

# **Merton Council**

## **Overview and Scrutiny Commission - financial monitoring task group**

**4 April 2019**

### **Presentation made at the meeting**

- |   |   |        |
|---|---|--------|
| 7 | Merantun - progress update and deepdive on the financial monitoring | 1 - 40 |
|   | Presentation from James McGinlay, Head of Regeneration              |        |

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# Merantun Development Ltd

Overview & Scrutiny Commission  
Financial Monitoring Task Group

4<sup>th</sup> April 2019



# James McGinlay

Managing Director  
Merantun Development Ltd



Merantun  
Development Ltd

# Background

- Merantun Development Ltd (MDL) established: Dec 2016
- Company Limited by shares
- Classified as 'contracting authority' (significant for procurement)
- Purpose:
  - to develop council-owned sites into housing (or commercial development) for private rent and/or sale (where necessary)
  - to help generate income to the council, helping to protect and support local service provision
  - to meet the demand for new local housing



# Company set-up

- Merantun registered at companies house
- Nominated Board of Directors:
  - Responsible for day-to-day running
  - SLLP - company secretariat services function
- Officer resource:
  - MDL staff: 1.4 FTE
  - Additional internal & external resource procured
- Service Level Agreements:
  - Agreed for various functions (Finance, IT, Procurement, SLLP etc.)
- Finance - loan agreement to be finalised



# Council role

- The Council is the sole shareholder and lends money to the company at a commercial rate
- LBM retain ultimate control of Merantun via the annual business plan and Shareholder Agreement
- LBM will receive a financial return by way of dividend and interest charges
- The shareholder agreement outlines LBM governance role for matters not included in the company's articles of association
- LBM "Shareholder Sub Committee" make decisions on behalf of the Council as 'shareholder' and decides key issues (e.g. annual business plan)



