

**CABINET SCRUTINY COMMITTEE – 25 APRIL 2007**

Report Title:	<b>East Kent Empty Property Initiative – Direct Purchase Scheme (Decision 07/00934)</b>
Document Attached:	Report to Leader of the Council published on 28 March 2007.
Purpose of Consideration:	<ul style="list-style-type: none"><li>(a) to ascertain the reason for the delay since the original launch of the initiative;</li><li>(b) to confirm how local Members were consulted about the proposal for the direct purchase scheme;</li><li>(c) to explore further the criteria for selecting properties;</li><li>(d) to explore further the potential financial risks of the direct purchase scheme.</li></ul>
Possible Decisions:	<p>The Constitution (<i>Appendix 4 Part 8</i>) requires the Committee to take one of the following decisions:-</p> <ul style="list-style-type: none"><li>(a) make no comments; or</li><li>(b) express comments but not require reconsideration of the decision; or</li><li>(c) require implementation of the decision to be postponed pending reconsideration of the matter by the Cabinet Member in the light of the Committee's comments; or</li><li>(d) require implementation of the decision to be postponed pending reconsideration of the matter by full Council.</li></ul>
Previous Consideration:	None.
Background Documents:	None.

To: Mr Paul Carter, Leader, Kent County Council

By, Roger Gough, Cabinet Member for Regeneration and Supporting Independence, Nick Chard, Cabinet Member for Finance, Mike Austerberry, Director of Property and Pete Raine, Managing Director for Environment and Regeneration

Subject: East Kent Empty Property Initiative Direct Purchase Scheme

Classification: Unrestricted

FOR DECISION

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Summary:

The East Kent Empty Property Initiative (EKEPI) has been instigated to deliver a regeneration target under KCC's second Public Service Agreement (PSA). The aim of this PSA target is to drive forward the regeneration of the East Kent Coastal Districts by bringing empty properties back into use as quality housing accommodation. This report seeks approval to spend £1.5million on the purchase and renovation of empty properties in East Kent, to secure their reuse as quality accommodation, thus contributing to achievement of the Public Service Agreement target.

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1. Introduction and Background

The East Kent Empty Property Initiative (EKEPI) under its campaign "No Use Empty" has been set up to deliver a regeneration target under Round 2 of the Local Public Service Agreement (LPSA). This is "To improve the physical environment in four coastal districts of Kent - Dover, Shepway, Swale and Thanet by bringing empty properties back into use". This LPSA target has now been incorporated into the Kent Agreement (outcome 17) i.e. to improve Kent residents' access to homes of excellent quality in the right place, at the right time and the right cost.

The direct purchase scheme as proposed in this report will deliver four principal aims towards the achievement of both the LPSA and the Kent Agreement: -

(i) Affordable housing

Increase the supply of affordable housing into the housing market. Research undertaken for the set-up phase for the EKEPI identified that the majority of empty properties in the East Kent area are located in areas of high housing need. The direct purchase scheme will contribute to a beneficial increase in housing supply by bringing back into use long term empty properties for residential occupation.

(ii) Regeneration of the coastal urban areas

Targeting key empty properties as part of the wider regeneration activities being undertaken through KCC, including Margate Old Town and Dover Pride. Vacant and dilapidated properties act as a disincentive to new investment in

these areas. The direct purchase scheme will be undertaken in consultation with the appropriate regeneration organisations and relevant Districts to identify key properties to be targeted for possible acquisition to help secure regeneration for these areas.

(iii) Decent homes.

All refurbishment work undertaken through the direct purchase scheme will be undertaken to a high standard in addition to complying with the Government's Decent Homes Standard and with current building regulations.

(iv) Stimulate housing markets

Vacant and dilapidated buildings act as a disincentive to investment by other homeowners. Renovating such properties and bringing them back into use will encourage other home owners to invest in their own property and encourage new owners to move in, thus stimulating the housing market in the Initiative's target areas.

## 2. Selection of Properties

It is expected that properties for possible acquisition will be identified through four main routes.

- Direct approach by KCC to owners to acquire key run down and dilapidated properties.
- Offer by an owner to KCC to purchase a property, as an alternative to enforcement action by one of the partner Districts. E.g. an owner may offer a property to KCC which is subject to possible compulsory purchase action.
- Owners responding the EKEPI's advertising for the direct purchase scheme.
- Properties for sale on the open market where market failure is evident and appropriate for KCC's intervention.

