Committee: Financial Monitoring Task Group

Date: 9 December 2020

Agenda item: 5

Wards: Ravensbury, St Helier, Merton Park and Canon Hill

Subject: Morden Town Centre Regeneration

Lead officer:	Director for Environment and Regeneration Chris Lee
Lead member:	Cabinet Member for Housing, Regeneration and the Climate Emergency, Councillor Martin Whelton
Contact officer:	Head of Future Merton, Paul McGarry

Recommendations:

A. That the Financial Monitoring Task Group note the information in this report

1 PURPOSE OF REPORT AND EXECUTIVE SUMMARY

1.1. This report summarises the investment and funding plans for the regeneration of Morden Town Centre.

1.2. London Borough of Merton (LBM) is working closely with Transport for London (TfL) to structure a development joint venture to bring forward the development of 2000 new homes, a new bus station, improved public realm and new commercial space to deliver economic growth much needed housing including affordable housing in Morden. The project will also create a better tow centre for existing residents to enjoy.

1.3. This project has been affected by the loss of an external funding source and the Coronavirus pandemic but officers are considering alternative delivery and funding options.

1.4. There is currently no projected revenue or capital funding shortfall for the financial years 2020-21 and 2021-22 but this needs to remain under review as part of the consideration of the alternative delivery and funding options.

2 DETAILS - BACKGROUND

2.1. The regeneration of Morden town centre is a key priority for the council and officers have been working in partnership with TfL to facilitate the delivery of comprehensive regeneration within Morden town centre, which will stand as an exemplar of sustainable development while achieving the shared project objectives.

2.2. The regeneration vision and principles have been captured in Merton’s Local Plan. These plans seek to deliver a vibrant new town centre with c.2000 new homes across the 8.4 hectare site, together with an expanded and improved retail offer, modern business spaces, new and expanded bus infrastructure and a significantly improved public realm for the benefit of existing residents, businesses, commuters and other town centre users.

2.3. LBM and TfL are major landowners within the Morden Regeneration Zone but there are in excess of 350 different leasehold and freehold ownerships that will have to be acquired to deliver the comprehensive regeneration.

2.4. In November 2019, Cabinet approved a comprehensive set of proposals to enable the procurement of a development partner, subject to final confirmation of GLA funding for land assembly costs.

2.5. In March 2020 the GLA advised LBM and TfL that although they still support the scheme in principle, at the current time they were not in a position to support it financially through a significant sum of grant funding from their Land Assembly Fund within the Homes for Londoners Land Fund.

2.6. The impacts of the Coronavirus has changed the development market and the full impact is yet to be understood. The pandemic has also had an impact on TFL, with some of their staff working on the regeneration of Morden being placed on furlough. The priorities of the GLA staff that were working on the regeneration of Morden, were also redirected to dealing with the pandemic. This has caused delays to the project. Officers are currently assessing the market and are planning to engage commercial consultants to undertake another round of soft market testing prior to any procurement launch.

2.7. The project team has been investigating alternative delivery methods and funding mechanisms, including discussions with the Ministry for Housing, Communities and Local Government (MHCLG), and its sponsored agency, Homes England.

2.8. The LBM and TfL senior officers group overseeing the project team will be considering new delivery proposals at their meeting on 30 November 2020. These proposals aim to launch the procurement for a development partner in Spring 2021 and the milestones will be aligned to potential MHCLG investment funding process.

LLP Finances and LBM Capital

2.9. Both LBM and TfL are currently committed to a 50:50 equity split, to ensure that both risk and reward is shared. The equity split within the joint venture is based on an equalisation across the whole site of the parties' respective existing landholdings and a financial contribution, the level of which will be determined to ensure the equity investment of both the council and TfL, into the JV, is equal.

2.10. To that end, LBM and TfL's funding commitments include land and financial investment. Merton's current capital programme 2020-2024 includes £6m committed as 'Morden TC Regeneration Match Funding'. In addition, £4.3m of LBM's Local Implementation Plan (LIP) funding is currently held by TfL on the council's behalf. This is not currently reflected in the council's budgets, but it has been agreed in principle and will be formalised through the LLP as part of LBM's equity stake for the project.

2.11. Merton’s total financial investment is therefore £10.3m and TfL have confirmed that they will be investing up to £20m in capital.