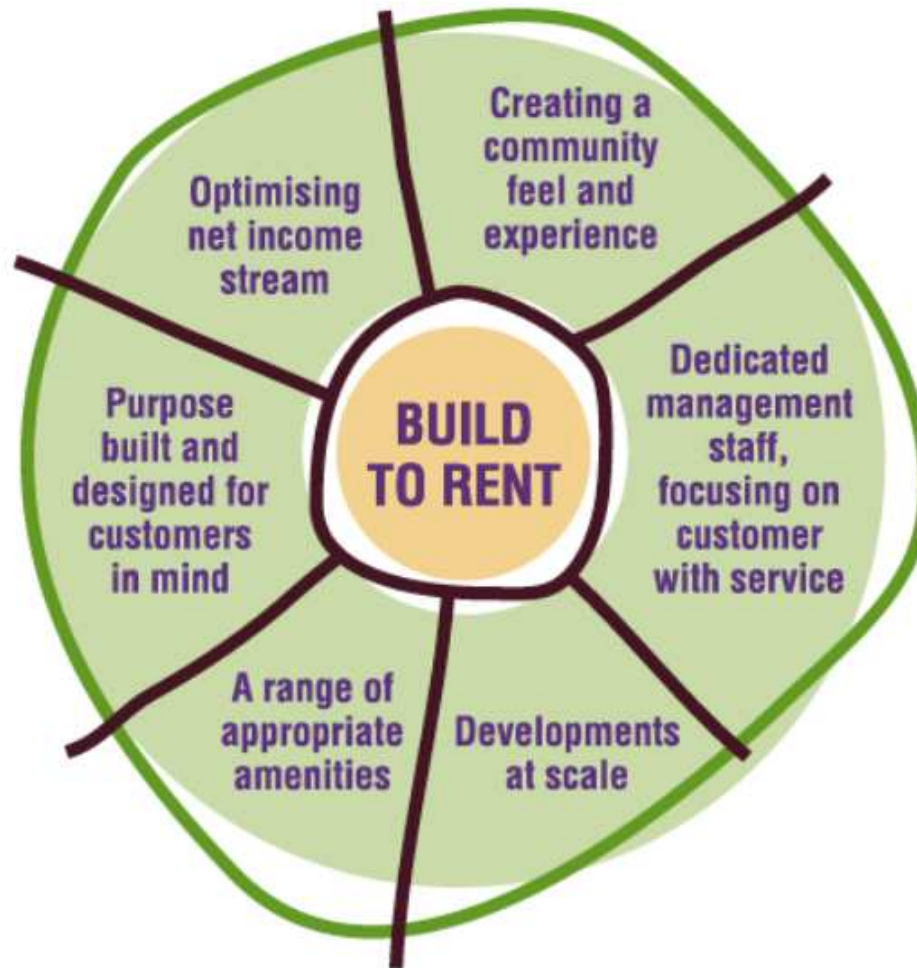
# Company objectives

1. To provide a quality product in London's growing private rented residential market
2. To offer a competitive offer for long term private rent
3. To offer a well designed core residential product
4. To offer quality optional extras to tenants
5. To maximise customer satisfaction
6. To maximise the financial return to LBM as shareholder.





