

From: Derek Murphy, Cabinet Member, Economic Development
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To: Growth, Economic Development & Communities Cabinet Committee
14 May 2024

Subject: **No Use Empty (NUE)**

Classification: Unrestricted

Electoral Division: All

Kent County Council (KCC) launched the No Use Empty (NUE) initiative in 2005 in East Kent. Following the success of NUE in East Kent, 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 long-term empty properties back into use as quality housing accommodation through a range of interventions.

To achieve this aim, NUE operates a loan scheme providing short term secured loans registered as a first or second charge. On repayment of the loan, funds are recycled to the next project. In addition to this NUE is helping to deliver increased Council Tax receipts and collection of Business Rates.

The purpose of this report is to provide Cabinet Committee with an update on NUE's performance to date following the key decision as recorded 15 March 2023, including the £24m 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.

Recommendation:

Members are asked to comment on and note the report.

1. Introduction

1. 1. NUE is the longest running empty property initiative in the country winning several national awards including UK Housing Award for Regeneration (2018) and shortlisted for Council of the Year in the UK Housing Awards (2020 and 2022).
1. 2. This report provides an update on the various elements of the NUE scheme including:
 - The NUE Empty Property Initiative (Capital Programme)
 - The NUE New Build Scheme (KCC Treasury Management Investment Strategy)
 - The NUE residential and commercial schemes funded by Growing Places Funding
 - Future plans

2. Recent and Ongoing Achievements

- 2.1 NUE team member and former apprentice Jake Body picked up the "Rising Star Award" - sponsored by Fraser and Fraser at the national Empty Homes Network Conference held

in Birmingham on 24 May 2023. Jake has also completed his Chartered Institute of Housing Level 3 qualification in March 2024.

- 2.2 Meridian TV featured NUE as the headline news item on 6 March 2024. This was in relation to national empty homes week. Two projects in Dover were featured including interviews with the owner and our Strategic Programme Manager. This was the first time Meridian had covered NUE and shown in a positive light.
- 2.3 NUE has a proven record returning 8,185 long-term empty properties back into use across the County to the decent home standard (as of December 2023). Based on performance over the last 10 years this is on average 486 long-term empty properties back into use per annum. Long-term means those dwellings that have been unoccupied or unfurnished for over six months.
- 2.4 A summary of empty homes brought back in to use by district is at Appendix 1.

3. Capital Programme (NUE Empty Property Initiative)

- 3.1 As NUE has evolved we have 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. The loans continue to be offered interest free to first time applicants and an application fee is charged.
- 3.2 To date, NUE has awarded £59.7m in short term secured loans and has levered in £44.4m from the public/private sectors, giving a total investment of £104.1m across Kent. All loans are subject to a risk assessment and secured as a 1st or 2nd charge and offered typically over a three-year period. 70% of loans are secured as a 1st charge and 30% are secured as a 2nd charge.
- 3.3 The investment has helped generate new KCC Council Tax receipts with an annual value of £1,479,090.
- 3.4 Based on calculations, creating 71 new homes per year from larger redundant buildings could increase new Council Tax receipts to £2,169,588 by 2029-30.
- 3.5 A summary of investment by district and Council Tax calculations is at Appendix 2.
- 3.6 There is a healthy pipeline of projects for the financial year 2024-25 for which there is an indicative allocation of £7.45m (based on repayment of loans due)
- 3.7 NUE has previously secured funding from Growing Places Fund (GPF) for both residential and commercial loan schemes administered by the South East Local Enterprise Partnership (SELEP). Based on calculations, creating 71 new homes per year from larger redundant buildings could increase new Council Tax receipts to £2,169,588 by 2029-30.
- 3.8 Following the closure of SELEP, KCC will explore the possibility of submitting a potential NUE application as part of future funding rounds to be developed and launched using a retained allocation of GPF recycled loan funds previously administered by SELEP and earmarked for future use in Kent from 2025.

