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To: Growth, Economic Development & Communities Cabinet Committee –
21 September 2021

Subject: **No Use Empty (NUE) – Information Update**

Classification: Unrestricted

Electoral Division: All

Summary: Kent County Council (KCC) launched the No Use Empty (NUE) initiative in 2005 in East Kent. Following the success of NUE, the initiative was rolled out across Kent in 2008/09 and is now delivered by KCC in partnership with all 12 district and borough councils.

The primary aim of the initiative is to improve the physical urban environment in Kent by bringing empty properties back into use as quality housing through a range of interventions.

In addition to this, NUE is helping to deliver increased Council Tax receipts, Business Rates and supporting districts with their Local Plan targets.

NUE operates a loan scheme providing short term secured loans registered as a first or second charge. The loans are primarily interest free with an upfront administration fee. However, interest bearing loans (for larger sums/projects) have been introduced over the last three years. On repayment of the loan, funds are recycled to the next project.

NUE previously reported to Cabinet Committee in September 2020.

The purpose of this report is to provide Cabinet Committee with:

- a further update on NUE's performance to date
- a progress update regarding the £12m Derelict Conversion/New Builds NUE Scheme (investing the Council's cash balances in accordance with KCC's Treasury Management Strategy) which is helping contribute to accelerating the delivery of good quality housing in the County
- an update regarding funding beyond the current financial year

Recommendations:

The Cabinet Committee is asked to consider and comment on the NUE initiative and performance to date.

1. Introduction

1. 1. Kent County Council (KCC) launched its 'No Use Empty' (NUE) campaign in 2005 as part of its Public Sector Agreement (PSA2) targets, to examine better ways of delivering services, and in particular how we might work more effectively with district councils. The primary aim of the initiative is to improve the physical urban environment in Kent by bringing empty properties back into use as quality housing.
1. 2. The initiative originally focused on the following districts: Thanet, Dover, Folkestone and Hythe (Shepway) and Swale, as the research found most empty properties (over 3,000) were in these areas. As the project was very successful KCC expanded NUE to include all 12 Kent district councils in January 2008.
1. 3. NUE is now firmly established as the longest running and most effective empty property initiative in the country winning several national awards for partnership and regeneration.

2. Achievements

- 2.1 There were 9,000 long-term empty properties in Kent when NUE was launched in 2005. As of 30 June 2021, NUE has returned 7,077 long-term empty properties back into use across the County to the decent home standard. Long term empty means those dwellings that have been unoccupied or substantially unfurnished for over six months.
- 2.2 Latest Council Tax records show there are a total of 6,032 long term vacant dwellings in the Kent area. NUE on average is returning 500 long-term empty properties back into use per annum (based on performance over the last 10 years). Without NUE intervention the number of long-term empty properties would probably be more than 15,000. For clarity this excludes investment activity which is focused on new builds.
- 2.3 NUE as a service has seen an unprecedented increase in loan applications over the last 18 months. A total of 63 loan applications were approved in 20/21 of which 42 were empty property loans and 21 were for new build loans. Only three loan applications received during the year did not progress, primarily due to the required supporting evidence not being provided. The pre-application work NUE undertakes with our district empty property officers and the required upfront application fee minimises the number of applications which are not supported.
- 2.4 The table below records the loans approved (across both NUE and Treasury investment, total value of loans and number of units being supported).

NUE (Empty Property)			
Financial Year	Loans Approved	Value Approved	Units Supported
18/19	34	£6.8m	111
19/20	33	£4.9m	89
20/21	42	£4.4m	81
21/22 (to date)	20	£4.8m	78
NUE (DC/New Build)			
Financial Year	Loans Approved	Value Approved	Units Supported
20/21 (First Year)	21	£11.2m	96
21/22 (to date)	8	£4.8m	19

- 2.5 Demand for the traditional empty property loans in 21/22 has not diminished following the lifting of the pandemic restrictions. A total of 20 loans have been approved since 1st April 2021. NUE have a steady pipeline of projects which will exceed the number

of units supported in 21/22 compared to the previous year, which as shown above, was comparable to previous years despite the pandemic.

- 2.6 **NUE Commercial.** Following the success of the first NUE commercial phase (2018-2020) which returned long term empty commercial properties (empty shops or small redundant workspace areas) to use for alternative commercial or mixed-use purposes, KCC secured a further funding of £2m from Growing Places Fund (GPF) in 2021 for NUE to operate a second phase. The new funding has a target to return a minimum of 16 commercial units and provide 36 residential units by March 2024.
- 2.7 In January 2020 NUE featured in the guidance for 'Dealing with Empty Shops' produced by the Local Government Association (LGA) for councils faced with challenges around vacancy on their high streets and in their town centres.
<https://www.local.gov.uk/dealing-empty-shops-guide>
- 2.8 A summary of NUE Commercial is at **Appendix 1** including example projects.
- 2.9 Kent's approach to tackling empty properties has been widely praised with NUE winning three national awards for Regeneration and Partnership Working. KCC were the only non-housing authority finalist in the category for 'Council of the Year' at the UK Housing Awards 2020.