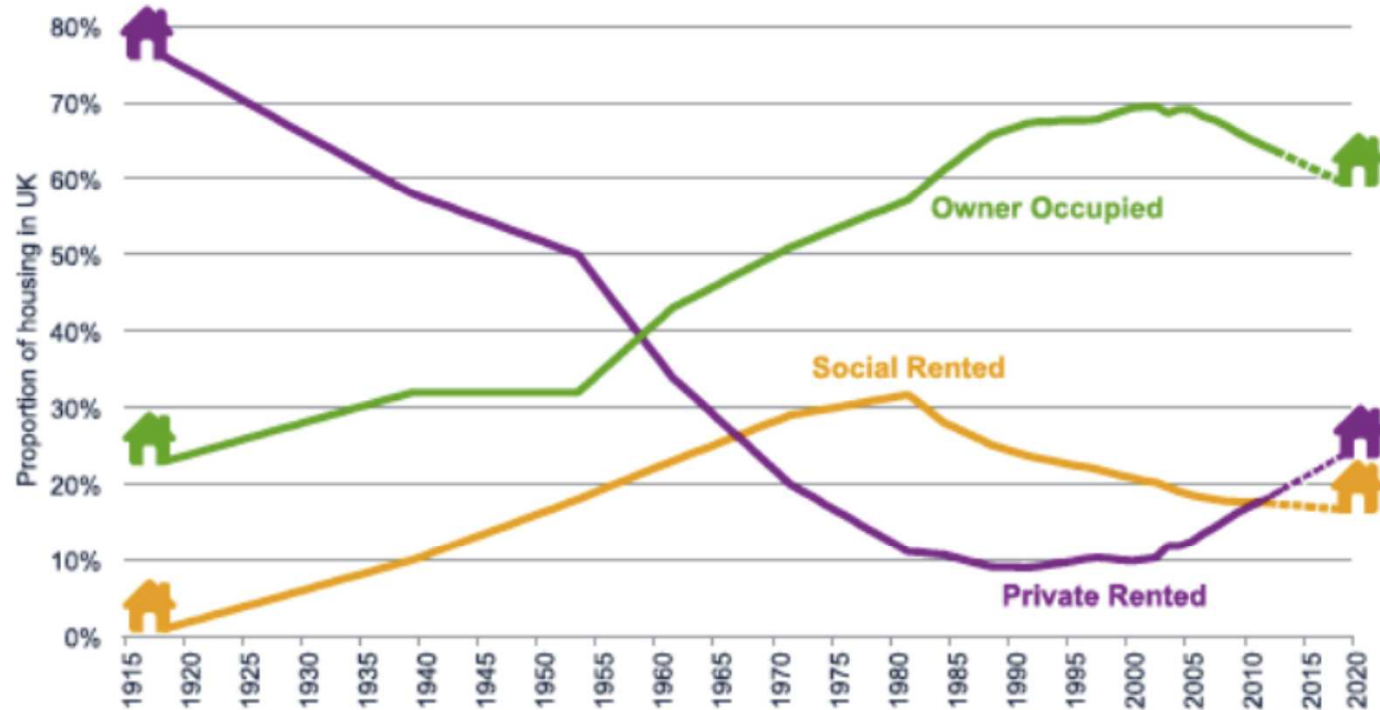
# Private rented sector opportunity



# Private rented sector & product

## The market

### Changing Tenures



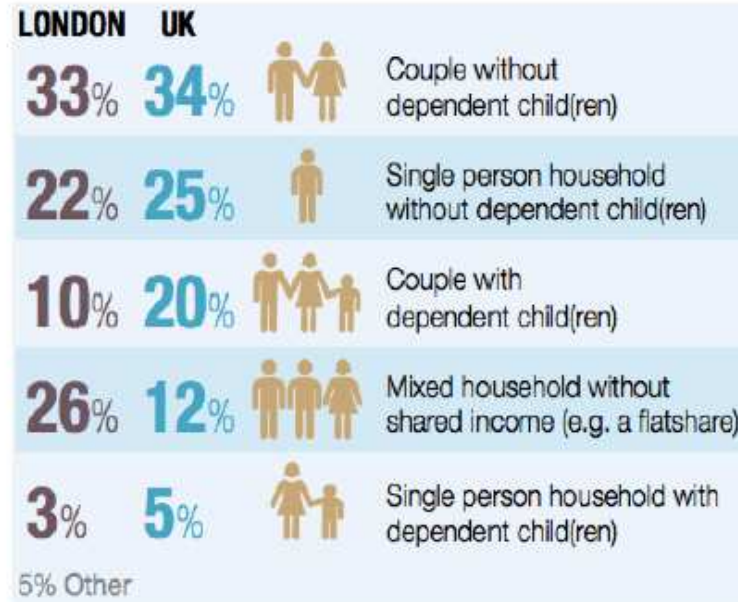
# Private rented sector & product

## The demand

Forecast tenure (households),  
England 2021



Source: Knight Frank Research



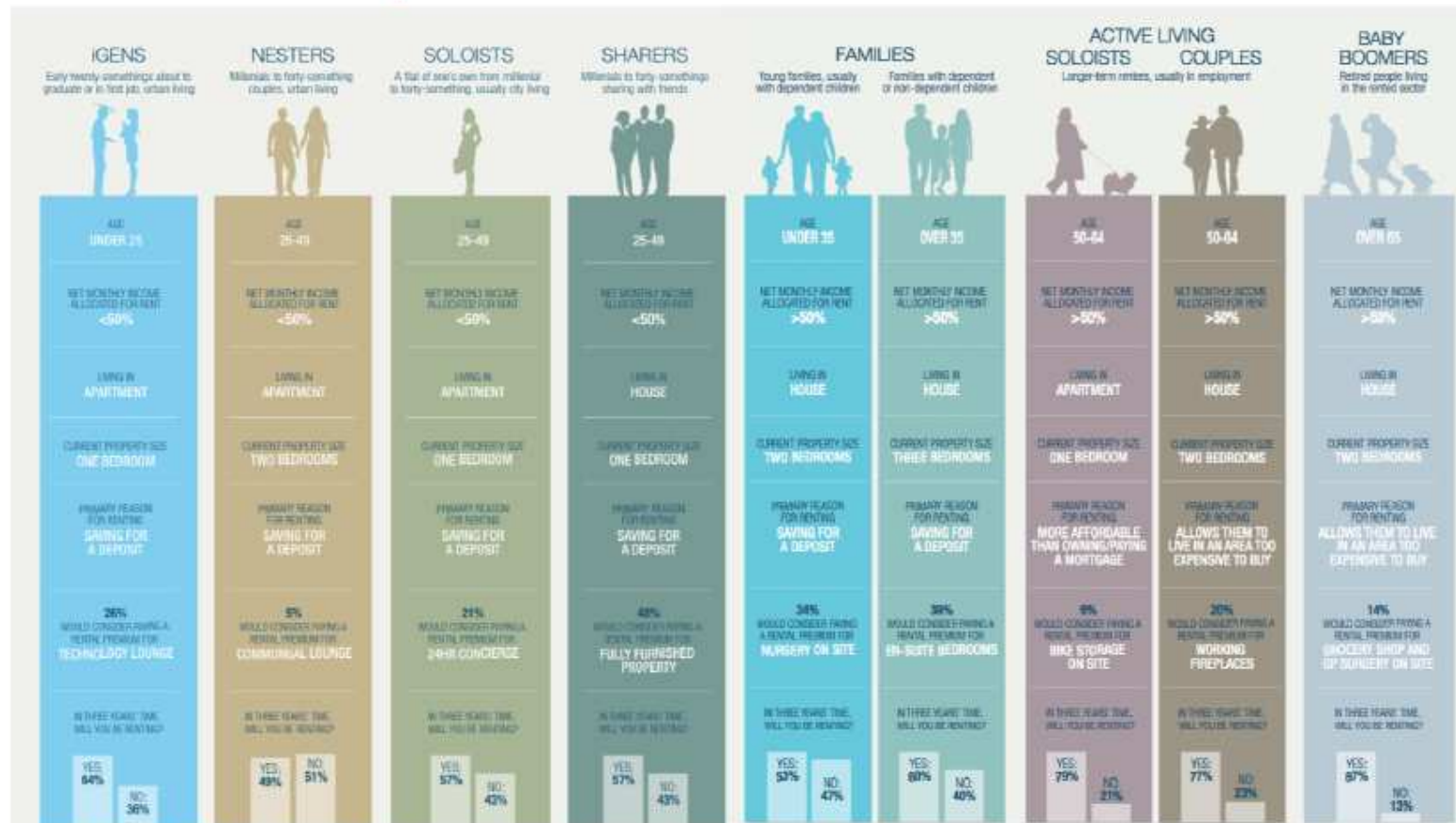
**London Gov**  
Sponsored ·

40% of Londoners will be private renters by 2025. Join Talk London and have your say on the biggest issues with renting!



# Private rented sector & product

## The customer profile





# Our core offer

## Customer Priorities



- Customer focus to define the product and our position in the marketplace



# Our core offer

- 1/2 bed accommodation
- Low maintenance
- Robust build
- Robust kitchen / bathroom fit-out
- Media and wifi enabled



# Options

- Furniture packages
  - Full / partial
- Cleaning packages
- Bike rental
- Car club access / Electric vehicles