3.9 A summary of NUE projects funded/delivered with GPF Funds is at Appendix 3

4. NUE New Build Scheme (KCC Treasury Management Investment Strategy)

- 4.1 In addition to the NUE Empty Property Initiative, a new loan product was launched in financial year 20/21 following support from Treasury Management and agreement from the Deputy Leader and Cabinet Member for Finance, Corporate and Traded Services.
- 4.2 An initial £12m was allocated to NUE to provide secured, by way of first charge, short-term interest-bearing loans (recycled) to developers of derelict/vacant sites, to primarily create new build residential units in Kent and to generate a return on investment for KCC and for NUE to cover its operational costs.
- 4.3 The allocation was quickly exhausted due to the unprecedented demand for the new loan product. Incremental increases in subsequent years of £4m agreed with Treasury and the recycling of loans already repaid now means that NUE has a current allocation of £24m as agreed by the KCC Treasury service in 2022.
- 4.4 To date, NUE has approved loans to the value of £33.8m to support 232 new build residential homes (£32m) and 24 business units (£1.78m).
- 4.5 A total of 122 new build residential homes and 24 business units have been completed. Following the sale or re-financing of these properties, NUE has received £15m in loan repayments to 31st March 2024.
- 4.6 The residential projects range from single houses, bungalows, 2-3 houses and apartment blocks which are spread across 8 of the 12 Kent districts, primarily in our coastal regions.
- 4.7 Two projects which NUE funded have been acquired by a district council (Dover 8 units and Folkestone & Hythe 14 units) to increase their own housing stock and make the units available to those on their respective housing waiting lists at an affordable rent.
- 4.8 NUE worked with Tridax Limited to support the construction of twenty-four business units at land lying to the east of Honeywood Parkway and land adjoining Honeywood Parkway, Whitfield, Dover. The project commenced in April 2022 and is now complete.
- 4.9 This flagship NUE project is making a positive contribution to the economic recovery of Dover and has attracted much interest. Demand from local businesses was such that all the units, except for three units being retained by the developer have been sold. The loan and interest were repaid in full by 12 January 2024.
- 4.10 It is hoped that the business unit model can be replicated and provide a template for the regeneration and development of other sites in the county which could be considered for such investment, and which would respond to ongoing demand from local companies for bespoke industrial units that provide suitable facilities to enable firms to develop and grow, also leading to job creation.
- 4.11 A selection of new build projects including Honeywood Parkway is at Appendix 4.

5. Return on Investment (KCC Treasury Management Strategy)

- 5.1 The interest rate charged to NUE by KCC Treasury is 4.5% (October 2023).
- 5.2 The interest is calculated from the date each individual drawdown is made. 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 including legal fees over the lifetime of the initiative. On this basis, the NUE team operates on a cost neutral basis for KCC.
- 5.3 The return on investment paid to Treasury is £940.4k based on £31.3m drawn against loans approved as of March 2024.
- 5.4 The following table shows the projected return on investment in future years based on loans approved to date (calculated at 4.5%). This does not consider new loans as they come on board which would continue to increase the return year on year as we continue to re-cycle the original loans.

Financial Year	Forecast Treasury ROI
FIN YR 24-25	£ 780,772
FIN YR 25-26	£ 816,405
FIN YR 26-27	£ 816,405
TOTAL	£ 2,413,582

6. Revenue

- 6.1 NUE has operated without a dedicated KCC revenue budget allocation since 2020-21.
- 6.2 An administration fee based on the value of the loan is collected from recipients under the main empty property initiative. A typical fee would be £1,500.
- 6.3 The loans offered for new builds which are Treasury funded operate on a different fee scale, currently 1% + VAT of the total sum borrowed. Interest, typically 8% is applied to all loans and collected quarterly or at the end of loan term.
- 6.4 The fee income and interest earned is used to fund all work undertaken by the NUE team and one of KCC's legal services providers for the provision of services associated with the production of loan documentation and discharge of security once loans are repaid.