3. NUE Finance (Empty Property)

- 3.1 KCC are an enabler. The recycling loan fund operated by NUE provides working capital to help owners/small developers refurbish/convert empty homes or redundant commercial buildings to provide good quality residential accommodation.
- 3.2 NUE was originally funded using a mixture of borrowing (£7m), performance reward grant (£2m) related to the PSA2 and surplus KCC funds (£1m). The loan fund was allowed to be recycled several times attracting private sector leverage (applicants' own funds to support project costs), government grant (£760k Homes and Communities Agency) and a total of £1m "top-up" funds from districts.
- 3.3 In the early years of the scheme empty properties attracted Council Tax concessions. NUE loans were provided interest free with an administration fee charged to help bring these properties back into use and generated additional Council Tax receipts.
- 3.4 As NUE has evolved we have also introduced interest bearing loans for larger empty property projects which require a greater financial support or to those small developers who return to the scheme with new projects. The interest rate reflects the increased risk of these loans and is used to provide for a small element of bad debt risk as well as assisting with the administration costs of the scheme which is self-funding e.g., at no cost to the Council. The loans continue to be offered interest free to first time applicants and an application fee is charged.
- 3.5 To date, NUE has awarded £42.8m in short term secured loans and has levered in £36.8m from the public/private sectors, giving a total investment of £79.6m across Kent. All loans are subject to a risk assessment and secured as a 1st or 2nd charge and offered typically over a two-to-three-year period.
- 3.6 The investment has funded 1,220 homes of which 867 of these are classified as new homes (change in numbers). The new homes are generating new Council Tax receipts worth approximately £1,379,667 per year (based on completions to date),

rising to £1,532,856 by 2022/23 (based on projects due to complete). Should an average of 57 new homes per year be maintained over the next five years, this will further increase the value of Council Tax receipts generated as a direct result of NUE to £1,934,546.

- 3.7 A summary of NUE investment by district and Council Tax is at **Appendix 2**.
- 3.8 In July 2019, when the first tranche of borrowing was to be repaid (e.g., part of the capital taken out of the NUE scheme), a temporary extension was granted to at least 2021-22 with a further update to be provided at that time. (The record of decision is appended as a background document to this report).
- 3.9 The following is an extract for the NUE initiative as described in Section 5, Page 55 of the Budget Book 2021-22 (approved 11 February 2021). The repayment of £7m capital was deferred until 2023/24 which is why there is no Cash Limit shown in the table below for 2023/24.

Capital Investment Plans				Cash Limits			
Ref	Project	Total Cost of Scheme	Prior Years Spend	2021-22	2022-23	2023-24	Later Years
		£000s	£000s	£000s	£000s	£000s	£000s
26	Kent Empty Property Initiative (NUE)	46,657	33,818	5,443	4,556	0	2,840

4. How NUE has evolved

- 4.1 NUE remains innovative and has taken advantage of funding opportunities as they have arisen to offer different loan products, deliver more homes and bring vacant commercial properties back into use as previously reported to GEDCC.
- 4.2 Whilst the construction industry has experienced challenging times, NUE is becoming increasingly important as we continue our work to regenerate local communities and further support the Kent economy by giving loans at 0% on first applications (cheaper than the market) and charging an interest rate which is competitive and has different lending criteria to traditional high street lenders.
- 4.3 **Derelict Conversion/New Builds NUE Scheme (£12m)**. NUE launched a new loan product in 20/21 using the Council's cash balances in accordance with its Treasury Management Strategy (TMS) as approved by County Council. £12m was made available to provide secured, by way of first charge, short-term interest-bearing loans (recycled) to developers of derelict/vacant sites, to create new build residential units in Kent.
- 4.4 Investing the Council's cash balances was deemed a more appropriate funding route for these short-term loans (two-to-three years) than borrowing from external lenders over longer periods of time (20-25 years). In this way the Council is diversifying its investments, receiving a return on its funds, and saving on borrowing costs.
- 4.5 The introduction of an interest-bearing loan (still competitive) was firstly to help cover the costs of administering the scheme but more importantly to ensure the Council still earned a return on its funds. NUE is still able to deliver its impressive benefits of

Council Tax and Business rate receipts, supporting the economy and small developers, assisting District Councils deliver their Local Plan targets as well as covering the costs of the service.

- 4.6 Since April 2020 demand has been such that NUE have accelerated the number of loans approved (29 to date) thanks to an internal Treasury agreement with NUE to make available a further £4m (January 2021).
- 4.7 Current individual projects are varied ranging from single houses, bungalows, 2-3 houses and apartment blocks, all of which are in seven of the 12 Kent districts and primarily in our coastal regions.
- 4.8 A total of £6m was advanced in 20/21 and £9m is expected to be drawn down by the end of this financial year.
- 4.9 The following table represents all projects supported with Treasury Investment.