# Layout





# Lifestyle





# Housing delivery



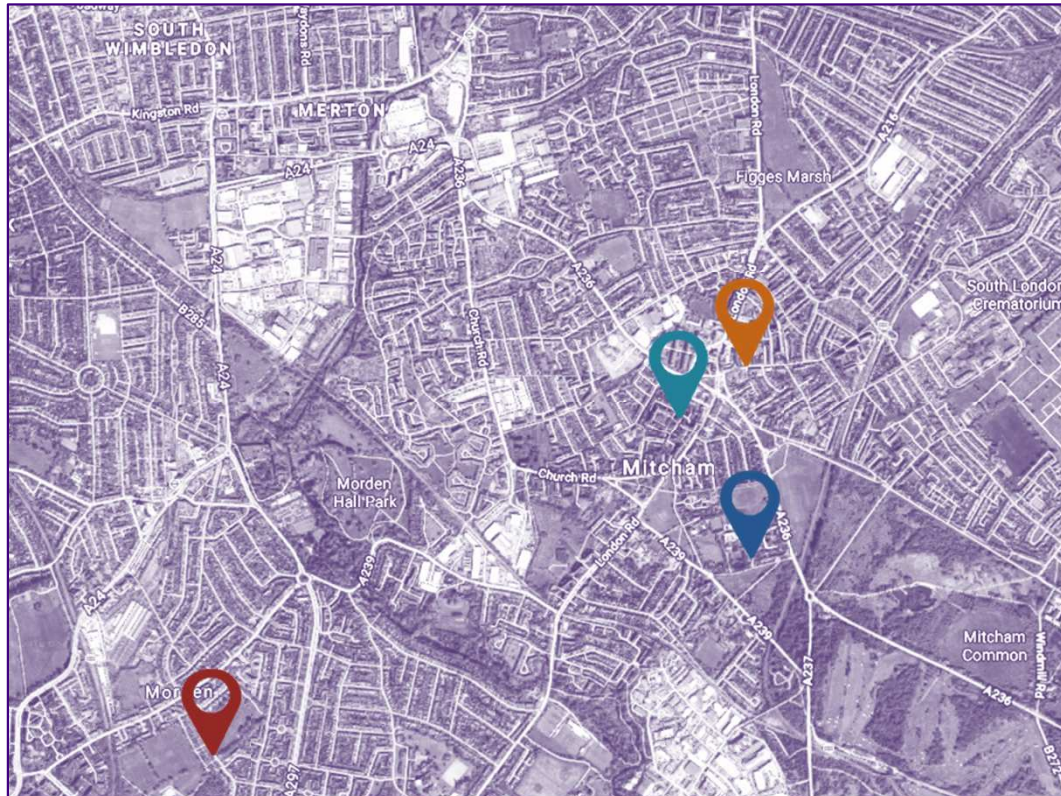
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# Housing Objectives

- Purpose: to develop council-owned sites into housing (or commercial development) for:
  - i. Private Rent (assumed 2-year shorthold tenancies)
  - ii. Sale (where necessary)
  - iii. Affordable – sell off to RP's in accordance with planning policy
- Aim to deliver fully sustainable communities
- Responding to housing market changes
- First tranche - four sites to deliver 77+ units



# Pilot sites



-  Elm Nursery  
Mitcham Town
-  Raleigh Gardens  
Mitcham Town
-  Canons Place  
Mitcham Cricket Green
-  Farm Road  
Morden





# Canons Place

## Mitcham Cricket Green



- Example precedent image



# Raleigh Gardens

## Mitcham Fair Green



- Example precedent image





# Farm Road

## Morden - St Helier



- Example precedent image



# Elm Nursery

Mitcham, London Road



- Example precedent image





# Pilot sites

## Estimated capacity\*:

### Canons Place

Mitcham Cricket Green

16 units

### Raleigh Gardens

Mitcham Town

25 units

### Elm Nursery

Mitcham Town

28 units

### Farm Road

Morden

18 units

\*Subject to ongoing review  
viability and design detail





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# Company Operations

Budget  
Service Level Agreements  
Company Policies  
Post-Completion  
Staffing

# Operational



- Commissioning Company
  - Small core staffing team
  - Commission specialist services
    - Architectural Design
    - Planning
    - Viability
    - Costing
    - Project Management
- Buy in services from LBM via service level agreements
  - Finance / Legal / HR / Procurement / Accommodation