7. NUE Going Forward 2024-25

- 7.1 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 within local firms and a sense of community. Empty properties can attract antisocial behaviour and lead to the general degradation of an area so bringing them back into use enhances the built environment in the county.
- 7.2 Wider regeneration initiatives continue to attract high profile investors and funding, This has led to an increase from small and medium sized property developers looking to refurbish empty buildings and turn them into homes, however, in many cases severe dilapidation and an inability to access funding on the open market for renovation costs results in buildings being left empty.

7.3 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.

7.4 Demand for empty property loans or new build loans has not diminished. It is not unusual to have at least 10 new enquiries each week. NUE has a steady pipeline of projects covering long term empty property loans and new build loans.

7.5 NUE Empty Property Initiative

7.6 To meet demand, the team is exploring potential funding sources to support:

- £3.5m for the residential empty property scheme and
- £1.5m to provide a third phase of the commercial scheme to bring long term empty shops back into use and assist with town centre regeneration.

7.7 If funding can be secured, this would provide NUE with a total of £5m investment.

7.8 The NUE team will also continue to provide a loan processing service to Southend On Sea City Council (SOSCC) for at least one further year to help deliver their NUE South Essex project to return long term empty commercial properties back into use for residential, alternative commercial or mixed-use purposes.

7.9 All loans are paid out by SOSCC, and the council is responsible for any debt recovery associated with its loans. SOSCC pays KCC per application processed by the NUE team.

7.10 NUE New Builds

7.7 The availability of this loan product is assisting 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

7.8 The team is exploring potential for flexibility in accessing and potentially increasing the funding KCC Treasury has made available to NUE for new builds in future years. This will ensure NUE is able to offer a fluid “open year-round” approach and not be solely reliant on projects to complete and be repaid before a new project can be funded and works commence.

7.9 This would also give opportunity to increase the return on investment for KCC.

7.10 [Information on pipeline projects is at Appendix 5](#)

8 NUE Commercial New Builds

8.1 NUE also wishes to explore the potential for NUE to internally borrow funds from the Kent & Medway Business Fund (KMBF) to support specific NUE Commercial projects which could potentially provide wider opportunities and benefits as well as generating income, through interest payments, for the KMBF fund managed and administered by KCC.

- 8.2 NUE would propose to borrow funds from the KMBF scheme which are currently allocated for use in future years to provide short term loans secured as a first charge to known developers that NUE have worked with and have a track record for delivery and loan repayment to deliver more business units in other parts of Kent similar to the “Honeywood Park” model.
- 8.3 Any such KMBF funding allocated to support an NUE loan project, would be ring-fenced for an approved time specifically to deliver more business units and for the loan to be repaid back to the KMBF fund to be used in future years.
- 8.4 The standard KMBF business loan scheme could then be offered to those business who are looking to acquire/move into the new business units as startups or expanding or re-locating.
- 8.5 Having access to the KMBF fund would mean that NUE does not need to request KCC Treasury funds to take the new larger commercial projects already identified forward. NUE could concentrate these funds on residential development.

9 Recommendation

- 9.1 The Cabinet Committee is asked to comment on and note the report.

10 Appendices and background documents:

Appendix 1 - Statistics by District

Appendix 2 - Investment and Council Tax

Appendix 3 - A summary of projects funded/delivered with GPF Funds

Appendix 4 - A selection of new build projects including Honeywood Parkway

Appendix 5 – Information pipeline projects

Background documents:

- Record of key decision: 15 March 2023:
<https://democracy.kent.gov.uk:9071/ieDecisionDetails.aspx?ID=2689>
- Source data for Council Tax 2024-25:
<https://www.kent.gov.uk/about-the-council/finance-and-budget/council-tax#tab-1>
- Treasury Investment Strategy Appendix M of the Budget Book 2024-25. Page 140:
https://www.kent.gov.uk/_data/assets/pdf_file/0012/164010/Budget-Book-2024-25.pdf

For more information on projects funded by NUE please view the case studies section of the website: <https://www.no-use-empty.org.uk/category/news/>

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