2.12. In addition to this, the Authority will also need to transfer its property interests in the regeneration site.

2.13. If the value of the current landholdings and capital resource is insufficient to fund the council’s 50% share of the LLP contribution into the scheme, the Authority could be asked to contribute further. This will be confirmed through the procurement exercise.

2.14. The investment requirements for LBM and TfL are subject to change following further market research, receipt of detailed requirements from funders and the outcomes of procurement negotiations with the prospective development partners.

LBM Finances - Revenue

2.15. Appendix 1 sets out the current resourcing commitment to the scheme for 2020/21 and 2021/22. These costs will met by means of government funding via One Public Estate, council revenue funding and the use of capital funding for some items, once the procurement has commenced.

2.16. Significant council resources will be required to: negotiate its commercial interests in the joint ventures to be created, maintain sound project governance and reporting, manage specialist consultants, collaborating in the drafting of procurement documents, participating in complex procurement processes, instruction of legal advisors, review of land assembly risks and opportunities, delivery of a planning strategy, submission and reporting for funding bids, continued delivery of small interventions in the town centre and on-going communication with various stakeholders.

LBM Finances - CIL

2.17. Merton’s Cabinet has approved the allocation of £300,000 from Merton’s Neighbourhood Fund, which comes from the Community Infrastructure Levy (CIL) paid by developers, to bring forward improvements to Morden Town Centre.

2.18. The funding is for short-term deliverable improvements to Morden Town Centre to revitalise the high street and support businesses, pending the wider Morden regeneration scheme. The works would include, tidying the highway, improvements to shop fronts and the introduction of public art around the underground station.

2.19. The details of the projects that can be delivered over the next 2 years, are currently being scoped by the Future Merton team.

3 ALTERNATIVE OPTIONS

3.1. LBM and TfL will be working closely with commercial consultants to assess the options to take the scheme to the market, with the procurement launch currently aimed for April 2021.

Option 1 - Procure a development partner with a funding gap.

3.2. In this option, an opportunity is offered to the market without a potential funding partner to address the land assembly gap funding. The value of the development and therefore the size of the funding gap, is then effectively determined through the procurement process, and the third party development partner would be responsible for building the scheme out and provide private sector funding for Land Assembly.

3.3. This option is currently not favoured because the public bodies are likely to have an insignificant stake in the development and could be exposed to significant risks associated with funding failures. There is also a risk that developers don't participate in this process. When assessing investment opportunities, there are simpler, easier schemes on empty brownfield land that will yield a better return for investors. Regeneration projects require a long term commitment to the project, the place and ensuring value capture across the whole scheme. By securing grant funding (MHCLG) it de-risks the project for investors and reaffirms public sector support for the project and its outputs.

Option 2 – LBM and TFL procure a development manager to progress the regeneration.

3.4. In this option the development partner, LBM and TfL form a joint venture that develops a masterplan and is responsible for land assembly. The development partner is then a 'development manager' that make sites "oven ready" and delivers land parcels to be build out by themselves or other developers.

3.5. This option makes the delivery of the development less vulnerable to market changes as different housing types can be delivered by different specialist developers however, there is a risk that the parts of the site are not developed and land assembly costs and risks could be increased.

Option 3 - Council Funds Land Assembly

3.6. The council could fund the land assembly for the project up front. This would remove the need for external funding and could speed up the delivery of the project. This option would mean a significant cost for the council in the early stages of the project, in addition to additional resourcing costs and requirements, to enable the project to be fully managed internally by the council. This option is not recommended as it would place an unfavourable level of financial risk on the council.

Option 4 - Do nothing and do not proceed with the regeneration

3.7. Another alternative option would be for the council to no longer proceed with the regeneration plans. This would mean that the significant amount of work that has been undertaken over the past few years would be discarded. The council has had long-term plans to improve Morden and deliver a new town centre that supports local businesses and provides much needed new housing for residents. This option is not recommended as there is significant support to regeneration the town centre, both politically and in the local community.

3.8. The council would also not benefit from future revenues as described in part 6. The Council would still have to invest in Morden at some point in the next decade. As freeholder, the value of the property assets is diminishing as is the condition of the stock. The Council would also not benefit from new housing provision and place greater pressure on other parts of the borough to achieve housing needs targets.