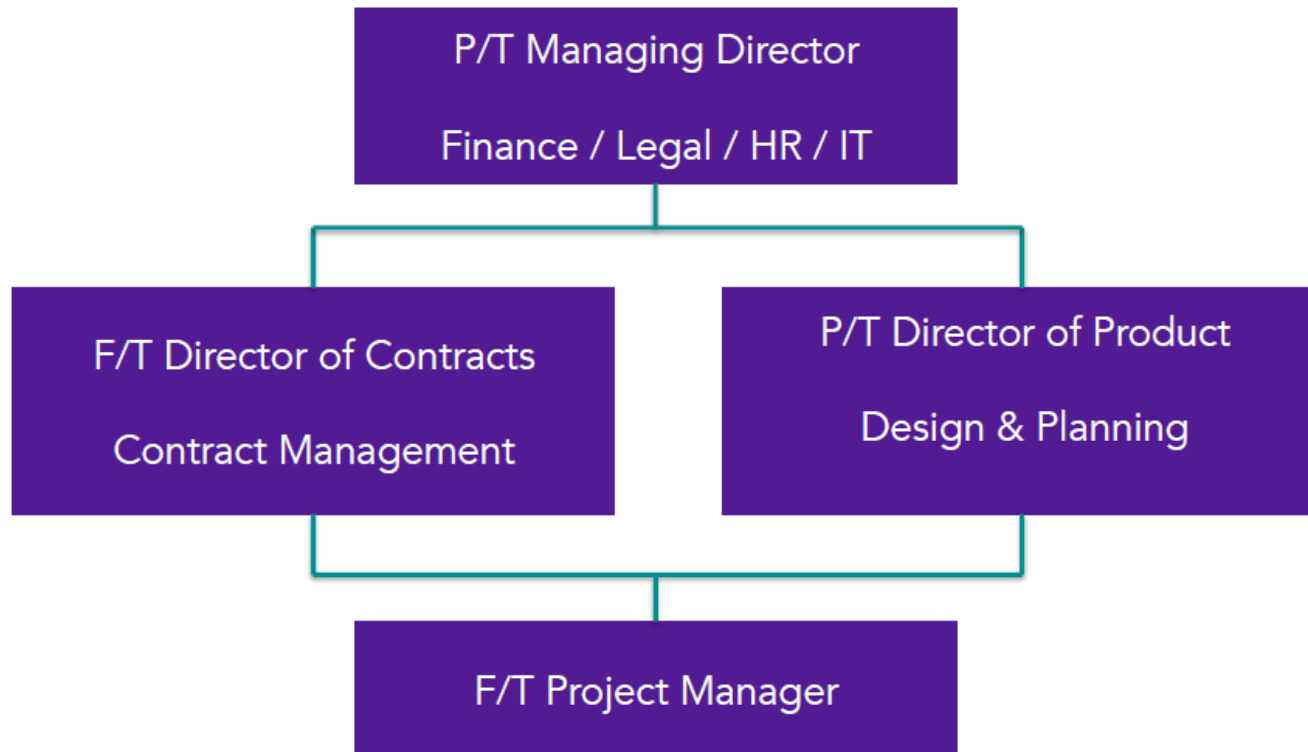
# Post Completion



- Management Costs
  - Lettings / Lease agreements, credit checks and other statutory requirements (to be procured)
- Maintenance Costs (planned and reactive)
  - Cyclical maintenance
  - Statutory checks (gas/elec/water etc)
  - Day to day maintenance, cleaning etc
  - Landscaping



# Structure



# Progress so far...



- April 2017 Council Approval
- August 2017 Company Registration
- November 2017 Cabinet Sub Group established (and quarterly meetings held)