District	No. Of Loans	NUE Loan £	New Builds Supported
Canterbury	1	£474,000	TBC – planning resubmitted
Dartford	1	£600,000	1 x 12 HMO (target - key workers)
Dover	10	£4,815,000	20
Folkestone & Hythe	6	£3,843,000	51
Swale	2	£1,120,000	7
Thanet	8	£5,015,000	35
Tunbridge Wells	1	£200,000	1
Total	29	£16,067,000	115

- 4.10 NUE is pleased to confirm that £2.3m of loans advanced have been repaid to date and is being recycled to new projects. A total of 22 new builds of the 115 supported have been delivered, sold, and occupied.
- 4.11 One of the first projects to be awarded with investment funds completed in January 2021. A new build apartment block to provide eight affordable homes built by a local developer was purchased by Dover District Council.
- 4.12 A selection of other projects supported is at **Appendix 3**.
- 4.13 NUE continue to receive enquiries from local developers who either have or are about to acquire derelict sites to take forward for new developments or from those who are interested in knowing more about the loans scheme.

5. Return on Investment

- 5.1 There is an interest-bearing element to cover the cost of the service and to compensate Treasury for the opportunity cost of lending NUE the funding as opposed to investment.
- 5.2 The difference between the actual interest charged on each individual loan and the amount required by Treasury is used to cover the operational costs of NUE management and administration over the lifetime of the initiative.

6. NUE beyond 2022-23

- 6.1 Bringing long term empty properties back into use is a key method of driving regeneration which not only provides new homes but also new sources of employment and a sense of community.
- 6.2 NUE is helping to increase Council Tax receipts which represent a high percentage of the KCC budget. NUE continues to seek to convert existing building which means fewer brownfield/green sites are needed to meet housing targets.
- 6.3 The new Council Tax receipts generated from our new builds, is calculated to be £195,000 per year (based on Average Band C £1,700 per home x 115 units to date). This is in addition to the traditional empty property scheme covered under 3.3.
- 6.4 **NUE main loan scheme (£10m)** is currently included in the Capital Programme. The Budget Book 2021-22 shows NUE funded to 2022-23. There is an expectation that NUE will collect and repay £7m of the £10m allocated at the end of March 2023. Therefore, should the traditional empty property initiative be continued under this programme then Cabinet will be required to support a further extension (and non-repayment). Alternatively, NUE continues to seek to enhance the level of funding beyond the current £16m which has been made available via the TMS, subject to certain conditions being met and governance being updated. Growth, Economic Development & Communities Cabinet Committee will be updated on ongoing negotiations in due course.
- 6.5 **NUE new builds.** There is a steady pipeline of projects and enquiries as previously mentioned. The availability of this KCC loan fund is assisting our smaller local developers who still find it difficult to access mainstream funding. Bespoke lenders often require: a higher rate of interest; greater security; early exit penalty fees; more restrictive lending criteria and delays in being able to administer and process in timescales which are critical to taking projects forward. The NUE loan scheme bridges the gap for many developers between mainstream lenders and bespoke lenders
- 6.6 Having a degree of flexibility in accessing and potentially increasing the funding Treasury have made available to NUE for new builds will ensure NUE is able to offer a fluid “open year-round” approach and is not solely reliant on projects to complete and be repaid before a new project can be funded and works commence.

7. Equality and Diversity

- 7.1 An Equalities Impact Assessment has been undertaken for the service. No issues have been identified.

8. Information Governance

- 8.1 To comply with the General Data Protection Regulation (GDPR), a privacy notice for NUE is published on the KCC website (<https://www.kent.gov.uk/about-the-council/information-and-data/access-to-information/gdpr-privacy-notice/economic-development/no-use-empty-scheme>).

9. The performance of the NUE initiative is monitored and reviewed by the Growth and Communities Directorate.

10. Policy

10.1 NUE is identified in KCC's Interim Strategic Plan – Setting the Course (December 2020) under the section 'Bring forward infrastructure projects to stimulate economic growth' on page 15.

https://www.kent.gov.uk/__data/assets/pdf_file/0014/116033/Interim-Strategic-Plan.pdf

11. Conclusion

10.1 Continued support for NUE will allow the initiative to:

- Support economic growth including through new commercial activity: attracting new business rates, creating and safeguarding jobs
- Increase the number of new homes available as a result of mixed-use developments: generating new council tax receipts
- Support wider regeneration, assisting in the vitality and viability of existing commercial areas, improving the quality of the local environment, complementing wider regeneration activities and supporting community safety and cohesion.

12. Recommendation(s):

12.1 The Cabinet Committee is asked to consider and comment on the NUE initiative and performance to date.

13. Appendices and background document:

Appendix 1 – NUE Commercial and example projects (both phases)

Appendix 2 - Summary NUE Residential (Countywide Investment)

Appendix 3 - Summary NUE Derelict Sites - example project

Background document: Record of key decision: July 2019:

<https://democracy.kent.gov.uk/ieDecisionDetails.aspx?ID=2270>

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