

Agenda Item 3

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OVERVIEW AND SCRUTINY COMMISSION

20 JANUARY 2021

(7.15 pm - 9.05 pm)

PRESENT: Councillor Peter Southgate (in the Chair),
Councillor Peter McCabe, Councillor Mike Brunt,
Councillor Ben Butler, Councillor Billy Christie,
Councillor Brenda Fraser, Councillor Edward Gretton,
Councillor Paul Kohler, Councillor Nick McLean,
Councillor Aidan Mundy and Mansoor Ahmad

ALSO PRESENT:

Caroline Holland (Director of Corporate Services), Roger Kershaw (Assistant Director of Resources), Chris Lee (Director of Environment and Regeneration), Paul McGarry (FutureMerton Manager), James McGinlay (Assistant Director for Sustainable Communities) and Louise Round (Managing Director, South London Legal Partnership and Monitoring Officer)

1 APOLOGIES FOR ABSENCE (Agenda Item 1)

No apologies were received.

2 DECLARATIONS OF PECUNIARY INTEREST (Agenda Item 2)

There were no declarations of pecuniary interest.

3 MINUTES OF THE PREVIOUS MEETING (Agenda Item 3)

The minutes of the previous meeting were agreed as a true and accurate record.

4 COVID 19 - VERBAL UPDATE FROM CHIEF EXECUTIVE (Agenda Item 4)

The Chief Executive was due to present this item but unfortunately had to send his apologies.

This item will be moved to a future date.

5 CALL IN : MERANTUN DEVELOPMENT (Agenda Item 5)

The Chair introduced the call in and requested procedural advice from Louise Round, Managing Director (Monitoring Officer), who replied as follows;

The matter can only be taken to Full Council if it's considered that the decision taken was outside the policy framework of the Council or contrary to the budget. Neither of those conditions apply therefore if after consideration this evening, if Members wish

the matter to be reconsidered, the proper course of action will be to refer the item back to the sub-committee or to Cabinet.

The Chair reminded Commission Members to please conduct this investigation in a disciplined and professional manner, please don't interject when others are speaking and all questions must go through the Chair.

Councillor Stephen Crowe was invited to speak in support of the call in. There was a lack of openness and an inadequate consideration of alternatives and the report provided does not answer concerns raised.

Following 3 points in respect of a lack of openness;

- Details of company's future and past expenditure do not appear to have been presented to the Sub-Committee or filed with Companies' house.
- Appendix C – Contains information that should have been presented to the Sub-committee when it made its decision.
- Based on papers presented to various meetings of the Sub-committee, it would appear, since the formation of the company three years ago, administrative costs have exceeded £1million. The majority of this spend relates to staff costs, yet no mention is made of the impact of the proposed winding up of the company on our staff.

Following 3 points in respect of inadequate consideration of alternatives;

- Decision of the Sub-Committee is rationalised as being the result of the impact of Covid-19 and post Brexit market conditions. Other factors must surely be relevant yet these have not been presented for consideration.
- Two alternatives are presented – 'Develop three sites' or 'sell all sites'. Given that there are four sites and three wards, there surely must be more than two alternatives for consideration.
- Return on investment reduces from 6.48% to 2.94% over a thirty year period. It does not make sense to wind up a company that will meet a community need and expected to make a positive return on investment yet this point is not analysed in the briefing paper.

For the key reasons outlined, I hope that Members will resolve to refer this decision to full Council or Cabinet for fresh reconsideration.

In response to Cllr Crowe's points, the Director of Environment and Regeneration responded with further information;

The £2.1million spent by Merantun has been on seconded staff and other costs that are in relation to the associated consultant's fees such as legal and planning.

The impact on staff has been considered and accounted for. There are no redundancies – those staff seconded will go back to their substantive roles. We are not seeking to solely pin the decision on Covid or Brexit; the change in the PWLB (Public Work Loan Board) rate, which changed in October 2019 to increase by 1% in borrowing costs to the Council, undermined the business case. This sat

alongside other financial and economic factors, such as an increase in construction costs.

