MERANTUN DEVELOPMENT LIMITED SUB-COMMITTEE
21 DECEMBER 2020

(7.15 pm - 8.07 pm)

PRESENT Councillors Councillor Mark Allison (in the Chair), Councillor Tobin Byers and Councillor 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),

Roger Kershaw (Director, Merantun Development Ltd), Paul McGarry (Merantun Development Ltd), James McGinlay (Director, Merantun Development Ltd)

Louise Fleming (Democracy Services Manager)

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 12 October 2020 were agreed as a correct record.

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

The Chair referred to the minutes of the previous meeting, which stated that this was the point at which the Merantun Development Ltd (MDL) business plan would be reviewed and invited officers to present the report.

The Director of Environment and Regeneration, in presenting the report, advised that it had been anticipated in the original business plan that this would be the point at which the proposals set out in the report would be brought before Members. The report followed on from a review of the business plan and a recommendation, which he had received in his capacity as Shareholder Representative. Whilst the housing company could still make a profit for the Council, it was not expected that this would happen for some time. The risks had grown at a time when the Council's financial challenges had grown, particularly related to Covid. Therefore it was proposed to wind the company down and that the land remain in the possession of the Council for redevelopment. It was felt that value had been added to the sites through the granting of planning permission and would potentially be attractive to a private developer, who would not be affected by some of the challenges faced by the Council. The business plan had deteriorated through increased costs beyond what was originally anticipated and predicted income was also now less than had originally been anticipated. The Government's recent change in the interest rate for the Public Works Loan Board had increased the cost of borrowing to the Council, and that cost would be passed on to the company. Legal advice had been sought on the process for winding down the company, which was straightforward and could be concluded within three months which would enable the business to be concluded in this financial year if the decision was taken in a timely manner.

Roger Kershaw, Director of MDL, summarised the financial position which had led to the recommendation to wind down the company, reiterating the points made by the Director of Environment and Regeneration. The combination of the increased costs and the decrease in anticipated return would affect the company's ability to repay the loan to the Council, and would not be able to fully meet its interest payments to the Council until 2049/50 and therefore it was felt that the company was no longer financially viable.

The Chair referred to the minutes of the last meeting and highlighted that the company had gone further by looking at a number of factors including the impact of the public works loan board rates on the financial position.

In response to a Member question, the Director of Environment and Regeneration advised that it was difficult to determine exactly what had caused the predicted increase in costs for materials and construction; but it could be due to a number of factors including Brexit, inflation rates, affordable housing provision costs impacting on viability and the tightening of the Government guidance on investments. It was noted that a commercial developer would not have been subject to the increased costs of borrowing that local authorities were subject to.

The Sub-Committee noted that the Ministry of Housing, Communities and Local Government and the Chartered Institute for Public Finance and Accountancy had both raised concerns over local authorities entering into investments that create a financial return; and that this approach had changed since MDL had been set up. The difficulties experienced by Croydon Council in respect of their property company, Brick by Brick, had added to the risk profile.

In response to a Member question, the Director of Environment and Regeneration advised that based on expert advice, the private rented sector remained stable but was softening in London and had done throughout 2020. Predictions around rental growth were not as buoyant as they had been. This would affect the return to the company and in turn, its ability to repay the loan to the Council and therefore considered too great a risk to take. The Director of Corporate Services advised that the Public Works Loan Board rates increase had taken place some time ago, however the position had moved on and where the Council had originally been expecting to see a repayment of the loan and additional interest received in Year 4 and a dividend in Year 15, that was no longer possible and any dividend to the Council would not be paid until the end of the loan period. Therefore it no longer made financial sense to make the loan to the company.

The Sub-Committee noted that the MDL business model differed from that of Brick by Brick, which had been set up to develop housing on a bigger scale for sale, whereas MDL was set up to develop housing for private rent. There had been a decline in sales values and Croydon Council had been borrowing to buy properties for affordable housing. Brick by Brick had gone beyond the point which MDL were at and had started to incur costs. It had always been clear in the business plan that a stepping off point had been built in at the point at which planning permission had been granted before incurring further costs.