## MDL:

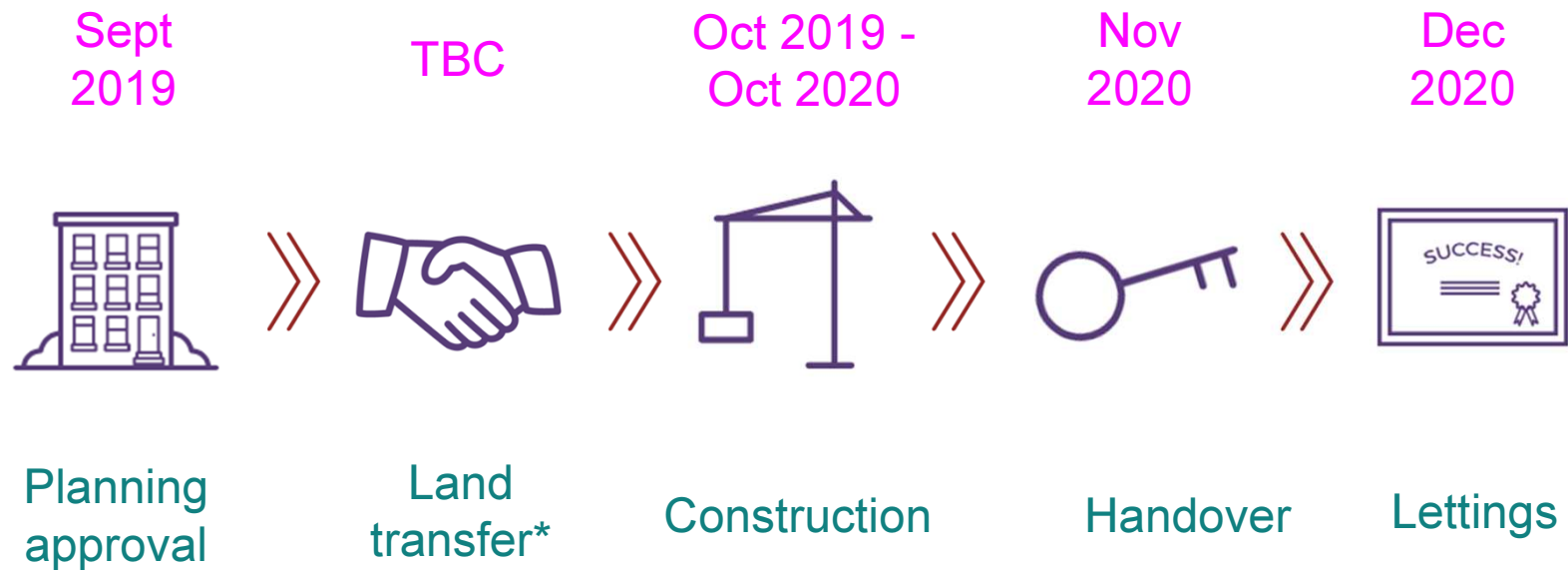
- Staff team up and running
- Appointment of Architectural Design team completed
- Sub-Consultant team established
- Site capacity (RIBA stage 0-1) Complete
- Viability and affordable housing RP engagement started



# Summary timeline



# Summary timeline cont.





# Funding

Capital investment from shareholder

Capital loan from shareholder

Land transfer as investment. shares issued

Valuations @

- Planning
- Completion
- Occupation (investment proposition)



# Returns to shareholder

Profile

Banker (LBM) debt repayments and interest charge headroom

% interest rate to be agreed – market competitive

Trowers – legal advisors

PWC – financial advisors

BBP – development advisors





# Funding Detail



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# Operational Costs



- Circa £160,000 per annum (staff / SLAs / insurance)

## Funding:

- LBM Approved
- £13,022,000 loan contribution
- £3,256,000 cash equity
- Land as equity £8,413,000 (subject to revised valuations)
- Gearing excluding land 80%
- Gearing including land 53%



# Income to MDL



- Year 4 c £2.7m (handover of affordable units)\*
- Year 4 £ 725,000 per annum (based on 80% occupancy levels)\*
- Year 5 £ 835,000 per annum (based on 92% occupancy and 3% customer turn over)\*

(\* estimates)



# Servicing Debt



- Loan facility drawn down as required based on the construction contract and timeline
- Borrowing costs rolled up for the first 4 years, until 2022/23
- Income in 2021 from handover of affordable units



# Dividend on profits



- Dividend on profits (lettings) in year 15
- Debt paid off in full over 20 years
- Cash reserves maintained covering two years of loan repayments



# Risks

- Procurement / construction market
- Industry supply chains (post EU exit)
- Interest rate changes
- Political (national / local)
- Reputational





# Notes



- Loan facility is based on a commercial borrowing rate from LBM to MDL
- Land transferred post planning approval
- Income reflects net position (after management and maintenance costs)





Thank You.

Questions?



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