It is expected that the majority of properties will have an initial purchase price in the region of £100,000 to £200,000, but in any event will not exceed £500,000.

Any property considered, as a prospective purchase through the direct purchase scheme, will be dealt with in accordance with the working procedure attached at appendix one. In particular the working procedure details how suitable properties will be selected, the business case to support their acquisition and the legislative requirements.

## 2. Governance

(i) The property decisions to acquire, dispose and manage operational, non-operational and investment properties are governed by the Property Management Protocol as set out in the Council's Constitution. The Property Management Protocol allows delegated authority to the Director of Property to acquire or dispose of property up to £1 million.

(ii) In order to allow the EKEPI to act decisively when an opportunity to purchase arises it is recommended that Cabinet should establish the Scheme within the parameters outlined in this proposal. In particular Cabinet is asked to delegate authority to spend within the Scheme to the Director of Property, and the Managing Director for Environment & Regeneration, in consultation with the Cabinet Member for Finance and the Cabinet Member for Regeneration and Supporting Independence.

(iii) Each purchase proposal under the Direct Purchase Scheme will be supported by a robust business case containing: -

- (a) Details of the proposal
- (b) The rationale for the purchase
- (c) The objective to be satisfied
- (d) The costs involved in the acquisition, refurbishment and anticipated resale value.
- (e) details of any planning/building control issues that may impact of the proposed refurbishment works.
- (f) The opportunities to be gained
- (g) the anticipated financial return to the Scheme.

(iv) A consultant surveying firm has been commissioned through the Property Group's framework to provide the specialist advice listed above.

In accordance with (g) above the scheme will aim to make a profit of between 8-10% on each property acquired through the Scheme.

The funding for the Scheme will operate as a revolving pot. Therefore all monies from the sale of the properties, and profits, will be returned to the scheme to support further acquisitions, until such time as repayment of the Scheme funding is required in accordance with the Medium Term Financial Plan.

However there may be instances where the proposed purchase will achieve significant benefits to the overall Initiative, but where the business case does not support the making of a profit. In such instances the report requesting authority to purchase will make explicit the wider benefits that will be achieved in lieu of an increase in capital for the Direct Purchase Scheme.

Each business case shall be subjected to review by the Directors of Property and Finance, who shall satisfy themselves that the purchase proposal is valid and supportable.

#### 4. Consultation

The Directors of Finance, Property, and Law and Governance, have been consulted for their confirmation that the proposed direct purchase scheme will comply with the PMP and any statutory requirements.

Additionally the local members for each District within the EKEPI area have been consulted for their views and support for the direct purchase scheme. All responses received are supportive for the scheme.

## 5. Legal considerations

The direct purchase scheme will be instigated using the power of economic, social and environmental well-being under section 2 of the Local Government Act 2000. Consultations with the Director of Law and Governance have determined that there are no restrictions under section 3 of the same Act, which would prevent the operation of the direct purchase scheme.

## 6. Financial and tax considerations

The VAT incurred on the costs of acquiring the properties, not including the purchase price, and on the renovation costs will have to be taken into KCC's partial exemption calculation. To ensure that this scheme does not have an adverse impact on KCC's partial exemption status regular consultations will be undertaken with the Corporate Finance Section.

Stamp duty will be payable on any property purchase over £125,000 (£150,000 in "disadvantaged" areas) and these costs will be incorporated as part of the business plan in 2 above.

KCC being a local authority is exempt for Capital Gains Tax

## 7. Resource implications.

The direct purchase scheme will be undertaken within existing staffing and revenue resources established specifically to progress work on this Initiative.

A Capital funding allocation of £1.5 million needs to be agreed, this to be drawn down from the total provision of £5million set out in the Medium Term Financial Plan for 2007-2010.

In accordance with the PMP KCC acquired properties are held corporately but in this project, the costs and budgets will be ring-fenced and any risks contained within the current capital funding of £1.5 million.

## Recommended Decision

- ❖ The Leader is asked to approve the East Kent Empty Property direct purchase scheme, on the basis set out in this report and subject to the procedures set out in the attached Appendix.
- ❖ That the sum of £1.5m be allocated to the scheme, this to be drawn down from the sum of £5.m identified in the 2007 -2010 Medium Term Plan
- ❖ That authority be delegated to the Director of Property and the Managing Director for Environment & Regeneration to approve under the terms of this scheme any property acquisitions, or disposals in consultation with the Cabinet Member for Finance and the Cabinet Member for Regeneration and Supporting Independence.