Although assumptions in the original business plan were sound, circumstances changed with regards to house price inflation. Whether this change was related to Covid, Brexit or the London housing market, the house price inflation directly affects rental income which was one of the biggest factors that changed the underlying business case.

In response to questions of clarification, the Directors of Environment and Regeneration and Corporate Services provided further information;

- On 26 November 2020 the PWLB guidance issued was strengthened so that loans with the purposes of generating profit had significant strings attached and therefore Merton was no longer able to borrow for the purposes of yield.
- The business plan was based on expert advice given at that time. Over the duration of the company those assumptions were updated and refreshed based on further market conditions. As we've seen, that advice changed which means the business plan changed in an adverse manner.
- The company was commercially focused with the original objectives being to build housing and deliver a profit to the Council. It wasn't set up to deliver affordable housing but policy compliant housing.

The Leader of the Council (Cabinet Member for Finance at the time the decision was taken) spoke on the achievements of Merantun, such as completing the first key part of its objective to take four difficult sites and get approval for housing. By doing so it increased the value of the sites (compared to if they didn't have planning permission).

Several jumping off points were deliberately included when we could reassess the strategy.

The call in declares that the decision was taken with limited notice, however it was stated many times that planning application was one of the jumping off points and attention was drawn to this fact at the October sub-committee.

Prior to the sub-committee, any Councillors who asked were given full background information and the Chair of the Overview and Scrutiny Commission was invited to address the sub-committee and those concerns raised were addressed at great length

The Chair invited contributions on the question of 'a presumption in favour of openness';

A Panel Member asked why there was no discussion with scrutiny, either pre decision or otherwise. The Director of Environment and Regeneration responded that as a company, Merantun's business considerations do not have to be displayed or operated in public, and whilst it is agreed that there can be confidential discussion with scrutiny members, there was no decision to be scrutinised until November/December as the company were only considering matters up to that point.

The Chair called a vote on the first principle of the call in and asked Members to vote on whether the sub-committee did act in a manner to demonstrate a presumption in favour of openness?

There were six votes for and four against. Therefore there was no agreement to refer back to Cabinet on that criterion.

A Panel Member asked 'based on the valuations today what is the liability, if any, to the Council? The Director of Environment and Regeneration explained the Council has two valuations, one provided before planning consent was granted and one afterwards. There is an increase of £1.9million but this is only an estimate.

The Director also added, in response to a concern raised earlier regarding the filing of accounts with Companies House, that upon checking the Companies House website, the accounts are up to date with the next set not due until March 2021. Those accounts for the financial year ending in 2020 are currently being audited. The Government extended the usual deadline of 31 December by three months due to the impacts of Covid.

The Chair called a vote on the second principle of the call in and asked Members to vote on whether they believe that 'consideration and evaluation of alternatives 'was demonstrated? There were six votes for, three against and one abstention.

There are no grounds for referring this decision back to Cabinet.

6 BUDGET AND BUSINESS PLAN 2021-25 (Agenda Item 6)

The Director of Corporate Services gave an overview of the latest reports in front of the Commission Members and confirmed the Equality Impact Assessments for the savings previously considered are now included.

Further savings and financial monitoring will be provided at the 17 February meeting.

7 BUDGET AND BUSINESS PLAN 2021-25 SAVINGS INFORMATION PACK (Agenda Item 7)

Taken with item 6.

8 SCRUTINY OF THE BUSINESS PLAN: COMMENTS AND RECOMMENDATIONS FROM THE SCRUTINY PANELS (Agenda Item 8)

This item was moved to 17 Feb 2021 to coincide with the Overview and Scrutiny Commission's opportunity to review the Cabinet papers of 18 January and consider forwarding a reference on the budget to Cabinet.

9 IDENTIFY QUESTIONS FOR THE BOROUGH COMMANDER (Agenda Item 9)

Commission Members were asked to send their questions to the Scrutiny Officer to collate.

10 WORK PROGRAMME (Agenda Item 10)

The work programme was agreed.

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