4 CONSULTATION UNDERTAKEN OR PROPOSED

4.1. LBM and TFL have undertaken 2 rounds of soft market testing. In general the market was enthusiastic about the project and the outcome showed that there were a number of different development partners who would take different approaches to the development of Morden Town Centre.

4.2. We are currently working with TfL to appoint a consultant to update the soft market testing in light of the current market conditions and agree a method of development suitable for the current market and economic conditions.

5 TIMETABLE

5.1. The proposed new programme, to be considered by the Senior Officers group on 30 November 2020, shows the launch of the procurement in April 2021. In effect, this would result in a one year delay from the 'Early 2020' date that was in the programme of November 2019 Cabinet report.

5.2. The procurement launch milestone has a significant impact on resource as it requires a substantial quantity of preparation work and then the resourcing requirements for 12-18 months of OJEU procurement management.

5.3. The milestone below all have the same time periods between them, as those within programme of November 2019 Cabinet report, but only the procurement launch date has been amended:

Apr 2021	Procurement launch
Dec 2021	Adoption of new Local Plan
Jun 2022	Award Contract to Development Partner
Jan 2023	Masterplan completed
Apr 2024	Planning Permission Granted
Aug 2024	Start on site Phase 1 (final phased completed ~2035)

6 FINANCIAL, RESOURCE AND PROPERTY IMPLICATIONS

The Overall Scheme – Current Proposal

6.1. It is estimated that the scheme as a whole including regeneration will have a Gross Development Value of c.£1b and will take approximately 10 years to complete. The financial benefits to the council will come through the joint venture vehicle, in the form of dividends. The regeneration will also result in overall increases in council tax and business rates, with initial estimates shown in the table below. It should be noted that there may be some losses in the early phases of development due to the long-term delivery plans.

6.2. It is also estimated that the development could bring in £7.4m in Community Infrastructure Levy (CIL) funding for the council, in addition to Section 106 planning contributions deemed necessary for the development to be delivered. This figure excludes Mayoral CIL, which would be collected by the council on the GLA's behalf.

	Current	Estimated Additional
Annual Council Tax Based on 76% share received by Council in 2019/20	£138,332	£1,860,550
Annual Business Rates Based on 48% share received by Council in 2019/20	£476,429	£7,114

Property Implications

6.3. This project requires a significant amount of land assembly. The council and TfL both have substantial land interests within the regeneration boundary. In total there are approximately 350 land interests (of which 125 are freehold) within this boundary. In accordance with the land assembly strategy, the council will be required to put forward all of its landholdings within the Morden Regeneration Zone boundary while also managing the leases and tenancies of all Council owned freehold land.

Financial Implications – Revenue

6.4 There is currently an associated revenue budget of c£184k in 2020/21, and c£136k in 2021/22.

6.5 There is also c£303k of One Public Estate and c£27k of Heat Networks Delivery Unit reserve balances earmarked for the project.

6.6 This large town centre site will be delivered over a number of phases and the Authority's annual rental income will fluctuate, with reductions when the properties are needed for the development of the next phase and increases from the completed phase.

Financial Implications – Capital

6.7 The approved Capital Programme 2020-24 contains the following provision for Morden Town Centre Improvements/Regeneration:

Morden Town Centre Improvements	Revised Budget 2020-21	Revised Budget 2021-22	Revised Budget 2022-23	Revised Budget 2023-24	Total
Morden Town Centre Improvements*	100,000	200,000			**300,000**
Morden TC Regeneration Match Funding	50,000	2,190,000	1,608,000	2,152,000	**6,000,000**
Total Morden Town Centre Improvements	**150,000**	**2,390,000**	**1,608,000**	**2,152,000**	**6,300,000**

* Neighbourhood CIL funded scheme – there is an opportunity cost related to this scheme as funded utilised for Morden Town Centre Improvements will not be available to fund other schemes

6.8 This provision excludes any requirement to fund compulsory purchase orders for Council owned property, which it is envisaged will be reimbursed by the development partner.

6.9 The £6m in the Capital Programme is to be funded from borrowing and it is envisaged that, as these funds are drawn down, this spend would have the following impact on annual revenue and council tax payers:

£6 Million Investment	Full Year £
Minimum Revenue Provision @ 30 Years	**200,000**
Interest on Investment @ 2.56%	**153,600**
Total Cost to Revenue	**353,600**

6.10 The withdrawal of the GLA funding from the redevelopment has left a gap in the funding for the land assembly costs for the scheme. Section 3 in this report briefly discusses possible alternative options for the delivery of the scheme; the greater the control Merton retains in the scheme the greater the risk and rewards (financial and otherwise) for the Council.

