INSIDE HOUSING

London council to wind up housing company with no homes built

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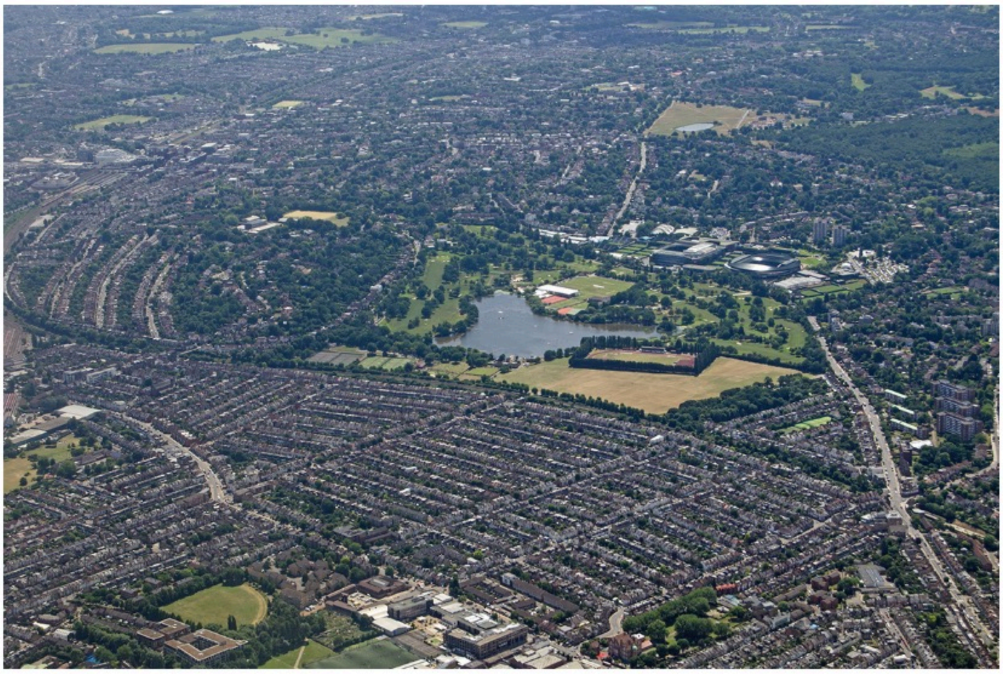
A south London council will shut down its housing company over concerns that rising costs, Brexit and the COVID-19 pandemic have rendered the business unviable.



Merton Council plans to sell permissioned sites to a private developer (picture: Getty)

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Merton council will shut down its housing company over concerns that rising costs, Brexit and the COVID-19 pandemic have rendered the business unviable #UKhousing

Merton Council's subcommittee for oversight of the company, Merantun Development Limited, agreed at a special meeting shortly before Christmas to wind up the firm.

The company was set up in summer 2017 with the aim of building market rent and affordable housing on small sites to generate income for the Labour-run local authority's general fund.

It has not yet started work on any homes, but gained planning permission in July to redevelop four council-owned sites across the borough which would have delivered a combined 93 units.

According to an officer's report presented to the subcommittee, increased construction and borrowing costs and a weakening of the London housing market caused by COVID-19 and Brexit mean that Merantun's business plan "is no longer viable".

The report also referenced "the experience of Croydon Council and the problems it has with its housing company" as a concern.

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Croydon Council effectively declared itself bankrupt in November amid a £66m budget deficit.

Auditors later revealed the authority had lent its housing company, Brick by Brick, £200m since 2015 without receiving a penny back in dividends or interest.

Merton Council had planned to borrow to on-lend to Merantun to fund its development activity, but the officer's report said the town hall now has less appetite for this type of risk due to the financial pressures currently facing councils as they battle the coronavirus pandemic.

Initially, the council expected a 6.48% return on its investment in Merantun over the next 30 years, while latest projects peg the figure at just 2.94%.

Loans would likely not be repaid until 2049/50, the report added, a decade later than planned.

The report did not indicate how much has been spent on Merantun, but noted that the council's accounts will need to "reflect any losses resulting from winding the company up".

Merantun's latest financial results show it made a £310,000 loss in the year to March 2019 and a £139,000 loss the year before that.

Winding up the firm is expected to take less than three months, while the council expects to sell the permissioned sites to a private developer.

Mark Allison, leader of Merton Council, said: "We are pleased Merantun has completed a key part of its objective, which was to take four difficult sites and show they can deliver housing, including affordable homes, for our residents.

"Its work has increased the value of the sites and contributed to future housing supply, and we would like to thank the small staff team at Merantun for producing high quality proposals and securing planning permission.

"Given the finances of local authorities as a result of COVID-19, Brexit and in particular the increased costs of borrowing, the business case for construction by a local authority with no housing stock of our own is no longer there for us.

"We are therefore reviewing options for the sites as these schemes will still offer very attractive opportunities for established developers, while the value of the sites, which has been significantly enhanced by Merantun's work, can still help the council's balances."

Merton Council transferred its 6,000-strong housing stock to Clarion Housing Group in 2010.