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Merton Council

Merantun Development Limited Sub-Committee Agenda

Membership

Councillors:

Stephen Alambritis
Mark Allison
Martin Whelton

Date: Monday 12 October 2020

Time: 7.30 pm, or on the rise of the Cabinet scheduled for 7.15pm the same evening.

Venue: This will be a virtual meeting and therefore will not take place in a physical location, in accordance with s78 of the Coronavirus Act 2020. The meeting will take place on the rise of the Cabinet.

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Merantun Development Limited Sub-Committee Agenda

12 October 2020

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| 1 | Apologies for absence | |
| 2 | Declarations of pecuniary interest | |
| 3 | Minutes of the previous meeting | 1 - 2 |
| 4 | Merantun Development Ltd: Company progress report | 3 - 6 |

Note on declarations of interest

Members are advised to declare any Disclosable Pecuniary Interest in any matter to be considered at the meeting. If a pecuniary interest is declared they should withdraw from the meeting room during the whole of the consideration of that matter and must not participate in any vote on that matter. For further advice please speak with the Managing Director, South London Legal Partnership.

Agenda Item 3

MERANTUN DEVELOPMENT LIMITED SUB-COMMITTEE 13 JULY 2020

(8.10 pm - 8.21 pm)

PRESENT Councillors Stephen Alambritis (in the Chair), Mark Allison and Martin Whelton

Caroline Holland (Director of Corporate Services), Chris Lee (Director of Environment and Regeneration), Louise Round (Managing Director, South London Legal Partnership and Monitoring Officer), James McGinlay (Merantun Managing Director), Paul McGarry (Merantun Director for Design), Julia Regan (Head of Democracy Services) and Louise Fleming (Senior Democratic Services Officer)

ALSO PRESENT Councillors Daniel Holden and Peter Southgate

1 APOLOGIES FOR ABSENCE (Agenda Item 1)

There were no apologies for absence.

2 DECLARATIONS OF PECUNIARY INTEREST (Agenda Item 2)

There were no declarations of interest.

3 MINUTES OF THE PREVIOUS MEETING (Agenda Item 3)

RESOLVED that the minutes of the meeting held on 27 January 2020 were agreed as a correct record.

4 MERANTUN DEVELOPMENT LTD: COMPANY PROGRESS REPORT (Agenda Item 4)

The Director of Environment and Regeneration presented the company progress report and advised that this represented a significant milestone in the progress of the company, in that the planning applications would be considered by the Planning Applications Committee on Thursday 16 July, which included a balance of affordable housing and housing for private rental. It was hoped to provide a positive progress update to the next meeting of the sub-committee.

The Cabinet Member for Regeneration, Housing and Transport welcomed the progress that had been made and that applications were being considered by the Planning Applications Committee and the award of contract for the development which was due to take place at the end of the year.

In response to questions from Members, the Company Director advised that the anticipated date for commencing construction was February/March 2021, with a 12-month build the anticipated completion date was sometime in Spring 2022.

The Deputy Leader and Cabinet Member for Finance welcomed the progress and echoed the comments made. He was encouraged that the company was putting forward the most viable development and delivering some affordable housing.

The Director of Corporate Services advised that the business case would be reviewed and updated in light of the impact of the Covid-19 pandemic.

The Head of Future Merton gave an overview of the four sites. Social housing providers were being engaged to express interest in the sites, pending the consideration of the Planning Applications Committee.

The Director of Environment and Regeneration advised that a number of local authorities had established housing companies, including some of the Council's neighbours. This was a tried and tested means of providing housing.

The Leader welcomed the progress and the approach set out in the report and it was

RESOLVED

1. That the progress of Merantun Development Limited (MDL) for the delivery of their new build housing programme be noted.
2. That the progress on design and planning of the four sites be noted.
3. That the year to date expenditure incurred by the Company be noted.

Merantun Development Limited Sub-Committee

12th October 2020

Wards: Cricket Green, Figges Marsh, Ravensbury

Merantun Development Ltd: Company Progress Report

Lead officer: Chris Lee, Director of Environment and Regeneration
Lead member: Councillor Stephen Alambritis, Leader of the Council
Councillor Martin Whelton, Cabinet Member of Regeneration,
Housing and Transport
Councillor Mark Allison, Cabinet Member for Finance
Contact officer: Chris Lee, Director of Environment and Regeneration

Recommendations:

- A. To note the progress of Merantun Development Limited (MDL) for the delivery of their new build housing programme.
 - B. To note the forthcoming key decision point on the delivery of MDL's business plan.
 - C. To note the year to date expenditure incurred by the Company.
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1. PURPOSE OF REPORT AND EXECUTIVE SUMMARY

- 1.1 The purpose of this report is to update the Shareholder Sub-Committee on the progress of Merantun Development Limited (the Company) in quarter two in to quarter three, of the 2020/21 financial year, including the design and planning work programme for the development of housing at Farm Road, Canons Place, Elm Nursery and Raleigh Gardens and the review of MDL's business plan.

2. DETAILS

- 2.1 The Company was incorporated to deliver a mix of housing on small sites that would contribute towards Merton's housing targets and generate a revenue return to the Council's general fund. Merantun Development Limited is one of a number of Council-owned development companies, set up to accelerate the delivery of much needed homes. In London, many other boroughs have set up similar companies including Lambeth (Homes for Lambeth), Croydon (Brick by Brick), Ealing (Broadway Living), Barking & Dagenham (BeHere) and Waltham Forest (SixtyBricks). Many other councils are developing a new homes programme as part of their Housing Revenue Account, including; Islington, Camden, Hounslow, Hackney, Barnet and Newham.
- 2.2 Good progress has been made in the preparation of the development of Merantun's first four sites; concluding work-streams on design, planning, and sustainability strategies and preparation of the procurement and construction programmes.

