume of assets (typically £100m+) with many obligors to diversify risk and attract institutional investors.

Stable, Predictable Receivables
Allocates assets with a track record of predictable cash flows and enforceable payment rights.

Servicing and Data Capacity
Strong ability to service loans/assets and maintain granular data reporting standards (e.g., loan-level data).

Less Suitable

Small or Volatile Pools
Transaction costs dominate on small deals; unpredictable cash flows make structuring difficult and expensive.

Weak Data History
Insufficient historical performance data (3-5 years) prevents investors/agencies from accurately modelling risk.

Legal and Oversight Constraints
Restrictions on assignment/true sale or limited internal capacity for SPV governance and investor reporting.

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Different securitisation structures

Traditional (True Sale)

The originator sells an existing pool of assets (e.g., loans, receivables) to a bankruptcy-remote SPV.

- **Funding:** The SPV issues asset-backed securities (ABS) to investors and uses proceeds to purchase the assets.
- **Cash Flows:** Investors are repaid from cash flows generated by the asset pool through a defined waterfall structure.
- **Key Feature:** Assets are legally isolated from the originator, reducing credit risk exposure to the originating company.
- **Typical Use:** Mortgage loans, consumer loans, auto loans, etc.
- **Risk Driver:** Performance of the existing asset pool.

Core Definition

Whole Business (WBS)

Instead of selling specific receivables, the SPV lends against an entire operating business and its assets (e.g., brand, contracts, revenues).

- **Funding:** Investors buy notes issued by an SPV that provides secured financing to the operating company.
- **Cash Flows:** Debt service is paid from the business's operating revenues, usually subject to tight covenants and operational controls.
- **Key Feature:** The business continues operating normally but pledges its assets and revenues as collateral.
- **Risk Driver:** Performance of the business as a whole.

Most Common

Future Income Streams

The originator sells rights to future receivables that have not yet been generated (e.g., export revenues, utility payments).

- **Funding:** The SPV issues securities backed by expected future cash flows rather than existing assets.
- **Cash flows:** When revenues are generated, they are diverted directly to the SPV to repay investors.
- **Key Feature:** Used when a firm has predictable future revenues but limited existing assets to securitise.
- **Risk Driver:** Reliability of future revenue generation.

Emerging Use Case

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Who is involved? (RACI)

R **Responsible:** Doing the work **A** **Accountable:** Ultimate decision /approval **C** **Consulted:** Provided input/expertise **I** **Informed:** Kept up to date

Role / Party	Asset Selection & Data	Structuring & Documentation	Governance & Compliance	Ops, Servicing & Reporting	Investment Decision
LA / Originator Asset owner & policy maker	R Selects assets, provides data tape	C Reviews commercial terms	A Policy compliance, risk retention	A Oversight of servicer	I
Sponsor / Arranger Structure & marketing lead	C Advises on eligibility criteria	R Structuring, modelling, documents	C	I	C Markets to investors
SSPE Board / Corp Services Independent directors	I	C Agrees SPV constitution	R Board governance, filings	A Statutory accounts	I
Servicer / Backup Servicer Collections & arrears management	C Data fields availability	I	I	R Collection, investor reporting	I
Local Counsel Transaction lawyers	C Due diligence on title	R Drafting, true sale opinions	C Regulatory advice	I	I
Investors Noteholders	I	C Q&A on terms	C Due diligence	I Receives reports	A Investment decisions

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Investor disclosure and transparency

Core Principles

UK rules mandate the provision of 'sufficient information' to enable institutional investors to perform their own independent risk assessment and due diligence. Reliance on credit ratings alone is not permitted.

Timing Requirements

Pre-Pricing / Commitment

Essential data and draft documents must be available before the investor commits to invest.

Closing

Transaction execution and funding.

Post-Closing (Private Deals)

Final legal documentation can be provided up to 15 days after closing.

Key Disclosure Items

Asset Data
Granular loan-level data on underlying exposures (quarterly).

Transaction Documents
All documents essential to understanding the deal structure and cash flows

Investor Reports
Quarterly performance reports, cash flows, and waterfall calculations.

Risk Retention
Confirmation of 5% net economic interest retention by originator

STS Notification
If applicable, notification confirming compliance with 'simple, transparent, and standardised' criteria

Significant Events
Inside information or material changes impacting performance

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Governance of establishing an SPV

Corporate Structure and Independence

- **Bankruptcy Remote:** Legally isolated from originator insolvency
- **Limited Purpose:** Restricted solely to the securitisation transaction
- **Orphan Ownership:** Shares held by a charitable trust (where used) to prevent consolidation

Board Composition and Control

- **Independent Directors:** Professional directors supplied by corporate services
- **Robust Constitution:** Articles prevent unauthorised activities
- **Conflict Procedures:** Clear protocols for managing conflicts of interest

Asset Security and Cash Management

- **Security Trust:** Assets pledged to trustee for benefit of the noteholder
- **Controlled Accounts:** Cash flows managed via specific waterfall accounts
- **Documented Waterfall:** Priority of payments strictly defined