6.11 The Table below shows, for illustration only, the estimated impact of each additional £1 million investment from Merton in the scheme, these annual costs will fall on revenue/council tax payers:

£1 Million Additional Investment	Full Year £
Minimum Revenue Provision @ 30 Years	**33,330**
Interest on Investment @ 2.56%	**25,600**
Total Cost to Revenue	**58,930**

6.12 If the regeneration scheme is not progressed or delayed for a number of years until the market improves then any capital monies spent that has not resulted in asset enhancement would need to be charged to revenue. Incurring these costs should be minimised.

6.13 As a condition of accessing the PWLB, LAs will be asked to submit a high-level description of their capital spending and financing plans for the following three years, including their expected use of the PWLB. In order to minimise the administrative burden for LAs, this process is closely modelled on the existing application process that most large local authorities follow to access the Certainty Rate (a 20bps discounted rate offered by the PWLB).

6.14 As part of this, the PWLB will ask the finance director (s151, s95) of the local authority to confirm that there is no intention to buy investment assets primarily for yield at any point in the next three years. This assessment is based on the finance director’s professional interpretation of guidance issued alongside these lending terms.

6.15 It is impossible to reliably link particular loans to specific spending, so this restriction applies on a ‘whole plan’ basis – meaning that the PWLB will not lend to any local authority which plans to buy investment assets primarily for yield anywhere in their capital plans, regardless of whether the transaction would notionally be financed from a source other than the PWLB.

6.16 When applying for a new loan, the local authority will be required to confirm that the plans they have submitted remain current and that the assurance that they do not intend to buy investment assets primarily for yield is still accurate.

6.17 The government is committed to the prudential system and has no intention of routinely reviewing the purpose of individual loans. If HM Treasury has concerns that a loan may be used in a way that is incompatible with HM Treasury’s duties to ensure that public spending represents good value for money to the taxpayer, the department will contact the local authority to gain a fuller understanding of the situation. Should it transpire that an local authority has deliberately misused the PWLB, HM Treasury has the option to suspend that LA’s access to the PWLB, and in the most extreme cases, to require that loans be repaid. In practice such an eventuality is highly unlikely and would only occur after extensive discussion with the local authority in question.

Resource Implications

6.18 As mentioned earlier in the report, the Resource Plan provided in Appendix 1 sets out the council’s resource requirements for the next 2 financial years.

7 LEGAL AND STATUTORY IMPLICATIONS

7.1 None of relevance to this report.

8 HUMAN RIGHTS, EQUALITIES AND COMMUNITY COHESION IMPLICATIONS

8.1 The regeneration of Morden Town Centre will form part of the council’s Local Plan, which contains planning policies to improve community cohesion and will be subject to Sustainability Appraisals, Strategic

Environmental Assessments and Equalities Impact Assessments at the appropriate times.

9 CRIME AND DISORDER IMPLICATIONS

9.1 The Morden Town Centre Regeneration Zone forms part of the council's draft Local Plan, which contains planning policies to improve community cohesion and are subject to Sustainability Appraisal / Strategic Environmental Assessments, which also consider matters of crime and disorder.

10 RISK MANAGEMENT AND HEALTH AND SAFETY IMPLICATIONS

10.1 As set out in the body of this report.

11 APPENDICES – THE FOLLOWING DOCUMENTS ARE TO BE PUBLISHED WITH THIS REPORT AND FORM PART OF THE REPORT

1. Resource Plans - Exempt

11.1 The following paragraph of Part 4b Section 10 of the constitution applies in respect of information within Appendix 1 to this report and it is therefore exempt from publication:

Information relating to the financial or business affairs of any particular person (including the Authority holding that information).

12 BACKGROUND PAPERS

12.1 Cabinet report January 2018 – Delivery of the regeneration of Morden town centre.

12.2 Cabinet report November 2019 – Morden Town Centre Regeneration.

12.3 Draft New Local Plan Policy Morden N3.3 and Site Allocation Mo4 – Morden Regeneration Zone

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