- 2.3 External factors, mainly as a consequence of COVID 19 are having an impact on the economy and the housing market and MDL needs to respond to them. MDL was, as a matter of course, reviewing its business plan following the successful granting of planning approval but it also needs to factor in the impacts of COVID 19.

Development delivery:

- 2.4 The appointed design team has progressed the proposals for all sites to RIBA stage 3 (Planning application stage); taking into account feedback from pre-application input of the Council's Planning service, Merton's Design Review Panel and local community engagement events.
- 2.5 The RIBA Stage 3 plans are complete and have incorporated the required specification by Merantun Development Ltd and a number of design improvements and efficiencies in building layout to reduce the overall build-cost of the schemes and have resulted in achieving a greater number of units across the portfolio.
- 2.6 The Company has completed RIBA stage 4 plans for Farm Rd and Elm Nursery to support the procurement of the construction contracts for the development sites. RIBA stage 4 packs for Raleigh Gardens and Canons to commence subject to the review of MDL's business plan. The tender process started in late July, and will conclude fully in November 2020 subject to a review of MDL's business plan.
- 2.7 The Company is regularly assessing the effects of Covid-19 on the construction industry, the private rental, open market sale and affordable housing market.
- 2.8 MDL's business plan recognised that there would be a number of key decision points as to whether it should progress from design, development and planning to construction tendering and then to construction and letting.
- 2.9 The company has reached a key decision point and is currently reviewing its business plan, income and cost projections, particularly in light of COVID 19, and the ensuing risks.
- 2.10 The Board of MDL is undertaking this review and will conclude it by the end of October this year. It will then enter in to dialogue with LBM as its shareholder to discuss the conclusions and recommendations on this review.
- 2.11 It is important that the Merantun Sub-Committee recognises that the state of the housing market is currently very fluid and challenging and that in the business plan review one of the key 'jump off points' is under active consideration.

Planning Applications

- 2.12 All four sites were granted planning permission, at the Planning Applications Committee on the 16th July 2020, subject to the conclusion of a S.106 agreement.

Financial:

- 2.13 As the four sites are now at a design-freeze, the cost estimates have been further developed and optimised wherever possible, and the income projections based on the unit mix options have been assessed.
- 2.15 The Company is now updating the financial business model based on cost estimates for the development of the four sites based on the RIBA stage 3 / 4 designs and the income projections from the unit mix. This work is reaching a conclusion and was updated further to reflect the outcome of the planning application decisions.
- 2.16 As set out in paragraphs 2.7 to 2.11 MDL is reviewing its business plan and will be updating LBM at the end of October on its recommendations and the financial impact on the company and thereafter to the council.

3. ALTERNATIVE OPTIONS

- 3.1 None for the purposes of this report.

4. CONSULTATION UNDERTAKEN OR PROPOSED

- 4.1 None for the purposes of this report.

5. TIMETABLE

- 5.1 As summary of the design/business plan programme is below;
- Obtained planning approval at 16 July Planning Committee
 - Commenced procurement preparation at the end of July, fully completing in November, subject to agreement of MDL's business plan.
 - Complete review of MDL's business plan – end of October 2020
 - MDL Board's decision on whether to progress to procurement – end of October 2020
 - MDL to confirm to shareholder outcome of business plan review and proposed next steps – end of October 2020; to be formalised by LBM's Merantun Sub-Committee in early November 2020.
 - Standstill or progression of procurement and contract award anticipated in November 2020, with an anticipated start date in February 2021, taking in to account Christmas and lead in period; dependant on review of MDL's business plan.

6. FINANCIAL, RESOURCE AND PROPERTY IMPLICATIONS

- 6.1 Merantun business operations are funded by equity investment from the London Borough of Merton. The sub-committee, at its 16th October 2017 meeting, agreed to an equity subscription for £160,560. This was enacted and shares to that value have been issued by the Company to the Council.

- 6.2 The Company has been working with the Council via a service level agreement and has drawn down £1.9m of share capital in 2019-20. In September 2020 the company raised additional £0.1m share capital to fund its operating budget:

Profit and Loss – YTD ending 31 Aug 2020	YTD A, £ (incl. VAT)	YTD B, £	YTD VAR, £	Full Yr B, £ (excl. VAT)
Staff and associated costs	55,024	62,573	7,549	156,007
Staff related costs	-	1,250	1,250	3,000
Office expenditure	-	5,675	5,675	15,020
Survey and consultant exp.	43,200	23,300	(19,900)	25,650
Management expenditure	45,006	36,260	(8,746)	99,023
Operating expenditure	143,219	129,057	(14,162)	298,700

- 6.3 The transfer of land from the London Borough of Merton to the Company did not take place by 31 March 2020.
- 6.4 Approval for the development budget will be sought when the Company's business model is reviewed and MDL's recommendation to LBM as shareholder are concluded.

7. LEGAL AND STATUTORY IMPLICATIONS

- 7.1 None for the purpose of this report.

8. HUMAN RIGHTS, EQUALITIES AND COMMUNITY COHESION IMPLICATIONS

- 8.1 None for the purposes of this report.

9. CRIME AND DISORDER IMPLICATIONS

- 9.1 None for the purposes of this report.

10. RISK MANAGEMENT AND HEALTH AND SAFETY IMPLICATIONS

- 10.1 The company has formed a Covid-19 strategy and operational policy. This document also gives ongoing commentary on the effects of Covid-19 on the business as a whole.

11. APPENDICES

- None

12. BACKGROUND PAPERS

- None