Operational Resilience

- **Backup Servicing:** Warm/cold standby arrangements for continuity
- **Investor Reporting:** Timely delivery of performance data/reports
- **Change Control:** Formal processes for amending transaction terms

Core Governance Principles

- Separation
- Non-Petition
- No Employees
- Limited Recourse

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Securitisation case study 1: UK whole business securitisation (Thames Water)

Project Overview and Structure

Model Type
Whole business securitisation (WBS)

Key Entity
Ring-fenced operating company (OpCo)

Security
Secured on operating cash flows and assets

Structure
Special purpose vehicle (SPV) issuer with tranched notes and cash waterfall

Context: UK utilities have used WBS to raise capital by ring-fencing regulated OpCos. The structure involves an SPV issuing bonds secured against future customer bill payments, with strict covenants to protect investors.

Relevance for Local Authorities (LAs)

While this case study does not involve an LA as the central actor, it illustrates the governance mechanics (security trustee, cash waterfall, tranching, covenants remoteness) that LAs would need to mirror if securitising a portfolio of assets (e.g., retrofit loans) via an SPV. It highlights the rigour required for institutional investment.

Key Governance Features

Security Trustee

An independent entity holds security over assets for the benefit of all bondholders, simplifying enforcement if needed.

Cash Waterfall

Strict priority of payments ensures operating costs and senior debt service are paid before any distributions to equity.

Covenants

Financial covenants (e.g., interest coverage ratios) act as early warning triggers for investor intervention.

Tranching

Debt is split into classes (Class A, Class B) with different risk/return profiles to appeal to different investor types.

Source: Ofwat ring-fencing/securitisation guidance • company public disclosures (Thames Water WBS)

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Securitisation case study 1: UK whole business securitisation (Thames Water)

Ring-Fenced Entity Structure

Thames Water Utilities Ltd

The regulated OpCo that generates revenue from customer bills.

Thames Water Utilities Finance Plc

Financing SPV established specifically to issue bonds.

Bond Issuer

Security Trustee

Holds security over assets on behalf of all bondholders to ensure fair treatment.

Ofwat (Regulator)

Oversees price controls and enforces ring-fencing rules to protect customer interests.

Project Timeline

2006

Macquarie-led consortium acquires Thames Water from RWE for ~£8 billion and implements WBS financing structure.

2007

First major securitised bond issuances under the new structure.

2010–Present

Continued refinancing through WBS programme to support infrastructure investment.

Current Status

WBS structure remains the core financing model of Thames Water, supporting long-term capital investment.

Source: Ofwat ring-fencing/securitisation guidance • company public disclosures (Thames Water WBS)

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Securitisation case study 1: UK whole business securitisation (Thames Water)

Quantified Impact

Customer Base
~15 million
people served across region

Revenue Base
~£2–2.5 billion
annual revenue generated

Debt Issued
~£15–18 billion
total debt issued under WBS programme

Security Structure

The SPV issues bonds secured against:

- Operating Cash Flows
- Regulated Asset Base
- Operational Assets

Investors and Arranging Banks

Institutional Investors

- Legal & General IM
- Aviva Investors
- BlackRock
- Allianz Global Investors

Provide long-term capital matched to infrastructure assets.

Arranging Banks

- Barclays
- HSBC
- Lloyds Banking Group
- NatWest Group (RBS)

Structure the securitisation and manage bond issuances.

Source: Ofwat ring-fencing/securitisation guidance • company public disclosures (Thames Water WBS)

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Securitisation case study 1: UK whole business securitisation (Thames Water)

Cash Waterfall Priority

- Operating costs
- Maintenance capital expenditure
- Senior debt interest and principal
- Reserve accounts
- Subordinated debt
- Equity distributions

Bond Tranching Structure

Class A Bonds
Senior secured investment-grade

Class B Bonds
Subordinated higher-yield

Governance Structure

Security Trustee: Deutsche Trustee Company Limited

Key Metric	Purpose
Adjusted Interest Cover Ratio (AICR)	Measures ability to pay interest from earnings
Debt Service Cover Ratio (DSCR)	Measures cash flow available for debt service

Key Takeaway

Demonstrates how large infrastructure portfolios access capital markets through securitisation using stable regulated revenues.

Sources: Thames Water Annual Reports • Ofwat regulatory documentation • Moody’s and S&P credit analysis • Global Infrastructure Hub

Document Version Control

Version	Date	Purpose / Change	Produced by	Approved by	Date
0.1	DD-MMM-YY	Draft	Name surname	Name surname	DD-MMM-YY
0.2	DD-MMM-YY	Draft	Name surname	Name surname	DD-MMM-YY
0.3	DD-MMM-YY	Draft	Name surname	Name surname	DD-MMM-YY
0.4	DD-MMM-YY	Draft	Name surname	Name surname	DD-MMM-YY
1.0	DD-MMM-YY	Draft	Name surname	Name surname	DD-MMM-YY

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