At the invitation of the Chair, the Chair of the Overview and Scrutiny Commission addressed the Sub-Committee. He expressed disappointment over the recommendation to wind down the company, the setting up of which had been welcomed by Members and looked to be a sound investment. He noted the factors affecting the financial viability, including Brexit, the pandemic and interest rates but felt that the biggest change had been the Council's appetite for risk since the setting up of MDL. He highlighted the recent LGA peer review conclusion that the Council could sometimes be too risk averse. He was concerned over the message that winding MDL down would send to residents of Mitcham that the Council did not want to invest in new homes and the message to potential partners of the future regeneration of Morden Town Centre that the Council did not have enough faith in the borough to invest money in a modest scheme. He questioned whether this could be classed as a regeneration project and therefore not impacted by the PWLB rates. He felt that the decision could have gone to the next scheduled meeting in January which would have allowed for some pre-decision scrutiny to take place and was concerned over taking an irrevocable decision when the financial viability could change in the future.

The Chair thanked Councillor Southgate for his comments and asked officers to respond. Before doing so he agreed that this was an important subject which deserved a longer discussion in public, with a representative of Scrutiny present to make comments. Although previous meetings had been brief, this was due to the reports being routine and for noting. He stressed that the remit of MDL was to make a profit for the Council, it had not been set up as a regeneration project and therefore the PWLB rates would have an impact. He noted the past observations of the Council's appetite for risk, but also that those observations had been made before the financial position that the Council now found itself in as a result of the pandemic.

The Director of Environment and Regeneration advised that the proposal to wind down the company had not been brought to the Sub-Committee lightly, and had been done with a heavy heart. The company had a duty to review the viability of the company and present that case to the Council. It had originally been an exciting venture, but a number of challenges had been presented and although some had been present for about a year the cumulative impact of those factors at a point when the company was due to make significant financial demands of the Council had brought them into focus and crystallised the position. He agreed that the Council was prudent and risk aware and stressed that the Council had a duty to not place any additional burden on the tax payer at such an uncertain time. The development of the four sites could still go ahead, but would be delivered by another developer and Mitcham would benefit from those developments. The timetable for disposal and development of the sites would depend on the market conditions at the time and the need to ensure best value for the Council. This venture was significantly different to the regeneration of Morden Town Centre which would be an attractive venture to a development partner.

The Director of Corporate Services advised that as the Council's s151 officer, she would have to sign off on the loan to MDL and in view of the explicit purpose of the company, to make a profit for the Council to offset the budget deficit, the PWLB rates would apply and the Council could not afford to wait until 2049/50 for a return. This demonstrated that the Council was committed to ensuring the best possible return and its commitment to investing in the borough. The earlier a decision could be made the better, as the company was required to submit accounts by the end of the current financial year and waiting longer would have a bigger financial impact on both the company and the Council's Business Plan.

The Chair of the Overview and Scrutiny Commission thanked the officers for the thorough analysis of his points and thanked the Sub-Committee for inviting him to speak. He hoped that the future developers of the sites would respect the approved plans and the Council's aspirations for the sites.

The Chair echoed the comments made about the commitment to delivering additional housing to Mitcham and the need to give this important matter a proper discussion. He thanked all those present for their contributions and set out the recommendations and it was

RESOLVED:

A. That the decision of the Merantun Development Ltd (MDL) Board that the business case is no longer viable and not to proceed with the development of sites be noted.
B. That it be noted that LBM owned land will not be transferred to MDL.
C. That it be noted that the business case for the development of Private Rented Sector housing at the scale set out in MDL's business plan is no longer viable and to commence the process for closing down the company.
D. That the Sub-Committee agrees in principle to wind up the company and to authorise the Shareholder Representative (Chris Lee, Director of Environment and Regeneration), in consultation with the Chair of the MDL Sub-Committee, the s151 officer and Monitoring officer, to agree the process to be followed with regards winding up the company and act on behalf of the Shareholder with regards any resolutions that may be required.