

Merantun Development Limited Sub-Committee

27 January 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 progress on design and planning of the four sites.
 - 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 three of the 2019/20 financial year, including the design and planning work programme for the development of sites at Farm Road, Canons Place, Elm Nursery and Raleigh Gardens.

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). 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 is being 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.

Development delivery:

- 2.3 Site surveys and due diligence investigations have taken place on the four sites and have been completed. These have informed the site capacity, detailed design work for all four sites. The design, planning, structural engineering, quantity surveying, cost consultancy, sustainability strategy and viability assessments have been undertaken by a multi-disciplinary team led by Weston Williamson + Partners.
- 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 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 have commenced the preparatory work for the procurement of the construction contracts for the development sites and this is the main focus of the team's work whilst the planning applications are being determined.

Planning Applications

- 2.7 Planning applications for all four sites were submitted on 25 October 2019 and validated on the Council's planning explorer on 16 December 2019
- 2.8 The planning applications are available to view online at www.merton.gov.uk/planning. Planning application reference numbers are;
- **19/ P4046** Farm Road Church, Morden
 - **19 P4047** Elm Nursery Car Park, Mitcham
 - **19 P4048** Car Park Raleigh Gardens, Mitcham
 - **19/PP4050** Canons Place, Mitcham
(Development Site North of 11-17 Madeira Road)
- 2.9 The four planning applications were reviewed in public session of Merton's Design Review Panel on 29 October 2019. The schemes achieved the following verdicts;
- Farm Road: Green
 - Elm Nursery: Green
 - Raleigh Gardens: Amber
 - Canons Place: Amber
- 2.10 Notes of the panel meeting are available to view online at www.merton.gov.uk/designreviewpanel and are attached as Appendix 1 of this report.
- 2.11 The statutory consultation on all planning applications closed on 16th January 2020. Merantun's planning and design advisors will be meeting with the Council's planning service to consider the feedback received. The programme is currently on track for the applications to be determined at the 13th February 2020 Planning Applications Committee.

Operational:

- 2.12 The Company has appointed an interim agency post to cover the programme manager role and will be recruiting a fixed term programme manager in early 2020 after the consideration of planning applications

Financial:

- 2.13 As the four sites are now at a design-freeze, the cost estimates have been firmed up and the income projections based on the unit mix options have been assessed.

3. 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 designs and the income projections from the unit mix. This work is ongoing and will be undated further to reflect the outcome of the planning application decisions.

4. ALTERNATIVE OPTIONS

- 3.1 None for the purposes of this report.

5. CONSULTATION UNDERTAKEN OR PROPOSED

- 4.1 Pre planning community engagement activities were summarised in the report to the Merantun Sub Committee on 14 October 2019.
- 4.2 For details of current consultations, please see paragraphs 2.8 – 2.11 of this report.

5. TIMETABLE

- 5.1 As summary of the design stage programme is below;
- Submit Planning Application: 25 October 2019 (Delay from August 2019 due to financial viability modelling)
 - Design Review Panel: 29 October 2019
 - Planning Committee target date: 13th February (delay from January 2020 as reported previously)
 - Preparation of the procurement documentation for the construction contracts: Commenced, with work taking place throughout spring 2020. Letting of Construction Contracts: Summer 2020
 - Site preparation / Construction / site preparation: February 2020 – March 2021. This is in line with the previously reported programme.
- 5.2 The overall planning and design programme has slipped by two months due to additional financial due diligence information requiring greater analysis prior to the submission of the planning applications; as well as the planning application validation and consultation timescales.

6. FINANCIAL, RESOURCE AND PROPERTY IMPLICATIONS

- 6.1 Merantun business operations are to be 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 to draw-down the remaining funds for 2019-20 and submit the issue of share certificates to the value of c£1.9m.
- 6.3 In April 2019, £500,000 was drawn down from the Council and share certificates to this value were issued. A further £700,000 was drawn down in July 2019 to provide sufficient funds to meet the company's operational budget and design fees. The remaining £700,000 was drawn down in December 2019 in order to cover operating expenditure, the remaining design fees to the financial year end and to provide liquidity at the beginning of financial year 2020/21.
- 6.4 The Company's operational budget for the period from April 2019 to March 2020 have been approved (£555.6k) and details are included in table below to this report subject to tendering the construction works. Approval for the development budget will be sought when the Company's financial model is updated and final costs are clarified.
- 6.5 Due to the timing on obtaining the planning permission, the transfer of land from the London Borough of Merton to the Company most probably will not take place by 31 March 2020. This implies that the design fees of c£1.1m will have to be expensed rather than capitalised. The effect of this change is presented below:

MDL Profit and Loss - Dec 19	YTD A, £	YTD B, £	YTD VAR, £	Full Yr B, £
Interest income	(1,187)	-	1,187	-
Staff and associated costs	122,684	122,684	-	163,578
Staff related costs	0	3,080	3,080	3,440
Office expenditure	509	31,740	31,231	41,653
Surveys and consultants	1,188,975	192,875	(996,100)	246,000
Management expenditure	78,761	68,766	(9,995)	100,938
Operating expenditure	1,389,742	419,144	(970,597)	555,609

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 None for the purposes of this report.

11. APPENDICES

- **Appendix A** Design Review Panel notes

12. BACKGROUND PAPERS

- None

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