## Background papers: none

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## Appendix One

### Procedure for Direct Purchase of Empty Properties by KCC for Renovation and Sale

Action	By Whom
<p><b>(1) Identification of appropriate properties</b></p> <p>Properties for possible direct acquisition by KCC will be identified through one of the following routes: -</p> <ul style="list-style-type: none"> <li>• Direct offer of purchase by KCC to the current owner of key rundown and dilapidated properties.</li> <li>• Property offered to KCC by current owner</li> <li>• Enforcement action being undertaken by the Districts where the owner will be offered a voluntary sale to KCC</li> <li>• For sale on the open market through either estate agents or at auction, or</li> <li>• Properties put forward by the district's Empty Property Officer (EPO)</li> </ul> <p>Initial inspection of the property undertaken and enquires made with the District EPO to ascertain if any adverse information held on the property and conform that will contribute to the PSA target. If property ownership details unknown undertake search with the Land Registry.</p> <p>Draft proposal paper drawn up as to why property considered appropriate for direct purchase and the proposed refurbishment scheme (This may include conversion of buildings into residential accommodation and sub-division into self-contained units).</p> <p><i>(If a property is found to have serious structural defects, other adverse defects e.g. extensive dry rot, or cannot be renovated to comply with the Decent Homes Standard or the minimum health and safety housing standards do not proceed with purchase, but refer to the districts for appropriate action)</i></p>	<p>Regeneration and Project Manager/District EPO</p>
<p><b>(2) Business case</b></p> <p>To support the acquisition of an empty property a business case will be required to demonstrate the financial viability for the purchase. A specialist valuation/surveying firm has been commissioned through the Property Group's frameworks relating estate matters as well as design and maintenance consultants to provide the following information.</p> <ol style="list-style-type: none"> <li>1. Current valuation.</li> <li>2. Detailed surveys, defects schedule, schedule of works and anticipated expected total cost of refurbishment to an agreed specification.</li> <li>3. Expected market value once fully refurbished.</li> <li>4. Confirmation of or suggested proposals for the refurbishment scheme.</li> </ol> <p>Where from the above figures the acquisition is financially viable:</p> <ol style="list-style-type: none"> <li>5. Detailed schedule of remedial works commissioned. This will</li> </ol>	<p>KCC Property Services framework</p> <p>KCC Property Services framework</p>

<p>include an assessment of energy efficiency required in order to produce the appropriate Energy Performance Certificate that must be produced on sale of a property from July 2007.</p> <p>6. Estimates obtained to undertake detailed schedule as per 4. above.</p> <p>7. Decision made on the offer price to be made to the current owner.</p> <p>8. Enquiries made with appropriate planning/building control departments to establish if they have any issues which may impact on the proposed refurbishment/conversion works.</p> <p>On receipt of all of the above information, where a viable case exists for acquisition, a detailed business case will be produced requesting approval to proceed with the property purchase and submitted for approval by the Managing Director for Environment &amp; Regeneration in accordance with approval for the Scheme.</p>	<p>Regeneration and Project Manager</p>
<p><b>(3) Exchange of Contracts and Completion of Purchase</b></p>	
<p>Contracts drawn up for proposed purchase and exchange date arranged with the owner</p> <p>Heads of Terms will need to be drafted by Estates team/Disposals team and reported to Legal. Legal will need to assign a resource to handle this acquisition and disposal in a prompt manner.</p> <p>Complete purchase <i>(If owner withdraws from sale prior to completion notify relevant district council for possible Compulsory Purchase Order/EDMO if deemed appropriate)</i></p>	<p>KCC Legal services</p>
<p><b>(4) Renovation of Property</b></p>	
<p>Contract awarded to contractor with best proposal.</p> <p>Application made to relevant district for Building Regulation Approval and fee paid</p> <p>Renovation scheme undertaken, works monitored by surveyor appointed through the Property Group framework.</p> <p>On completion of works obtain final certification from the relevant building control department and produce appropriate Energy Performance Certificate.</p>	<p>KCC Property Services framework.</p>
<p><b>(5) Renovated property put up for sale</b></p>	
<p>Property marketed to obtain disposal price.</p>	<p>KCC Property Services framework.</p>